

8

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

Topic Reference

-  Clubbing in case of Transfer of income/Transfer of Assets - Section 60 to 63
-  Clubbing in respect of Income of Spouse, Sons wife, Minor Child - Section 64
-  Conversion of self-acquired property into Joint Family Property

CLUBBING IN CASE OF TRANSFER OF INCOME/TRANSFER OF ASSETS – SECTION 60 TO 63

1. Discuss the concept of clubbing.

Ans: An assessee is generally taxed in respect of his own income. However, when he is required under the provisions of the Act to pay tax in respect of income of another person, then it is known as Clubbing of Income. Some taxpayers having higher income, in order to avoid tax, divert some portion of their income to their spouse, minor child etc. Thus, clubbing provisions have been introduced to prevent such tax evasion.

2. Discuss the clubbing provisions in respect of transfer of income without any transfer of assets.

Ans: **Transfer of income where there is no transfer of assets [Section 60]:** All income arising to any person by virtue of a transfer whether revocable or not shall, where there is no transfer of the assets from which the income arises, be chargeable to income-tax as the income of the transferor and shall be included in his total income.

Example : Mr. Roy owns a residential house which he has let to someone at a monthly rent of Rs. 1,0,000. After some time, he confers the right to receive such rent on his wife without transfer of such house. Thus, by virtue of provisions of Section 60, the said rent shall be treated as income of Mr. Roy and thus, shall be clubbed in his total income.

3. Discuss tax implications of income arising from revocable transfer of assets. When will the clubbing provisions not apply, even where there is revocable transfer of assets? (6 Marks, CA PE-II June, 2009) OR

In whose hands the income from an asset is chargeable to tax in the case of transfer which is not revocable during the life time of the beneficiary/transferee ? (4 Marks, PCC May 2010)

Ans: **The provisions relating to Revocable transfer of assets as under -**

(1) Revocable transfer of assets [Section 61] : All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferor and shall be included in his total income.

(2) Exception to Section 61 [Section 62]: The provisions of section 61 shall not apply in the following cases:

- (a) *Transfer not revocable during the life time of the beneficiary or the transferee - If there is a transfer of asset which is not revocable during the life time of the transferee, the income from the transferred asset is not includible in the total income of the transferor provided the transferor derives no direct or indirect benefit from such income.*
If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the transferee.
- (b) *Transfer made before April 1, 1961 and not revocable for a period exceeding six years - Income arising from the transfer of an asset before 01-04-1961, which was not revocable for a period exceeding six years, is not includible in the total income of the transferor provided the transferor does not derive direct or indirect benefit from such income.*

In both the above cases, as and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.

For example: Mr. A transfers his property to a trust for benefit of X till X's death. Thus, the income from such property shall be taxable in the hands of X till death of X and thereafter, taxable in hands of Mr. A as the transfer has become revocable.

- (3) **Meaning of 'Revocable Transfer' [Section 63]:** The transfer is deemed to be revocable if -
- it contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the income or assets to the transferor, or
 - it gives, in any way to the transferor, a right to re-assume power, directly or indirectly, over the whole or any part of the income or the assets.
- (4) **Partial Revocability:** This clubbing provisions will operate even if only part of income of the transferred asset had been applied for the benefit of the transferor.
Where the revocability relates to only a part of the income, then, only such part, which accrued to or was received by the assessee can be assessed as his income. - Hrishikesh Ganguly v. CIT [1971] 82ITR 160 (SC)

For example : Mr. 'A' transfers his property to 'X' subject to the condition that 50% of the income from such property should be handed over to him. Thus, 50% of the income shall be taxable in the hands of Mr. A and remaining 50% in the hands of X.

CLUBBING IN RESPECT OF INCOME OF SPOUSE, SONS WIFE, MINOR CHILD - SECTION 64

4. **Explain the provisions of the Act with regard to clubbing of income of spouse under section 64.**
Ans: In computing the total income of any individual, the following incomes as arise directly or indirectly, shall be included -
- (1) **Remuneration received by spouse from concern in which individual has substantial interest [Section 64(1)(ii)]:**

Income by way of salary, commission, fees or any other form of remuneration, whether in cash or in kind, received by an individual's spouse from a concern in which such individual has a substantial interest.

Exception: *This provision shall not apply in relation to any income arising to the spouse where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience.*

In case husband and wife both have substantial interest in a concern and both are in receipt of remuneration from the said concern [Explanation 1] : *Where husband and wife both have substantial interest and both are getting remuneration from the concern, then such income shall be included in the total income of that person whose total income (excluding such income) is greater ; and where any such income is once included in the total income of either spouse, any such income arising in any succeeding year shall not be included in the total income of the other spouse unless the Assessing Officer is satisfied, after giving that spouse an opportunity of being heard, that it is necessary so to do.*

Meaning of Substantial Interest [Explanation 2]: *An individual shall be deemed to have substantial interest in a concern-*

- (i) *In a case where the concern is a company, if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than 20% of the voting power are, at any time during the previous year, owned beneficially by such person or partly by such person and partly by one or more of his relatives;*
- (ii) *In any other case, if such person is entitled, or such person and one or more of his relatives are entitled in the aggregate, at any time during the previous year, to not less than 20% of the profits of such concern.*
 - **Relative:** *Relative means husband, wife, brother, sister or any lineal ascendant /descendant of the individual.*
 - **Individual:** *'Individual' doesn't include individual acting in any other capacity. Thus, if any individual is a partner in representative capacity, then his profit sharing will not be considered.*
- (2) **Income from assets transferred to spouse without adequate consideration [Section 64(1)(iv)] :** *Income arising to the spouse of such individual from assets transferred directly or indirectly by such individual otherwise than for adequate consideration or in connection with an agreement to live apart, subject to the provisions of Section 27(i). Notes:*
 - (i) *As per Section 27(i), if house property is transferred without adequate consideration, the transferor will be deemed to be the owner of the house by virtue of Section 27(i) and income there from will be taxed in his hands.*
 - (ii) *Transfer on account of natural love and affection may be good consideration but not adequate consideration.*
 - (iii) *There must be relationship of husband and wife at the time of both transfer of asset and accrual of income from such asset.*
 - (iv) *The word "spouse" implies a marital relationship. Transfer of asset to 'would be spouse' without adequate consideration does not attract the provisions of clubbing.*

- (v) In case of consideration received for assets transferred is inadequate, only that part of income shall be clubbed which is attributable to inadequacy of consideration.

Investment of assets, received by spouse, in any business or as a capital contribution in firm
[Explanation 3]: Where the assets transferred directly or indirectly by an individual to his spouse are invested by the spouse -

- (i) in any business, such investment not being in the nature of capital contribution as a partner in a firm or, for being admitted to the benefits of partnership in a firm -

$$\text{Income to be clubbed in the hands of transferor} = \frac{(\text{Income of the transferee from the business in that previous year}) \times \text{Value of the transferred assets as on 1st day of previous year invested in such business}}{\text{Total investment in the business by the transferee as on 1st day of previous year}}$$

- (ii) by way of capital contribution as a partner in a firm -

$$\text{Income to be clubbed in the hands of transferor} = \frac{\text{Total Interest receivable by the transferee from the firm in that previous year} \times \text{Value of the investments as on 1st day of previous year made as a partner in firm out of such assets}}{\text{Total investment by way of capital contribution by the transferee as a partner in the firm as on 1st day of previous year}}$$

- (3) **Income from assets transferred to person/ AOP without adequate consideration for benefit of spouse [Section 64(1) (vii)] :** Income arising to any person or association of persons from assets transferred, directly or indirectly otherwise than for adequate consideration, to the person or association of persons by such individual, to the extent to which the income from such assets is for the immediate or deferred benefit of his or her spouse.

Note : For the purposes of Section 64, "income" includes loss. Thus, a loss clubbed under section 64 can be carried forward and set off in the same manner as if the loss had arisen to the assessee himself.

SOME ISSUES:

- (a) **Income arising from investment of clubbed income:** Only that part of income is clubbed which arises from the transferred assets. In case, the transferee invests income arising from transferred assets and earns income on such investments, then, such income arising from investments cannot be clubbed. - CIT v. M.S.S. Rajan [2001] 252 ITR 126 (Mad.)

For example: Mr. X purchases debentures of Reliance Industries for Rs. 1 lakh in name of his wife. Mrs. X receives the interest of Rs. 10,000 on such debentures which she deposited in a bank and consequently, earned interest of Rs. 500 from it. In this case, only interest of Rs. 10,000 will be clubbed in the hands of Mr. X, not the interest of Rs. 500, which shall be assessed in hands of Mrs. X.

- (b) **Skill, experience and competence equivalent to professional qualification:** If a person possesses skill, experience and competence in any line of work, then he shall be considered as professionally qualified for the purpose of Section 64(ii). Hence, in case of professions and occupations for which no formal

degree or certificate etc. are awarded, the skill, experience of the spouse are judging factors. - *CIT v. Smt. R. Bharati* [1999]1240 ITR 697 (Mad.)

For example : Mr. A, a fashion designer having lucrative business, pays salary to his wife who is a model. The salary so paid will not be clubbed in hands of Mr. A, but will be taxed in hands of Mrs. A.

- (c) **Income includes 'capital gains' and therefore, capital gains are also liable for being clubbed. - *CIT v. Pelleti Sridevamma* [1995] 216 ITR 826 (SC).**

For example: Mrs. A sells residential house gifted to her by Mr. A, the capital gains thereon being Rs. 3 lakhs. Such capital gains will be clubbed in the total income of Mr. A.

5. **Discuss the clubbing provisions under section 64(1) in respect of income of son's wife included in the total income of the individual.**

Ans: In computing the total income of any individual, the following incomes as arise directly or indirectly, shall be included -

- (1) **Income from assets transferred to son's wife without adequate consideration [Section 64(1)(vi)] :** Income arising to the son's wife of such individual, from assets transferred directly or indirectly to the son's wife by such individual otherwise than for adequate consideration.

Investment of assets, received by son's wife, in any business or as a capital contribution infirm [Explanation 3]: already discussed above.

Note : There must be the relationship of father-in-law or mother-in-law and daughter-in-law at the time of both transfer of the asset and accrual of the income in order to attract clubbing provisions. (2) **Income from assets transferred to person/V/AOP without adequate consideration for benefits of son's wife [Section 64(1) (viii)] :** Income arising to any person or association of persons from assets transferred, directly or indirectly otherwise than for adequate consideration, to the person or association of persons by such individual, to the extent to which the income from such assets is for the immediate or deferred benefit of his son's wife.

Illustration 1 - Clubbing of income: Sankar has transferred a house property to Uma on 1-4-2013. Uma married Sekar, who is the son of Sankar on 1st April 2020. The income from the property received by Uma during the previous year 2020-21 is Rs. 1,20,000. The assessing officer has clubbed the above income in the hands of Sankar. Is the action of assessing officer tenable under the law?. (CS June 2001)

Solution: As per Section 64(1) (vi), Income arising out of asset transferred without adequate consideration to son's wife is liable to be clubbed in the hands of the assessee, subject to the condition that the said relationship must exist at the time of both transfer of property and accrual of income.

In the given case, the said relationship did not exist between Uma and Sankar at the time of transfer, thus the income of Rs. 1,20,000 arising to Uma from such property shall be assessable in the hands of Uma only, and won't be clubbed with the income of Sankar.

Therefore, the action of the Assessing Officer is not tenable in law.

Illustration 2 - Clubbing of income : Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of Rs. 36,000 per annum shall be utilised for the benefit of her son's wife. Mrs. Kasturi claims that the amount of Rs. 36,000 (utilized by her son's wife) should not be

included in her total income as she no longer owned the property. State with reasons whether contention of Mrs. Kasturi is valid in law. (5 Marks, PCC Nov. 2010)

Solution: As per Section 64(1)(viii), the clubbing provisions are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife.

Thus, in the given case, the said income of Rs. 36,000 shall be clubbed in the total income of the transferor i.e. Mrs. Kasturi

Note : It is assumed that the transfer is made otherwise than for adequate consideration.

Illustration 3 - Transferred assets invested by spouse : A proprietary business was started by Mrs. R in the year 2019. As on 1-4-2019, her capital in business was Rs. 3,00,000. Her husband gifted Rs. 2,00,000 on 10-4-2019, which amount Mrs. R invested in her business on the same date. Mrs. R earned profits from her proprietary business for the financial years 2019-20, Rs. 1,50,000 and financial year 2020-21 Rs. 3,90,000. Compute the income to be clubbed in the hands of R's husband for the assessment year 2021-22 with reasons. (5 Marks, November 2004)

Solution: Assessment year 2020-21 - There shall be no clubbing of income in the hands of Mr. R in the assessment year 2020-21 as no investment was made by Mrs. R in the business out of Mr. A's funds as on the first day of the previous year i.e. 1-4-2019. Thus, profits of Rs. 1,50,000 is to be fully taxed in the hands of Mrs. A for the assessment year 2020-21. Assessment year 2021-22 - Total capital as on 1st day of the previous year i.e. 1-4-2020 = Rs. 3,00,000 + Rs. 2,00,000 + Rs. 1,50,000 (profits of FY 2019-20) = Rs. 6,50,000, out of which Rs. 2,00,000 represents investment of Mr. A's funds.

Therefore, income to be clubbed in the total income of Mr. A = (Rs. 2,00,000 + Rs. 6,50,000) $\times$ Rs. 3,90,000 = Rs. 1,20,000.

6. **Write a short note on clubbing of income of minor children in the hands of parents. (May 2003)**

Ans: Income from individual to include income of minor child [Section 64(1A)]:

Clubbing of income of minor child : All income accruing or arising to a minor child ('child' includes step child and adopted child) shall be included in the income of his parent

However income shall not be clubbed in case minor child is suffering from disability under section 80U.

- (1) **No clubbing in certain cases :** This provision shall not apply in respect of such income as arises or accrues to the minor child on account of any -
 - (a) manual work done by him; or
 - (b) activity involving application of his skill, talent or specialised knowledge and experience.
- (2) **Clubbing in whose hands :** The income of the minor child shall be included —
 - (a) where the marriage of his parents subsists, in the income of that parent whose total income (excluding the income includible under this section) is greater; or
 - (b) where the marriage of his parents does not subsist, in the income of that parent who maintains the minor child in the previous year.
- (3) **Exemption upto Rs. 1,500 per child:** Exemption of Rs. 1,500 per child will be available under section 10(32) to the parent in respect of minor's income clubbed with the parent.

Agricultural income of minor son has to be included in the income of the assessee for determining rate of income tax applicable to income of the assessee. - Suresh Chand Talera v. UOI [2006] 152 Taxman 348 (MP) The interest received by minor child on compulsory acquisition of land will be taxable in the hands of the parents. - CIT v. Laxman Swaroop Gael [2012] 344 ITR 377 (P&H)

Notes : Where any such income is once included in the total income of either parent, any such income arising in any succeeding year shall not be included in the total income of the other parent, unless the Assessing Officer is satisfied, after giving that parent an opportunity of being heard, that it is necessary so to do.

Illustration 4 -Clubbing of income: Mr. H, a mentally retarded minor has a total income of Rs.1,20,000 for the assessment year 2020-21. The total income of his father L and of his mother R for the relevant assessment year is Rs. 2,40,000 and Rs. 1,80,000 respectively. Discuss the treatment to be accorded to the total income of B for the relevant assessment year.

Solution: Section 64(1A) provides for clubbing of income of minor child in the hands of the parent whose income is greater. The clubbing provisions cannot be invoked in case the minor child is suffering from any disability of the nature specified under section 80U. In such cases, income of such child shall be assessed in its hand itself. 'Mental retardation' is a disability covered under section 80U. Therefore, in the given case, Rs. 1,20,000 shall be assessed as income in the hands of minor H without applying the clubbing provisions as provided u/s 64(1A). Minor H would be entitled to deduction of Rs. 75,000 or Rs. 1,25,000 towards normal disability or severe disability as contemplated under section 80U.

Illustration 5 Computation of total income and clubbing: Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

	(amounts in Rs.)
(i) Salary income (Computed) of Mrs. Hetal	4,60,000
(ii) Income of minor son 'B' who suffers from disability specified in Section 80U	1,08,000
(iii) Income of minor daughter 'C' from singing	86,000
(iv) Income from profession of Mr. Dhaval	7,50,000
(v) Cash gift received by 'C' on 02-10-2020 from friend of Mrs. Hetal on winning of singing competition	48,000
(vi) Income of minor married daughter 'A' from company deposit	30,000
Compute the total income of Mr. Dhaval and Mrs. Hetal. (8 Marks, PCC May 2008)	

Solution: Computation of total income of Mr. Dhaval and Mrs. Hetal (amounts in Rs.):

Particulars	Mr. Dhaval	Mrs. Hetal
Income from Salaries (Computed) [WN-1]	-	4,60,000
Income from profession	7,50,000	-
Add: Deemed income u/s 64(1A): Income of minor married daughter "A"	30,000	-
[WN-2 to 5]		
Less: Exemption u/s 10(32)	-1,500	-
Total Income	7,78,500	4,60,000

Working Notes:

- (1) Income of minor son 'B' shall not be clubbed since he suffers from disability specified in Section 80U.
- (2) Income of minor daughter 'C' shall not be clubbed since she has earned the same by the application of her skill & competence.

- (3) Cash gift received by minor daughter 'C' is not taxable u/s 56(2)(x) since the amount of gift doesn't exceed Rs.50,000.
- (4) Income of minor daughter 'A' shall be clubbed in the income of the parent whose income before such clubbing is higher. Since, in the given question, the income of Mr. Dhaval is higher, hence, the income from company deposits shall be clubbed in the income of Mr. Dhaval.

Illustration 6 - Computation of total income and clubbing: Compute the total income of Mr. & Mrs. A from the following information (amounts in Rs.): (7 Marks, PE-II Nov. 2005)

Salary income (computed) of Mrs. A	2,30,000
Income from profession of Mr. A	3,90,000
Income of minor son B from company deposits	15,000
Income of minor daughter C from special talent	32,000
Interest from bank received by C on deposit made out of her special talent	3,000
Gift received by C on 30-09-2020 from friend of Mrs. A	2,500

Solution: Computation of total income Mr. & Mrs. A for the assessment year 2021-22

(amounts in Rs.):

Particulars	Mr. A	Mrs. A
Income from profession/Income from salary	3,90,000	2,30,000
Income from other sources :		
Income of minor son B from company deposit	15,000	
Interest from Bank received by C [WN-2]	3,000	
Less: Exemption u/s 10(32) (for two children i.e. Rs. 1,500 x 2)	-3,000	
Total Income	4,05,000	2,30,000

Working Notes:

- (1) As per section 64(1A) any income, accruing or arising to a minor child on account of activity involving application of his skill, talent or specialized knowledge and experience, is not to be clubbed. Therefore, income of minor daughter C from special talent shall not be clubbed.
- (2) Interest from bank deposit is liable to be clubbed even when deposit is made out of income arising from application of special talent.
- (3) Gift received by C is not taxable since, as per section 56(2) (x), gift received from non-relatives is taxable only when the aggregate amount from one or more person exceeds Rs. 50,000.

Illustration 7 - Computation of capital gains and clubbing: On 21-3-2020, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2019 at Rs. 2000 per share. On 1-6-2020, bonus shares were allotted in the ratio of 1:1 All these shares were sold by Mrs. Thilagam as under —

Date of Sale	Manner of Sale	No. of Shares	Net sales value (Rs.)
21-05-2020	Sold in recognized stock exchange, STT paid	100	2,50,000
21-07-2020	Private sale, to an outsider	All bonus shares	1,25,000
28-02-2021	Private sale to her friend Mrs. Hema (Market value on this date was Rs. 2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required. (5 Marks, IPCC May 2011)

Solution: Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual. Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.

Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.

Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

(1) Computation of capital gains on the sale of shares (amount in Rs.):

Particulars	Sale on 21-5-2020 (100 gifted shares)	Sale on 28-2-2021 (100 gifted shares)
Net full value of consideration	2,50,000	1,70,000
Less: Cost of acquisition (No benefit of indexation is available as per Section 112A) [Private sale to friend will not be taxable under Section 112 A of the Act]	2,00,000	2,08,304
Long-term Capital Gains	50,000	-38,304
Taxable LTCG in hands of Janak		11,696
Since, Long-term Capital gains is does not exceed Rs. 1,00,000, hence no tax shall be levied as per Section 112A		

(2) Computation of capital gains on the sale of bonus shares (amount in Rs.):

Particulars	Sale on 21-7-2020 (100 Bonus shares)
Net full value of consideration	1,25,000
Less: Cost of acquisition (Nil, in case of bonus shares)	Nil
Short-term Capital Gains	1,25,000
Taxable in hands of Mrs. Thilagam (Accretion in income)	

Illustration 8 - Clubbing of income: Mr. 13 is the Karta of a HUF, whose members derive income as given below:

Particulars	(Rs.)
(i) Income from B's profession	45,000
(ii) Mrs. B's salary as fashion designer (computed)	76,000
(iii) Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv) Minor daughter P's earnings from sports	95,000
(v) D's winnings from lottery (gross)	1,95,000

Discuss the tax implications in the hands of Mr. and Mrs. B. (IPCC Nov. 2012, 8 Marks)

Solution: Clubbing of income and other tax implications (amount in Rs.):

	Mr. B	Mrs. B	Minor son D	Minor daughter P
Income from B's profession	45,000	-	—	—
Mrs. B's salary as fashion designer (computed)	-	76,000	—	—
Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle) [WN-1]	-	10,000	—	—
Minor daughter P's earnings from sports [WN-3]			—	95,000
D's winnings from lottery (gross) [WN-4]		1,95,000	—	—
Less: Exemption u/s 10(32) [WN-2]		-1,500	—	—
Total Income	45,000	2,79,500	—	95,000

Working Notes:

- (1) Income from fixed deposit of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of the mother, Mrs. B as "Income from other sources", since her income is greater than income of Mr. B before including the income of the minor child.
- (2) As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".
- (3) Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (4) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "Income from other sources", since her income is greater than the income of Mr. B before including the income of minor child.

Note: She can reduce the tax deducted at source from such lottery income while computing her net tax liability.

Illustration 9 - Clubbing of Income : Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were Rs. 9,000 and Rs. 4,500 and of sons were Rs. 6,200 and Rs. 4,300 respectively. The daughter who has income of Rs. 4,500 was suffering from a disability specified under section 80U. Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma. (4 Marks, IPCC May 2012)

Solution: As per section 64 (1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma. Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs. 1,500, whichever is lower. The remaining income Would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma -

	Particulars	Rs.
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500

(ii)	Income of two sons (Rs. 6,200 + Rs. 4,300)	10,500
	Less: Income exempt under section 10(32) - (Rs. 1,500 x 2)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Working Notes: It has been assumed that -

- (1) All the four children are minor children.
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience.

CONVERSION OF A SELF-ACQUIRED PROPERTY INTO THE HUF PROPERTY

7. How does the Income-tax Act, 1961 deal with conversion of a self-acquired property into the property of a Hindu Undivided Family? (4 Marks, May 2007)

Ans: Conversion of a self-acquired property into the HUF property [Section 64(2)] : Where, in the case of an individual being a member of a Hindu undivided family-

- (i) any property having been the separate property of the individual has been converted by him into property belonging to the family,
- (ii) through the act of impressing it with property of HUF or throwing it into the common stock of the family, or
- (iii) been transferred by the individual, directly or indirectly, to the family otherwise than for adequate consideration, then, for the purpose of computation of the total income of the individual -
 - (i) the income derived from the converted property or any part thereof shall be deemed to arise to the individual and not to the family;
 - (ii) where the converted property has been the subject-matter of a partition amongst the members of the family, the income derived from such converted property as is received by the spouse on partition shall be deemed to arise to the spouse from assets transferred indirectly by the individual to the spouse and shall be clubbed in the hands of such individual.

No double taxation : When any income referred above is included in the total income of the individual, then, it shall be excluded from the total income of such HUF or the spouse.

8. Discuss the indirect/ cross transfers in the context of Income-tax (6 Marks, PE-II May 2008)

Ans: Cross Transfers -

- (1) If the two transfers are inter-connected and are parts of the same transaction in clubbing provisions would be attracted. - CIT v. Keshavji Morarji [1967] 66ITR142 (SC)
- (2) It is not necessary that there is transfer of same assets, the assets may be changed deliberately into assets of a like value of another person, but such a chain of transfers is covered by the word "indirectly".

For example : Mr. A gifts Rs. 1,00,000 to the wife of his brother B for the purchase of a house by her and a simultaneous gift by B to A's wife of shares in a foreign company worth Rs. 1,00,000 owned by him. In this case, —

- (A) Both the transfers made by A and B, are consideration for transfer made by each other. Both the gifts are not chargeable to tax under section 56(2)(x), being given by relatives.
- (B) Mr. A and Mr. B have transferred the assets indirectly to their wives and thus, both the transfers fall within the ambit of Section 64(1)(iv).
- (C) As a result, the income arising to Mrs. B will be clubbed in the hands of Mr. B and dividend income of Mrs. A will be clubbed in the total income of Mr. A.

9. Discuss the scope & taxability of income liable to be clubbed in the hands of an assessee.

Ans: The scope & taxability of income liable to be clubbed in the hands of an assessee are as under -

- (1) Income from assets transferred is computed as if the asset was not transferred and all exemptions, deductions, etc. in respect of such income can be claimed by the transferor.
- (2) **Head of income :** The clubbed income will come under that head to which such income relates and all deductions admissible under that head shall be allowed from the said income.
- (3) **Deductions, rebates, etc. allowed subject to the limits specified :** All deductions, rebates, reliefs etc. from the clubbed income shall be allowed in the hands of such person subject to the limits applicable to his case.

For example: Mrs. A has acquired a house property from cash transferred to her by Mr. A without adequate consideration. Therefore, in this case, first of all income from the house property will be computed in the hands of Mrs. A in accordance with sections 22 to 27. Thereafter, the income so computed will be clubbed with total income of Mr. A under the head 'Income from house property'.

Illustration 10 - Clubbing of Income: Mr. A is an employee of Larsen Limited and has substantial interest in the company. His salary is Rs. 25,000 p.m. Mrs. A also is working in that company at a salary of Rs. 10,000 p.m. without any professional qualification. Mr. A also receives Rs. 30,000 as income from securities, Mrs. A owns a house property which she has let out. Rent received from such house property is Rs. 12,000 p.m. Mr. & Mrs. A have three minor children-two daughters and one son. Income of the twin daughters is Rs. 2,000 p.a. and that of his son is Rs. 1,200 p.a. Compute the income of Mr. and Mrs. A. (8 Marks, IPCC May 2013)

Solution: Computation of Total Income Mr. & Mrs. A

(amount in Rs.) -

Particulars	Mr. A	Mrs. A
Income from salary:		
Salary (Rs. 25,000 x 12)	3,00,000	
Less: Standard Deduction u/s 16(ia)	50,000	2,50,000
Salary received by Mrs. A from Larsen Limited [WN]	1,20,000	
Less: Standard Deduction u/s 16(ia)	50,000	70,000
Income from let out property:		
Rent received	1,44,000	
Less: Standard deduction 30%	43,200	1,00,800
Interest on Securities		30,000
Income of Minor Children to be clubbed in Mr. A's income (Since his total income is greater):		
Income of Twin minor daughters	2,000	
Less: Exempt u/s 10(32)	2,000	Nil
Income of Minor Son	1,200	
Less: Exempt u/s 10(32)	1,200	Nil
Total Income	3,50,000	1,00,800

Working Note: Salary received by Mrs. A from Larsen Limited will be clubbed in Mr. A's income since Mr. A has substantial interest in the company and Mrs. A do not possess any professional qualification.

Illustration 11 - Computation of total income and clubbing: During the previous year 2020-21 the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01-04-2020 to 31-03-2021 to the savings bank account of Mr. B, son of his brother, to help him in his education.
 - Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
 - Mr. A Gifted a flat to Mrs. A on April 1, 2020. During the previous year the flat generated a net income of Rs. 52,000 to Mrs. A.
 - Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business and he got a share income of Rs. 20,000 from the investment.
 - Mr. A's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.
- During the year Mr. A got a monthly pension of Rs. 10,000. He had no other income. Mrs. A received salary of Rs. 20,000 per month from a part time job. (8 Marks, IPCC May 2012)

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

Solution: Computation of total income of Mr. A, Mrs. A and their minor child

(amount in Rs.):

Particulars	Mr. A	Mrs. A	Minor Son
Income under the "Salaries"	-	-	
Salary income (of Mrs. A)	-	2,40,000	
Pension income (of Mr. A) (Rs. 10,000 x 12)	1,20,000		
Less: Standard deduction under section 16(ia)	50,000	50,000	
Gross Salary	70,000	1,90,000	
Income from House Property [WN-3]	52,000		
Income from other sources:			
Interest on Mr. A's fixed deposit with Bank of India (Rs. 5,00,000 x 9%) [WN-1]	45,000		
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [WN-2]	25,000		
Income before including income of minor son under section 64(1A)	1,92,000	1,90,000	
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [WN-4]	18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [WN-5]	-	-	20,000
Total Income	2,10,500	1,90,000	20,000

Working Notes:

- (1) *As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs.45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.*
- (2) *As per section 64(1) (ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply. In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.*
- (3) *According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.*
- (4) *As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.*

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. 1,90,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 - Rs. 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note : *The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his father.*

- (5) *In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.*

Therefore, the income of Rs. 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

Illustration 12 - Clubbing of Income: Mr. Mittal has four minor children consisting of three daughters and one son. The annual income of all the children for the Assessment Year 2021-22 were as follows:

(4 Marks, Nov. 2014)

	Rs.
First daughter (Including Scholarship received Rs. 5,000)	10,000
Second Daughter	8,500
Third Daughter (Suffering from disability specified u/s 80U)	4,500
Son	40,000

Mr. Mittal gifted Rs. 2,00,000 to his minor Son who invested the same in the business and derived income of Rs. 20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr. Mittal.

Solution: Computation of income earned by minor children to be clubbed with the income of Mr. Mittal: (amt. Rs.)

(i)	Income of first daughter	5,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	3,500
(ii)	Income of Second daughter	8,500
	Less: Income exempt under section 10(32)	1,500
	Total (B)	7,000
(iii)	Income of Third daughter (It shall not be clubbed in hands of Mittal since she is suffering from disability under Section 80U)	-
(iv)	Income of son	40,000
	Less: Income exempt under section 10(32)	1,500
	Total (C)	38,500
	Total Income to be clubbed as per section 64(1 A) (A+B+ C)	49,000

Working Note: Scholarship received by daughter accrue or arise to her on account of activity involving application of her skill, talent or specialized knowledge and experience.

Illustration 13 - Clubbing in case of cross transfer: Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16-04-2020. On 18-04-2020, his brother gifted debentures worth Rs. 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of Rs. 45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961.

(4 Marks, May 2015)

Solution: In the given case, Mr. Ramesh gifted a sum of Rs. 5 lakhs to his brother's minor son on 16-04-2020 and simultaneously, his brother gifted debentures worth Rs. 6 lakhs to Mr. Ramesh's wife on 18-04-2020. The gifted amounts were invested as fixed deposits in banks by brother's minor son. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66ITR142.

Accordingly, the interest income arising to Mrs. Ramesh in the form of interest on debentures i.e. Rs. 45,000 would be included in the total income of Mr. Ramesh and interest income arising in the hands of his brother's minor son would be taxable in the hands of Mr. Ramesh's brother as per section 64(1).

This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their relatives with an intention to reduce their burden of taxation.

Note : *In the hands of Mr. Ramesh, interest income earned by his spouse on debentures of Rs. 5 lakhs alone would be included and not the interest income on the entire debentures of Rs. 6 lakhs, since the cross transfer is only to the extent of Rs. 5 lakhs. Hence, only proportional interest (i.e., 5/6th of interest on debentures received) Rs. 37,500 would be includible in the hands of Mr. Ramesh.*

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Illustration 14 - Clubbing of Income: *Kamal gifted Rs. 10 lakhs to his wife, Sulochona on her birthday on 1st January, 2020. Sulochona lent Rs. 5,00,000 out of the gifted amount to Krishna on 1st April, 2020 for 6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15th October, 2020, which were sold for Rs. 75,000 on 30th December, 2020. Securities transactions tax was paid on such sale. The balance amount of gift was invested as capital by Sulochona in a business. She suffered loss of Rs. 1.5,000 in the business in Financial Year 2020-21.*

In whose hands the above income and loss shall be included in Assessment Year 2021-22 Rs. Support your answer with brief reasons. (5 Marks, Nov. 2017)

Solution: *Under section 64(1) (iv), where any asset is transferred directly or indirectly to the spouse by an individual, otherwise than for adequate consideration or in connection with an agreement to live apart, the income arising therefrom is included in the hands of the transferor. The term "income" in this context includes "loss" as well - CIT v J. H. Gotla [1985] 156 ITR 323 (SC).*

Therefore, interest of Rs. 50,000 from moneys lent to Krishna shall be clubbed in hands of her husband Mr. Kamal.

The loss of Rs. 15,000 sustained by Sulochona in the business carried on by her with funds gifted by her husband can be claimed by her husband. Further, gift from husband is not taxable under section 56(2)(x).

When Mrs. Sulochna invested the interest income of Rs. 50,000 in shares of listed company and earned short term capital gains amounting Rs. 25,000 there from, such capital gains shall not be clubbed with the income of her husband but shall be taxable in her individual capacity. This is so because the income from the accretion of the transferred assets is not to be clubbed with the income of the transferor. - CIT v. M.S.S. Rajan [2001] 252 ITR 126 (Mad).

Illustration 15 - Clubbing of Income : Mr. Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2019, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1st April, 2020 was Rs. 2,75,000 and the bank credited a sum of Rs. 27,500 as interest on 31st March, 2021.

Madhav's father gifted equity shares worth Rs. 50,000 of an Indian company (unlisted) to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2011) in July 2011 which were purchased by him on 8th December, 2004 for Rs. 80,000. Manan received a dividend of Rs. 5,000 on these shares in October 2020. He sold these shares on 1st November, 2020 for Rs. 5,00,000 and deposited Rs. 3,00,000 in a company at 1.5% interest per annum. Cost Inflation Index: Financial Year 2004-05 = 113, 2010-11 = 167 and 2020-21 = 301. Mr. Madhav has a taxable income of Rs. 3,50,000 from his profession during the financial year 2020-21. Compute his Gross Total Income for the A.Y. 2021-22. (5 Marks, May 2018-NS)

Solution: Computation of Gross Total Income for the A.Y. 2021-22 (amount in Rs.):

Taxable Income from Profession		3,50,000
Capital Gains		
Full Value of consideration	5,00,000	
Less: Indexed cost of acquisition [Rs. 80,000 $\times$ 301 $\div$ 113]	2,13,097	2,86,903
Income from Other Sources		
Dividend from shares of Indian company [Taxable in hands of share holder]	5,000	
Interest received by Master Tapan (Income cannot be clubbed in hands of Madhav, since Master Tapan is suffering from disability specified under Section 80U)	-	
Interest on company deposits invested by Master Manan will be clubbed in hands of Madhav [Rs. 3,00,000 $\times$ 1.5% $\times$ 5 -12]	18,750	
Less: Exemption under Section 10(32)	-1,500	22,250
Gross Total Income		6,59,153

Illustration 16 - Clubbing of Income: Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-03-2021:

- M received a gift of Rs. 70,000 from her friend's father on the occasion of her birthday.
- M won a prize money of Rs. 3,00,000 in National Quiz competition.
- This was invested in debentures of a company, from which interest of Rs. 19,000 (gross) accrued during the year.
- N won prize in a lottery. The net amount received after deduction of tax at source was Rs. 1,05,000. Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required. (5 Marks, Nov. 2018-NS)

Solution: As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per Section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

However, the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Since the income of Mr. Vinod Amin (before considering the clubbing provisions) is higher than that of his wife, the income accrued to minor child will be clubbed in his income. Thus, the treatment of various income of minor child shall be as under:

- (i) Gift received by M amounting Rs. 70,000 from her friend's father on the occasion of her birthday will be clubbed in hands of Mr. Vinod Amin under the head Income from other sources.
- (ii) Rs. 3,00,000 earned by M in National Quiz competition shall not be clubbed in hands of her father as the same has been earned by her application of skill or talent. Interest from debentures amounting Rs. 19,000 is liable to be clubbed even when investment is made out of income arising from application of special talent.
- (iii) Income of Rs. 1,50,000 (gross) arising to minor N from lottery shall be included in the hands of Mr. Vinod Amin as "Income from other sources".
From the income so clubbed Mr. Vinod Amin will be entitled to deduction of Rs. 1,500 per child under Section 10(32) of the Act.

Illustration 17 - Clubbing of Income: Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2021-22.

	Particulars	Rs.
1.	Income of Mr. Mahadev - professional bhajan singer (computed)	5,65,000
2.	Salary income of Mrs. Dariya (computed)	3,80,000
3.	Loan received by Mrs. Dariya from Ramu & Jay (Pvt.) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4.	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5.	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6.	Interest income received by minor married daughter Gudia from deposit with Ramu & Pvt. Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2021-22. (5 Marks, Nov. 2019)

Solution: Computation of total income Mr. Mahadev & Mrs. Dariya for the assessment year 2021-22
(amounts in Rs.)

Particulars	Mr. Mahadev	Mrs. Dariya
Income from profession/ Income from salary		
Income from other sources:	5,65,000	3,80,000
Loan received from Mrs. Dariya from Ramu and Jaya (Pvt.) Ltd. (Shall not be regarded as Income)		-
Interest Income of minor married daughter received from Ramu and Jay Pvt Ltd. [WN-3]	40,000	
Less: Exemption u/s 10(32)	-1,500	
Total Income	6,03,500	3,80,000

Working Notes:

- (1) *As per section 64(1A) any income, accruing or arising to a minor child on account of activity involving application of his skill, talent or specialized knowledge and experience, is not to be clubbed. Therefore, income of minor son Golu from special talent shall not be clubbed.*
- (2) *Cash Gift received by minor son Golu is not taxable since, as per section 56(2)(x), gift received from non-relatives is taxable only when the aggregate amount from one or more person exceeds Rs. 50,000.*
- (3) *Income earned by minor married daughter shall be clubbed in hands of his parent whose other income is greater.*

9

AGGREGATION OF INCOME AND SET-OFF OF LOSS*Topic Referencer*

Income from Undisclosed Sources & its Taxability

Provisions for Set-off or Carry Forward and Set-off - Section 70 to 74A

Provisions relating to submission of Return of Losses

INCOME FROM UNDISCLOSED SOURCES & ITS TAXABILITY

1. Discuss briefly about the various incomes from undisclosed sources or aggregation of income.

Ans: The various incomes from undisclosed sources are as under -

(1) Cash credits [Section 68]: Where -

- (a) any sum is found credited in the books of an assessee maintained for any previous year, and
- (b) the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

Unexplained share application money/ share capital/ share premium received by Private limited Company - Income of such Company: Where the assessee is a company, (not being a company in which the public are substantially interested) and the sum so credited consists of share application money, share capital, share premium or any such amount by whatever name called, any explanation offered by such assessee company shall be deemed to be not satisfactory, unless -

- a) the person, being a resident in whose name such credit is recorded in the books of such company, also offers an explanation about the nature and source of such sum so credited; and
- b) such explanation in the opinion of the Assessing Officer has been found to be satisfactory.

However, it shall not apply if the person, in whose name the sum referred to therein is recorded, is a venture capital fund or a venture capital company as referred to in Section 10(23FB).

(2) Unexplained investments [Section 69]: Where in the financial year -

- (a) the assessee has made investments which are not recorded in the books of account, if any, maintained by him for any source of income, and
- (b) the assessee offers no explanation about the nature and source of the investments or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then, the value of the investments may be deemed to be the income of the assessee of such financial year.

(3) Unexplained money, etc. [Section 69A]: Where in any financial year -

- (a) the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, etc. is not recorded in the books of account, if any, maintained by him for any source of income, and
- (b) the assessee offers no explanation about the nature and source of acquisition of such money, etc., or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.
- (4) **Amount of investments, etc., not fully disclosed in books of account [Section 69B]:** Where in any financial year-
- (a) the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and
- (b) the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the assessee for any source of income, and
- (c) the assessee offers no explanation about such excess amount or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the excess amount may be deemed to be the income of the assessee for such financial year.
- (5) **Unexplained expenditure, etc. [Section 69C]:** Where in any financial year -
- (a) an assessee has incurred any expenditure, and
- (b) he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the assessee for such financial year.
- However, such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as a deduction under any head of income.
- (6) **Amount borrowed or repaid on hundi [Section 69D] :** Where any amount is borrowed on a hundi from, or any amount due thereon is repaid to, any person otherwise 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 the amount aforesaid for the previous year in which the amount was borrowed or repaid, as the case may be. However, if in any case, any amount borrowed on a hundi has been deemed to be the income of any person, such person shall not be liable to be assessed again in respect of such amount under the provisions of this section on repayment of such amount.
- Explanation:** The amount repaid shall include the amount of interest paid on the amount borrowed.
2. **At what rates shall the aforesaid incomes be taxed?**
- Ans:** Tax on income referred to in section 68 or section 69 or section 69A or section 69B or section 69C or section 69D [Section 115BBE]:

- (1) *The cash credits unexplained money, investment, expenditure, etc. deemed as income under section 68 or section 69 or section 69A or section 69B or section 69C or section 69D as reflected in the return or as determined by the Assessing Officer not reflected in the return shall be taxable at rate of 60%. Tax is to be increased by surcharge @ 25% of such tax and HEC @ 4% of such tax and surcharge. The effective rate of tax u/s 115BBE would, therefore, be 78% of such undisclosed income etc., if declared in the return of income.*
- (2) *The balance income would be taxable as per applicable tax rates.*
- (3) *No deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the eligible assessee under any provision of this Act in computing his income referred above.*
- (4) *No benefit of basic exemption limit will be available while computing the tax liability.*

Illustration 1 - Unexplained expenditure and tax liability: Mr. Ganesh is a wholesale trader and his total income for the last few years ranged between Rs. 7 lakh to Rs. 9 lakh. He celebrated his 50th birthday on a large scale on 19th June, 2019 by hosting a cruise party in the luxury cruise liner - "Silver Sea", for which he had spent Rs. 25 lakh. The Assessing Officer, in the course of scrutiny assessment of Mr. Ganesh, asked him to explain the source of such expenditure. The explanation offered by Mr. Ganesh that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, since a couple of years ago, he had spent to tune of Rs. 50 lakh on the wedding celebrations of his twin daughters at Seshmahal in Chennai. You are required to examine the tax consequences.

Solution: As per Section 69C, If any expenditure is incurred by an assessee in any financial year in respect of which he is not able to offer explanation about the source of such expenditure or the explanation offered by him is not satisfactory in the opinion of the Assessing Officer, then the amount of such unexplained expenditure may be deemed as income of the assessee for such financial year. Therefore, in this case, since the Assessing Officer is not satisfied with the explanation offered by Mr. Ganesh, the expenditure of Rs. 25 lakh incurred by him in the financial year 2019-20 in hosting a grand cruise party may be deemed as his income for such financial year as per section 69C. Further, such unexplained expenditure which is deemed as the income of Mr. Ganesh shall not be allowed as deduction under any head of income.

Here the total income of Mr. Ganesh includes such unexplained expenditure of Rs. 25 lakh, which is deemed as his income under section 69C, such deemed income would be taxed at the rate of 78% as per section 115BBE. Further, no basic exemption or allowance or expenditure or set off of any loss shall be allowed to him under any provision of the Income-tax Act, 1961 in computing such deemed income.

**PROVISIONS FOR SET-OFF OR CARRY FORWARD
AND SET-OFF - SECTION 70 TO 74A**

3. **Explain the provisions relating to inter-source adjustment as discussed in Section 70.**

Ans: The relevant provisions are discussed as under -

(1) **Set off of loss from one source against income from another source under the same head of income/Inter source adjustment [Section 70] :** Where in any assessment year, the assessee suffers any loss from any source under any head of income, the assessee shall be entitled to have the amount of such loss set off against his income from any other source under the same head.

For example: Loss from one house-property can be set-off against the income of another house-property.

(2) **Exceptions:** Inter-source set-off is not permissible in the following cases -

- (a) Long Term Capital loss can be set off only against long-term capital gains and cannot be set off against short term capital gains;
- (b) A loss in speculation business can be set off only against the profits of any other speculation business and cannot be set off against general business profits (however, losses from general business can be set-off against profits from speculation business);
- (c) Loss from business of owning and maintaining race horse can be set off only against income from such business;
- (d) Loss from a source, the income from which is exempt, cannot be set off against any income.
For example, share of loss from a partnership firm cannot be set-off against business income, since share of income of the firm is exempt under section 10(2A).
- (e) Loss from lottery, card games, gambling, betting, etc. cannot be set-off against any income.
- (f) Any loss computed in respect of any specified business referred under section 35AD can be set-off only against profits of any specified business carried on by the assessee.

4. **Discuss the provisions in relation to inter-head adjustment as specified in Section 71.**

Ans: The provisions relating to inter head adjustments is as under -

(1) **Set-off of loss from one head against income from another [Section 71] :** Where in respect of any assessment year, there is a loss under any head of income, he shall be entitled to have the amount of such loss set off against his income, if any, assessable for that assessment year under any other head.

(2) **Exceptions :** Inter-head adjustment is not permissible in the following cases -

- a) Loss under the head Capital gains cannot be set-off from income under any other head;
- b) Losses under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries".
- c) The exceptions of section 70 shall apply here also.

(3) **Restriction on set-off of loss from House property in excess of Rs. 2,00,000 :** Where in respect of any assessment year, the net result of the computation under the head "Income from house property" is a loss and the assessee has income assessable under any other head of income, the assessee shall not be

entitled to set off such loss, to the extent the amount of the loss exceeds Rs. 2,00,000, against income under the other head.

Note: Unabsorbed depreciation cannot be set-off against Salaries : Loss under head 'Profits and gains of business or profession' is computed after deducting current year depreciation. Thus, unabsorbed portion of current year depreciation cannot be set-off against income under the head 'Salaries'. Further, unabsorbed depreciation of past year(s) is carried forward under section 32(2), which again falls under the head 'Profits and gains of business or profession', therefore, the same cannot be set-off against income under the head 'Salaries'.

5. **Write a short note on Set off and carry forward of loss arising under the head "Income from House Property".**

Ans: Carry forward and set off of loss from house property [Section 71B]:

- (1) **Loss can be carried forward to be set off from Income from House Property:** Loss from house property which cannot be set off as per section 70 and section 71 shall be carried forward to be set off from, income from house property.
- (2) **Number of years for which loss can be carried forward:** No loss shall be carried forward under this section for more than 8 assessment years immediately succeeding the assessment year for which the loss was first computed.
- (3) **Loss Return:** Return of loss is not required to be filed in order to carry-forward such loss.

6. **Explain the provisions of carry forward and set off of business losses and speculation losses under section 72 of the Income-tax Act, 1961.**

(6 Marks, Nov. 2007)

Ans: Carry forward and set off of business losses [Section 72]:

- (1) **Loss can be carried forward to be set off from Profits and Gains of business of profession :** Where for any assessment year, the net result of the computation under the head "Profits and gains of business or profession" is a loss to the assessee, other than speculation business loss, which could not be set off as per section 70 and 71, shall be carried forward to be set off from profits and gains of business and profession.
- (2) **Number of years for which loss can be carried forward:** No loss shall be carried forward under this section for more than 8 assessment years immediately succeeding the assessment year for which the loss was first computed.
- (3) **Priority to set-off under this section:** Effect shall be first given to set-off under this section over set-off of unabsorbed depreciation, unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on family planning.
- (4) **Loss Return:** Return of loss under section 139(3) is mandatorily required to be filed as per the due dates under section 139(1) in order to carry-forward the loss.

- (5) **Business discontinued on account of natural calamities :** Where the whole or any part of such loss is sustained in any business referred under section 33B which is discontinued in the circumstances specified in that section, (i.e. due to natural calamities) and, thereafter, at any time before the expiry of the period of 3 years, such business is reestablished, reconstructed or revived by the assessee, then so much of the loss as is attributable to such business shall be carried forward to the assessment year relevant to the previous year in which the business is reestablished, reconstructed or revived, and -
- (i) it shall be set off against the profits and gains, if any, of that business or any other business carried on by him and assessable for that assessment year; and
 - (ii) if the loss cannot be wholly so set-off, the amount of loss not so set off shall, in case the business so reestablished, reconstructed or revived continues to be carried on by the assessee, be carried forward to the following assessment year and for immediately succeeding 7 assessment years.
- (6) **Loss can be carried forward by the same person:** Loss can be carried forward by the same person who has incurred the loss except as provided in Section 78.
- (7) **Business need not be continued:** Business in which loss occurred need not be continued to carry forward the loss.

7. **Briefly explain the provisions relating to set-off of loss arising from Speculation Business.**

Ans: Losses in speculation business [Section 73]:

- (1) **Loss can be carried forward to be set off from speculation gains:** Where for any assessment year any loss computed in respect of a speculation business has not been wholly set-off, then so much of the loss as is not so set off or the whole loss where the assessee had no income from any other speculation business, shall be carried forward to the following assessment year, and -
- (i) it shall be set-off against the profits and gains, if any, of any speculation business carried on by him assessable for that assessment year; and
 - (ii) if the loss cannot be wholly so set-off, the amount of loss not so set-off shall be carried forward to the following assessment year and so on.
- (2) **Number of years for which loss can be carried forward:** No loss shall be carried forward for more than 4 assessment years immediately succeeding the assessment year for which the loss was first computed.
- (3) **Priority to set-off under this section:** Effect shall be first given to set-off under this section over set off of unabsorbed depreciation, unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on family planning.
- (4) **Loss Return:** Return of loss under section 139(3) is mandatorily required to be filed as per the due dates under section 139(1) in order to carry-forward the loss.

- (5) **Deemed Speculation Business [Explanation to Section 73]** : Where any part of the business of a company, other than a company whose gross total income consists mainly of income which is chargeable under the heads, "Income from house property", "Capital gains" and "Income from other sources", or a company the principal business of which is the business of trading in shares or banking or the granting of loans and advances, consists of the purchase and sale of shares of other companies, such company shall be deemed to be carrying on a speculation business to the extent to which the business consists of the purchase and sale of such shares.

8. **State briefly the provisions in respect of carry forward and set off of losses by specified business.**

Ans: Carry forward and set off of losses by specified business [Section 73A]:

- (1) **Loss can be carried forward to be set off from specified business profits:** Where for any assessment year, any loss of the specified business has not been wholly set-off, then so much of the loss as is not so set off or the whole loss where the assessee has no income from any other specified business, shall be carried forward to the following assessment year, and-
- (i) it shall be set off against the profits and gains, if any, of any specified business carried on by him assessable for that assessment year; and
 - (ii) if the loss cannot be wholly so set-off, the amount of loss not so set-off shall be carried forward to the following assessment year and so on.
- (2) **Number of years for which loss can be carried forward:** The loss not set-off can be carried forward for infinite years.
- (3) **Loss Return:** Return of loss under section 139(3) is mandatorily required to be filed as per the due dates under section 139(1) in order to carry-forward the loss.

9. **Explain the provisions of the Income-tax Act, 1961 regarding set-off and carry forward of losses from transfer of capital assets. (CS Inter June 2007)**

Ans: Losses under the head "Capital gains" [Section 74]:

- (1) Where in respect of any assessment year, the assessee suffers any loss under the head "Capital gains", then the whole loss shall be carried forward to the following assessment year, and -
- (a) the short-term capital loss shall be set-off against short-term capital gains or long-term capital gains;
 - (b) the long-term capital loss shall be set-off only against long-term capital gains.
- (2) **Number of years for which loss can be carried forward:** No loss shall be carried forward for more than 8 assessment years immediately succeeding the assessment year for which the loss was first computed.
- (3) **Loss Return:** Return of loss under section 139(3) is mandatorily required to be filed as per the due dates under section 139(1) in order to carry-forward the loss.

Note : With effect from 1st April 2018, the long-term capital gain exceeding Rs. 1,00,000 arising on sale of equity shares or units of equity oriented fund or unit of business trust on which STT is paid -

- in respect of equity shares, both at the time of acquisition and sale; and
- in respect of units of equity oriented fund or unit of business trust, at the time of sale is taxable under

section 112A @ 10%. Long-term capital loss on sale of such shares/units can, therefore, be set-off and carried forward for set-off against long-term capital gains by virtue of section 70(3) and section 74.

10. *Write a short notes on Set off and carry forward of loss arising under the head "Income from other sources". (6 Marks, Nov. 2005)*

Ans: *Losses from certain specified sources falling under the head "Income from other sources" [Section 74A]:*

- (1) **Loss from the business of owning and maintaining race horses:** In case of an assessee, being the owner of horses maintained by him for running in horse races, the amount of loss incurred by the assessee in the activity of owning and maintaining race horses in any assessment year shall not be set off against income, if any, from any source other than the activity of owning and maintaining race horses in that year and shall be carried forward to the following assessment year and -
- (a) it shall be set off against the income, if any, from the activity of owning and maintaining race horses assessable for that assessment year (the activity of owning and maintaining race horses must be carried on by him in the previous year relevant for that assessment year); and
- (b) if the loss cannot be wholly so set-off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.
- (2) **Number of years for which loss can be carried forward:** No portion of the loss shall be carried forward for more than 4 assessment years immediately succeeding the assessment year for which the loss was first computed.
- (3) **Loss Return:** Return of loss under Section 139(3) is mandatorily required to be filed as per the due dates under Section 139(1) in order to carry-forward the loss.

Note:

- (a) *Loss incurred = Stake money i.e. gross prize money received on horse races Less Revenue expenditure laid out or expended by him wholly and exclusively for maintaining race horses.*
- (b) *Horse race means a horse race upon which wagering or betting may be lawfully made.*

11. *Enlist some points relating to the concept of set-off.*

Ans: *The provisions relating to concept of set-off are as under -*

- (a) **Sequence in which set-off to be made :** First of all, inter-source set off shall be made under section 70; then, inter- head set off shall be made under section 71 and finally, set-off of brought forward losses shall be made under section 71B to 74A. - CBDT's Circular No. 587, date 11-12-1990.
- (b) **Set off of losses incurred in illegal business:** The losses incurred during the course of illegal business can be setoff from real profits of illegal business. However, such losses can neither be set off against profits of legal business nor they can be carried forward for set off against profits of later year. - *CIT v. Kurji Jinabhai Kotecha* [1977] 107 ITR 101 (SC).
- (c) **Brought forward business loss may be set-off against income from any business, not necessarily 'profits and gains of business or profession':** According to Section 72(1), brought forward losses under the head 'Profits and gains of business or profession' can be set-off against 'profits and gains of any business or

profession"; not necessarily 'income chargeable under the head Profits and gains of business or profession'. Thus, such losses can even be set-off against those business incomes which may be assessable under other heads in view of express provisions of law.

For example : In case of income from business of property let on hire, the income falls under the head 'Income from house property', but still the same would retain its character as business income and would, therefore, be available to be set-off against past business losses.

Illustration 2 - Computation of total Income after adjustment of Losses: Sanyasi, engaged in various types of activities, gives the following particulars of his income for the year ended 31-3-2021

(amounts in Rs.):

(i)	Profit of business of consumer and household products	6,32,000
(ii)	Loss of business of ready-made garments	1,00,000
(iii)	Loss from house property	2,80,000
(iv)	Short-term capital loss on sale of securities and shares	1,50,000

Compute the total income of Sanyasi.

Solution: Computation of total income of Sanyasi

(amounts in Rs.):

Profits of business of consumer and household products	6,32,000	
Less: Loss of business of ready-made garments set-off as per section 70(1)	1,00,000	
	5,32,000	
Less: Loss from house property [WN-1]	2,00,000	3,32,000
Short-term capital loss on sale of securities and shares [WN-2]		-
Total Income		3,32,000

Working Notes:

- (1) Loss from house property can be set-off only to the extent of Rs. 2,00,000. Balance loss of house property amounting Rs. 80,000 shall be carried forward to be set-off from Income from house property.
- (2) Short-term capital loss of the current year can be set-off only from Capital gains, hence the same shall be carried forward.

Illustration 3 - Computation of total Income: Mr. A submits the following particulars pertaining to the year ended 31-03-2021

(amount in Rs.)

(i)	Income from salary (Computed)	5,00,000
(ii)	Loss from self-occupied property	80,000
(iii)	Loss from let-out property	1,50,000
(iv)	Business loss	90,000
(v)	Bank interest (FD) (Gross)	70,000

You are required to compute total income of Mr. A for assessment year 2020-22.

Solution: Computation of total income of Mr. A

(amounts in Rs.):

Salaries:		
Income from Salary (computed)	5,00,000	
Less: Loss of house property (Rs. 80,000 + Rs. 1,50,000 subject to maximum of Rs. 2,00,000)	2,00,000	3,00,000
Income from house property:		
Loss from self-occupied property	80,000	
Loss from let-out property	1,50,000	-
To be set-off from Salaries subject to maximum of Rs. 2,00,000 and balance loss of Rs. 30,000 to be carried forward to be set-off from Income from House Property.		
Profit and gains of business or profession :		
Business loss to be set-off from Income from other sources and balance business loss of Rs. 20,000 to be carried forward to be set-off from Profit and gains of business or profession	90,000	-
Income from other sources :		
Bank interest (FD) (Gross)	70,000	
Less: Business loss	70,000	-
Total Income		3,00,000

Illustration 4 - Computation of total Income after adjustment of Losses: Simran, engaged in various types of activities, gives the following particulars of her income for the year ended 31-3-2021

(amounts in Rs.):

(i) Profit of business of consumer and household products	50,000
(ii) Loss of business of ready-made garments	10,000
(iii) Brought forward loss of catering business which was closed in A.Y. 2019-20	15,000
(iv) Short-term loss on sale of securities and shares	15,000
(v) Profit of speculative transactions entered into during the year	12,500
(vi) Loss of speculative transactions of A.Y. 2016-17 not set off till A.Y. 2020-21	15,000

Compute the total income of Simran. (6 Marks, PCE May 2007)

Solution: Computation of total income of Simran

(amounts in Rs.):

Profits of business of consumer and household products	50,000	
Less: Loss of business of ready-made garments set-off as per section 70(1)	10,000	
	40,000	
Less: Brought forward loss of catering business closed in A.Y. 2020-21 shall be set-off against business income for the year as per section 72(1)	15,000	25,000
Profit of speculative transaction		12,500
Total Income		37,500

Working Notes:

- 1) Brought-forward speculation loss of A.Y. 2016-17 cannot be set-off as the period of 4 years as specified under section 73 has expired.

- 2) Short-term capital loss of the current year can be set-off only against capital gains, hence the same shall be carried forward.
- 3) Brought forward loss of catering business can be set-off against business income even after business is discontinued.

Illustration 5 - Computation of total Income after adjustment of Losses: Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2020-21 :

	Rs.
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the A.Y. 2021-22, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-07-2021. (5 Marks, Nov. 2018-NS)

Solution: Computation of total income of Mr. Rakesh Gupta

(amounts in Rs):

Income from House property : Loss from house property [WN-1]		
Profits and gains of business or profession : Income from speculation business	12,45,000	
Less: Loss from non speculative business set-off as per section 72	-3,20,000	
Less: Loss from house-property subject to maximum of Rs. 2,00,000	-2,00,000	7,25,000
Loss from specified business covered under Section 35AD (to be c/f)		
[WN-2]	4,10,000	
Income from other sources :		
Loss from card games (cannot be allowed to be set off)	Nil	
Winnings from betting	90,000	
Winnings from lotteries (Gross)	1,50,000	2,40,000
Total Income		9,65,000
Losses to be carried forward to A.Y. 2022-23:		
Loss from house property [WN-1]	50,000	
Loss from specified business covered under Section 35AD	4,10,000	
Total amount of losses to be carried forward to A.Y. 2022-23		4,60,000

Working Notes:

1. As per Section 71 (3A), Loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only.
As per section 71B, balance loss (Rs. 50,000) not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto assessment year 2029-30, in this case.
2. Any loss computed in respect of any specified business referred under section 35AD can be set-off only against profits of any specified business carried on by the assessee.

Illustration 6 - Computation of total Income after adjustment of Losses: Determine the total income of Mr. Chand from the following information: (5 Marks, PCC Nov. 2010)

	Particulars	Rs.
(i)	Interest received on enhanced compensation (It relates to transfer of land in the financial year 2012-13. Out of the above Rs.65,000 relates to financial year 2020-21 and the balance relates to preceding years)	4,00,000
(ii)	Business loss relating to discontinued business of the A.Y. 2015-16 brought forward and eligible for set-off	1,50,000
(iii)	Current year business income (i.e., financial year 2020-21) (Computed)	1,10,000

Solution: Computation of total income of Mr. Chand (amount in Rs.):

Profits and gains of business or profession: Current year business income	1,10,000	Nil
Less: Brought forward business loss of discontinued business Rs. 1,50,000 shall be set-off to the extent of current year business income as per section 72 [WN-1]	1,10,000	
Income from other sources : Interest on enhanced compensation [WN-2]	4,00,000	
Less: Deduction under section 57(iv) @ 50%	2,00,000	2,00,000
Total Income		2,00,000

Working Notes:

- (1) The unabsorbed business loss of Rs. 40,000 (Rs. 1,50,000 - Rs. 1,10,000) of A.Y. 2015-16 relating to discontinued business will be carried forward to the next year i.e. A.Y. 2022-23.
- (2) Interest on enhanced compensation is taxable on receipt basis under section 56(2) (viii) irrespective of method of accounting followed by the assessee.

Illustration 7 - Computation of gross total Income and losses to be carried forward: Ms. Geeta is a resident individual provides the following information details of her income/losses for the year ended 31-3-2021:

- Salary received as a partner from a partnership firm Rs. 7,50,000.
- Loss on sale of shares listed in BSE Rs. 3 lakhs. Shares were held for 15 months and STT paid on sale.
- Long-term capital gain on sale of land Rs. 5 lakhs.
- Rs. 51,000 received in cash from friends in party.
- Rs. 55,000 received towards dividend on listed equity shares of domestic companies.
- Brought forward business loss of assessment year 2020-21 Rs. 12.5 lakhs. The return was filed in time. Compute gross total income of Ms. Geeta and ascertain the amount of loss that can be carried forward.

Solution: Computation of gross total income of Ms. Geeta (amount in Rs.):

(8 Marks, PCC June, 2009)

Business income : Salary received as partner from partnership firm	[W ^N -1]	7,50,000	
Less: Brought forward loss of A.Y. 2020-21 set off to the extent of income	[W ^N -2]	7,50,000	Nil
Long-term capital gains: Sale of land		5,00,000	
Less: Long-term capital loss on shares on STT paid	[W ^N -3]	3,00,000	2,00,000
Income from other sources:			
Cash gifts	[W ^N -4]	51,000	
Gross Total Income			3,06,000

Working Notes:

- (1) Salary received as a partner from a partnership firm is taxable under the head profits and gains of business and profession. It is assumed that the salary so received is within the permissible limits of section 40(b), hence fully taxable,
- (2) The balance business loss of Rs. 5 lakhs not set-off can be carried forward to next years.
- (3) Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).
- (4) Cash gift in excess of Rs. 50,000 is fully taxable.
- (5) Dividends from domestic companies is taxable in hands of shareholder.

Illustration 8— Computation of total Income after adjustment of Losses : The summarized Profit and Loss Account of Sri Raj (from his grocery stores) for the previous year ended 31-3-2021 is as under (amounts in Rs.):

To Expenses	4,20,000	By Gross Profit	6,00,000
To Net Profit	2,80,000	By Dividends(from Indian Listed Companies)	1,00,000
	7,00,000		7,00,000

The following further information was provided for the same previous year:

- (i) Raj had other business (Proprietary) - Cloth Trade (Loss) 42,000
Speculation (Profit) 30,000
- (ii) Loss in Proprietary business carried on in the name of his minor son ; 45,000
- (iii) He had carried forward loss in Electrical Spares for assessment year 2019-20, which business was closed down (Return filed in time) 39,000
- (iv) Income of Mrs. Raj 55,000

Compute the taxable income of Mr. Raj. (Nov. 2002)

Solution: Computation of taxable income of Raj (amounts in Rs.):

Profits and gains of business or profession:		
Net profit as per Profit and Loss Account of Grocery Stores	2,80,000	
Less: Dividends from Indian Listed Companies is taxable under Income from other sources.	1,00,000	
	1,80,000	
Speculation Profits	30,000	
	2,10,000	
Less: Set-off under section 70 and 72 -		
(1) Loss from cloth trade	42,000	
(2) Loss from business of minor [WN-1]	45,000	
(3) Brought forward loss of electric spare business [WN-2]	39,000	84,000
Income from other sources :		
Dividends from Indian Listed Companies is taxable under Income from other sources.		1,00,000
Taxable Income		1,84,000

Working Note:

- (1) As per section 64, "income" includes loss. Therefore, loss sustained in business run in the name of minor child can be set-off by the parent whose income, before taking into account the minor's income, is higher.
- (2) Total Income of Mr. Raj = Rs. 3,10,000 - Rs. 42,000 - Rs. 39,000 = Rs. 2,29,000 whereas total income of Mrs. Raj = Rs. 55,000, Since Mr. Raj's income is higher, hence minor's income (loss) will be clubbed with the income of Mr. Raj.
- (3) Brought forward loss of electric spares business can be set-off against business income even after business is discontinued.

Illustration 9 - Computation of total Income and losses to be carried forward: Mr. Rajat submits the following information for the financial year ending 31st March, 2021. He desires that you should:

- (a) Compute the Total Income and
- (b) Ascertain the amount of losses that can be carried forward.
- (i) He has two houses :
 - (a) House No. I—Income after all statutory deductions 72,000
 - (b) House No. II—Current year loss -30,000
- (ii) **He has three proprietary businesses :**
 - (a) **Textile Business:**
 - (i) Discontinued from 31st October, 2020-Current year loss 40,000
 - (ii) Brought forward business loss of the assessment year 2017-18 95,000
 - (b) **Chemical Business:**
 - (i) Discontinued from 1st March, 2020-hence no Profit/Loss Nil
 - (ii) Bad debts allowed in earlier years recovered during this year 35,000
 - (iii) Brought forward business loss of the assessment year 2019-20 50,000
- (c) **Leather Business :** Profit for the current year 1,00,000
- (d) Share of Profit in a firm in which he is Partner since 2012 16,550
- (iii) (a) Short-term Capital Gain 60,000

(b) Long-term Capital Loss	35,000
(iv) Contribution to LIC towards Premium	10,000

(10 Marks, IPCC Nov. 2009) (8 Marks, IPCC May 2013)

Solution:

(a) Computation of Gross Total Income of Mr. Rajat (amount in Rs.):

Income from House Property:		
House No. I: Income from house property	72,000	
House No. II: Current year's loss (Inter-source set-off u/s 70)	-30,000	42,000
Profits and Gains of Business and Profession:		
Profits from leather business	1,00,000	
Share in profit from firm [WN-1]	Exempt	
Recovery of Bad debts deemed to be income u/s 41(4) [WN-2]	35,000	
Current year's loss of textile business (Inter-source adjusted)	-40,000	
Balance Income	95,000	
Brought forward textile business loss of A.Y. 2017-18	-95,000	Nil
Capital Gains:		
Short term Capital Gains		60,000
Gross Total Income		1,02,000
Less: Deduction u/s 80C in respect of contribution to LIC		10,000
Total Income		92,000

Working Notes:

- (1) Share in profit is exempt under section 10(2). It is assumed that the share in profit doesn't represent any salary, interest or other remuneration.
- (2) Recovery of bad debts earlier allowed as deduction is taxable under the head Profits and gains of business or profession in accordance with the provisions of Section 41(4).
- (6) Statement of the amount of losses that can be carried forward (amount in Rs.):

Brought forward business loss of chemical business to be carried forward under section 72	50,000
Long term Capital loss to be carried forward under section 74	35,000

Illustration 10- Computation of total Income after adjustment of Losses: Mr. Banerjee furnishes you the following details for the year ended 31-03-2021 (amount in Rs.):

Income (loss) from house property:

House-1	36,000
House-2-Self occupied	(20,000)
House-3	60,000

Profits and gains from Business of Profession:

Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000

Capital Gains:

Long-term capital gain from sale of shares (STT paid)	1,50,000
Long-term capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

Note: Assume that the figures given above are computed and arrived at after considering eligible deductions.

Other sources:

Gift from a Friend (non-relative) on 05-06-2020	60,000
Gift from Maternal Uncle on 25-02-2021	1,00,000
Gift from Grandfather's Younger Brother on 10-02-2021	1,00,000

Compute the total income of Mr. Banerjee for the Assessment Year 2021-22. (6 Marks, PCC May 2010)

Solution: Computation of total income of Mr. Banerjee (amount in Rs.):

Income from House Property:		
House-1	36,000	
House-2 - Self occupied (Intra-head set-off)	-20,000	
House-3	60,000	76,000
Profits and gains from Business or Profession:		
Textile Business	2,00,000	
Automobile Business [WN-1]	-3,00,000	
Speculation Business	2,00,000	1,00,000
Capital Gains:		
Long-term capital gain from sale of shares (STT paid) - Taxable in excess of Rs. 1,00,000 u/s 112A [WN-2]	50,000	
Long-term capital gain from sale of vacant site [WN-3]	2,00,000	
Short-term capital loss from sale of building	-1,00,000	1,50,000
Other Sources:		
Gift from a Friend (non-relative) on 05-06-2020 - Taxable	60,000	
Gift from Maternal Uncle on 25-02-2021 [WN-4]	Not taxable	
Gift from Grandfather's Younger Brother on 10-02-2021 [WN-5]	1,00,000	1,60,000
Total Income		4,86,000

Working Notes:

- (1) Automobile business loss can be set-off against speculation business profits also.
- (2) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto Rs. 1 lakh as per Section 112A of the Income-tax Act, 1961.
- (3) Short-term capital loss can be set-off against long-term capital gains from sale of vacant site.
- (4) Maternal uncle is brother of the mother of the individual, hence, relative. Thus, the said gift shall not be taxable.
- (5) Grandfather's younger brother is not relative. Hence, gift received from him will be taxable.

Illustration 11 - Computation of gross total Income and losses to be carried forward: Mr. P is a resident individual and furnishes you the following particulars of his income and other details for previous year 2020-21 (amounts in Rs.):

Income from salary (Computed)	18,000
Net annual value taxable under the income from house property	70,000
Income from business	80,000
Income from speculation business	1,20,000
LTCG on sale of land	15,800

Loss on the maintenance of race horse	9,000
Loss on the gambling	8,000
Depreciation allowable under the Act comes out to Rs. 8,000 for which no treatment has been given above. The other details of unabsorbed depreciation and brought forward losses are :	
Unabsorbed depreciation	9,000
Loss from speculation business	16,000
Short term capital loss	7,800
Unrealized rent	17,000
Compute the gross total income of Mr. P and the amount of loss that can or can't be carried forward. (6 Marks, PCC Nov. 2008) (Similar: 4 Marks, May 2017)	

Solution: Computation of gross total income of Mr. P (amount in Rs.):

Income from salary (Computed)			
Income from house property: Net Annual Value		70,000	18,000
Less: Statutory deduction u/s 24(a) @ 30%		21,000	49,000
Profits and Gains of Business or Profession:			
Income from Speculation Business	12,000	Nil	
Less: Brought forward loss of speculation business (Balance Rs. 4,000 to be carried forward)	12,000		
Income from non-speculation business	80,000	63,000	63,000
Less: Depreciation allowable under the Act [WN-1]	8,000		
Unabsorbed depreciation	9,000		
Income from Capital Gains: LTCG on sale of land		15,800	
Less: Brought forward short-term capital loss		7,800	8,000
Gross total income			1,38,000

Working Notes:

- (1) It is assumed that whole of the depreciation relates to non-speculation business only.
- (2) Loss on the gambling cannot be set-off against any income and carried forward.
- (3) Loss from the activity of maintenance of race horses can only be set-off against income from such source, hence, the same shall be carried forward for set-off for 4 subsequent assessment years.
- (4) The information relating to unrealized rent has no relevance whatsoever; had such information been loss from house property, the same could have been set-off against income from house property.

Illustration 12 - Computation of Gross Total Income and losses to be carried forward: Mr. Sohan submits the following details of his income –

Particulars	Rs.
Income from salary (computed)	3,00,000
Loss from let out house property	40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in PY 2015-16)	1,20,000
Short term capital loss	60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winning in card games	6,000

Agricultural income	20,000
Long term capital gain from shares (STT paid)	10,000
Short term capital loss under section 111A	10,000
Bank interest	5,000

Calculate gross total income and losses to be carried forward. (5 Marks, IPCC Nov. 2010)

Solution: Computation of gross total income of Mr. Sohan (amounts in Rs.):

Salaries:		
Income from salary (computed)	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	-40,000	2,60,000
Profits and gains of business or profession :		
Income from sugar business		
Less: Brought forward loss from iron-ore business set-off as per section 72	50,000 - 50,000	Nil
Capital gains :		
Long term capital gain	40,000	
Long term capital gain from shares (STT paid) [WN-3]	Nil	
Less: Short term Capital loss set-off	-40,000	Nil
Income from other sources:		
Dividend	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y. 2022-23		
Loss of iron-ore business (Rs. 1,20,000 - Rs. 50,000 set-off)	70,000	
Short term capital loss [Rs. 60,000 + Rs. 10,000 (STCL of section 111A) - Set-off Rs. 40,000]	30,000	

Working Notes:

- (1) It is assumed that dividend is received from domestic company which is taxable in hands of shareholder.
- (2) Agricultural income is exempt under section 10(1).
- (3) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto Rs. 1 lakh as per Section 112A of the Income-tax Act, 1961.
- (4) It is presumed that loss from iron-ore business relates to P.Y. 2015-16, the year in which the business was discontinued.

Illustration 13 - Computation of Total Income and losses to be carried forward: Mr. Aditya furnishes the following details for the year ended 31-03-2021:

Particulars	Amount (Rs.)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under Section 35AD	20,000
Income from Salary (Computed)	3,00,000
Loss from House Property	2,50,000
Income from trading business	45,000

Long-term Capital Gain from sale of urban land	2,00,000
Long-term Capital Loss on sale of shares (STT not paid)	75,000
Long-term Capital Loss on sale of listed shares in recognized stock exchange (STT Paid)	1,02,000

Following are the brought forward losses:

- (i) Losses from owning and maintaining of race horses pertaining to A.Y. 2020-21 Rs. 2,000.
- (ii) Brought forward loss from trading business Rs. 5,000 relating to A.Y. 2017-18.
Compute the total income of Mr. Aditya and show the items eligible for carry forward. (Modified 8 Marks, May 2016)

Solution: Computation of total income of Mr. Aditya (amounts in Rs.):

Salaries: Income under the head salary (Computed)	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	-2,00,000	1,00,000
Profits and gains of business or profession: Income from trading business	45,000	
Less: Brought forward loss from trading business set-off as per section 72	-5,000	40,000
Loss from specified business covered under Section 35AD (to be c/f)	20,000	
	[WN-3]	
Income from speculative business B	5,000	
Loss from speculative business A	-25,000	
Balance loss to be carried forward	-20,000	
	[WN-4]	
Capital gains : Long term capital gain on sale of urban land	2,00,000	
Less: Long-term Capital Loss on sale of shares (STT not paid)	-75,000	
Less: Long-term Capital Loss on sale of listed shares in recognized stock exchange (STT Paid)	-1,02,000	23,000
	[WN-1]	
Total Income		1,63,000
Losses to be carried forward to A.Y. 2022-23 :		
Loss from house property	50,000	
	[WN-5]	
Loss from speculation business	20,000	
Loss from specified business covered under Section 35AD	20,000	
Losses from owning and maintaining of race horses pertaining to A.Y. 2020-21	2,000	
	[WN-2]	
Total amount of losses to be carried forward to A.Y. 2022-23		92,000

Working Notes:

- (1) Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per Section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A.
- (2) Loss from the activity of maintenance of race horses can only be set-off against income from such source, hence, the same shall be carried forward for set-off for 3 subsequent assessment years.
- (3) Any loss computed in respect of any specified business referred under section 35AD can be set-off only against profits of any specified business carried on by the assessee.
- (4) A loss in speculation business can be set off only against the profits of any other speculation business and cannot be set off against general business profits. Hence, the remaining loss shall be carried forward for 4 assessment years.
- (5) As per Section 71 (3A), Loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto assessment year 2029-30, in this case.

Illustration 14 - Computation of Total Income: Mr. Rahul an assessee aged 61 years gives the following information for the previous year 31-03-2021.:

Sr.	Particulars	(Rs.)
(a)	Loss from profession	1,05,000
(b)	Capital loss on the sale of property-short term	55,000
(c)	Capital gains on sale of shares-long-term (STT is not paid)	2,05,000
(d)	Loss in respect of self occupied property	15,000
(e)	Loss in respect of let out property	30,000
(f)	Share of loss from firm	1,60,000
(g)	Income from card games	55,000
(h)	Winnings from lotteries	1,00,000
(i)	Loss from horse races in Mumbai	40,000
(j)	Investment in NABARD bonds	21,000
(k)	Medical Insurance premium paid by cheque	18,000

Compute the total income of Mr. Rahul for the assessment year 2021-22 (8 Marks, IPCC Nov. 2012)

Solution: Computation of total income of Mr. Rahul (amount in Rs.):

Income from house property		
Loss of self occupied property and let out property (Rs. 15,000 + Rs. 30,000)	45,000	
Profits and gains from business or profession		
Loss from profession	1,05,000	
Capital Gains		
Long-term capital gains on sale of shares (STT is not paid)	2,05,000	
Less: Short-term capital loss on sale of property [WN-1]	55,000	
Income under the head "Capital Gains"		1,50,000
Less: Set-off of losses under other heads of income [WN-2]		
Loss from profession	1,05,000	
Loss under the head "Income from house property" (Rs. 15,000 + Rs. 30,000)	45,000	1,50,000
		Nil
Income from other sources		
Income from card games	55,000	
Winnings from lotteries	1,00,000	1,55,000
Gross total income		1,55,000
Less: Deduction under Chapter VIA [WN-4]		Nil
Total Income		1,55,000

Working Notes:

- (1) As per Section 74, short term capital loss of Rs. 55,000 can be set-off against long-term capital gains of Rs. 2,05,000 on sale of shares.
- (2) Loss of Rs. 1,05,000 from profession and loss of Rs. 45,000 from house property (both let out and self-occupied) can be set-off against the net income of Rs. 1,50,000 under the head "Capital Gains".
- (3) Loss from an exempt source cannot be set-off against profit from a taxable source. Therefore, share of loss from a firm cannot be set-off against any other income, since share of profit from firm is exempt under section 10(2A).

- (4) Since the total income comprises only of income from card games and winnings from lotteries, deduction under Chapter VI-A is not allowable from such income. Therefore, Mr. Rahul will not be entitled to claim deduction under section 80C in respect of investment in NABARD bonds and deduction u/s 80D in respect of medical insurance premium paid by cheque.
- (5) Further, loss from horse races can neither be set-off against winnings from lotteries and income from card games nor can it be carried forward.

Illustration 15 - Compute of Total Income: Compute the total income of Mr. Krishna for the assessment year 2021-22 from the following particulars:

Particulars	Amount (Rs.)
Income from business before adjusting the following items :	1,75,000
(a) Business loss brought forward from assessment year 2018-19	70,000
(b) Current depreciation	40,000
(c) Unabsorbed depreciation of earlier year	1,55,000
Income from house property (Gross annual value)	4,32,000
Municipal taxes paid	32,000
Mr. Krishna sold a plot at Noida on 12th Sept., 2020 for a consideration of Rs. 6,40,000, which had been purchased by him on 20th Dec. 2018 at a cost of Rs. 4,10,000.	
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid)	75,000
Long-term capital gain on sale of debentures	60,000
Dividend on shares held as stock in trade	22,000
Dividend from a company carrying on agri business	10,000

During the previous year 2020-21, Mr. Krishna has repaid Rs. 1,67,000 towards housing loan from a scheduled bank. Out of Rs. 1,67,000, Rs. 97,000 was towards payment of interest and rest towards principal payments.

Cost inflation indices are as under: F.Y. 2017-18 : 254 and F.Y. 2020-21: 301.

(8 Marks, Nov. 2013)

Solution: Computation of Total Income (amount in Rs.):

Income from House Property: Gross Annual Value	4,32,000	
Less: Municipal taxes paid	32,000	
Net annual Value	4,00,000	
Less: Standard deduction @ 30% of NAV	1,20,000	
Less: Interest on borrowed capital	97,000	1,83,000
Profits and Gains of Business and Profession:		
Income from business	1,75,000	
Less: Current years depreciation	40,000	
Less: Business loss brought forward from assessment year 2018-19	70,000	
Less: Unabsorbed depreciation to the extent of remaining income	65,000	Nil
Capital Gains:		
Long-term capital gain on sale of debentures	60,000	
Less: Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid) shall be allowed to be adjusted from LTCG. (Balance loss of Rs. 15,000 shall be carried forward to be set-off from LTCG)	60,000	
Long-term capital gains	Nil	
Short term capital gains on sale of plot of land at Noida (Rs. 6,40,000 - Rs.	2,30,000	

4,10,000)		
Less: Unabsorbed depreciation (Rs. 1,55,000 – Rs. 65,000 set-off from business income)	90,000	1,40,000
Income from other sources:		
Dividend on shares held as stock in trade	22,000	
Dividend from a company carrying on agri business	10,000	32,000
Gross Total Income		3,55,000
Less: Deduction u/s 80C Repayment of housing loan		70,000
Total Income		2,85,000

Illustration 16 - Computation of Gross Total Income: Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2020-21.

(1) Income from Salary (Computed)	15,000
(2) Income from Business (before providing depreciation)	66,000
(3) Long term capital gain on sale of Land	1,08,000
(4) Loss on maintenance of Race Horses	15,000
(5) Loss from Gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2020-21 are as follows:

Unabsorbed depreciation	11,000
Loss from Speculative business	22,000
Short term capital loss	9,800

Compute the Gross Total Income of Mr. Garg for the Assessment Year 2021-22 and the amount of loss, if any, that can be carried forward, or not. (4 Marks, May 2014)

Solution: Computation of the Gross Total Income of Mr. Garg (amount in Rs.):

(1) Income from Salary (Computed)		15,000
(2) Income from Business (before providing depreciation)	66,000	
Less: Unabsorbed depreciation	11,000	55,000
(3) Long term capital gain on sale of Land	10,800	
Less: Brought forward short term capital loss	9,800	1,000
Gross Total Income		71,000

Notes:

- Loss from Gambling cannot be set off from any head of income.
- Loss from maintenance of race horses cannot be set-off from any head of Income. The same shall be carried forward for 4 years in accordance with the provisions of Section 74A.
- Loss from a speculative business can be set-off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of Rs. 22,000 brought forward from A.Y. 2020-21 has to be carried forward to A.Y. 2022-23 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of 4 years as per section 73(4), i.e., upto A.Y. 2023-24]

Illustration 17 Computation .of taxable income: Mr. Venus provides the following details for the previous year ending 31-03-2020:

- | | | |
|-------|--|-------------------------|
| (i) | Salary from HNL Ltd. | Rs. 50,000 per month |
| (ii) | Interest on FD with SBI for the Financial Year 2020-21 | Rs. 72,000 (Net of TDS) |
| (iii) | Determined long term capital loss of AY 2019-20 (to be carried forward) | Rs. 96,000 |
| (iv) | Long term Capital Gain | Rs. 75,000 |
| (v) | Loss of minor son Rs. 90,000 computed in accordance with the provisions of Income- tax Act. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss. | |
| (vi) | Loss of his wife's business | Rs. (2,00,000) |
| | She carried business with funds which Mr. Venus gifted to her. | |

You are required to compute taxable income of Mr. Venus for the AY 2021-22. (8 Marks, Nov. 2015)

Solution: Computation of total income of Mr. Venus for the assessment year 2021-22 (amount in Rs.):

Income from Salary			
Salary from HNL Ltd. 50,000 x 12]	6,00,000		
Less: Standard deduction u/s 16(ia)	50,000	5,50,000	
Less: Loss from House property		90,000	4,60,000
Income from house property			
Loss from House property transferred to his minor son shall be set off from Salaries		-	
Profits and gains of business or profession			
Loss from his wife's business to be clubbed with Mr. Venus (to be set off from Capital gains and Income from other sources)	-		
Capital Gains	[WN-1]		
Long-term capital gains		75,000	
Less: Business Loss	[WN-2]	-75,000	Nil
Income from other sources			
Income from fixed deposit (Gross) [Rs. 72,000 x 100 + 90]	[WN-3]	80,000	
Less: Loss from business		-80,000	Nil
Gross total income			4,60,000
Less: Deduction under Chapter VIA			Nil
Total Income			4,60,000

Working Notes:

- (1) Loss from business or profession can be set off from any head of income except income from salaries.
- (2) Current year loss will be given priority over set off of brought forward losses. Hence, brought forward loss of Rs. 96,000 will be carried forward as the current year income after setting off of business loss is nil.
- (3) Rate of TDS on income from fixed deposits is 10%.
- (4) Remaining business loss of Rs. 45,000 [Rs. 2,00,000 - Rs. 75,000 - Rs. 80,000] shall be carried forward.

Illustration 18 - Computation of Total income: Mr. Jaji is a chartered accountant and his income from profession for the year 2020-21 is 110,00,000. He provides you with the following information for the year 2020-21.

	Rs.
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2018 out of her special talent	20,000
Gift received by Chitra on 30-09-2020 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 111 A of Mr. Jaji	10,00,000

Compute the Total Income of Mr. Jaji for Assessment Year 2021-22 and the losses to be carried forward assuming that he files his income tax returns every year before due date. (5 Marks, May 2018)

Solution: Computation of total income of Mr. Jaji (amount in Rs.):

Profits and Gains of Business or profession (Professional Income of Mr. Jaji)		10,00,000
Capital Gains:		
Long term capital gain	4,00,000	
Long term capital gains from shares [Taxable exceeding Rs. 1,00,000]	9,00,000	
Less: Short term capital loss shall be set-off to the extent of LTCG	6,00,000	
Less: Short term capital loss u/s 111	7,00,000	Nil
A Income from Other Sources :		
Income of minor son Biju from company deposit to be clubbed in Income of Mr. Jaji [WN-2]	1,50,000	
Income of minor daughter Chitra (professional dancer) (income arising out of professional skills cannot be clubbed in hands of Mr. Jaji) [WN-3]	-	
Interest from SBI received by Chitra on deposit made in 2017 out of her special talent shall be clubbed in hands of Mr. Jaji since it is not out of professional skill [WN-3]	20,000	
Gift received by Chitra on 30-09-2019 from friends of Mr. Jaji on winning National award (Since the value of gift does not exceed Rs.50,000, the same shall not be taxable.)	Nil	1,70,000
Less: Exemption under Section 10(32) [Rs. 1,500 + Rs. 1,500] [WN-2]		-3,000
Gross Total Income/Total Income		11,67,000
Losses to be carried forward to A.Y. 2021-22		
Short term capital loss (Rs. 6,00,000 + Rs. 10,00,000 (STCL of section 111A)- Rs. 13,00,000 set-off)		3,00,000

Working Notes:

- (1) The long term capital gain on equity shares through a recognized stock exchange on which security transaction tax has been paid is taxable under Section 112A exceeding Rs. 1,00,000. Hence, short term capital loss shall be set off to the extent of long term capital gains and balance loss shall be carried forward.

- (2) *As per Section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater.*
Further, as per Section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.
- (3) *In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.*
Therefore, the income of Rs. 20,00,000 derived by Mr. Jaji's minor daughter through activity involving application of her skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor daughter. However, income from bank deposit is liable to be clubbed even when deposit is made out of income arising from application of special talent.

Illustration 19 - Computation of Total income: Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31-03-2020:

	Particulars	Amount (Rs.)
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai which is self-occupied. Loan was taken from PNB on 01-01-1999 for purchase of this property	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01-04-2017 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long term capital gains on sale of equity shares computed in accordance with Section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2020-21 and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

- (i) *Loan taken for purchase of house property in Delhi - Rs. 2,50,000*
(ii) *Loan taken for purchase of house property in Mumbai - Rs. 50,000*
(iii) *Loan taken for repair of house properties in Delhi and Mumbai - Rs. 75,000*

Working notes should form part of your answer. Wherever necessary, suitable assumption may be made by the candidates and disclosed by way of note. (10 Marks, May 2019-NS)

Solution: Computation of total income of Ms. Geeta (amount in ₹.):

Income from Salary			41,20,000
Income from House property			
Delhi House:			
Rent received being net annual value	5,00,000		
Less: Standard deduction (30% of NAV)	1,50,000		
Less: Interest on borrowed capital 7,50,000 + 50% of ₹. 1,50,000]	8,25,000	-4,75,000	
Jaipur (House)			
Rent received being net annual value	3,20,000		
Less: Standard deduction (30% of NAV)	96,000	2,24,000	
Self Occupied House (Mumbai):			
Annual value	Nil		
Less: Interest on borrowed capital ₹. 1,57,000 + 50% of ₹. 1,50,000 but restricted to ₹. 30,000 since loan been taken for acquisition of house prior to 1-4-1999 and loan taken on 1-4-2017 was for repair of house property]	30,000	-30,000	
(Loss from house property to be set-off from salaries to the extent of ₹. 2,00,000).		-2,81,000	-2,00,000
Balance loss of ₹. 81,000 shall be carried forward to be set-off from Income from House property.			
Profits and Gains of Business and Profession :			
Salary received from partnership firm [Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession]		50,000	
Loss incurred by firm, in which she is a partner [Share of loss from a partnership firm cannot be set-off against business income, since share of income of the firm is exempt under section 10(2A)]		-	
Speculation profit		2,30,000	
Less: Loss from textile business - ₹. 7,50,000 (set-off to the extent of business income i.e. ₹. 2,80,000)		2,80,000	
Balance loss (₹. 7,50,000 - ₹. 2,80,000) i.e. ₹. 4,70,000 to be set-off from Income from other sources to the extent of ₹. 73,000 and remaining loss from Income under the head capital gains i.e. ₹. 3,97,000. Such loss cannot be set-off from Salaries		2,80,000	Nil
Capital Gain's:			
Long-term Capital Gains on sale of equity shares computed as per Section 112A		8,95,000	
Less: Loss from textile business (Current year loss is to be given priority over set-off of brought forward loss)		3,97,000	
Less: Brought forward short-term capital loss on sale of gold		2,75,000	

Less: Brought forward loss on sale of equity shares of the nature specified u/s111A		25,000	1,98,000
Income from Other Sources :			
Winnings from lottery		75,000	
Interest on fixed deposit		73,000	
Less: Loss from textile business		73,000	75,000
Gross total income			41,93,000
Less: LIC premium paid for her son (Shall qualify for deduction u/s 80C even if son is not dependent on her)		15,000	
Repayment loan taken for purchase of house property in Delhi (Not eligible for deduction u/s 80C since loan is taken from friend)		Nil	
Repayment of loan taken for purchase of house property in Mumbai		50,000	
Repayment of loan taken for repair of house properties in Delhi and Mumbai shall not be eligible for deduction u/s 80C since loan is taken for repair of house.		Nil	65,000
Total income			41,28,000

Illustration20-Computation of Total income : Following are the details of incomes/losses of Mr. Rishi for the financial year 2020-21:

(Figures in brackets represents losses)	Rs.
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources :	
- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2021-22. (5 Marks, Nov. 2019)

Solution: Computation of Gross total income of Mr. Rishi (amount in Rs.):

Income from salary (computed)	3,60,000	
Less: Loss from house property set-off against salary income as per section 71	-2,00,000	1,60,000
Income from House Property :		
Property X	1,20,000	
Property Y	-3,40,000	
Loss from house property	-2,20,000	
Loss to the extent of Rs. 2,00,000 shall be set-off from salary and balance loss of Rs. 20,000 shall be carried forward to be set off from Income from house property.		
Profits and gains of business or profession:		
Business P	2,30,000	
Business Q	-12,000	2,18,000
Speculative business R	15,000	
Speculative business T	-25,000	
Speculative loss to be carried forward to be set off from speculative gains	-10,000	
Income from other sources:		
Interest on securities	5,000	
Winnings from card games	16,000	
Loss from owning and maintaining race horses to be carried forward to be set off from profits of owning and maintaining race horses	-7,000	21,000
Gross Total Income		3,99,000

10 DEDUCTIONS FROM GROSS TOTAL INCOME

Topic Referencer

-  General Provisions for deductions under Chapter VI-A
-  Deduction in Respect of Payments - Section 80 to 80GGC
-  Deduction in Respect of incomes - Section 80JJAA to 80TTA

GENERAL PROVISIONS FOR DEDUCTIONS UNDER CHAPTER VI-A

1. **Explain the general provisions of deductions to be made in computing the total income.**

Aits: The general provisions of deductions to be made in computing the total income are as under -

(1) **Deductions to be made in computing total income [Section 80A]:**

- (i) **Deductions to be made [Section 80A(1)] :** In computing the total income of an assessee, there shall be allowed from his gross total income, the deductions specified in Sections 80C to 80U.
- (ii) **Deductions cannot exceed GTI [Section 80A(2)] :** The aggregate amount of the deductions shall not, in any case, exceed the gross total income of the assessee. Thus, an assessee cannot have a loss as a result of the deduction under Chapter VI-A and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.
- (iii) **No double deduction [Section 80A (3)]:** In the case of AOP/BOI, if any deduction is admissible under section 80G/80GGA/ 80GGC/80-IA/80-IB/80-IC/80-ID/80-IE, no deduction under the same section shall be made in computing the total income of a member of the AOP or BOI in relation to the share of such member in the income of the AOP or BOI.
- (iv) **No double deduction under two simultaneous provisions [Section 80A(4)] :** If any profits and gains are allowed as deduction under section 10AA or Section 80-IA to 80RRB in any assessment year, then deduction in respect of and to the extent of such profit and gains shall not be allowed under any other provision of the Act for such assessment year. Such deduction shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be.
- (v) **No deduction u/s 10A or 10AA or 80-IA to 80RRB, if not claimed in the return of income [Section 80A(5)]:** No deduction under section 10AA or section 80-IA to 80RRB shall be allowed if the same has not been claimed in the return of income.
- (vi) **Inter-unit Transfers to be valued at market value for computing deduction [Section 80A(6)] :** For the purpose of computing deduction under section 10AA or section 80-IA to 80RRB, the transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer. **Explanation:** The expression "market value" means,-
 - (a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;

- (b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;
- (c) In relation to any goods or services sold, supplied or acquired the arm's length price as defined in Section 92F(ii) of such goods or services, if it is a specified domestic transaction referred to in Section 92BA.
- (vii) **No deduction u/s 35AD, if deduction claimed u/s 80-IA to 80RRB [Section 8GA (7)]:** Where a deduction under section 80-IA to 80RRB is claimed and allowed in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.
2. **Deduction to be made with reference to the income included in the gross total income [Section 80AB]**
For the purpose of calculation of deductions under section 80-IA to 80RRB, the net income computed in accordance with the provisions of the Act (before making any deduction under Chapter VI-A) shall alone be regarded as income received by the assessee and which is included in his gross total income. Accordingly, the deductions specified in the aforesaid sections will be calculated with reference to the net income as computed in accordance with the provisions of the Act (before making deduction under Chapter VI-A) and not with reference to the gross amount of such income.
3. **Deduction not to be allowed unless return furnished [Section 80AC] :** Where in computing the total income of an assessee of any previous year relevant to the assessment year commencing any deduction is admissible under any provision of Section 80-IA to Section 80RRB, no such deduction shall be allowed to him unless he furnishes a return of his income for such assessment year on or before the due date specified under Section 139(1).
4. **Deduction not admissible from certain incomes:** No deduction under Chapter VI-A is allowed from the following incomes -
- Long Term Capital Gains referred u/s 112 and 112A
 - Short Term Capital gains referred under section 111A,
 - Winnings from lotteries, races, etc. as referred to in Section 115BB,
 - Incomes referred to in Sections 115A(1)(a), 115AC, 115ACA, 115AD, 115BBA, 115BBB, 115BBD, 115BBD, 115BBE, 115BBF and 115D.

EDUCATION IN RESPECT OF PAYMENTS- SECTION 80 TO 80G

2. **Explain deduction under section 80C in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.**

Ans: Deduction for payment of life insurance premia, etc. [Section 80C]:

- Eligible assessee:** An Individual or a Hindu undivided family (whether resident or non-resident)
- Condition to be satisfied:** Assessee has made a deposit or an investment in any one or more of the listed items as given below) during the previous year. It must be noted that for the purposes of deduction under this section the payments or deposits need not be out of income chargeable to tax.
- Quantum of deduction:** The amount so deposited/invested or Rs. 1,50,000 whichever ever is less. Eligible deposits or investments:
- Eligible deposit or investments:**

	Particulars	Notes
	Category A: <i>Applicable to individual & HUF both</i>	
(1)	Life insurance premium: Life Insurance Premium paid by a person to effect or to keep in force a life insurance policy.	(1) Insurance policy can be taken on life of the following : (a) In case of an individual: Individual, spouse and any child of such individual. (b) In case of HUF: Any member of HUF. (2) Maximum limit: (a) Premium on insurance policy in excess of 10% of the actual sum assured shall not qualify for deduction in respect of policies issued on or after 01-04-2012. (b) Premium on insurance policy in excess of 20% of the actual sum assured shall not qualify for deduction in respect of policies issued before 01-04-2012. (c) Premium on insurance policy in excess of 15% of the actual sum assured shall not qualify for deduction in respect of policies issued on or after 01-04-2013, where the policy, is for insurance on life of any person, who is — (i) a person with disability or a person with severe disability as referred to in section 80U, or (ii) suffering from disease or ailment as specified in the rules made under section 80DDB. Note: "Actual capital sum assured" in relation to a life insurance policy shall mean the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account - (i) the value of any premium agreed to be returned; or (ii) any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.
(2)	PPF: Contribution made towards Public Provident Fund.	(1) Subscription should be in the name of following persons - (a) In case of individual: Individual, spouse and any child of such individual. (b) In case of HUF: Any member of HUF. (2) Contribution must not be in form of repayment of loan. (3) The limit for deposit in PPF A/c is minimum Rs. 500 and maximum Rs. 1,50,000 p.a.
(3)	ULIP : Contribution for participating in the Unit linked Insurance Plan (ULIP) of Unit Trust of India (UTI) or ULIP of LIC Mutual fund u/s 10(23D).	Subscription should be in the name of following persons - (a) In case of individual : Individual, spouse and any child of such individual. (b) In case of HUF: Any member of HUF.
(4)	Annuity plan: Payment to notified annuity plan of LIC or any other notified insurer (Jeevan Dhara,	Subscription should be in the name of following persons - (a) In case of individual: Individual, spouse and any child of such individual.

	<i>Jeevan Akshay, etc.).</i>	<i>(b) In case of HUF: Any member of HUF.</i>
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	Category B: Applicable to individual	Notes
(1)	Deferred annuity plan: Payment by an individual in respect of non-commutable deferred annuity.	(1) Annuity may be taken in the name of the individual, spouse and any child of such individual. (2) There is no option under the contract to receive cash in lieu of annuity.
(2)	Deferred annuity plan of Government: Any sum deducted from salary of a Government employee for the purpose of securing to him a deferred annuity or making provision for his spouse or children.	Maximum limit: 20% of salary of the employee.
(3)	SPF/RPF: Contribution by employee to statutory/ recognised provident fund.	Contribution to any fund shall not include any sums in repayment of loan.
(4)	Tuition fees : Any payment by way of tuition fees (whether at the time of admission or thereafter) to any university, college, school or other educational institution situated within India for the purpose of full-time education.	Such payment does not include any payment towards any development fees or donation or payment of similar nature. Tuition fees for only 2 children of an individual shall be eligible for deduction.
(5)	Repayment of housing loan : Payment in respect of purchase or construction of residential house property by way of - (i) Installment or part payment under self-financing or other scheme of development authority or housing board or housing development authority; ? or (ii) Instalment or part payment towards cost of house/flat to any company or co-operative society of which assessee is a shareholder or member; (iii) Repayment of amount borrowed by the assessee from- (a) the Central or State Govt., or (b) any bank, including a co-operative bank, or (c) LIC, or (d) National Housing Bank, or (e) Indian public company being a housing finance company eligible for deduction u/s 36(1)(viii), or (f) public company in which public are substantially interested or co-operative society having business of financing construction of houses, or (g) assessee's employer where the employer	Payments not eligible for deduction : However, the following payments are not eligible for deduction - (a) Admission fee, cost of share and initial deposit which a shareholder/member of a company or co-operative society has to pay for becoming such shareholder or member; (b) Cost of any addition/ alteration/ renovation/ repair of house property after issue of completion certificate in its respect by a competent authority or after the house property or any part thereof has either been occupied by assessee or any other person on his behalf or been let out; (c) Any expenditure which is deductible u/s 24.

	is an authority or board or corporation or any other body established or constituted under a Central or State Act, (h) assessee's employer where the employer is a public company or a public sector company or a university or college affiliated to such university or local authority or co-operative society. (iv) Stamp duty, registration fee and other expenses for purchase of house.	
(6)	Approved superannuation fund: Contribution to an approved superannuation fund.	
(7)	Notified deposit schemes : Subscription, in the name of any person specified in Section 80C(4) persons, to notified securities or notified deposit schemes of the Central Government. [Sukanya Samriddhi Account Scheme has been notified under vide Notification No. 9/2015, dated 21-01-2015], As per section 80C(4), the subscription made in the name of - (a) the individual himself or herself; (b) any girl child of the individual; or (c) any girl child for whom such individual is the legal guardian, would be eligible for deduction under section 80C	
(8)	NSC: Subscription to National Savings Certificates (VIII issue) or other notified savings certificate.	
(9)	Units of UTI or Mutual Fund: Subscription to units of UTI or mutual fund notified u/s 10(23D) in any plan under notified scheme.	
(10)	Notified pension fund: Contribution by an individual to notified pension fund of Mutual Fund notified under section 10(23D) or UTI.	
(11)	Notified deposit scheme of NHB: Contribution to notified deposit scheme or pension fund of National Housing Bank (NHB).	
(12)	Notified subscriptions to housing finance companies/ housing boards : Subscription to notified deposit scheme of - (i) Any public sector housing finance company, or (ii) Any housing Development Authority or City/Town/Village development authority.	
(13)	Equity shares, debentures, units, etc. of Infrastructure Undertakings : Subscription to approved – (a) equity shares or debentures forming part of, or (b) units of mutual fund notified u/s 10(23D) subscribed in, eligible issue of capital i.e. an issue made by a public company registered in India or a public financial institution, the entire proceeds of which are utilised wholly and exclusively for the purposes of any business referred to under section 80-1 A(4).	
(14)	5-year FDRs of Bank: Term Deposit for a fixed period of 5 years or more with a scheduled bank, which is in accordance with a scheme framed and notified by the Central Government.	
(15)	Notified bonds of NABARD: Subscription to notified bonds issued by the National Bank for Agriculture and Rural Development.	
(16)	Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.	
(17)	5-year FDR's of post-offices : Deposit as 5 year time deposit in an account under the Post Office Time Deposit Rules, 1981.	
(18)	NPS (Tier-II) Contribution : In case of an employee of the Central Government, as a contribution to a specified account of the pension scheme referred to in section 80CCD (a) for a fixed period of not less than three years; and (b) which is in accordance with the scheme as may be notified by the Central Government in the Official Gazette for the purposes of this clause. "Specified account" means an additional account referred to in section 20(3) of the Pension Fund	

	<i>Regulatory and Development Authority Act, 2013. [Amended by Finance (No.2) Act, 2019 w.e.f. 1-4-2020 i.e. AY 2020-21]</i> <i>Thus, only the contribution to the additional account under NPS will qualify for deduction u/s 80C.</i>
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(5) *Withdrawal of deduction:*

- (i) Provisions relating to withdrawal of deduction in certain cases: Where, in any previous year, an assessee -
- (a) terminates his contract of insurance (referred to in point (1) of category A) or where the contract ceases to be in force by reason of failure to pay premium, by not reviving contract of insurance, -
 in case of any single premium policy, within 2 years after the date of commencement of insurance; or
 in any other case, before premiums have been paid for 2 years; or
- (b) terminates his participation to unit-linked insurance plan (referred to in point (4) of category A) or where he ceases to participate by reason of failure to pay contribution, by not reviving his participation, before the contributions have been paid for 5 years; or
- (c) transfers (including transfer by way of lease for a period exceeding 12 years referred u/s 269VA(f) of the Act) the house property (referred to in point (12) of category B) before expiry of 5 years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified in that point; or
- (d) sells or otherwise transfers equity shares or debentures, with reference to the cost of which deduction has been allowed under section 80C, within 3 years from the date on which his name is entered in relation to those shares or debentures in register of members or of debenture-holders, then, -
 no deduction shall be allowed in that previous year in respect of cases falling under (a) to (c); and
 the aggregate amount of deductions allowed in any preceding previous year(s) shall be deemed to be the income of the assessee of that previous year and shall be liable to tax in the assessment year relevant to that previous year.
- (ii) ***Withdrawal from Senior Citizens Savings Account or Term deposit of Post Office within 5 years - Taxable:*** If any amount, including interest accrued thereon, is withdrawn by the assessee from his account referred to in points (16) and (17) of category B, before the expiry of the period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be the income of the assessee of the previous year in which the amount is withdrawn and shall be liable to tax in the assessment year relevant to that previous year. However, the amount liable to tax shall not include the following amounts -
- (a) ***Interest included in total income of assessee in preceding previous year(s):*** Any amount of interest, relating to deposits referred to in points (16) and (17) of category B, which has been included in the total income of the assessee of the previous year or years preceding such previous year; and
- (b) ***Amount received on death:*** Any amount received by the nominee or legal heir of the assessee, on the death of such assessee, other than interest accrued, thereon, which was not included, in the total income of the assessee for the previous year or years preceding such previous year.

Illustration 1 - Deduction in respect of re-payment of loan when house is under construction: Mr. Kalpesh borrowed a sum of Rs. 30 lakhs from the National Housing Bank towards purchase of a residential flat. The

loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May 2020, repayments towards principal and interest had been made during the year-ended 31-3-2020.

In the light of the above facts, state:

- (i) Whether Mr. Kalpesh can claim deduction u/s 2.4 in respect of interest for assessment year 2021-22.
- (ii) Whether deduction under Section 80C can be claimed for the above assessment year, even though the construction was completed only after the closure of the year Rs. **(6 Marks, PCC May 2008)**

Solution:

- (i) Interest on borrowed capital is allowed as deduction under section 24, Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24. Further, Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction. It is stated that the construction is completed in May, 2021. Hence, deduction in respect of interest on housing loan cannot be claimed in the assessment year 2021-22.
- (ii) Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2021-22, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2021-22.

Illustration 2 - Computation of deduction admissible u/s 80C: Compute the eligible deduction u/s 80C for A.Y. 2021-22 in respect of life insurance premium paid by Mr. Balma during the P.Y. 2020-21, the details of which are given hereunder -

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2020-21 (Rs.)
(i)	15-04-2011	Self	2,50,000	52,000
(ii)	10-05-2014	Spouse	1,80,000	18,500
(iii)	01-06-2019	Handicapped minor Son (Section 80U disability)	4,50,000	72,000

Solution: Computation of deduction admissible under section 80C to Mr. Balma

(amount in Rs.):

	Date of Issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2020-21	Deduction u/s 80C for A.Y. 2021-22	Remark (restricted to % of sum assured)
(i)	15-04-2011	Self	2,50,000	52,000	50,000	20%
(ii)	10-05-2014	Spouse	1,80,000	18,500	18,000	10%
(iii)	01-06-2019	Handicapped minor Son (Section 80U)	4,50,000	72,000	67,500	15%

	disability)				
Total				1,35,500	

3. Discuss the deduction available to an assessee for contribution made to annuity plans of LIC & other insurers.

Ans: Contribution to certain pension funds [Section 80CCC]:

(1) **Eligible Assessee:** Individual (irrespective of residential status or citizenship of the individual);

(2) **Nature of payment:**

- (i) The assessee has paid or deposited during the previous year, a sum under an annuity plan of the Life Insurance Corporation of India (LIC) or any other insurer for receiving pension from the fund referred to in Section 10(23 AAB).
- (ii) Payment out of taxable income: The amount must be paid out of income which is chargeable to tax.

(3) **Amount of Deduction:** Deduction shall be allowed to the extent of -

- (i) Amount so paid or deposited (excluding interest/bonus accrued or credited); or
- (ii) Rs. 1,50,000, whichever is less.

(4) **Amount received as pension or on surrender of annuity plan - Taxable :** In case, assessee or his nominee receives any amount (including interest or bonus credited to his account) on surrender of annuity plan or as pension, for which deduction was allowed in this section, then, the sum so received shall be deemed to be the income of assessee/nominee and shall be taxable in the previous year in which such sum is received.

(5) **Double deduction not admissible:** Sum allowed as deduction under this section will not be allowed as deduction under section 80C.

4. Explain the deduction available to employees for contribution towards Approved Pension Scheme. Deduction under section 80CCD is available only to individuals employed by Central Government. Discuss the correctness of this statement. (2 Marks, PCC May 2008)

Ans: Contribution to Pension Scheme of Central Government [Section 80CCD]:

(1) **Eligible Assessee:**

- (i) An individual employed by the Central Government on or after 01-01-2004 or, being an individual employed by any other employer; or
- (ii) any other individual assessee.

(2) **Nature of Payment:** Employee's and employer's contribution to Approved Pension Scheme of the Central Government and any amount deposited by any other individual assessee to such scheme.

(3) **Amount of Deduction:**

(i) In case of salaried employee:

Employee's contribution [Section 80CCD (1)]: Amount paid or, 10% of salary, whichever is lower.	XXX
Employer's contribution [Section 80CCD (2)] : Amount paid in assessee's account or 10% of salary	XXX

(14% of salary where contribution is made by Central Government), whichever is lower.	
Total amount of deduction	XXX
"Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.	

- (ii) **In case of any other individual assessee [Section 80CCD (1)]:** Deduction shall be allowed to the extent of, -
- Sum paid/ deposited by assessee to the credit of his account in the notified pension scheme, or
 - 20% of his gross total income in the previous year, whichever is less.
- (iii) **Additional deduction of Rs. 50, 000 in respect of contribution to NPS of Central Government [Section 80CCD (1B)]:** An assessee shall be allowed a deduction in computation of his total income, whether or not any deduction is allowed under Section 80CCD(1), of the whole of the amount paid or deposited in the previous year in his account under NPS which shall not exceed Rs. 50,000. 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).
- (4) **Amount received as pension or on closure of Pension Scheme - Taxable:** In case, assessee or his nominee receives any amount, in respect of which deduction was allowed in this section, (including interest or bonus thereon) -
- on closure or his opting out of the pension scheme; or
 - as pension,
- then, such amount shall be deemed to be the income of assessee or nominee in the previous year of receipt and shall be taxable accordingly.

In case of death of assessee - Amount received on closure or opting out of pension scheme - Not taxable in hands of the nominee : However, where the amount received by the nominee on closure or his opting out of the pension scheme, on the death of the assessee, the same shall not be deemed to be the income of the nominee.

Sec 10	Particulars	Explanation
(12A)	Payment from the NPS Trust to an assessee on closure or opting out of the pension scheme - Exempt upto 60% of the total amount payable	Any payment from the National Pension System Trust to an assessee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed 60% of the total amount payable to him at the time of such closure or his opting out of the scheme.
(12B)	Payment from NPS Trust to an employee on partial withdrawal - Exempt upto 25% of the total amount payable	To provide relief to an employee subscriber of NPS, Section 10(12B) has been inserted to provide that any payment from National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawn 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 from tax to the extent it does not exceed 25% of amount of contributions made by him.

- (5) **No taxability if sum received invested in annuity plan:** The assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.
- (6) **Double deduction not admissible:** Sum allowed as deduction under this section will not be allowed u/s 80C.

In exercise of the powers conferred by section 80CCD(1) of the Income-tax Act, 1961, the Central Government has notified the 'Atal Pension Yojana (APY)' as a pension scheme for the purposes of the said section. Notification No. 7/2016 dated 19-2-2016

Illustration 3 - Section 80CCD - Taxability on withdrawal: Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme Rs. 50,000 every year since 2016 and was claiming deduction under section 80CCD. In December 2020, he opted out of the pension scheme and withdrew a lump sum amount of 12,00,000. Is the amount so withdrawn taxable Rs. If yes, how much is the taxable amount? (5 Marks, Nov. 2017)

Ans: Any payment from the National Pension System Trust to an employee on closure of his account or on his opting out of the pension scheme referred to in Section 80CCD, to the extent it does not exceed 60% of the total amount payable to him at the time of such closure or his opting out of the scheme shall be exempt from tax under Section 10(12A) of the Income tax Act.

Hence, out of Rs. 2,00,000 received by Mr. Srivastava, 60% of Rs. 2,00,000 = Rs. 1,20,000 shall be exempt from tax under Section 10(12A) and balance amount of Rs. 80,000 shall be taxable in his hands.

5. Explain the limit on deductions under sections 80C, 80CCC and 80CCD?

Ans: **Limit on deductions under sections 80C, 80CCC and 80CCD [Section 80CCE]:** The maximum amount of deduction under section 80C and 80CCC and independently under section 80CCD(1) (i.e. employee's contribution or an individual assessee's contribution to pension scheme of Central Government), is restricted to Rs. 1,50,000.

Note: (1) Employers contribution u/s 80CCD(2) to Pension Scheme will not be covered u/s 80CCE. (2) Assesses contribution to NPS notified by the Central Government u/s 80CCD(1B) upto Rs. 50,000 shall not be covered u/s 80CCE.

Illustration 4 - Deduction under Section 80CCD : Mr. X, Central Government employee, furnishes you the following information for the previous year 2020-21. Compute his total income.
(amount in Rs.)

(1)	Basic Salary	4,00,000
(2)	Dearness Allowance (forming part of retirement benefit)	2,00,000
(3)	Servant Allowance	15,000
(4)	He has made the following payments in the previous year :	
	(a) Life insurance premium (Policy taken on 01-04-2015 - capital sum assured Rs. 2,50,000)	30,000
	(b) Contribution to Pension Scheme of the Central Government (14% of Basic Salary and DA). The employer also made an equal contribution	84,000

(c) Payment to PPF account in his own name	1,00,000
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Solution: Computation of Total Income of Mr. X (amount in Rs.):

Basic Salary	4,00,000	
Dearness Allowance	2,00,000	
Servant Allowance	15,000	
Contribution by employer to Pension Scheme of Central Government	84,000	
	[WN-1]	
Gross Salary	6,49,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income/Gross Total Income		6,99,000
Less: Deductions under Chapter VIA -		
(i) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1B)]		50,000
	[WN-3]	
(ii) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1)]	34,000	
	[WN-3]	
(iii) Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	25,000	
(iv) Payment to Public provident Fund [Sec. 80C]	1,00,000	
Total	[WN-2]	1,50,000
	1,59,000	
(v) Employer's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(2)]		84,000
	[WN-4]	
Total Income		3,65,000

Working Notes:

- (1) Contribution by employer to Pension Scheme of Central Government will be deemed to be income received in India under section 7 and hence taxable.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed Rs. 1,50,000.
- (3) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. X to claim deduction of Rs. 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 34,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- (4) Deduction in respect of employer's contribution to pension scheme of Central Government, shall not exceed 14% of salary (Basic salary + DA). Also it is not covered by limit of Rs. 1,50,000 specified in section 80CCE.

Illustration 5 - Deduction under Section 80C and Section 80CCD: The following are the particulars of investments and payments made by Mr. A, employed with ABC Ltd., during the previous year 2020-21:

- (1) Deposited in Sukanya Samriddhi Yozna in name of his daughter: Rs. 15,000
- (2) Deposited Rs. 30,000 in public provident fund.
- (3) Paid Tuition fees of Rs. 24,000 for full time education for his child in India.
- (4) Paid life insurance premium of Rs. 25,000 on the policy taken on 01-05-2020 to insure his life (Sum assured - Rs. 2,00,000).
- (5) Contributed Rs. 1,80,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

Compute the deduction available to Mr. A under Chapter VI-A for assessment year 2021-22.

Would your answer be different, if Mr. A contributed Rs. 1,20,000 (being, 10% of his salary) towards NPS of the Central Government?

Solution:

(i) Computation of admissible deduction under Chapter VI-A (amount in Rs.):

Deductions under Chapter VI A -			
(i)	Deposit under Sukanya Samriddhi Yozna in name of his daughter. [Sec. 80C]	15,000	
(ii)	Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	20,000	
(iii)	Tuition fees for full time education of his child in India [Sec. 80C]	24,000	
(iv)	Payment to Public provident Fund [Sec. 80C]	30,000	
(v)	Employee's contribution to Pension Scheme of Central Government [Rs. 1,80,000 x 10%/15%] [Sec. 80CCD(1)]	1,20,000	
	Total	[WN-2] 2,09,000	1,50,000
(vi)	Employee's contribution to Pension Scheme of Central Government [Sec. 80CCD(1B)]	[WN 1]	50,000
(vii)	Employer's contribution to Pension Scheme of Central Government [Rs. 1,80,000 x 10%/15%] [Sec. 80CCD(2)]	[WN-3]	1,20,000
Total deduction admissible			3,20,000

Working Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. A to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,30,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary i.e. Rs. 1,20,000.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed Rs. 1,50,000.
- (3) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary.
 - (ii) If the contribution towards NPS is Rs. 1,20,000, here again, it is beneficial for Mr. A to first claim deduction of Rs. 50,000 under section 80CCD(1B) and the balance of Rs. 70,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs. 1,50,000 under section 80CCE. The total deduction under Chapter VI A would remain the same i.e., Rs. 3,20,000.

Illustration 6 - Deduction u/s 80C & 80CCD : Determine the eligibility and quantum of deduction under Chapter VI-A in the following cases :

- (1) Subscription to notified long-term infrastructure bonds Rs. 30,000 paid by Mr. A, he also paid life insurance premium of Rs. 70,000 during the year. (Sum Assured Rs. 3,50,000 policy issued on 31-03-2011). (2 Marks, Nov. 2014)

- (2) Contribution to notified pension scheme (referred to in section 80 CCD) by the employer Rs. 40,000 for an employee whose basic salary plus dearness allowance is Rs. 3,00,000 for the year. (2 Marks, Nov. 2014)

Solution: Eligibility and quantum of deduction under Chapter VI-A is as under:

- (1) Subscription to long term infrastructure bonds shall not be eligible for deduction. Life insurance premium of Rs. 70,000 shall be eligible for deduction under Section 80C. Since the policy is taken before 01-04-2011, 20% of the capital sum assured will qualify for deduction under Section 80C.
- (2) Deduction in respect of employer's contribution to Pension Scheme of Central Government referred under Section 80CCD, shall not exceed 10% of salary (Basic salary + DA). Hence, Rs. 30,000 shall qualify for deduction under Section 80CCD.

6. Explain briefly deduction in respect of health insurance premia under section 80D.

Ans: Deduction in respect of health insurance premia [Section 80D]:

- (1) **Eligible Assessee:** An individual or a Hindu undivided family (whether resident or non-resident).
- (2) **Deduction in respect of individual assessee:** Deduction is available in respect of -
- the amount paid to effect or to keep in force health insurance under a scheme made by General Insurance Corporation of India (GIC) and approved by Central Government or made by any other insurer and approved by Insurance Regulatory and Development Authority.
 - the amount paid on account of preventive health check-up.
- (3) **Condition to be complied with:** For claiming such deduction under section 80D, the payment can be made -
- by any mode, including cash, in respect of any sum paid on account of preventive health check-up;
 - by any mode other than cash, in all other cases.
- (4) **Amount of deduction in case of individual assessee:** In case of individual assessee, the deduction to be allowed shall be aggregate of the following -

(A)	(1) Health insurance premia paid on the health of the assessee or his family or any contribution made to the Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf: - Total amount paid as above; or - Rs. 25,000 (Rs. 50,000 in case the insured is a senior citizen), whichever is lower. (2) Medical expenditure in respect of senior citizen: The amount paid on account of medical expenditure incurred on the health of the assessee or any member of his family, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person - - Total amount paid as above; or - Rs. 50,000, whichever is lower. (3) Preventive health check up: The amount paid on account of preventive health check-up of the assessee or his family - - Total amount paid as above; or - Rs. 5,000, whichever is lower. However, the said deduction of Rs. 5,000 is within the overall limit of Rs. 25,000 or Rs. 50,000, as the case may be. The aggregate amount of deduction as referred above cannot exceed Rs. 50,000. Deduction where premium for health insurance is paid in lump sum [Section 80D(4A)] : Where the amount of health	xxx
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	insurance premium specified in Point No. 1 above is paid in lump sum in the previous year to effect or to keep in force an insurance on the health of any person specified therein for more than a year, then, deduction under Section 80D shall be allowed on proportionate basis for number of years or which health insurance cover is provided subject to monetary limits specified above.	
(B)	(1) Health Insurance premium: Health insurance premia paid on the health of the parent(s) of the assessee - (a) Total amount paid as above; or (b) Rs. 25,000 (Rs. 50,000 in case the insured is a senior citizen), whichever is lower. (2) Medical expenditure in respect of senior citizen provided health insurance premium is not paid : The amount paid on account of medical expenditure incurred on the health of the parents(s) of the assessee, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person - (a) Total amount paid as above; or (b) Rs. 50,000, whichever is lower. (3) Preventive health check up: The amount paid on account of preventive health check-up of parent(s) of the assessee - (a) Total amount paid as above; or (b) Rs. 5,000, whichever is lower. However, the said deduction of Rs. 5,000 is within the overall limit of Rs. 25,000 or 150,000, as the case may be. The total amount of deduction on account of preventive health check up of the assessee or his family or parents of the assessee cannot exceed Rs. 5,000. The aggregate amount of deduction as referred above cannot exceed Rs. 50,000. Deduction where premium for health insurance is paid in lump sum [Section 80D(4A)]: Where the amount of health insurance premium specified in Point No. 1 above is paid in lump sum in the previous year to effect or to keep in force an insurance on the health of any person specified therein for more than a year, then, deduction u/s 80D shall be allowed on proportionate basis for number of years or which health insurance cover is provided subject to monetary limits specified above.	xxx
	Total amount of deduction (A + B)	xxx

(5) **Amount of deduction in case of HUF assessee:**

(i) **Health Insurance premium:** Deduction shall be lower of following -

- (a) Health insurance premia paid in respect of health of any member of that HUF; or
- (b) Rs. 25,000 (Rs. 50,000 in case the insured is a senior citizen).

(ii) **Medical expenditure in respect of senior citizen:** The amount paid on account of medical expenditure incurred on the health of any member of the family, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person -

- (a) Total amount paid as above; or
- (b) Rs. 50,000, whichever is lower.

Deduction where premium for health insurance is paid in lump sum [Section 80D (4A)]: Where the amount of health insurance premium specified in Point No. 1 above is paid in lump sum in the previous year to effect or to keep in force an insurance on the health of any person specified therein for more than a year, then, deduction under Section 80D shall be allowed on proportionate basis for number of years or which health insurance cover is provided subject to monetary limits specified above.

Note: (1) "Senior citizen" means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year. (2) "Family" means the spouse and dependant children of the assessee.

The following table summarizes the provisions of Section 80D –

S. No.	Nature of payment/ expenditure	Expenditure on behalf of		Admissible deduction
I	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	In case of individual	Self, spouse and dependent children	Rs. 25,000
	(ii) Contribution to Central Government Health Scheme (CGHS)	In case of HUF	Family member	
	(iii) Preventive health check up expenditure	IN CASE ANY OF THE ABOVE PERSONS IS OF THE AGE OF 60 YEARS OR MORE + RESIDENT IN INDIA		Rs. 50,000
II	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	For Parents		Rs. 25,000
	(ii) Preventive health check up	IN CASE EITHER OR BOTH THE PARENTS IS OF THE AGE OF 60 YEARS OR MORE + RESIDENT IN INDIA		Rs. 50,000
Maximum Rs. 5,000 allowed as deduction for aggregate of preventive health check up expenditure mentioned in I and II (Subject to overall limit of Rs. 25,000 or Rs. 50,000, as the case may be)				
III	Amount paid on account of Medical Expenditure	For Self/Spouse/Parents + who is the age of 60 years or more + Resident in India + no payment has been made to keep in force an insurance on health of such person.		Rs. 50,000

Note: In case the individual or any of his family members is a senior citizen or senior citizen, the aggregate of deduction, in respect of payment of premium, contribution to CGHS and medical expenditure incurred, as specified in (I) & (III) above, cannot exceed Rs. 50,000.

In case the parents are senior citizen, the aggregate of deduction, in respect of payment of medical insurance premium and medical expenditure incurred, as specified in (II) & (IV) above, cannot exceed Rs. 50,000.

Illustration 7 - Deduction in respect of health insurance premium: Mr. Abhik, an individual made payment of health insurance premium to GIC in an approved scheme. Premium paid on his health Rs. 15,000 and his spouse Rs. 18,000 during the previous year. He also incurred medical expenditure of Rs. 55,000 on his father's health who is a senior citizen and not dependant on him. The payments have not been made by cash. Compute the amount of deduction under Chapter VI-A, available to Mr. Abhik from his total income. (3 Marks, PCC June, 2009)

Solution: Mr. Abhik will be eligible to claim deduction under section 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. The expenditure incurred on health of his father who is a senior citizen shall also qualify for deduction since no health insurance premium is paid for him. Therefore, the amount of deduction under section 80D would be **(amount in Rs.):**

On health insurance premium paid on the health of himself and his spouse	[WN-1]	25,000
Medical expenditure incurred on the health of his father who is senior citizen	[WN-2]	50,000

Total deduction under section 80D	75,000
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Working Notes:

- (1) Deduction in respect of health insurance premium paid on the health of himself and his spouse shall be restricted to Rs. 25,000.
- (2) Since the father is a senior citizen (whether dependant or not), hence deduction in respect of medical expenditure shall be allowed to Rs. 50,000.

Illustration 8 - Deduction in respect of medical insurance premium : Mr. A, aged 40 years, paid medical insurance premium of Rs. 22,000 during the previous year to insure his health as well as the health of his spouse. He also incurred medical expenditure on treatment of his father who is senior citizen amounting Rs. 47,000 who has not been insured. He contributed Rs. 2,400 to Central Government Health Scheme during the year. He has incurred Rs. 3,000 in cash on preventive health check-up of himself and his spouse and Rs. 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D.

Solution: Deduction allowable under section 80D (amount in Rs.):

Particulars	Actual Payment	Maximum deduction allowable
(A) Premium paid and medical expenditure incurred for self and spouse-		
(i) Medical insurance premium paid for self and spouse	22,000	22,000
(ii) Contribution to CGHS	2,400	2,400
(iii) Expenditure on preventive health check-up of self & spouse	3,000	600
	27,400	25,000
(B) Premium paid and medical expenditure incurred for father, who is a senior citizen-		
(i) Medical treatment of his father who is not insured and a senior citizen	47,000	47,000
(ii) Expenditure on preventive health check-up of father	4,000	3,000
	51,000	50,000
Total deduction u/s 80D (Rs. 25,000 + Rs. 50,000)		75,000

Working Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed Rs. 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs. 600, being (Rs. 25,000 - Rs. 22,000 - 2,400).
- (2) The total deduction under B. (i) and (ii) above should not exceed Rs. 50,000. Therefore, the expenditure on preventive health check-up for father would be allowed to Rs. 3,000 (Since the overall limit has been increased to Rs. 50,000 therefore the whole of the expenditure incurred would be allowable).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is Rs. 3,600 (i.e., Rs. 600 + Rs. 3,000), which is less than the maximum permissible limit of Rs. 5,000.

Illustration 9 - Deduction in respect of health insurance premium: Mr. Karan (54 years old) furnishes the following particulars in respect of the following payments:

S.No.	Particulars	Rs.
(1)	Premium paid for insuring the health of -	
	➤ Self	9,000
	➤ spouse	8,000

	➤ dependent son	5,000
	➤ mother	19,000
(2)	Paid for Preventive Health Check up of-	
	➤ himself	2,500
	➤ spouse	1,000
	➤ mother	3,000
(3)	Incurred medical expenditure of Rs. 22,000 and Rs. 28,000 for his mother, aged 80 years and father, aged 87 years. Both mother and father are resident in India.	

Compute the deduction available to Mr. Karan under Section 80D for the A.Y. 2021-22.

Solution: Computation of deduction under section 80D for the A.Y. 2021-22 (amount in Rs.):

(1)	(I) In respect of premium paid for insuring the health of -		
	➤ Self	9,000	
	➤ spouse	8,000	
	➤ dependant son	5,000	
		22,000	
	(II) In respect of expenditure on preventive health check up of -	2,500	
	➤ Self y spouse	1,000	
		3,500	
(2)	Restricted to [Rs. 25,500 - Rs. 22,000, since maximum deduction is Rs. 25,000]	3,000	
	Aggregate of deduction (I + II) under (1) restricted to -		25,000
(I)	In respect of payment towards health insurance premium for his mother	19,000	
(II)	In respect of preventive health check up of his mother [Rs. 3,000, restricted to Rs. 2,000, (Rs. 5,000 - Rs. 3,000), since maximum deduction for preventive health check up under section 80D is Rs. 5,000]	2,000	
(III)	Medical expenditure for father would only be eligible for deduction [See Note below]	28,000	
		49,000	
	Amount of deduction		49,000
	Total deduction under section 80D [(1) + (2)]		74,000

Note: Irrespective of the fact that the mother of Karan is a senior citizen the deduction under section 80D would not be available to him in respect of the medical expenditure incurred for his mother, since Mr. Karan has taken a health insurance policy for his mother.

7. Write-briefly about the provisions regarding deductions from gross total income in respect of medical treatment of dependant disable under section 80DD of the income tax Act, 1961;

Ans: Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability [Section 80DD]:

(1) **Eligible Assessee:** Resident individual or a resident Hindu undivided family.

(2) **Nature of payment:** Deduction is available in respect of -

(i) expenditure incurred for medical treatment (including nursing), training and rehabilitation, of a dependant, being a person with disability; or

- (ii) amount paid or deposited under any scheme of Life Insurance Corporation or any other insurer or administrator or specified company of Unit Trust of India, approved by CBDT for maintenance, of a dependant, being a person with disability.
- (3) **Amount of Deduction:**
- (i) **General:** A fixed deduction of Rs. 75,000 irrespective of amount paid.
- (ii) **Special:** If the dependent is a person with severe disability, deduction is Rs. 1,25,000 (Severe disability means 80% or more of disability).
- (4) **Meaning of Dependant:** "Dependant" means -
- (i) **In case of individual:** Spouse, children, parents, brothers and sisters of individual, who is dependant wholly or mainly on such individual for his support and maintenance, and has not claimed any deduction under section 80U; or
- (ii) **In case of HUF:** Any member of the HUF who is dependant wholly or mainly on such HUF for his support and maintenance, and has not claimed any deduction under section 80U.
- (5) **Conditions of scheme:**
- (i) The scheme must provide for payment of annuity or lumpsum amount for benefit of such dependant, being person with disability, in the event of death of individual or member of HUF in whose name subscription to the scheme has been made.
- (ii) The assessee must nominate either the dependant, being person with disability, or any other person or a trust to receive the payment on his behalf, for the benefit of such dependant.
- (6) **Disability certificate to be furnished:** The assessee claiming deduction under this section shall furnish a copy of disability certificate issued by medical authority in prescribed form, along with his return of income for assessment year for which the deduction is claimed. Where condition of disability requires reassessment, deduction will be allowed only if a new disability certificate is so obtained and furnished.
- (7) **Taxability of amount received on death of dependant:** If the dependant disabled predeceases such individual or member of Hindu undivided family, the amount paid or deposited under the scheme shall be deemed to be income of assessee of the previous year in which it is received by the assessee and accordingly be chargeable to tax as the income of that previous year.
8. **Write briefly about the provisions regarding deductions from gross total income in respect of medical treatment of specified disease under section 80DDB of the Income-tax Act, 1961.**
- Ans:** Deduction in respect of medical treatment, etc. [Section 80DDB]:
- (1) **Eligible Assessee :** Resident individual or a resident Hindu undivided family.
- (2) **Conditions to be satisfied:** Expenditure incurred on the medical treatment of prescribed disease in respect of the following -
- (i) **In case of individual:** himself or his spouse, children, parents, brothers and sisters dependant mainly on such individual for his support and maintenance.
- (ii) **In case of HUF:** any member of the HUF who is dependant wholly or mainly on such HUF for his support and maintenance.
- (3) **Amount of Deduction:** Deduction to be allowed shall be lower of the following-
- (i) sum actually paid; or

(ii) Rs. 40,000.

Deduction for senior citizen: If such expenditure is incurred for a senior citizen, then the limit of Rs. 40,000 shall be substituted by Rs. 1,00,000.

"Senior citizen" means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year.

Deduction to be reduced: Deduction will be reduced by the amount received from insurer, or reimbursed by the employer of assessee for the medical treatment of the person(s) referred above.

- (4) **Medical Prescription to be obtained:** No such deduction shall be allowed unless the assessee obtains the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist, as may be prescribed.

Illustration 10- Deductions in respect of certain payments : Compute the eligible deduction under Chapter VI-A for the A.Y. 2021-22 of Ms. Roma, who has a gross total income of Rs. 15,00,000 for the A.Y. 2021-22 and provide the following information about his investment/ payments during the year 2020-21 : (Modified Marks, May 2015) 4

	Particulars	Rs.
(1)	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is Rs. 1,50,000)	35,000
(2)	Public Provident Fund contribution	90,000
(3)	Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore	20,000
(4)	Payment of L.I.C. Pension Fund	25,000
(5)	Mediclaime Policy taken for self, wife and dependent children, premium paid	30,000
(6)	Medical Insurance premium paid for parents (Senior Citizen)	65,000

Solution: Computation of eligible deduction under Chapter VI-A (amount in Rs.):

Gross total income		15,00,000
Less: Deductions under Chapter VI A -		
(i) Life insurance premium (20% of capital sum assured shall qualify for deduction since policy is taken before 1-4-2012) [Section 80C]	30,000	
(ii) Contribution towards Pension Fund of LIC [Section 80CCC]	25,000	
(iii) Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore [Section 80C]	20,000	
(iv) Payment to Public provident Fund [Section 80C]	90,000	
Total [WN-1]	1,65,000	1,50,000
(v) Medical insurance premium [Section 80D] [WN-2]		75,000
Total Income		12,75,000

Working Notes:

- As per Section 80CCE, the aggregate amount of deduction u/s 80C, 80CCC and 80CCD(1) shall not exceed Rs. 1,50,000.
- Deduction in respect of health insurance premium paid shall be restricted to, in case of himself Rs. 25,000, and in case of his parents (being a senior citizens) Rs. 50,000. Therefore, total amount of deduction = Rs. (25,000 + 50,000) = Rs. 75,000.

Illustration 11 - Deduction in respect of certain payments: Mr. Shyam, a private sector employee, furnishes you the following information for the previous year 2020-21. Compute his total income. (amount in Rs.)

(1)	Basic Salary	4,00,000
(2)	Dearness Allowance	2,00,000
(3)	Servant Allowance	15,000
(4)	He has made the following payments in the previous year :	
(a)	Contribution towards Pension Fund of LIC	1,10,000
(b)	Life insurance premium (Policy taken on 01-04-2015 - capital sum assured Rs. 2,50,000)	30,000
(c)	Contribution to Pension Scheme of the Central Government (12% of Basic and DA). The employer also made an equal contribution	72,000
(d)	Medical insurance premium paid by cheque on life of dependant father (being a senior citizen) Rs. 47,000 and Rs. 25,000 on himself. Further, Rs. 5,000 paid in cash for preventive health check up of his father.	
(e)	Medical treatment of his dependant mother (resident individual of age 63 years) suffering from prescribed disease and disability (sum received from insurer Rs. 10,000 and sum reimbursed by employer Rs. 20,000)	1,50,000
(f)	Payment to Public Provident Fund	75,000

Solution: Computation of total income of Mr. Shyam (amount in Rs.):

Basic Salary	4,00,000	
Dearness Allowance	2,00,000	
Servant Allowance	15,000	
Contribution by employer to Pension Scheme of Central Government [WN-1]	72,000	
Gross Salary	6,87,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income/Gross Total Income		6,37,000
Less: Deductions under Chapter VIA -		
(i) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1B)] [WN-3]		50,000
(ii) Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	25,000	
(iii) Contribution towards Pension Fund of LIC [Sec. 80CCC]	1,10,000	
(iv) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1)] [WN-3]	22,000	
(v) Payment to Public provident Fund [Sec. 80C]	75,000	
Total [WN-2]	2,32,000	1,50,000
(vi) Employer's contribution to Pension Scheme of Central Government [Sec. 80CCD(2)] [WN-4]		60,000
(vii) Medical insurance premium [Section 80D] [WN-5]		75,000
(viii) Medical treatment of prescribed disease disabled of dependant mother [Sec. 80DD] [WN-6]		75,000
(ix) Medical treatment of prescribed disease of dependant mother being senior citizen [Section 80DDDB] [WN-7]		70,000
Total Income		1,57,000

Working Notes:

- (1) Contribution by employer to Pension Scheme of Central Government will be deemed to be income received in India under section 7 and hence taxable.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed Rs. 1,50,000.
- (3) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. Shyam to claim deduction of Rs. 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 22,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- (4) Deduction in respect of employer's contribution to pension scheme of Central Government, shall not exceed 10% of salary (Basic salary + DA). Also it is not covered by limit of Rs. 1,50,000 specified in section 80CCE.
- (5) Deduction in respect of health insurance premium paid shall be restricted to, in case of himself Rs. 25,000, and in case of his father (being a senior citizen) Rs. 47,000. Further, the deduction in respect of amount paid in cash for preventive health check up of his father shall be allowed to be 3,000, since the total amount of deduction in case of senior citizen cannot be allowed in excess of Rs. 50,000. Therefore, total amount of deduction = Rs. (25,000 + 47,000 + 3,000) = Rs. 75,000.
- (6) Since assessee has incurred expenditure on medical treatment of dependant mother suffering from disability, therefore, a fixed deduction of Rs. 75,000 irrespective of amount paid shall be allowed under section 80DD.
- (7) Deduction shall be allowed for expenditure incurred on medical treatment of dependant mother (being a senior citizen) to the extent of lower of following —
 - (a) Sum actually paid i.e. Rs. 1,50,000; or
 - (b) Rs. 1,00,000;
 From the amount of deduction (i.e. Rs. 1,00,000), the sum received from insurer and employer shall be reduced. Hence, net amount of deduction = (Rs. 1,00,000 - Rs. 30,000) = Rs. 70,000.

9. Discuss briefly about the deductibility of interest on loan taken, for Higher education, under section 80E of the Income-tax Act, 1961.

Ans: Deduction in respect of interest on loan taken for higher education [Section 80E]:

- (1) **Eligible Assessee:** Individual.
- (2) **Nature of payment:** Assessee shall be eligible for deduction in respect of any amount paid by him in the previous year, out of his income chargeable to tax, by way of interest on loan taken by him from any financial institution or any approved charitable institution for the purpose of pursuing -
 - (i) his higher education, or
 - (ii) for the higher education of his relative.
- (3) **Amount of deduction:** 100% of the amount of interest on such loan.
- (4) **Period of deduction:** The deduction shall be allowed in computing the total income-
 - (i) in respect of the initial assessment year and 7 assessment years immediately succeeding the initial assessment year; or
 - (ii) until the interest is paid by the assessee in full, whichever is earlier.

Notes:

- (i) **"Higher education"** means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State

Government or local authority or by any other authority authorised by the Central Government or State Government or local authority to do so.

- (ii) **"Initial assessment year"** means the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan.
- (iii) **"Relative"**, in relation to an individual, means the spouse and children of the individual or the student for whom the individual is the legal guardian.

Illustration 12 - Deduction in respect of payments: Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai, furnishes you the following information for the previous year:

Basic salary	Rs. 1,00,000 per month
Dearness allowance	Rs. 50,000 per month
Bonus	2 Months basic salary
Contribution of employer to Recognised Provident Fund @ 15% of Basic salary plus Dearness allowance	
Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company) (amount in Rs.):	

(i)	Recognised Provident Fund contribution made by Raghu	1,60,000
(ii)	Health insurance premium for his family	30,000
(iii)	Health insurance premium in respect of parents (senior citizens)	68,000
(iv)	Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1.999),	60,000
(v)	Interest on loan taken for education of his son studying B.Com (full-time) in a recognised college. 24,000	
(vi)	Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B. Sc. (Physics) (full-time) in a recognised university.	20,000

Compute the total income of Mr. Raghu. (8 Marks, PCC Nov. 2010)

Solution: Computation of total income of Mr. Raghu (amount in Rs.):

Basic salary		12,00,000
Dearness allowance		6,00,000
Bonus		2,00,000
Employer contribution to RPF in excess of 12%	[WN-1]	54,000
Rent free accommodation	[WN-2]	3,00,000
Gross salary		23,54,000
Less: Standard Deduction u/s 16(ia)		50,000
Income chargeable under the head Salaries/GTI		23,04,000
Less: Deductions under Chapter VIA -		
(i) Contribution to RPF [Section 80C]	[WN-3]	1,50,000
(ii) Health insurance premium [Section 80D]	[WN-4]	75,000
(iii) Medical treatment of dependent brother with severe disability [Section 80DD]	[WN-5]	1,25,000
(iv) Interest on loan taken for full-time education of his son studying B.Com and for a student studying B.Sc. for whom he is the legal guardian [Section 80E]		44,000
Total income		19,10,000

Working Notes:

- (1) Employer's contribution to Recognised Provident Fund in excess of 12% of salary (Basic salary + DA) is taxable. Therefore, taxable amount = Rs. 18,00,000 $\times$ 3 % = Rs. 54,000. DA forms the part of salary

for the purpose of retirement benefits being it is given that employer contributes @ 15% of basic salary plus DA.

- (2) Since population of Mumbai exceeds Rs. 25 lakhs, therefore value of RFA = 15% of (basic salary + DA + bonus) = Rs. 3,00,000.
- (3) Deduction in respect of contribution to RPF shall be restricted to Rs. 1,50,000.
- (4) Deduction in respect of health insurance premium paid shall be restricted to, in case of his family Rs. 25,000, and in case of his parents (being senior citizens) Rs.50,000. Therefore, total amount of deduction = (Rs. 25,000 + Rs. 50,000) = Rs. 75,000.
- (5) A fixed deduction of Rs. 1,25,000, irrespective of expenditure incurred, shall be allowed.

10. Discuss briefly about the deductibility of interest on loan taken for residential house property under section 80EE of the Income-tax Act, 1961.

Ans: Deduction in respect of interest on loan taken for residential house property [Section 80EE]:

- (1) **Eligible Assessee** : Individual.
- (2) **Nature of payment**: Interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.
- (3) **Amount of deduction**: Interest payable on loan or Rs. 50,000 whichever is less beginning with AY 2017-18 and subsequent assessment years.
- (4) **Conditions to be satisfied**: The deduction shall be subject to the following conditions, namely: —
 - (i) the loan has been sanctioned by the financial institution during the period beginning on 01-04-2016 and ending on 31-03-2017;
 - (ii) the amount of loan sanctioned for acquisition of the residential house property does not exceed Rs. 35,00,000;
 - (iii) the value of the residential house property does not exceed Rs. 50,00,000;
 - (iv) the assessee does not own any residential house property on the date of sanction of the loan.
- (5) **No double deduction**: Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.
- (6) **Meaning of certain terms**:
 - (a) **"Financial institution"** means a banking company to which the Banking Regulation Act, 1949 applies including any bank or banking institution referred to in section 51 of that Act or a housing finance company;
 - (b) **"Housing finance company"** means a public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

11. Discuss briefly about the deductibility of interest on loan taken for residential house property under section 80EEA of the Income-tax Act, 1961.

Ans: Deduction in respect of interest on loan taken for certain house property [Section 80EEA]:

- (1) **Eligible Assessee** : Individual not eligible to claim deduction under section 80EE.
- (2) **Nature of payment**: Interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

- (3) **Amount of deduction:** Interest payable on loan or Rs. 1,50,000 whichever is less beginning with AY 2021-22 and subsequent Assessment Years.
- (4) **Conditions to be satisfied:** The deduction shall be subject to the following conditions, namely: —
- the loan has been sanctioned by the financial institution during the period beginning on 1-4-2019 to 31-3-2021; [Amended by Finance Act, 2020 w.e.f. 01-04-2021 i.e. AY2021-22]
 - the stamp duty value of residential house property does not exceed Rs. 45 lakhs;
 - the assessee does not own any residential house property on the date of sanction of loan.
- (5) **No double deduction:** Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.
- (6) **Meaning of certain terms:**
- | Term | Meaning |
|-----------------------------|--|
| (a) Financial institution | <ul style="list-style-type: none"> ➤ A banking company to which the Banking Regulation Act, 1949 applies; or ➤ Any bank or banking institution referred to in section 51 of that Act; or ➤ A housing finance company. |
| (b) Housing finance company | A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes. |
| (c) Stamp duty value | It means value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property. |

Illustration 13 - Deduction u/s 80EEA: Mr. A purchased a residential house property for self-occupation at a cost of Rs. 45 lakhs on 1-6-2020, in respect of which he took a housing loan of Rs. 40 lakhs from Bank of India @ 10% p.a. on the same date. The stamp duty value of the property is Rs. 45 lakhs. Compute the eligible deduction in respect of interest on housing loan for A.Y. 2021-22 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31-3-2021 and he does not own any other house property.

Solution: Computation of interest allowable under section 80EEA (amount in Rs.) -

Total Interest payable during financial year 2021-21 [Rs. 40,00,000 $\times$ 10% $\times$ 10/12]	3,33,333
Deduction u/s 24(b) allowable in computing income from house property. (Restricted to Rs. 2,00,000)	2,00,000
Balance Interest deductible under section 80EEA (Rs. 3,33,333 - 2,00,000)	1,33,333

12. Explain the provisions in respect of deduction in respect of purchase of electric vehicle.

Ans: Deduction in respect of purchase of electric vehicle [Section 80EEB]:

- Eligible Assessee:** Individual.
- Nature of payment:** Interest payable on loan taken by him from any financial institution for the purpose of purchase of an electric vehicle.
- Amount of deduction:** Interest payable on loan or Rs. 1,50,000, whichever is less.

- (4) Condition to be satisfied: The deduction shall be subject to the condition that the loan has been sanctioned by the financial institution during the period beginning on 01-04-2019 and ending on 31-03-2023.
- (5) **No double deduction:** Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.
- (6) **Meaning of certain terms:**

	Term	Meaning
(a)	Electric vehicle	A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle and has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy;
(b)	Financial institution	A banking company to which the Banking Regulation Act, 1949 applies, or any bank or banking institution referred to in section 51 of that Act and includes any deposit taking non-banking financial company or a systemically important non-deposit taking non-banking financial company as defined in clauses (e) and (g) of Explanation 4 to section 43B.

Illustration 14 - Section 80EEB: X, an individual, takes a loan of 2.5 lakh on April 10, 2020 from SBI to purchase an electric car. Car will be delivered in the month of March 2021. Interest liability for the previous year 2020-21 is Rs. 2,10,000. Determine the total income of Mr. X if his annual salary income (before standard deduction) is Rs. 40,50,000. He has made investment of Rs. 1,50,000 in public provident fund and health insurance premium paid for himself through account payee cheque is Rs. 25,000.

Solution: Computation of Total Income of Mr. X (amount in Rs.):

Gross Salary	40,50,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income		40,00,000
Less: Deductions under Chapter VI A -		
(i) Payment to Public provident Fund [Section 80C]		1,50,000
(ii) Medical insurance premium [Section 80D]		25,000
(iii) Interest on loan taken for purchase of electric vehicle [Restricted to Rs. 1,50,000]		1,50,000
Total Income		36,75,000

Illustration 15 - Computation of Total Income: X is a businessman. He has taken a loan of Rs. 25 lakh on April 10, 2019 from SBI to purchase an electric car to be delivered in the same month. Interest liability on such loan for the previous year 2019-20 is Rs. 2,10,000 after such electric vehicle is put to use for the purpose of business. His annual business income is Rs. 35,00,000 (before interest and expenditure pertaining to vehicle). Maintenance expenditure pertaining to electronic vehicle (including depreciation) for the previous year 2019-20 is Rs. 4,10,000. Every year X is entitled to deduction under sections 80C and 80CCD of Rs. 2,00,000. You are required to compute the total income of Mr. X for AY 2021-22.

Solution: Computation of Total Income of Mr. X for AY 2020-21 (amount in Rs.):

Business income before allowing vehicle related expenses	35,00,000
Less: Vehicle maintenance and depreciation	4,10,000
Less: Interest on loan under section 36	2,10,000
Profits and Gains of Business or Profession / Gross total income	28,80,000
Less: Deduction u/s 80C and 80CCD [Restricted to Rs.2,00,000]	2,00,000
Less: Deduction u/s 80EEB [Since interest on loan is allowed while computing business income]	Nil
Total Income	26,80,000

Illustration 16 - Section 80EEA & 80EEB: The following are the particulars relating to Mr. A, Mr. B, Mr.-C and Mr. D, salaried individuals, for A.Y. 2021-22

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	Rs.43 lakhs	Rs. 45 lakhs	Rs. 20 lakhs	Rs. 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	01-04-2019	01-04-2019	01-04-2019	30-03-2019
Date of disbursement of loan	01-05-2019	01-05-2019	01-05-2019	01-05-2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for occupation	Purchase of electric vehicle for personal self- use	Purchase of electric vehicle for personal use
Stamp duty value of house property	Rs. 45 lakhs	Rs. 48 lakhs	-	-
Cost of electric vehicle	-	-	Rs. 22 lakhs	Rs.18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y. 2020-21 in the hands of Mr. A, Mr. B, Mr. C and Mr. D. Assume that there has been no principal repayment during the P.Y. 2010-21.

Solution: Computation of Deduction under Chapter VI-A (amount in Rs.):

Mr. A	
Interest deduction for A.Y. 2020-21	
(i) (i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs. 3,54,750 [Rs. 43,00,000 x 9% x 11/12] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA Rs. 1,54,750 (Rs. 3,54,750 - Rs. 2,00,000) Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y. 2020-21	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs. 3,71,250 [Rs. 45,00,000 x 9% x 11/12] Restricted to	

	2,00,000
(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (a) loan is taken from NBFC (b) stamp duty value exceeds Rs. 45 lakh. Deduction u/s 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C	
Deduction under Chapter VI-A Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs. 20 lakhs $\times$ 10% $\times$ 11/12 = Rs. 1,83,333, restricted to Rs. 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A Deduction u/s 80EEB is not permissible since loan was not sanctioned in the P.Y. 2019-20.	Nil

13. Discuss briefly about the deduction in respect of donations to certain funds, charitable institutions, etc. under section 80G of the Income-tax Act, 1961.

Ans: Deduction in respect of donations to certain funds, charitable institutions, etc. [Section 80G]:

(1) **Eligible Assessee :** All assessees.

(2) **Conditions to be satisfied :**

- (i) **Donation in kind not eligible:** No deduction shall be allowed under this section in respect of any donation unless such donation is of a sum of money.
- (ii) **No deduction for cash donation exceeding Rs.2,000 :** No deduction shall be allowed under this section in respect of donation of any sum exceeding Rs. 2,000 unless such sum is paid by any mode other than cash.

(3) **Amount of deduction:**

(A) **Donations where deduction available without any qualifying limit:** In respect of donation to the following funds, maximum limit is not applicable i.e. whatever amount is donated qualifies for deduction. The amount of deduction will be 100% of the amount so donated or 50% of the amount so donated depending upon the type of fund as under.

(i) **Funds eligible for 100% deduction without any qualifying limit -**

- (a) National Defence Fund set up by Government;
- (b) The Prime Minister's National Relief Fund;
- (c) The Prime Minister's Armenia Earthquake Relief fund;
- (d) The Africa (Public Contribution-India) Fund;
- (e) The National Children's Fund;
- (f) National Foundation for Communal Harmony;
- (g) A university or any educational institution of national eminence as may be approved by the prescribed authority in this behalf;
- (h) The Maharashtra Chief Minister's Earthquake Relief Fund;

- (i) Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat;
 - (j) Any Zila Saksharta Samiti constituted for the purpose of improvement of primary education in villages and towns in such district and for literacy and post-literacy activities;
 - (k) The National Blood Transfusion Council or any State Blood Transfusion Council;
 - (l) Any fund set up by a State Government to provide medical relief to the poor;
 - (m) Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund;
 - (n) National Illness Assistance Fund;
 - (o) Chief Ministers Relief Fund or Lieutenant Governor's Relief Fund of any State or Union territory;
 - (p) National Sports Fund set up by the Central Government;
 - (q) National Cultural Fund set up by the Central Government;
 - (r) Fund for Technology Development and Application set up by Government;
 - (s) Andhra Pradesh Chief Ministers Cyclone Relief Fund;
 - (t) National Welfare Trust for persons with Autism, Cerebral Palsy Mental Retardation and Multiple Disabilities;
 - (u) The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of Corporate Social Responsibility u/ s 135(5) of the Companies Act, 2013;
 - (v) The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident and such sum is other than the sum spent by the assessee in pursuance of Corporate Social Responsibility under Section 135(5) of the Companies Act, 2013;
 - (w) The National Fund for Control of Drug Abuse constituted under section 7A of the Narcotic Drugs and Psychotropic Substances Act, 1985.
- (ii) **Funds eligible for 50% deduction without any qualifying limit -**
- (a) The Jawaharlal Nehru Memorial Fund;
 - (b) The Indira Gandhi Memorial Trust; 9
 - (c) The Prime Minister's Drought Relief Fund;
 - (d) The Rajiv Gandhi Foundation.
- (B) **Donations where deduction available subject to qualifying limit:** In case of certain other funds maximum limit is applicable i.e. amount donated is eligible for deduction to the extent of such maximum limit known as qualifying amount.
The amount of deduction shall be 100% or 50% of qualifying amount as undermentioned :
- (i) **Funds eligible for 100% deduction subject to qualifying limit :** 100% deduction shall be allowed subject to the qualifying amount, if donations are made -

- (a) to the Government or to any such local authority, institution or association as may be approved in this behalf by the Central Government, to be utilised for the purpose of promoting family planning; or
 - (b) to the Indian Olympic Association or to any other association or institution established in India, as the Central Government may, having regard to the prescribed guidelines, by notification in the Official Gazette, specify in this behalf. (Deduction is available only to company assessee)
- (ii) **Funds eligible for 50% deduction subject to qualifying limit:** 50% deduction shall be allowed subject to the qualifying amount if donations are made -
- (a) to the government or any local authority, to be utilised for any charitable purpose other than the purpose of promoting family planning;
 - (b) to approved charitable institution, which satisfies the conditions of Section 80G(5);
 - (c) for the renovation or repair of any such temple, mosque, gurdwara, church or other place as is notified by the Central Government in the Official Gazette to be of historic, archaeological or artistic importance or to be a place of public worship of renown throughout any State;
 - (d) to an authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both;
 - (e) Corporation for promoting interests of minority community as given under section 10(26BB).

Qualifying Limit: The maximum limit is 10% of adjusted gross total income.

Adjusted gross total income means "Gross total income" as reduced by -

- (i) Deduction allowable under section 80C to 80U other than 80G;
- (ii) Incomes included in the gross total income on which no tax is payable;
- (iii) Incomes referred under sections 111 A, 112, 112A, 115BB, 115A(l)(a), 115 AC, 115ACA, 115 AD, 115BBA, 115BBD, 115BBD A, 115BBE, 115BBF, 115BBG and 115D which is included in the gross total income.

- (4) **Deduction admissible to donee on the basis of information furnished by the donor to prescribed authority [Explanation 2A]:** The claim of the assessee for a deduction in respect of any donation made to an institution or fund, in the return of income for any assessment year filed by him, shall be allowed on the basis of information relating to said donation furnished by the institution or fund to the prescribed income-tax authority or the person authorised by such authority, subject to verification in accordance with the risk management strategy formulated by the Board from time to time.

- (5) **Statement to be furnished to prescribed authority:** The institution or fund prepares such statement for such period as may be prescribed and deliver or cause to be delivered to the prescribed income-tax authority or the person authorised by such authority such statement in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed.

Correction statement: The institution or fund may also deliver to the said prescribed authority a correction statement for rectification of any mistake or to add, delete or update the information

furnished in the statement delivered under this sub-section in such form and verified in such manner as may be prescribed; and

- (6) **Certificate to the donor:** The institution or fund furnishes to the donor, a certificate specifying the amount of donation in such manner, containing such particulars and within such time from the date of receipt of donation, as may be prescribed.

Illustration 17 - Computation of Total Income: Compute total income of Mr. X from the following if all the contributions and payments have been made through account payee cheque -

(a) Salary (computed)	5,50,000
(b) Short term capital gains u/s 111 A	45,000
(c) Contribution to PPF	5,000
(d) Contribution to Swachh Bharat Kosh	7,500
(e) Contribution to Clean Ganga Fund	2,500
(f) Contribution to National Fund for control of drug abuse	5,000
(g) Contribution to National Children Fund	20,000
(h) Contribution to Prime Minister's Drought Relief Fund	10,000
(i) Donation to trust for benefit of particular religious community	7,500
(j) Payment to State Government for family planning	30,000
(k) Food packets given to approved charitable institution for distribution to poor	25,000
(l) Payment to approved charitable institution	25,000

Solution: Computation of total income of Mr. X (amounts in Rs.) -

Salary (computed)	5,50,000
Short term capital gains u/s 111A	45,000
Gross total income	5,95,000
Less: Deduction under Chapter VI-A	5,000
(i) Contribution to PPF [Section 80C]	82,250
(ii) Donations [Section 80G] [WN-1]	
Total income	5,07,750

Working Notes:

- (1) Calculation of amount eligible for deduction under section 80G (amounts in Rs.)

Donation to	Qualifying Sum	% Eligible	Deduction
(A) Donation where maximum limit is not applicable :			
(i) National Children Fund	20,000	100%	20,000
(ii) Contribution to Swachh Bharat Kosh	7,500	100%	7,500
(iii) Contribution to Clean Ganga Fund	2,500	100%	2,500
(iv) Contribution to National Fund for control of Drug Abuse	5,000	100%	5,000
(v) Prime Minister's Drought Relief Fund	10,000	50%	5,000
(B) Donation where maximum limit is applicable i.e. 10% of Adjusted GTI: [Note]			
(i) State Government for family planning	30,000	100%	30,000
(ii) Approved charitable institution - restricted to (Rs. 54,500 - Rs.30,000) = Rs. 24,500 or Rs. 25,000,	24,500	50%	12,250

whichever is lower.			
Total deduction u/s 80G			82,250

Note : Computation of Adjusted Gross Total Income (amounts in Rs.) -

Gross total income		5,95,000
Less: Short term Capital Gains u/s 111A	45,000	
Deduction u/s 80C	5,000	50,000
Adjusted GTI		5,45,000

- (2) Donation to trust for benefit of particular religious community and food packets given to approved charitable institution for distribution to poor are not eligible for deduction under section 80G.

14. Discuss briefly about the deduction in respect of rents paid under section 80GG of the Income-tax Act, 1961.

Ans: Deductions in respect of rents paid [Section 80GG]:

(1) **Eligible Assessee : Individual.**

(2) **Conditions for eligibility:**

- (i) In case of salaried employee, such individual must not be in receipt of house rent allowance.
- (ii) Any residential accommodation must not be owned :
 - (a) by the assessee or by his spouse or minor child at the place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession; or
 - (b) by the Hindu undivided family of which he is a member at the place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession; or
 - (c) by the assessee at any other place, for which benefit of self occupation is claimed u/s 23(2)(a) or 23(4).

(3) **Amount of deduction:** Least of the following shall be allowed as deduction—

- (i) Rent paid - 10% of adjusted total income.
- (ii) 25% of adjusted total income;
- (iii) Rs. 5,000 per month.

Note: "Adjusted total income" means total income computed before allowing the deduction under this section but excluding incomes from which deductions under this chapter is not allowed.

Illustration 18 - Deduction u/s 80GG : Anand is retired Government Officer aged 65 years, who derived the following income. He resides in Cochin (amounts in Rs.):

(Modified May 2000)

Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

He has paid Rs. 50,000 as premium to effect an insurance on his health. He pay a rent of Rs. 8,000 p.m. in respect of furnished accommodation. What is his eligibility for deduction under section 80GG? Also, compute his total income.

Solution: Computation of total income of Mr. Anand (amounts in Rs.):

Income from Salaries		
Pension	6,60,000	
Less: Standard deduction under Section 16(ia)	50,000	6,10,000
Income from other Sources (Interest from bank on fixed deposits (gross))		55,000
Gross total income		6,65,000
Less: Deduction under Chapter VI-A—		
Deduction u/s 80D for medical insurance premium	50,000	
Deduction u/s 80TTB for interest from bank on fixed deposits since Anand is senior citizen	50,000	
Deduction u/s 80GG [WN]	39,500	1,39,500
Total Income		5,25,500

Working Note: Least of the following shall be allowed as deduction under section 80GG -

- (i) Rent paid - 10% of adjusted total income $96,000 - 10\% (\text{Rs. } 6,65,000 - 1,00,000) = \text{Rs. } 39,500$
 - (ii) Rs. 5,000 per month 60,000
 - (iii) 25% of adjusted total income 1,41,250
- Adjusted Total Income = Rs. 6,65,000 - [Rs. 50,000 (deduction u/s 80D) + Rs. 50,000 (deduction u/s 80TTB)] = Rs. 5,65,000.

Illustration 19 - Deduction in respect of rent paid: HRA v. Rent-free accommodation :

- (i) Mr. Khanna, an employee of IOL, New Delhi, a Private Sector Company, received the following :
(amount in Rs.)
 - (1) Basic pay 5,60,000
 - (2) House rent allowance 1,80,000
 - (3) Special allowance 70,000

Mr. Khanna was residing at New Delhi and was paying a rent of Rs. 15,000 a month. Compute eligible exemption under Section 10(13A) of Income-tax Act, 1961, in respect of house rent allowance received.

- (ii) If Mr. Khanna opts for rent free accommodation whereby IOL would be paying a rent of Rs. 15,000 per month, to the landlord and recovers a sum of Rs. 6,000 per month from Mr. Khanna which was in excess of his entitlement, what will be the perquisite value in respect of such rent free accommodation?
- (iii) Which of the above would be beneficial to Mr. Khanna i.e., House Rent Allowance or rent free accommodation?

Solution: The relevant calculations are as follows -

(i) **Least of the following shall be exempt u/s 10(13A) in respect of HRA received -**

Actual HRA received	1,80,000
Rent paid -10% of salary i.e. Rs. 1,80,000 -10% of basic pay	1,24,000
50% of salary i.e. 50% of basic pay	2,80,000
Taxable HRA = HRA Received - HRA Exempt = Rs. 1,80,000 - Rs. 1,24,000	56,000

(ii) **Perquisite value in respect of concessional accommodation :**

= 15% of salary or rent paid, whichever is less as reduced by Rent recovered from employee

= 15% of Rs. (5,60,000 + 70,000) or Rs. 15,000 $\times$ 12, whichever is less - 6,000 $\times$ 12)

= Rs. 94,500 - Rs. 72,000 i.e. Rs. 22,500

(iii) **Beneficial option:** In order to determine beneficial option, the amount of net cash home pay of the employee is computed as under -

Particulars	Case (i) - HRA	Case (ii) - Rent-free House
Basic pay and Special Allowance	6,30,000	6,30,000
House Rent Allowance	1,80,000	-
Total cash inflows (A)	8,10,000	6,30,000
Rent paid	1,80,000	72,000
Tax liability [WN]	41,290	31,880
Total cash outflows (B)	2,21,290	1,03,880
Net cash home pay [A - B]	5,88,710	5,26,120

Since the net cash home pay is higher in case (i), therefore, Mr. Khanna should opt for House rent allowance.

Working Note: Computation of tax liability under both cases (amount in Rs.) -

Particulars	Case (i) - HRA	Case (ii) - Rent-free House
Basic pay and Special allowance	6,30,000	6,30,000
Taxable HRA/ Accommodation	56,000	22,500
	6,86,000	6,52,500
Less: Standard Deduction u/s 16(ia)	50,000	50,000
Gross Total Income	6,36,000	6,02,500
Less : Deduction u/ s 80GG, being the least of -	-	
(a) Rs. 5,000 $\times$ 12 i.e. Rs. 60,000; or		
(b) 25 % of Rs. 6,02,500 i.e. Rs.1,50,625; or		
(c) Rs.72,000 - 10% of Rs. 6,02,500 i.e. Rs.11,750-		11,750
Total Income	6,36,000	5,90,750
Tax liability	39,700	30,650
Add: HEC @ 4%	1,588	1,226
Total Tax (including HEC) (rounded off)	41,290	31,880

15. *Discuss briefly about the deduction in respect of certain donations for scientific research or rural development under section 80GGA of the Income-tax Act, 1961.*

Ans: Deduction in respect of certain donations for scientific research or rural development [Section 80GGA]:

(1) **Eligible Assessee:** All assesses except those whose gross total income include income chargeable under the head "Profits and Gains of Business or Profession".

(2) **No deduction for cash donation exceeding Rs. 10,000:** No deduction shall be allowed under this section in respect of donation of any sum exceeding Rs. 10,000 unless such sum is paid by any mode other than cash.

(3) **Payments eligible for deduction:** The following payments made by the assessee in the previous year shall be eligible for deduction -

- (i) any sum paid to any research association which has as its object the undertaking of scientific research or to a university, college or other institution to be used for scientific research provided such association/ university/ college/ institution is approved under section 35(1)(ii);
- (ii) any sum paid to research association which has as its object the undertaking of research in social science or statistical research or a university, college/other institution, for use in social science research or statistical research, if such association, university, etc. is approved under section 35(1)(iii);
- (iii) any sum paid to National Rural Development Fund set up and notified under section 35CCA;
- (iv) any sum paid to National Urban Poverty Eradication Fund set up and notified under section 35CCA;
- (v) any sum paid to Association or institution undertaking any rural development to be used for carrying out any program for rural development if prescribed certificate is furnished under section 35CCA; or
- (vi) any sum paid to a public sector company or a local authority or an association or institution approved by National Committee, for carrying out any eligible project or scheme as notified under section 35AC.

(4) **Amount of Deduction:** 100% of sums so paid shall be eligible for deduction.

(5) **Deduction not deniable even if approval withdrawn subsequently:** Deduction allowable under this section shall not be denied merely because, subsequent to the payment of such sum by the assessee, -

- (i) the approval granted to the association, university, college or other institution to whom payment is made, is withdrawn; or
- (ii) the approval granted to such rural development programme has been withdrawn; or
- (iii) the notification notifying eligible project/ scheme referred under section 35AC has been withdrawn.

(6) **Double deduction not admissible:** If deduction is allowed under this section, then no deduction shall be allowed in respect of that sum under any other provision of this Act for the same or any other assessment year.

Illustration 20 - Computation of total income: Mr. Chaturvedi having gross total income of Rs. 6,35,000 for the previous year 2019-20 furnishes you the following information :

- (i) Deposited Rs. 50,000 in tax saver deposit in the name of major son in a nationalized bank,
- (ii) Paid Rs. 25,000 towards premium on life insurance policy of his married daughter.
- (iii) Purchased units of UTI for Rs. 25,000 in January 2020.
- (iv) Contributed Rs. 10,000 to Prime Minister's National Relief Fund through account payee cheque.
- (v) Donated Rs. 20,000 to a Government recognized institution for scientific research.

Note: Assume that the gross total income of Mr. Chaturvedi does not include any income under the head 'profits and gains of business or profession.

Compute the total income of Mr. Chaturvedi. (7 Marks, PCC May 2011)

Solution: Computation of total income of Mr. Chaturvedi (amounts in Rs.):

Gross Total Income		6,35,000
Less: Deductions under Chapter VI-A -		
Deposit of Rs. 50,000 in tax saver deposit in the name of major son in a nationalized bank [WN-1]	-	
Purchase of units of UTI [Section 80C]	25,000	
Premium on life insurance policy of his married daughter [WN-2]	25,000	
Contribution to PM's National Relief Fund u/s 80G [WN-3]	10,000	
Payment to a Government recognized institution for scientific research [WN-4]	20,000	80,000
Total Income		5,55,000

Working Notes:

- (1) Fixed deposit in the name of son does not qualify for deduction under section 80C.
- (2) Life insurance premium paid in respect of any child of the individual is eligible for deduction under section 80C.
- (3) Contribution to Prime Minister's National Relief Fund is eligible for 100% deduction under section 80G.
- (4) Since the assessee doesn't have any income under the head profits and gains of business or profession, hence the donation to Government recognized institution for scientific research is eligible for deduction u/s 80GGA.

Illustration 21 - Computation of total income: Mr. Rohan, a resident individual has Gross Total Income of Rs. 7,50,000 comprising of Income from Salary and Income from House Property for the assessment year 2020-21. He provides the following information:

- (1) Paid Rs. 70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured Rs. 4,00,000; and date of issue of policy 1-8-2019.
- (2) Deposited Rs. 90,000 in tax saver deposit in the name of his major son in State Bank of India.
- (3) Contributed Rs. 25,000 to the Clean Ganga Fund, set up by the Central Government. Compute the Total Income and deduction under Chapter VI-A for the A.Y. 2021-22. (4 Marks, May 2017)

Solution: Computation of Total Income and deduction under Chapter VI-A (amount in Rs.):

Gross Total Income [Income from Salary and Income from House Property]		7,50,000
Less: Deductions under Chapter VI-A -		
Premium on life insurance policy of his handicapped son u/ s 80C [WN-1]	60,000	
Deposit of Rs. 90,000 in tax saver deposit in the name of major son in a nationalized bank [WN-2]	-	
Contribution to Clean Ganga Fund u/ s 80G [WN-3]	25,000	85,000
Total Income		6,65,000

Working Note:

- (1) Life insurance premium paid in respect of handicapped child of the individual is eligible for deduction u/s 80C subject to maximum of 15% of capital sum assured. Hence, 15% of Rs. 4,00,000 shall qualify for deduction.
- (2) Tax saver deposit in the name of son does not qualify for deduction under section 80C.
- (3) Contribution to Clean Ganga Fund is eligible for 100% deduction under section 80G provided the sum is paid otherwise than by cash exceeding Rs. 2,000. It is assumed that donation is made by cheque, hence 100% of the amount donated i.e. Rs. 25,000 shall be eligible for deduction.

16. Explain whether any deduction is available from the gross total income of a company in respect of any contribution given to a political party.

Ans: Deduction in respect of contributions given by companies to political parties [Section 80GGB]:

- (1) **Eligible assessee:** Indian company.
- (2) **Nature of payment:** Contributions to a political party registered under section 29A of Representation of the People Act, 1951, or, an electoral trust approved by the Board in this behalf.
- (3) **Amount of deduction:** 100% of the amount so contributed.
- (4) **Cash contributions not eligible:** No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

Note:

- (a) "Political party" means a political party registered u/ s 29A of the Representation of the People Act, 1951.
- (b) Advertisement given in souvenir of a political party shall also be deemed to be contribution made to a political party and shall be eligible for deduction.

17. Explain whether any deduction is available from the gross total income of persons other than company in respect of any contribution given to a political party.

Ans: Deduction in respect of contributions given by any person to political parties [Section 80GGC]:

- (1) **Eligible assessee:** Any person (other than local authority and an artificial juridical person, wholly or partly funded by the Government).

- (2) **Nature of payment:** Contributions to a political party registered under section 29A of Representation of the People Act, 1951, or, an electoral trust approved by the Board in this behalf.
- (3) **Amount of deduction:** 100% of the amount so contributed.
- (4) **Cash contributions not eligible:** No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

DEDUCTION IN RESPECT OF INCOMES
SECTION 80JJAA TO 80TTA

18. **Explain the deduction available for assessees providing additional employment.**

Ans: **Deduction in respect of employment of new workmen [Section 80JJAA] :**

- (1) **Eligible Assessee :** All assessee, whose Gross Total Income includes any profits and gains derived from the business and to whom provisions of Section 44AB applies.
- (2) **Quantum and period of deduction:** Deduction is allowed @ 30% of additional employee cost incurred in the course of such business. The deduction is allowed for three assessment years including the assessment year relevant to previous year in which such employment is provided.

- (i) **"Additional employee cost"** means total emoluments paid or payable to additional employees employed during the previous year.

However, in the case of an existing business, the additional employee cost shall be nil, if—

- (a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year;
- (b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed. [Amended by Finance (No. 2) Act, 2019 w.e.f. 01-04-2020 i.e. AY 2020-21],

Additional Employee Cost in case of new business : In the first year of a new business, emoluments paid or payable to employees employed during that previous year shall be deemed to be the additional employee cost.

- (ii) **"Additional employee"** means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include, —

- (a) an employee whose total emoluments are more than Rs. 25,000 per month; or
- (b) an employee for whom the entire contribution is paid by the Government under the Employees' Pension Scheme notified in accordance with the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952; or
- (c) an employee employed for a period of less than 240 days during the previous year; or in case of an assessee engaged in the business of manufacturing of apparel or footwear or leather products, an employee employed for a period of less than 150 days during the previous year;

However, where an employee is employed during the previous year for a period of less than 240 days or 150 days, as the case may be, but is employed for a period of 240 days or 150 days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly;

- (d) an employee who does not participate in the recognised provident fund;
- (iii) **"Emoluments"** means any sum paid or payable to an employee in lieu of his employment by whatever name called, but does not include —
- any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and
 - any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.
- (3) **Conditions for claiming deduction:** No deduction under shall be allowed, —
- if the business is formed by splitting up, or the reconstruction, of an existing business: However, the above provision shall not apply in respect of a business which is formed as a result of re-establishment, reconstruction or revival by the assessee of the business in the circumstances and within the period specified in section 33B;
 - if the business is acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation;
 - unless the assessee furnishes alongwith the return of income the report of the accountant, as defined in the Explanation to section 288 giving such particulars in the report as may be prescribed.

Illustration 22 - Computation of deduction admissible under Section 80JJAA: Ms. XYZ & Co. partnership firm started its business on 01-04-2020. During the previous year 2020-21, it appoints the following persons –

Date of appointment	No. of employees	Designation	Emoluments (in Rs. per person)
01-04-2020	4	Accounting Staff	20,000
01-06-2020	15	Technical Staff	25,000
01-07-2020	15	Supervisors	30,000
01-10-2020	25	Helpers	22,000
Total	59		

Determine the amount of deduction available under section 80-JJAA for the assessment year 2020-21 if turnover of XYZ & Co. for the previous year 2019-20 is Rs. 4 crore and tax audit under section 44AB is applicable.

Solution: Computation of admissible deduction under Section 80JJAA for AY 2020-21 (amount in Rs.):

Particulars	Emoluments eligible for 80JJAA
Accounting Staff appointed on 01-04-2020 (Rs. 20,000 x 4 x 12 months)	9,60,000
Technical Staff appointed on 01-06-2020 (Rs. 25,000 x 15 x 10 months)	-
Supervisors appointed on 01-07-2020 (Rs. 30,000 x 15 x 9 months)	-
[WN1]	
Helpers Staff appointed on 01-10-2020 (Rs. 22,000 x 25 x 6 months)	37,50,000
[WN 2]	
Total additional employee cost	47,10,000
Deduction admissible under Section 80JJAA [30% of Rs. 47,10,000]	14,13,000

Working Notes:

- (1) Deduction under section 80JJAA is not available in respect of employees whose total emoluments are more than Rs. 25,000 per month.
- (2) 25 Helpers employed on 1-10-2020 do not qualify as additional employees for the P.Y. 2020-21, since they are employed for less than 240 days in that year.
- (3) 25 Helpers employed on 1-10-2020, they would be treated as additional employees for previous year 2021-22, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Ms. XYZ & Co. for the A.Y. 2022-23.

Illustration 23 - Computation of deduction admissible u/s 80JJAA: Mr. A has commenced the business of manufacture of computers on 1-4-2020. He employed 350 new employees during the P.Y. 2020-21, the details of whom are as follows —

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (Rs.)
(i)	75	01-04-2020	Regular	24,000
(ii)	125	01-05-2020	Regular	26,000
(iii)	50	01-08-2020	Casual	25,500
(iv)	100	01-09-2020	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2021-22, if the profits and gains derived from manufacture of computers that year is Rs. 75 lakhs and his total turnover is Rs. 2.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1-9-2020?

Solution: Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for A.Y. 2021-22, as his total turnover from business exceeds Rs. 1 crore and he has employed "additional employees" during the P.Y. 2020-21.

(I) If Mr. A is engaged in the business of manufacture of computers:

Additional employee cost = Rs. 24,000 $\times$ 12 $\times$ 75 [See Working Note below]

= Rs. 2,16,00,000

Deduction under section 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

Working Note: Number of additional employees:

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1-8-2020 who do not participate in recognized provident fund	50	
Regular employees employed on 1-5-2020, since their total monthly emoluments exceed Rs. 25,000	125	
Regular employees employed on 1-9-2020, since they have been employed for less than 240 days in the P.Y. 2020-21.	100	275
Number of "additional employees"		75

Notes -

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1-5-2020 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1-9-2020 do not qualify as additional employees for the P.Y. 2020-21, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1-4-2020 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2020-20 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1-9-2020, they would be treated as additional employees for previous year 2021-22, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2022-23.

(II) If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1-9-2020, since they have been employed for more than 150 days in the previous year 2020-21.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 $\times$ 7 $\times$ 100 = Rs. 3,84,00,000

Deduction under section 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000

Illustration 24 - Computation of deduction admissible u/s 80JJAA: Mr. Satya is a manufacturer of goods in a factory located in Navi Mumbai. On 1st April 2020, there were 120 workmen engaged in his factory. Due to

increase in demand of his products, he employed 140 new workmen during the previous year 2020-21 which included :

- (1) 15 casual workmen
- (2) 25 contract labourers
- (3) 40 workmen employed on 20th April, 2020
- (4) 35 workmen employed on 1st May, 2020
- (5) 25 workmen employed on 8th August, 2020

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment Year 2021-22, if wages are paid to each worker @ Rs. 3,000 per month. His profit from the manufacture of goods for Assessment Year 2021-22 is Rs.5.50 lakhs and his total turnover is Rs. 2.5 crore. (4 Marks, Nov. 2016)

Solution: Computation of admissible deduction under Section 80JJAA for AY 2021-22 (amount in Rs.):

Particulars	Salary eligible for Section 80JJAA
(1) Casual workmen - Not Eligible - Since they do not participate in RPF	Nil
(2) Contract labourers - Not Eligible - Since they do not participate in RPF	Nil
(3) 40 workmen employed on 20th April, 2020 [(Rs. 3,000 × 11 /30) + (Rs. 3,000 × 11)] × 40	13,64,000
(4) 35 workmen employed on 1st May, 2020 [Rs. 3,000 × 11 × 35]	11,55,000
(5) 25 workmen employed on 8th August, 2020 (Additional Employee does not include Employee employed for a period less than 240 days during PY)	Nil
Total	25,19,000
Deduction admissible under Section 80JJAA	7,55,700

Working Note: Mr. Satya is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2021-22, as his total turnover from business exceeds Rs. 1 crore and he has employed "additional employees" during the P.Y. 2020-21.

As regards 25 workmen employed on 8-8-2020, they would be treated as additional employees for PY 2021-22, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction u/s 80JJAA in the hands of assessee for the A.Y. 2022-23.

19. Briefly discuss deduction in respect of royalty income, etc., of authors of certain books other than textbooks under section 80QQB of the Income-tax Act, 1961.

Ans: Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 80QQB]:

- (1) **Eligible Assessee :** Resident individual being an author of any book other than text books (whose gross total income includes eligible income).
- (2) **Eligible Income:** Income, derived by him in the exercise of his profession, on account of -
 - (i) lump sum consideration for assignment or grant of any of his interests in the copyright of any book being a work of literary, artistic or scientific nature, or
 - (ii) royalty or copyright fees (whether receivable in lump sum or otherwise) in respect of such book,

Note: (a) "Books" shall not include brochures, commentaries, diaries, guides, journals, magazines, newspapers, pamphlets, text-books for schools, tracts and other publications of similar nature.

(b) "Lump sum", in regard to royalties or copyright fees, includes an advance payment on account of royalties or copyright fees.

(3) **Amount of deduction:** Lower of the following,-

(i) 100% of such eligible income; or

(ii) ₹. 3,00,000.

Note: For the purpose of calculating the deduction under this section, the amount of eligible income (before allowing expenses attributable to such income) shall not exceed 15% of the value of the books sold during the previous year. However, this condition is not applicable where the royalty or copyright fees are receivable in lump sum in lieu of all rights of the author in the book.

(4) **Royalty income earned from foreign sources:** Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of 6 months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section.

The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

(5) **Condition:** The assessee must furnish a certificate in prescribed form and manner, duly verified by the person responsible for making such payment to the assessee, along with return of income.

(6) **No double deduction:** No deduction shall be allowed under any other provision of this Act in any assessment year in respect of income for which deduction is allowed under this section.

Illustration 25 - Deduction u/s 80QQB: Mr. Shiv had authored the following books and had received the following royalties pertaining to the previous year. Compute his total income in light of the following information (amounts in ₹.):

Book description	Art of Living	Text Book for Class X
Royalty earned on Books	2,00,000	13,00,000
Expenditure incurred on earning royalty	20,000	2,50,000
Royalty % (on value of books sold)	20%	14%

Solution: Computation of total income (amounts in ₹.):

Royalty from authorship of books		15,00,000
Less: Expenditure incurred on earning royalty		2,70,000
Gross total income		12,30,000
Less: Deduction u/s 80QQB	[W]N-2]	1,30,000
Total Income		11,00,000

Working Notes:

- (1) Text books are excluded from definition of books under section 80QQB. Hence, royalty from text books for Class X is not eligible for deduction.
- (2) Since the royalty from 'Art of living' is not received in lump sum consideration for transfer of all right, hence for the purpose of deduction the gross royalty income shall not exceed 15% of value of books sold and expenditure shall be deducted from such gross royalty income.

Computation of deduction under section 80QQB in respect of book 'Art of living' (amounts in ₹):

Royalty earned on books	[A]	2,00,000
Royalty computed @ 15% of value of books sold (₹. 2,00,000/20% x 15%)	[B]	1,50,000
Gross Eligible Income [Lower of (A) or (B)]	[C]	1,50,000
Less: Expenditure attributable to deductible income	[D]	20,000
Deduction under section 80QQB [C-D]		1,30,000

20. Write a note on deduction in respect of royalty income on patents.

Ans: Deduction in respect of royalty income on patents [Section 80RRB]:

- (1) **Eligible Assessee:** Resident Individual being a patentee whose gross total income includes eligible income.

Note: "Patentee" means the true and first inventor of invention and whose name is entered in patent register in accordance with Patents Act and includes joint-patentee.

- (2) **Eligible Income:** Royalty income of patents registered under Patents Act, 1970.

- (3) **Amount of deduction:** Lower of the following,-

- (i) 100% of such royalty income; or
- (ii) ₹. 3,00,000.

Note: In case compulsory licence is granted in respect of any patent, the royalty income eligible for deduction shall not exceed the amount of royalty under the terms and conditions of a licence settled by the Controller under the Patents Act.

- (4) **Royalty income earned from foreign sources:** In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months or extended period as is allowed by the competent authority (Reserve Bank of India).

- (5) **Prescribed certificate to be furnished:** The assessee must furnish a certificate in prescribed form and manner, duly verified by the person responsible for making such payment to the assessee, along with return of income.

- (6) **No double deduction:** No deduction shall be allowed under any other provision of this Act in any assessment year in respect of income for which deduction is allowed under this section.

- (7) **Meaning of Royalty :** "Royalty" means consideration (including any lump sum consideration but excluding any consideration chargeable as "Capital gains" or consideration for sale of product manufactured with use of patented process or of patented article for commercial use) for -

- (i) Transfer of all or any rights (including granting of a licence) in respect of a patent; or

- (ii) Imparting of any information concerning the working of, or the use of, a patent; or
- (iii) Use of any patent; or
- (iv) Rendering of any services in connection with activities referred to in (i) to (iii) above.

21. **Write a note on deduction in respect of interest on deposits in savings accounts.**

Ans: **Deduction in respect of interest on deposits in savings accounts [Section 80TTA]:**

- (1) **Eligible Assessee:** Individual or a Hindu Undivided Family (other than the assessee referred to in section 80TTB).
- (2) **Eligible Income :** Any income by way of an interest on deposits in a savings account (not being time deposits i.e. deposits repayable on expiry of fixed periods) if such account is maintained with,-
 - (i) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in Section 51 of that Act);
 - (ii) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
 - (iii) a post office.
- (3) **Amount of deduction:** Lower of the following -
 - (i) 100% of such interest income; or
 - (ii) Rs. 10,000.
- (4) **No deduction in case of accounts held by/ on behalf of Firm/ AOP/ BOI:** If the interest income is derived from any deposit in a savings account held by, or on behalf of, a firm, an AOP/ BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.
Note: Deduction under this section would, however, not be available to resident senior citizen eligible for deduction under section 80TTB.

22. **Explain the provisions of deduction in respect of interest on deposits in case of senior citizens.**

Ans: **Deduction in respect of interest on deposits in case of senior citizens [Section 80TTB]:**

- (1) **Eligible Assessee:** Individual being senior citizen i.e. resident individual who is of the age of 60 years or more at any time during the relevant previous year.
- (2) **Eligible Income:** Any income by way of an interest on deposits with,-
 - (i) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in Section 51 of that Act);
 - (ii) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
 - (iii) a post office.
- (3) **Amount of deduction:** Lower of the following -
 - (i) 100% of such interest income on deposits; or
 - (ii) Rs. 50,000.

- (4) **No deduction in case of account held by/ on behalf of Firm/ AOP/ BOI:** Where the interest income is derived from any deposit held by, or on behalf of, a firm, an association of persons or a body of individuals, no deduction shall be allowed under this section in respect of such income in computing the total income of any partner of the firm or any member of the association or any individual of the body.

Illustration 26 - Deduction u/s 80TTB : Mr. A, a resident individual aged about 61 years, has earned business income (computed) of Rs. 1,35,000, lottery income of Rs. 1,20,000 (gross) during the P.Y. 2020-21. He also has interest on Fixed Deposit of Rs. 30,000 with banks. He invested an amount of Rs. 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2021-22?

Solution: Computation of total income of Mr. A for A.Y. 2021-22 (amount in Rs.):

Profits and gains of business or profession		1,35,000
Income from other sources		
Interest on Fixed Deposit with banks		30,000
Lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C : Deposit in Public Provident Fund	1,50,000	
Under section 80TTB : Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: Though the value of eligible deductions is Rs. 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = Rs. 2,85,000 - Rs. 1,20,000 = Rs. 1,65,000.

In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto Rs. 50,000 under section 80TTB.

23. **Briefly explain provisions of Section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability. (4 Marks, PCC Nov. 2008)**

Ans: Deduction in case of person with disability [Section 80U] :

- (1) **Eligible assessee :** A resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability.
- (2) **Amount of deduction:** A deduction of Rs.75,000 in respect of person with disability and Rs. 1,25,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section. The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

- (3) **Prescribed certificate to be furnished :** The assessee claiming a deduction shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed.
- (4) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

Illustration 27 - Computation of total income: Mr. X (blind from birth) furnishes you the following information for previous year 2020-21. Compute his total income.

(amount in Rs.)

(1) Salary from a publishing house for working as an artist (no allowances received) (Computed)	1,35,000
(2) Income from sale of paintings made by self	3,50,000
(3) Winnings from horse races (gross)	70,000
(4) Dividend from Indian Company	15,000
(5) Contribution to PPF	8,000
(6) Payment of rent of self-occupied house	72,000
(7) Donation to National Defense Fund	6,000
(8) Donation to registered political party in cash	12,000

Mr. X spent Rs. 80,000 for treatment of cancer, out of which Rs. 20,000 were reimbursed by his employer.

Solution: Computation of Total Income of X (amounts in Rs.):

Income from Salary (Computed)		1,35,000
Business Income (sale of paintings made by self)		3,50,000
Income from Other Sources :		
Winnings from horse races (gross)	70,000	
Dividend from Indian company	[WN-1] -	70,000
Gross Total Income		5,55,000
Less: Deductions under Chapter VIA -		
Contribution to PPF [Section 80C]	8,000	
Medical treatment of cancer [Section 80DDB]	[WN-2] 20,000	
Donation to National Defence Fund [Section 80G]	[WN-3] 6,000	
Rent of self-occupied house [Section 80GG]	[WN-4] 39,400	
Donation to registered political party in cash [Section 80GGC]	[WN-5] Nil	
In respect of severe disability [Since he is blind] [Section 80U]	1,25,000	1,98,400
Total Income		3,56,600

Working Notes:

- (1) Dividend received from Indian Company is exempt from tax under section 10(34).
- (2) Deduction shall be allowed for expenditure incurred on treatment of cancer to the extent of lower of following -

(a) Sum actually paid i.e. Rs. 80,000

(b) Rs. 40,000.

From the amount of deduction (i.e. Rs. 40,000), the sum received from employer shall be reduced. Hence, net amount of deduction = (Rs. 40,000 - Rs. 20,000) = Rs. 20,000.

(3) Contribution to National Defence Fund is eligible for 100% deduction under section 80G.

(4) Least of the following shall be allowed as deduction u/s 80GG:

(a) Rs. 5,000 per month Rs. 60,000

(b) Rent paid - 10% of Adjusted total income [Rs. 72,000 - 10% of Rs. 3,26,000] Rs. 39,400

(c) 25% of Adjusted total income [25% of Rs. 3,26,000] Rs. 81,500

Computation of Adjusted Total Income (amounts in Rs.):

Gross total income		5,55,000
Less: Winnings from horse races	70,000	
Deduction u/s 80C	8,000	
Deduction u/s 80DDB	20,000	
Deduction u/s 80G	6,000	
Deduction u/s 80U	1,25,000	2,29,000
Adjusted total income		3,26,000

(5) No deduction shall be allowed for contribution to a registered political party which qualifies for deduction under section 80GGC in case the contributions are made in cash.

Illustration 28 - Computation of total income: Mr. Raman, aged 62 years, earned professional income (computed) of Rs. 5,50,000 during the year ended 31-03-2020. He has earned interest of Rs. 54,500 on the fixed deposit in bank account with State Bank of India during the year. Compute the total income of Mr. Raman for the assessment year 2021-22 from the following particulars:

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs. 35,000 for insurance of life of his dependent parents. The insurance policy was taken on 15-07-2020 and the sum assured on life of his dependent parents is Rs. 1,55,000.
- (ii) Life insurance premium of Rs. 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is Rs. 1,75,000 and the life insurance policy was taken on 18-04-2011.
- (iii) Life insurance premium paid by cheque of Rs. 32,500 for insurance of his life. The insurance policy was taken on 08-09-2017 and the sum assured is Rs. 2,00,000.
- (iv) Premium of Rs. 46,000 paid by cheque for health insurance of self and his wife.
- (v) Rs. 1,500 paid in cash for his health check-up and Rs. 4,500 paid in cheque for health check-up for his parents.
- (vi) Paid interest of Rs. 6,500 on loan taken from bank for IIT course pursued by his daughter.
- (vii) A sum of Rs. 15,000 donated in cash to an institution approved for purpose of Section 80G for promoting family planning.
- (viii) Contribution Rs. 10,500 made in cash to an electoral trust.

Solution: Computation of total income of Mr. Raman (amount in Rs.):

Professional Income (Computed) Interest on fixed deposit in bank			5,50,000
Gross Total Income			54,500
Less: Deduction under Chapter VIA			6,04,500
Under section 80C			
Life insurance premium paid for life insurance of :			
Dependent parents [WN-1]	Nil		
Major son [WN-2]	25,000		
self Rs. 32,500 restricted to 10% of Rs. 2,00,000 [WN-2]	20,000	45,000	
Under section 80D			
Premium paid for health insurance of self and wife by cheque [WN-3]	46,000		
Payment made for health check-up: Self Rs. 1,500 + His Parents Rs. 4,500= Rs. 6,000 restricted to Rs. 5,000.	5,000	51,000	
Under section 80E			
For payment of interest on loan taken from bank for IIT course of his daughter		6,500	
Under section 80G			
Donation for family planning Under section 80GGC [WN-6]		NIL	
Contribution to electoral trust [WN-4]		NIL	
Under section 80TTB			
Interest on fixed deposit in bank account Rs. 54,500 restricted to [WN-5]		50,000	1,52,500
Total Income			4,52,000

Working Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 35,000 paid as premium for life insurance of dependent parents of Mr. Raman.
- (2) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2012. In case the insurance policy is issued before 01-04-2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.
Therefore in the present case, deduction of Rs. 25,000 is allowable in respect of life insurance of Mr. Raman's son since the insurance policy was issued before 01-04-2012 and the premium amount is less than 20% of Rs. 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Raman himself, deduction is allowable only up to 10% of Rs. 2,00,000, since, the policy was issued after 01-04-2012 and the premium amount exceeds 10% of sum assured.
- (3) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to Rs. 50,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D,

the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of Rs. 46,000 is allowed in respect of premium paid for health insurance of self and wife, since Mr. Raman is a senior citizen and the payment is made by cheque. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is Rs. 47,500 (Rs. 46,000 + Rs. 1,500), which is less than Rs. 50,000. Further, deduction up to a maximum of Rs. 5,000 is allowable in respect of health check-up of self and his parents.

This implies that Rs. 3,500 is allowable for health check-up of parents which falls within the additional limit of Rs. 50,000 for mediclaim premium and expenditure on preventive health check-up of parents.

Thus, deduction admissible for self and his parents shall be Rs. 51,000 which is within the overall limit of Rs. 1,00,000.

- (4) No deduction shall be allowed for contribution to an electoral trust which qualifies for deduction under section 80GGC in case the contributions are made in cash.
- (5) As per Section 80TTB, deduction shall be allowed from the gross total income of an resident individual being senior citizen in respect of income by way of interest on fixed deposit in the bank account included in the assessee's gross total income, subject to a maximum of Rs. 50,000. Therefore, a deduction of Rs. 50,000 is allowable from the gross total income of Mr. Raman, though the interest from fixed deposit in bank account is Rs. 54,500.
- (6) Cash donation exceeding Rs. 2,000 for family planning expenditure will not be allowed as deduction u/s 80G.

Illustration 29 - Computation of Gross Total Income: From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi. Compute the gross total income for the A.Y. 2021-22. (8 Marks, May 2015)

Particulars	Rs.
Salary including Dearness Allowance	6,50,000
Conveyance allowance of Rs. 900 p.m.	10,800
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh.	82,000

Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for Rs. 35,00,000 in April 2013, which was finance by a loan from Bank of India of Rs. 20,00,000 @ 11% interest and his own savings of Rs. 5,00,000 and a deposit of Rs. 10,00,000 from Bank of Baroda, to whom he let out

his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baroda is Rs. 35,000 per month. Other relevant particulars are given below:

- (i) Municipal taxes paid by Dinesh for his flat in Dwarka are Rs. 18,000 per annum and for his house in Rohini are Rs. 12,000 per annum.
- (ii) Principal loan amount outstanding as on 01-04-2020 was Rs. 18,50,000.
- (iii) He also paid Rs. 8,000 towards insurance of both the houses.
- (iv) In the financial year 2018-19, he had gifted Rs. 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
- (v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2020-21. The education facility was provided free of cost. The cost of such education in similar school is Rs. 2,500 per month.
- (vi) Dinesh also received gifts of Rs. 45,000 each from his two friends during the financial year 2020-21.

Solution: Computation of Gross Total Income of Mr. Dinesh (amounts in Rs.):

Income under the head Salary:

Salary including dearness allowance	6,50,000	
Conveyance allowance (Rs. 10,800 - Rs. 10,800) [WN-1]	-	
Bonus	50,000	
Salary of servant provided by the employer (Taxable as perquisite)	48,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Dinesh (Taxable as perquisite)	82,000	
Education facility (Rs. 2,500 x 12) [WN-2]	30,000	
Gross salary	8,60,000	
Less: Standard deduction u/s 16(ia)	50,000	8,10,000
Income from House Property:		
Flat at Dwarka (Self Occupied)		
Annual Value	Nil	
Less: Interest on borrowed capital 18,50,000 x 11% subject to maximum of Rs. 2,00,000)	-2,00,000	
House at Rohini (let out)		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) [Rs. 35,000 x 12]	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Standard Deduction @ 30% of NAV	1,22,400	
	2,85,600	85,600
Income from Other Sources :		
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Dinesh as per Section 64(1 A) (Rs. 40,000 x 18%) = Rs. 7,200. However, as per Section 10(32) an exemption of Rs. 1,500 shall be available (Rs. 7,200 - Rs. 1,500)	5,700	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per Section 64(1) (Rs. 40,000 x 18%)	7,200	
Gift from two friends @ Rs. 45,000 each - Since the aggregate amount exceeds Rs. 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	90,000	1,02,900

<i>Gross Total Income</i>		9,98,500
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Working Notes:

- (1) Conveyance Allowance is exempt from tax to the extent expended for official purpose. Assuming that entire amount is expended the same is claimed as exempt from tax.
- (2) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 2,500 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 30,000 (i.e. Rs. 2,500 x 12).

11

INCOMES EXEMPT FROM TAX

Topic Referencer

- General Provisions for Deductions under Chapter VI-A
- Exemption in Respect of Under-takings Located in Special Economic Zone

GENERAL PROVISIONS FOR DEDUCTIONS UNDER CHAPTER VI-A

1. *What is meant by Exempt Income? How it is different from deductions.*

Ans: *The concept of exempt incomes and deductions are discussed as under -*

- (1) **Exempt Income:** *The various items of income referred to in the different clauses of Section 10 are excluded from the total income of an assessee. These incomes are known as Exempted Incomes. Thus, the exempted incomes are those incomes, which are not even included in determination of income under the relevant/concerned head.*
- (2) **Deductions from gross total income:** *Deductions are allowed from gross total income under Chapter VI-A. Thus, if a deduction under Chapter VI-A is allowable in respect of a particular income, then, the said income will be computed after allowing all expenses and will be included under the appropriate head of income. The gross total income will include that income and deduction under the relevant section will be allowed from the amount of gross total income.*

For example, Section 80RRB provides deduction in respect of royalty received in respect of patents. Thus, first of all royalty income will be computed as per the provisions of the Act, after allowing relevant expenses, and such income will be included under appropriate head (Profits and gains of business or profession or Income from other sources). Thereafter, the deduction under section 80RRB will be allowed from the gross total income, which already includes royalty income.

2. *List out various incomes which are exempt under section 10.*

Ans: *Various incomes which are exempt under section 10 are as under -*

Section	Exempted Income	Conditions / Remarks
10(1)	Agricultural income	Refer Chapter - "Profits and Gains of Business or Profession".
10(2)	Amounts received by a member from the income of the HUF.	The exemption applies only in respect of a payment made by the HUF to its member - (i) out of the income of the family; or (ii) out of the income of the impartible estate belonging to the family.
10(2A)	Partner's share in the income of firm.	The partner's share in the total income of the firm determined in accordance with the profit-sharing ratio will be exempt from tax.

10(4)	Interest received by an individual on moneys standing to the credit in Non-Resident (External) Account in any Indian bank.	Individual is a person resident outside India under FEMA or is a person who has been permitted by RBI to maintain the Non-Resident (External) Account.
10(4B)	Interest on savings certificates to nonresidents An individual, being a citizen of India or a person of Indian origin, who is nonresident shall be entitled for exemption in respect of interest on such saving certificates issued before 1-6-2002 by the Central Government and notified by it in the Official Gazette in this behalf.	To claim such exemption, the individual should have subscribed to such certificates in convertible foreign exchange remitted from a country outside India in accordance with the provisions of the FEMA, 1999.
10(5)	Leave travel concession.	Refer Chapter - "Salaries".
10(6)	Exemption in the case of individuals, who are not citizens of India - Remuneration received by officials of Embassies etc. of Foreign States [Section 10(6)(ii)] Section 10(6) (ii) grants exemption to a person in respect of the remuneration received by him for services as an official of an embassy, high commission, legation, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials.	(a) The remuneration received by our corresponding Government officers resident in such foreign countries should be exempt. (b) The above-mentioned officers should be the subjects of the respective countries and should not be engaged in any other business or profession or employment in India.
	Remuneration received for services rendered in India by a Foreign National employed by foreign enterprise [Section 10(6)(vi)] Section 10(6)(vi) provides that remuneration received by a person as an employee of a foreign enterprise for services rendered by him during his stay in India is also exempt from tax.	(a) The foreign enterprise is not engaged in any trade or business in India; (b) The employee's stay in India does not exceed a total of 90 days in the previous year; and (c) The remuneration is not liable to be deducted from the employer's income chargeable to tax under the Act.
	Salary received by a non-citizen for services rendered in connection with employment in foreign ship [Section 10(6)(viii)] Section 10(6) (viii) provides that salary income received by or due to a non-resident, for services rendered in connection with his employment on a foreign ship, is exempt from tax.	His total stay in India must not exceed a total of 90 days in the previous year.
	Remuneration received by Foreign Government employees during their stay in India for specified training [Section 10(6)(xi)] Section 10(6)(xi) provides that	-

	<i>any remuneration received by employees of foreign Government from their respective Government during their stay in India in connection with their training in any establishment or office of the Government or any public sector undertaking is exempt from tax.</i>	
10(6D)	<i>Royalty and FTS payment by NTRCO to a non-resident to be tax-exempt: Any income arising to a non-resident, not being a company, or a foreign company, by way of royalty from, or fees for technical services rendered in or outside India to, the National Technical Research Organisation.</i>	
10(7)	<i>Allowances or perquisites payable outside India.</i>	<i>Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax.</i>
10(10)	<i>Gratuity</i>	<i>Refer Chapter - "Salaries".</i>
10(10A)	<i>Payment in commutation of pension</i>	<i>Refer Chapter - "Salaries".</i>
10(10AA)	<i>Amount received by way of encashment of unutilised earned leave on retirement</i>	<i>Refer Chapter - "Salaries".</i>
10(10B)	<i>Retrenchment compensation</i>	<i>Refer Chapter - "Salaries".</i>
10(10BB)	<i>Payments to Bhopal Gas Victims : Any payment made to a person under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985 and any scheme framed thereunder.</i>	<i>However, payments made to any assessee in connection with Bhopal Gas Leak Disaster to the extent he has been allowed a deduction under the Act on account of any loss or damage caused to him by such disaster will not be exempt.</i>
10(10BC)	<i>Compensation received on account of disaster. "Disaster" means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man made causes, or by accident or negligence. It should have the effect of causing - (i) substantial loss of life or human suffering; or (ii) damage to, and destruction of, property; or (iii) damage to, or degradation of, environment. It should be of such a nature or magnitude as to be beyond the coping capacity of the community of the affected area.</i>	(a) This clause exempts any amount received or receivable as compensation by an individual or his legal heir on account of any disaster. (b) Such compensation should be granted by the Central Government or a State Government or a local authority. (c) However, such exemption would not be available in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.
10(10C)	<i>Voluntary Retirement Receipts</i>	<i>Refer Chapter - "Salaries".</i>

10(10CC)	Income-tax paid by employer	Refer Chapter - "Salaries".
10(10D)	Sum received under Life Insurance Policy including the sum allocated by way of bonus on such policy.	However, the following sums are not exempt — (a) Any sum received u/s 80DD (3) and 80DDA(3). (b) Any sum received under Keyman Insurance Policy. (c) Any sum received under insurance policy issued on or after 1-4-2003 but on or before 31-03-2012, if in any year, the premium payable exceeds 20% of actual capital sum assured; or (d) any sum received under an insurance policy issued on or after 01-04-2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10% of the actual capital sum assured. (e) any sum received under an insurance policy issued on or after 01-04-2013 on life of any person, who is (i) a person with disability or a person with severe disability as referred to in Sec. 80U; or (ii) suffering from disease or ailment as specified in the rules made under section 80ddb, in respect of which the premium payable for any of the years during the term of the policy exceeds 15% of the actual capital sum assured. However, such sums received under such policy on the death of a person shall continue to be exempt.
10(11)/(12)	Payment from Statutory and Recognised Provident Funds	Refer Chapter - "Salaries".
10(11A)	Payment from Sukanya Samriddhi Account : Any payment from an account, opened in accordance with the Sukanya Samriddhi Account Rules, 2014 made under the Government Savings Bank Act, 1873.	The interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt.
10(12A)	Payment from the NPS Trust to an assessee on closure or opting out of the pension scheme - Exempt upto 60% of the total amount payable [Amended by Finance (No.2) Act, 2020 w.e.f. 01-04-2020 i.e. AY2021-22]	Any payment from the National Pension System Trust to an assessee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed 60% of the total amount payable to him at the time of such closure or his opting out of the scheme.
	Objective of amendment: With a view to enable the pensioner to have more disposable funds, Section 10(12A) is amended so as to increase the said exemption from 40% to 60% of the total amount payable to the person at the time of closure or his opting out of the scheme.	
10(12B)	Withdrawal from National Pension System trust - 25% of the amount received exempt: Any payment from the National Pension System 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, to the extent it does not exceed 25% of the amount of contributions made by him.	
10(13)	Payment from superannuation funds	Refer Chapter - "Salaries".
10(13A)	House rent allowance (HRA)	Refer Chapter - "Salaries".
10(14)	Special allowances to meet expenses relating to duties or personal expenses	Refer Chapter - "Salaries".
10(15)	Interest income arising to certain persons	Refer Question below.
10(16)	Educational scholarships	➤ Recipient can be Indian or foreigner; the whole amount need not be spent on education. ➤ Scholarship granted to meet education cost of children of employee is exempt.
10(17)	Payments to MPs & MLAs ➤ Daily allowance; ➤ Constituency allowance of MPs : Any allowance received under the Members of Parliament (Constituency Allowance) Rules, 1986; ➤ Constituency allowance of MLAs : Any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.	
10(17A)	Awards for literary, scientific and artistic works and other awards by the Government	Any award instituted in the public interest by the Central/ State Government or any body approved by the Central Government and a reward by Central/ State Government for such purposes as may be approved by the Central Government in public interest, will enjoy exemption under this clause.
10(18)	Pension received by recipient of gallantry awards	Any income by way of pension received by an individual who has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government may, by notification in the Official Gazette, specify in this behalf. In case of the death of the awardee, any income by way of family pension received by any member of the family of the individual shall also be exempt under this section.
	Exemption of disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service [Circular No.	

	<i>13/2020 dated 24-6-2020]</i> <i>The entire disability pension, i.e. "disability element" and "service element" of pension granted to members of naval, military or air forces who have been invalided out of naval, military or air force service on account of bodily disability attributable to or aggravated by such service would be exempt from tax. The CBDT has, vide this circular, clarified that exemption in respect of disability pension would be available to all armed forces personnel (irrespective of rank) who have been invalided out of such service on account of bodily disability attributable to or aggravated by such service. However, such tax exemption will be available only to armed forces personnel who have been invalided out of service on account of bodily disability attributable to or aggravated by such service and not to personnel who have been retired on superannuation or otherwise.</i>	
10(19)	Family pension received by widow/children/nominated heirs of members of armed forces	Exemption is available in respect of family pension received by the widow or children or nominated heirs, of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties, in specified circumstances and conditions.
10(26)	Income of member of a Scheduled Tribe.	A member of a Scheduled Tribe residing in - (i) any area (specified in the Constitution) or (ii) States of Manipur, Tripura, Arunachal Pradesh, Mizoram and Nagaland, or (iii) the Ladakh region of the state of Jammu and Kashmir, is exempt from tax on his income arising or accruing - (a) from any source in the areas or States aforesaid; or (b) by way of dividend or interest on securities.
10(26AAA)	Income of a Sikkimese individual.	The following income, which accrues or arises to a Sikkimese individual, would be exempt from income-tax- (i) income from any source in the State of Sikkim; or (ii) income by way of dividend or interest on securities. However, this exemption will not be available to a Sikkimese woman who, on or after 1-4-2008, marries a non-Sikkimese individual.
10(30)	Tea board subsidy [Section 10(30)] The amount of any subsidy received by any assessee engaged in the business of growing and manufacturing tea in India through or from the Tea Board will be wholly exempt from tax.	Conditions: (a) The subsidy should have been received under any scheme for replantation or replacement of tea bushes or for rejuvenation or consolidation of areas used for cultivation of tea. (b) The assessee should furnish a certificate from the Tea Board as to the subsidy received by him during the previous year to the Assessing Officer along with his return of income of the relevant assessment year or within the time extended by the Assessing Officer for the purpose.
10(31)	Other subsidies.	(a) Amount of any subsidy received by an assessee engaged in the business of growing and manufacturing rubber, coffee, cardamom or other

		specified commodity in India from or through the Rubber Board, Coffee Board, Spices Board or any other Board notified by the Central Government in respect of any other commodity under any scheme for re-plantation or replacement of rubber, coffee, cardamom or other plants or for rejuvenation or consolidation of areas used for cultivation of all such commodities will be exempt from income-tax. (b) The assessee should furnish a certificate from the Board, as to the subsidy received by him during the previous year, to the Assessing Officer along with his return of the relevant assessment year or within the time extended by the Assessing Officer for this purpose.
10(32)	Clubbed income of minor.	In case, the income of an individual (i.e. the parent) includes the income of his minor child in terms of Section 64(1A), such parent shall be entitled to exemption of Rs. 1,500 in respect of each minor child or actual income of minor child, whichever is less.
10(34)	Dividends referred to in Section 115-0. However, nothing in this clause shall apply to any income by way of dividend chargeable to tax in accordance with the provisions of section 115BBD.	
10(34A)	Income arising to shareholder on buy back of shares: Any income arising to an assessee, being a shareholder, on account of buy back of shares (not being listed on a recognised stock exchange) by the company as referred to in section 115QA. [Omitted by Finance (No. 2) Act, 2020 w.e.f. 1-09-2020]	Objective of amendment: Listed companies are liable to pay tax on distributed income of buy back of shares under Section 115QA. Hence, the amount received by their shareholders on such buy back is exempt from tax.
10(35)	Income in respect of units from the Administrator of specified undertaking/ specified company/ mutual fund specified in Section 10(23D).	However, the exemption shall not apply to any income arising from transfer of such units.
10(37)	Capital gains on compulsory acquisition of agricultural land situated within specified urban limits.	Refer Chapter - "Capital Gains".
10(38)	Long-term capital gains on sale of equity shares/units of an equity oriented fund or a unit of a business trust. However, Nothing contained in this clause shall apply to any income arising from the transfer of long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a	-

	business trust, made on or after 01-04-2018.	
10(43)	Income received in a transaction of reverse mortgage.	Refer Chapter - "Capital Gains".

3. **Explain the exemption in respect of interest, premium or bonus on specified investments, etc. under section 10(15) of the Income-tax Act, 1961.**

Ans: **Exemption in respect of interest, premium or bonus on specified investments, etc. [Section 10(15)]:** The following are exempt from tax:-

(1) Income by way of interest, premium on redemption or other payments on securities, bonds, deposits, annuity certificates, saving certificates, or other certificates issued or notified by Central Government subject to prescribed conditions and limits.

Note: The interest on Post Office Savings Bank Account which was so far fully exempt would henceforth be exempt from tax for any assessment year only to the extent of:

(i) Rs. 3,500 in case of an individual account;

(ii) Rs. 7,000 in case of a joint account.

(2) In the case of an individual or a HUF, interest on notified Relief Bonds.

(3) Interest on notified NRI bonds arising to,-

(i) A non-resident Indian, being an individual owning the bonds; or

(ii) Any individual owning the bonds as nominee or survivor of the non-resident Indian; or

(iii) Any individual to whom the bonds have been gifted by the non-resident Indian. However, no bonds shall be notified on or after 01-06-2002.

(4) **Interest payable to,-**

(i) Foreign bank on deposits made by it with any scheduled bank in India with approval of RBI.

(ii) Nordic investment bank on loan given by it for project approved by Government.

(iii) European investment bank on loan given by it under agreement for financial co-operation.

(5) Following interest payments shall be exempt in the hands of the recipient if the same is payable by -

(i) Scheduled bank to a non-resident or to a not ordinarily resident on foreign currency deposits approved by the RBI.

(ii) Any public sector company on notified bonds or debentures subject to prescribed conditions; and

(iii) Government, on deposits made by Government employee or an employee of public sector Company under notified scheme out of retirement or superannuation money.

(6) Interest on Gold Deposit Bonds issued under the notified Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015.

(7) Interest on specified bonds issued by a local authority.

- (8) Interest received by a non-resident or not-ordinarily resident person on deposits made on or after 1-4-2005 in an Offshore Banking Unit.
- (9) Any income by way of interest payable to a non-resident by a unit located in an International Financial Services Centre in respect of monies borrowed by it on or after 01-09-2020. [Amended by Finance No. 2 Act, 2020 w.e.f. 01-04-2020 i.e. AY2021-22]

Objective of amendment: With a view to facilitate external borrowing by the units located in IFSC, section 10 of the Act is amended so as to provide that any income by way of interest payable to a non-resident by a unit located in IFSC in respect of monies borrowed by it on or after 1st day of September, 2020, shall be exempt.

Illustration 1 - Computation of total income: Paras is resident of India. During the F.Y. 2020-21 interest of 2,38,000 was credited to his Non-resident (External) Account with SBI. Rs. 30,000 being interest on fixed deposit with SBI was credited to his saving bank account during this period. He also earned Rs. 3,000 as interest on this saving account. Is Paras required to file return of income? What will be your answer if he owns one shop in Kerala having area of 150 sq. ft.?

Solution: Computation of total income of Mr. Paras (amounts in Rs.):

Interest on Non-resident External Account	[WN]	Exempt
Interest on Bank Fixed Deposit		30,000
Interest on Savings Bank Account		3,000
Gross Total Income		33,000
Less: Deduction u/s 80TTA (Interest on Savings Bank Account)		3,000
Total Income		30,000

Working Note: In the above solution, interest of Rs. 2,38,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable.

In such a case, his total income, before giving effect to the deductions under Chapter VIA, would be Rs. 2,68,000 (Rs. 30,000 + Rs. 2,38,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for assessment year 2021-22. Here again, ownership of shop in Kerala is immaterial.

Illustration 2 - Compensation/dividend income - Taxability: Discuss with reason, whether the following statements are true or false, as per the provisions of the Income-tax Act, 1961:

- (1) Any amount received by an individual or his legal heir as compensation for natural disaster from the Government, is taxable. (2 Marks, May 2016) (Similar: 2 Marks, Nov. 2016)

Ans: **False.** According to Section 10(10BC), any amount received or receivable as compensation by an individual or his legal heir on account of any disaster is exempt from tax if Such compensation should be granted by the Central Government or a State Government or a local authority. However, such exemption would not be available in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.

- (2) Dividend received (on which no Dividend Distribution Tax has been paid) by a dealer in shares or one engaged in buying/selling of shares, is chargeable under the head "Income from other sources" (Discussion must be on the head of income) (2 Marks, May 2016)

Ans: **True.** The taxability of dividend income is specifically covered under Income from other sources. Hence, dividend received (on which no Dividend Distribution Tax has been paid) by a dealer in shares or one engaged in buying/selling of shares, is chargeable under the head "Income from other sources".

EXEMPTION IN RESPECT OF UNDERTAKINGS LOCATED IN SPECIAL ECONOMIC ZONE

4. Briefly enumerate the conditions to be satisfied by an undertaking engaged in export of articles/ things for claiming exemption u/s 10AA of Income-tax Act, 1961. (6 Marks, PE-II June 2009)

Ans: **Special provisions in respect of newly established units in Special Economic Zones [Section 10AA]:**

- (1) **Applicability:** This section applies to a unit established by an entrepreneur in a Special Economic Zone, which begins to manufacture or produce articles or things or provide any services during the previous year relevant to assessment year on or after 1-4-2006 but before 01-04-2021.
- (2) **Amount and period of Deduction:**

First 5 consecutive assessment years	100% of profits and gains from export business (starting from assessment year relevant to year of start of production/manufacture).
Next 5 consecutive assessment years	50% of profits and gains from export business.
Further next 5 consecutive assessment years	Lower of – ➤ 50% of Profits from export business; or ➤ Amount transferred from Profit and Loss A/c to the "Special Economic Zone Reinvestment Reserve A/c".

Explanation: The amount of deduction under this section shall be allowed from the total income of the assessee computed in accordance with the provisions of this Act, before giving effect to the provisions of this section and the deduction under this section shall not exceed such total income of the assessee.

The deduction for last five assessment years is allowed if:

- (i) The amount transferred to "Special Economic Zone Reinvestment Reserve A/c" is used for acquiring new plant or machinery, which is first put to use within 3 years from the year of creation of reserve.
- (ii) Until acquisition of such plant or machinery, it is used for business purposes other than for distribution by way of dividend or profits or remittance outside India for creation of any asset therein.
- (iii) Particulars of plant or machinery are furnished along with return of income for the previous year in which such plant or machinery is first put to use.

Consequences of Misutilisation/ non-utilisation of Reserve:

If the amount credited to the reserve is-	Taxability
Used for purposes other than acquisition of plant or machinery	Amount so misutilised shall be taxable in the year of misutilisation.
Not used within three years aforesaid	Amount not so utilized shall be taxable in the year immediately following the period of three years.

(3) **Computation of profits from export business for the purposes of deduction :**

Profits and gains from export business

$$= \frac{\text{Export Turnover of the undertaking} \times \text{Profits and gains of business and profession}}{\text{Total Turnover of undertaking}}$$

- **"Export Turnover"** means the consideration in respect of export of articles or things or computer software or services received in, or brought into, India by the assessee but does not include -
 - (a) Freight, telecommunication charges or insurance attributable to the delivery of such articles or things outside India; or
 - (b) Expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.
- **'Export'** in relation to Special Economic Zone means taking goods or providing services out of India from a Special Economic Zone by land, sea, air, or by any other mode, whether physical or otherwise.

Note:

- (a) Profits and gains derived from on-site development of computer software (including services for development of software) outside India shall be deemed to be profits and gains derived from the export of computer software outside India.
- (b) Deduction is to be computed based on turnover of the eligible undertaking, not on the basis of the total turnover of all businesses of the assessee.

Clarification on issues relating to deduction of freight, telecommunication charges and other expenses from total turnover [Circular No. 4/1018, dated 14/08/1018]

"Export turnover", inter alia, does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India. CBDT has, vide this notification, clarified that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India. Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

(4) **Transitional provisions:** The transitional provisions are as follows -

- (i) An existing unit, to whom deduction is not allowed under Section 10A, shall be allowed deduction under this section for the unexpired period out of 10 consecutive assessment years and thereafter, it shall be eligible for deduction for next 5 years on creation of "Special Economic Zone Reinvestment Reserve A/c" in the aforesaid manner and fulfilling other conditions.
- (ii) Similarly, if a unit located in Free Trade Zone or Export Processing Zone is subsequently located in any SEZ by virtue of conversion of such FTZ/EPZ into SEZ, then, it will be allowed deduction under this section for unexpired period out of 10 consecutive assessment years and thereafter, it shall be eligible for deduction for next five years on creation of "Special Economic Zone Reinvestment Reserve A/c" in the aforesaid manner and fulfilling other conditions.

No deduction under (i) or (ii) above: No deduction shall be allowed under (i) or (ii) above if such unit has completed the period of 10 consecutive assessment years. In other words, a unit, which has completed the period of 10 consecutive assessment years, will not allowed deduction for further 5 years even on creation of "Special Economic Zone Reinvestment Reserve A/c" also.

- (5) **Transfer of the undertaking in amalgamation or demerger:** If the unit, which is entitled to deduction under this section is transferred before the expiry of the period of deduction, to another unit in a scheme of amalgamation or demerger, then
 - (i) No deduction shall be allowed to the amalgamating or demerged unit for the previous year in which such amalgamation or demerger took place; and
 - (ii) The provisions of this section shall apply to the amalgamated or resulting unit, as if no amalgamation or demerger had taken place.
- (6) **Losses and allowances to be carried forward or set-off:** The losses referred under section 72 (i.e. business loss, other than speculative business losses) or section 74 (i.e. losses under the head 'Capital Gains'), so far as they relate to the business of the undertaking, shall be allowed to be carried forward or set-off. Further, unabsorbed depreciation, unabsorbed capital expenditure on scientific research or family planning shall also be allowed to be carried forward.
However, only those losses or allowance shall be allowed to be carried forward, which relate to assessment year 2006-07 or any subsequent assessment year.
- (7) **Report from a Chartered Accountant:** Deduction under this section shall be allowed only if the assessee furnishes, along with return of income, a report from a chartered accountant certifying that the deduction has been correctly claimed.
- (8) **No deduction under Section 35AD admissible:** Where a deduction under this section is claimed and allowed in respect of profits of any of the specified business, referred to in Section 35AD, for any assessment year, no deduction shall be allowed under the provisions of Section 35AD in relation to such specified business for the same or any other assessment year.
- (9) **Other provisions:**
 - (i) Written down value of assets after tax holiday period will be computed presuming that depreciation has been allowed on them during the tax holiday period.
 - (ii) No deduction will be allowed under Section 80-IA or 80-IB in respect of that undertaking which has claimed exemption under this section.
 - (iii) The provisions given under Section 80-IA (8) (Relating to inter-unit transfer) and 80-IA (10) (relating to showing excess profits) will apply to the undertaking.

Illustration 3 - Deduction u/s 10AA in respect of undertaking located in SEZ: Mrs. Vibha Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2020, pertaining to these two units (**Rs. in lakhs**):

DTA Unit SEZ Unit Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available under section 10AA:

- When the SEZ unit had been set up on 12-3-2013, and
- When the SEZ unit had been set up on 12-8-2018.

Solution: As per Section 10AA, in computing the total income of Mrs. Vibha Gupta from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 1-4-2005 but before 1-4-2020, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first 5 year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of profit for next 5 years and 50% of such profits for further 5 years subject to fulfillment of other conditions specified in Section 10AA.

- If Unit in SEZ were set up and began manufacturing from 12-03-2013 :** Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in Section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= \text{Rs. 220 lakhs} \times \frac{\text{Rs. 1000 lakhs}}{11100 \text{ lakhs}} \times 50\% = \text{Rs. 100 lakhs}
 \end{aligned}$$

- If Unit in SEZ were set up and began manufacturing from 12-08-2018:** Since it is the 3rd year of operation of the eligible unit, it shall be eligible for deduction of 100% of the profit of such unit assuming all the other conditions specified in Section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= \text{Rs. 220 lakhs} \times \frac{\text{Rs. 1000 lakhs}}{11100 \text{ lakhs}} \times 100\% = \text{Rs. 200 lakhs}
 \end{aligned}$$

Illustration 4 - Deduction u/s 10AA in respect of undertaking located in SEZ: Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the financial year 2015-16. In the previous year 2020-21, total turnover of the unit A is Rs. 180 lacs and total turnover of Unit B is Rs. 120 lacs. Export turnover of Unit A for the year is Rs. 150 lacs and the profit for the unit A is Rs. 60 lacs.

Calculate the deduction available, if any, to Mr. Suresh under Section 10AA of the Income-tax Act, 1961, for the Assessment year 2021-22, if the manufacturing started in Unit A in the financial year 2014-15. (4 Marks, May 2016)

Solution: As per section 10AA, in computing the total income of Mr. Suresh from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 01-04-2005 but before 1-4-2020, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first 5 year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further 5 years subject to fulfillment of other conditions specified in section 10AA. The relevant particulars are as under:

Particulars	Unit A In SEZ (Rs. in lakhs)
Total turnover	180
Export turnover	150
Net Profit	60

If Unit in SEZ was set up and began manufacturing in FY 2015-16: Since it is the 6th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= \text{Rs. 60 lakhs} \times \frac{\text{Rs. 150 lakhs}}{180 \text{ lakhs}} \times 50\% = \text{Rs. 25 lakhs}$$

Hence, amount of deduction under section 10AA = Rs. 25,00,000.

Illustration 5 - Deduction u/s 10AA in respect of undertaking located in SEZ: Hans Ltd. provides you the following information for the previous year. Compute the deduction available to it u/s 10AA of the Income-tax Act, 1961.

	Rs.
Total sales of the undertaking in SEZ	60,00,000
Export Sales	50,00,000
Domestic sales	10,00,000
Money brought to India in convertible foreign exchange upto 30-9-2020	46,00,000
Profit from the above undertaking	6,00,000

Solution : As per Section 10AA : Amount of deduction = (Export turnover being money brought in India in convertible foreign exchange within 6 months from the end of the previous year + Total sales) $\times$ Profit of the undertaking. Hence, deduction available to Hans Ltd. under section 10AA = (Rs. 46,00,000 + Rs. 60,00,000) $\times$ Rs. 6,00,000 = Rs. 4,60,000.

Illustration 6 - Deduction u/s 10AA in respect of undertaking located in SEZ: Naresh Ltd., a unit in SEZ, provides you the following particulars relating to its first year of operation
(amounts in Rs. lakhs)-

Total receipts from providing services	64
Receipts from export of services	50
Profits of business	7

Out of the total exports, Rs. 5 lakhs could not be realized on account of death of the Foreign Service recipient.

The plant and machinery used in the business had been depreciated @ 20% on SLM basis and depreciation of Rs. 4 lakhs was charged in the P & L A/c. Compute the taxable income of the company.

Solution: Computation of taxable income of Naresh Ltd. (amount in Rs.):

Net Profit as per P&L A/c	7,00,000
Add: Depreciation charged in books	4,00,000
	11,00,000
Less: Depreciation as per IT Rules (15% of Rs. 20 lakhs) [WN-1]	3,00,000
Profits and Gains of Business	8,00,000
Less: Deduction u/s 10AA [WN-2]	5,62,500
Taxable Income	2,37,500

Working Notes:

- (1) Cost of machinery = Rs. 4 lakhs + 20% = Rs. 20 lakhs.
- (2) Deduction allowable u/s 10AA = 100% of [(Profits of Business Total turnover) $\times$ Export Turnover realised (net of bad debts)] = (Rs. 8,00,000 $\div$ Rs. 64,00,000) $\times$ Rs. 45,00,000 = Rs. 5,62,500.

Illustration 7 - Deduction u/s 10AA in respect of undertaking located in SEZ: Nathan Aviation Ltd. is running two industrial undertakings, one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31-3-2020 are as under:

Particulars	Rs. in Lakhs	
	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less: Expenses and depreciation	7	6
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit N is Rs. 2 lakhs. Briefly compute the business income of the assessee.

(IPCC May 2011, 5 Marks) (Similar IPCC Nov. 2013, 4 Marks)

Solution: Unit S located in Special Economic Zone is eligible for deduction under section 10AA of Act and such deduction is to be computed undertaking-wise. 100% of the profit derived therefrom will be eligible as

deduction assuming that the previous year falls within the first 5 years commencing from the year of manufacture or production of articles or things or provisions of services by the Unit in the SEZ.

Computation of the business income:

Profits of Unit S :	(Rs. in lakhs)
Profits derived	13
Less: Deduction u/s 10AA [WN]	12
Taxable Profits of Unit S	1
Profits of Unit N	4
Set-off of brought forward business loss pertaining to Unit N	-2
Income under the head 'Profits and Gains of Business or Profession'	3

Working Note: Deduction eligible u/s 10AA = 100% of Profits $\times$ Export turnover of the Undertaking + Total Turnover of the Undertaking = 100% of $[13 \times 120 + 130] = \text{Rs. } 12 \text{ lakhs}$.

Illustration 8 - Deduction u/s 10AA in respect of undertaking located in SEZ: Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA), the company provides the following details for the previous year 2020-21.

Particulars	Rudra Ltd. (Rs.)	Unit In DTA (Rs.)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the assessment year 2021-22, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2013.
- If both the units were set up and start manufacturing from 14-05-2017. (8 Marks, May 2015)

Solution: As per Section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 1-4-2005 but before 1-4-2020, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first 5 year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further 5 years subject to fulfillment of other conditions specified in Section 10AA. The relevant particulars are as under (amount in Rs.):

Particulars	Rudra Ltd.	Unit in DTA	Unit in SEZ
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

- If Unit in SEZ were set up and began manufacturing from 22-05-2013 : Since it is the 7th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in Section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= \text{Rs. 60 lakhs} \times \frac{\text{Rs. 300 lakhs}}{400 \text{ lakhs}} \times 50\% = \text{Rs. 22.50 lakhs}$$

(ii) *If Unit in SEZ were set up and began manufacturing from 14-05-2017: Since it is the 3rd year of operation of the eligible unit, it shall be eligible for deduction of 100% of the profit of such unit assuming all the other conditions specified in Section 10AA are fulfilled.*

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= \text{Rs. 60 lakhs} \times \frac{\text{Rs. 300 lakhs}}{400 \text{ lakhs}} \times 100\% = \text{Rs. 45 lakhs}$$

Illustration 9 - Deduction u/s 10AA in respect of undertaking located in SEZ: Y Co. Ltd. furnishes you the following information for the year ended 31-3-2021:

	Rs. in lakhs
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20
Compute deduction under section 10AA. (4 Marks, PCC May 2011)	

Solution: Unit A located in Special Economic Zone is eligible for deduction under section 10AA of Act and such deduction is to be computed undertaking-wise. 100% of the profit derived there from will be eligible as deduction assuming that the previous year falls within the first 5 years commencing from the year of manufacture or production of articles or things or provisions of services by the Unit in the SEZ.

Computation of the business income (Rs. in lakhs)

Profits of Unit A :	30
Profits earned	15
Less: Deduction u/s 10AA [WN]	15
Taxable Profits of Unit A	20
Profits of Unit B located in Domestic Tariff Area (i.e. non - SEZ area)	35

Income under the head 'Profits and Gains of Business or Profession'

Working Note: Deduction eligible u/s 10AA = 100% of Profits $\times$ Export turnover of the Undertaking / Total Turnover of the Undertaking = 100% of $[30 \times 50 / 100] = \text{Rs. 15 lakhs}$.

12

ASSESSMENT OF INDIVIDUALS*CII for the Financial Year 2019-20***301****1. What are the steps for computation of total income?**

Ans: Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961.

- (1) Determine Residential Status of the individual assessee as per section 6 and determine scope of his total income as per section 5.
- (2) Compute Income under each head as per sections 15 to 59. [Incomes exempt under section 10 do not form part of total income.]
- (3) Clubbing provisions u/s 60 to 65 and undisclosed incomes u/s 68 to 69D are to be taken into account.
- (4) Allow set off and carry forward of losses as given under sections 70 to 80 and the resultant income shall be the Gross Total Income.
- (5) From Gross Total Income computed in Step 4 above, allow the deductions under Chapter VI-A.
- (6) After allowing the deductions in Step 5 above, the resultant figure shall be Total Income. Compute income tax on such total income. There are specific rates of tax in case of long-term capital gains u/s 112 or Section 112A, short-term capital gains in case of securities under section 111A, winnings from lottery etc. u/s 115BB etc.
- (7) Allow rebate under section 87A from the amount of income tax calculated in step 6 above.
- (8) Add Surcharge as applicable if Total income exceeds Rs. 50 lakh and give marginal relief if available. Tax plus surcharge (after marginal relief) is to be increased by Health and Education cess @ 4%.
- (9) Allow rebate under section 86 read with section 110 in case such individual is a member of an Association of Persons, if applicable, and also allow relief under section 89. The balance shall be the tax liability of such individual for that assessment year.
- (10) From such tax liability deduct TDS, TCS, advance tax and self-assessment tax paid by him. The balance shall be the tax payable by such individual.

2. Explain the special provisions relating to tax on income of individuals and Hindu Undivided Family as provided in Section 115BAC of the Income-tax Act, 1961.

Ans: Tax on income of individuals and Hindu undivided family [Section 115BAC] [Inserted by Finance Act, 2020 w.e.f. 01-04-2021]: The relevant provisions are discussed as under —

- (1) **Applicability:** Individual/HUF
- (2) **Rate of tax:** The Total Income shall be chargeable to tax as under:

Total Income	Rate
Upto Rs. 2,50,000	Nil
Next Rs. 2,50,000	5%
Next Rs. 2,50,000	10%
Next Rs. 2,50,000	15%
Next Rs. 2,50,000	20%
Next Rs. 2,50,000	25%
Balance Income	30%

(3) Rate of Surcharge applicable to Individuals/HUF for assessment year 2021-22:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including income u/s 111A and 112A) exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore	10%
(ii)	Where total income (including income u/s 111A and 112A) exceeds Rs. 1 crore but does not exceed Rs. 2 crore	15%
(iii)	Where total income (excluding income u/s 111A and 112A) exceeds Rs. 2 crore but does not exceed Rs. 5 crore	25%
	The rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 111A and 112A	Not exceeding 15%
(iv)	Where total income (excluding income u/s 111A and 112A) exceeds Rs. 5 crore	37%
	Rate of surcharge on the income-tax payable on the portion of income chargeable u/s 111A and 112A.	Not exceeding 15%
(V)	Where total income (including income u/s 111A & 112A) exceeds Rs. 2 crore in cases not covered under (iii) and (iv) above	15%

(4) Applicability of concessional rate of tax on total income of individual/HUF: The rate of tax is notwithstanding anything contained in the Income-tax Act, 1961, but subject to the provisions of Chapter XII.

Note: This implies that this rate would prevail in respect of all income, other than income subject to special rates of tax under Chapter XII, for which the special rates would continue to apply. For example, long-term capital gains chargeable to tax u/s 112 and 112A and short-term capital gains chargeable to tax u/s 111A would be subject to tax at the rates mentioned in the said sections.

(5) Non applicability of AMT: The provisions of Section 115JC i.e. Alternate Minimum Tax shall not apply to a person who has exercised the option under this section.**(6) Conditions to be fulfilled for availing the concessional rate of tax:** The total income of the Individual or Hindu undivided family shall be computed,-**(i) Without providing for deduction under any of the following provisions -**

	Section	Provision
	10(5)	Exemption in respect of Leave travel concession
	10 (13 A)	House Rent Allowance
	10(14)	Exemption in respect of other allowances (other than those as may be prescribed for this purpose i.e. Travelling allowance, daily allowance, Conveyance allowance and Transport allowance to blind or deaf and dumb or orthopedically handicapped employee.)
	10(17)	Exemption in respect of payments to MPs & MLAs
	10(32)	Exemption in respect of Clubbed income of minor
	10AA	Exemption in respect of under-takings located in SEZ
	16	Deductions from salaries - Standard Deduction, Entertainment allowance and Employment Tax

	24(b)	<i>Deduction in respect of Interest on borrowed capital</i>
	32(1) (ia)	<i>Additional depreciation @ 20% of actual cost of new plant and machinery acquired and installed by manufacturing and power sector undertakings.</i>
	32AD	<i>Deduction @ 15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal. (Same is not admissible from AY 2021-22 onwards)</i>
	33AB	<i>Deduction @ 40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with NABARD in accordance with scheme approved by the Tea/ Coffee/ Rubber Board.</i>
	33ABA	<i>Deduction @ 20% of the profits of a business of prospecting for, or extraction or production of, petroleum or natural gas or both in India, to the extent deposited with SBI in an approved scheme or deposited in Site Restoration Account.</i>
	35(1)(ii)/(ia)/(iii)	<i>Deduction for payment to any research association, company, university etc. for undertaking scientific research or social science or statistical research.</i>
	35(2AA)	<i>Deduction of payment to a National Laboratory or University or IIT or approved specified person for scientific research.</i>
	35AD	<i>Investment-linked tax deduction for specified businesses.</i>
	35CCC	<i>Deduction of expenditure incurred on notified agricultural extension project.</i>
	57(ia)	<i>Deduction in respect of family pension.</i>
	80-C to 80U	<i>Deductions from gross total income under Chapter VI-A other than the provisions of Section 80CCD(2) or section 80JJAA.</i>
(ii)	<i>Without set off of any loss, —</i> (a) <i>carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in clause (i);</i> (b) <i>under the head "Income from house property" with any other head of income;</i> <i>[Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss shall be allowed for any subsequent year]</i> <i>Where there is a depreciation allowance in respect of a block of assets which has not been given full effect to prior to the assessment year beginning on 01-04-2021, corresponding adjustment shall be made to the written down value of such block of assets as on 01-04-2020 in the prescribed manner, if such option is exercised for a previous year relevant to the assessment year beginning on 01-04-2021.</i>	
(iii)	<i>By claiming depreciation u/s 32 determined in the prescribed manner. However, additional depreciation u/s 32(1) (ia) cannot be claimed.</i>	
(iv)	<i>without any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being in force (Exemption in respect of free food and non-alcoholic beverage provided by such employer through paid voucher where value does not exceed Rs. 50 per meal will not be available.)</i>	

Non-compliance of conditions - consequences thereof: *Where the person fails to satisfy the above conditions in any previous year, the option shall become invalid in respect of the assessment year relevant to that previous year and other provisions of this Act shall apply, as if the option had not been exercised for the assessment year relevant to that previous year.*

Besides this on violation of the above conditions, the option shall become invalid for subsequent assessment years also and other provisions of this Act shall apply for those years accordingly.

- (7) **Deduction u/s SOLA admissible:** In case of a person, having a Unit in the International Financial Services Centre, as referred to in section 80LA(1A), which has exercised such option, the conditions shall be modified to the extent that the deduction under section SOLA shall be available to such Unit subject to fulfilment of the conditions contained in the said section.
- (8) **Exercise of option within the prescribed time:** Nothing contained in this section shall apply unless option is exercised in the prescribed manner by the person,—
- having income from business or profession, on or before the due date specified under section 139(1) for furnishing the returns of income for any previous year relevant to the assessment year commencing on or after 01-04-2021, and such option once exercised shall apply to subsequent assessment years;
 - having income other than the income referred to in clause (i), alongwith the return of income to be furnished under section 139(1) for a previous year relevant to the assessment year.

However, the option under clause (i), once exercised for any previous year can be withdrawn only once for a previous year other than the year in which it was exercised and thereafter, the person shall never be eligible to exercise option under this section, except where such person ceases to have any income from business or profession in which case, option under clause (ii) shall be available.

Illustration 1 - Computation of total income and tax liability: Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31st 2021 is as under:

Expenditure	(Rs.)	Income	(Rs.)
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified u/s 35	25,000		
To net profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

- (i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under :

Basic Pay	Rs. 13,000 p.m.
Transport Allowance	Rs. 2,000 p.m.
Total	Rs. 15,000 p.m.

Further, during P.Y. 2020-21, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of Rs. 60,000 for a similar treatment to unrelated patients.

- (ii) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01-10-2020. The reconstruction of the house was started on 01-04-2020 and was completed on 30-09-2020. The monthly rent is 110,000. The tenant also pays Rs. 3,000 p.m. as power back-up charges. She took a housing loan of Rs. 12 lakhs on 01-04-2020. Interest on housing loan for the period 01-04-2020 to 30-09-2020 was Rs. 60,000 and for the period 01-10-2020 to 31-03-2021 was Rs. 40,000. During the year, she also paid municipal taxes for the F.Y. 2019-20 Rs. 5,000 and for F.Y. 2020-21 Rs. 5,000.

(iii) Other information:

- (a) Conveyance expenses include a sum of Rs. 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice-versa in relation to her employment.
- (b) Power & fuel expenses include a sum of Rs. 6,000 incurred for generator fuel for providing power back-up to the tenant.
- (c) Administrative expenses include a sum of Rs. 10,000 paid as Municipal Taxes for her house.
- (d) Clinic equipments' details are :
Opening W.D.V. Of clinic equipments as on 01-04-2020 was Rs. 1,00,000 and fresh purchase made on 28-08-2020 is Rs. 25,000 which was paid in cash.
- (e) She also paid tuition fee of Rs. 40,000 for her grand-daughter, which has been debited to her Capital A/c.
- (f) She availed a loan of Rs. 8,00,000 from bank for higher education of her son. She repaid principal of Rs. 50,000 and interest of Rs. 26,000 during P.Y. 2020-21.
- You are required to compute her total income and tax liability for Assessment Year 2021-22 (14 Marks, Nov. 2019-NS)

Solution: Computation of total income and tax liability of Mrs. Mitul (amount in Rs.):

Income from salaries:

Basic pay (Rs. 13,000 x 12)		1,56,000	
Transport allowance (Rs. 2,000 x 12) [Fully taxable]		24,000	
Medical facility [Exempt from tax since provided in employers hospital]		Exempt	
Gross Salary		1,80,000	
Less: Standard Deduction u/s 16(ia)		50,000	1,30,000
Income from House Property:			
Self occupied portion [Ground Floor]			
Annual value	Nil		
Less: Interest on borrowed capital [Rs. 1,00,000 ÷ 2] = Rs. 50,000 [Deduction shall be allowed subject to maximum of Rs.30,000]	30,000	-30,000	
Let out property [First Floor]			
Actual rent being Gross Annual Value [Rs. 10,000 x 6]	60,000		
Less: Municipal taxes paid [Taxes paid during FY 2020-21 shall	5,000		

be allowed as deduction on actual payment basis relating to let out portion] [Rs.10,000 ÷ 2]			
Net Annual Value	55,000		
Less: Deductions under section 24 -			
(a) Statutory Deduction @ 30% of NAV	16,500		
(b) Interest on loans relating to let out portion to be allowed on due basis [Rs. 1,00,000 ÷ 2]	50,000	-11,500	-41,500
Profits and gains from business or profession:			
Net Profit as per Income and Expenditure account		8,59,000	
Add: Items debited to Income & Expenditure a/c to be disallowed/considered separately-			
Conveyance expenses incurred in relation to employment		12,000	
Power & Fuel expenses for providing power back up to tenant		6,000	
Interest on housing loan		1,00,000	
Interest on education loan on son (being personal in nature)		26,000	
Municipal tax of house property		10,000	
		10,13,000	
Less: Items credited to Income & Expenditure a/c to be disallowed/considered separately-			
Salary received from True Care Hospital (P) Ltd.		1,80,000	
Rental Income from House property		78,000	
Dividend from shares of foreign company		10,000	
Depreciation on clinic equipments u/ s 32 [15% of Rs. 1 lakh] [WN-1]		15,000	7,30,000
Income from other sources :			
Dividend from shares of foreign companies		10,000	
Power Back up charges recovered from tenant [Rs. 3,000 x 6] [WN-2]	18,000		
Less: Expenses	6,000	12,000	22,000
Gross Total Income			8,40,500
Less: Deduction u/s 80E (Interest on loan for higher education of his son)			26,000
Less: Tuition fee of her grand-daughter [Not eligible for deduction u/s 80C]			Nil
Total Income (rounded off)			8,14,500
Income taxable at normal rates [Since senior citizen]			72,900
Add: HEC @4%			2,916
Total tax liability (rounded off)			75,820

Working Notes:

- (1) Where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account

payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds Rs. 10,000, such expenditure shall not form part of actual cost of such asset. Hence, Cash purchase of Rs. 25,000 on 28-08-2020 shall not form part of the actual cost, since cash payment exceeds Rs. 10,000.

- (2) Where composite rent includes rent of building and charges for different services (power etc.), the composite rent is has to be split up in the following manner-
 - (a) the sum attributable to use of property is to be assessed under section 22 as income from house property;
 - (b) the sum attributable to use of services is to be charged to tax under the head "Income from other sources", as the case may be. Hence, the power backup charges recovered from tenant is taxable under income from other sources.
- (3) 100% deduction is allowed in respect of payment to approved scientific research association. Since the expenditure is already debited to Profit and loss Account, hence no adjustment is required.

Illustration 2 - Computation of Total Income : Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is Rs. 6,00,000). The annual value of the house in Thailand is Rs. 50,00,000 i.e. converted value in INR,

He purchased a flat in Pune during F.Y. 2016-17, which has been given on monthly rent of Rs. 27,500 since 01-07-2019. The annual property tax of Pune flat is 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2019. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to Rs. 15,00,000. The interest on such loan for the F.Y. 2020-21 was Rs. 84,000. However, interest for March 2021 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2016. In respect of this house he received arrears of rent of Rs. 96,000 in February 2021. (not taxed earlier).

He also derived some other incomes during F.Y. 2020-21 which are as follows :

Profit from business in Thailand Rs. 2,75,000

Interest on bonds of a Japanese Co. Rs. 45,000 out of which 50% was received in India.

Income from Apple Orchard in Nepal given on contract and the yearly contract fee of Rs. 5,00,000, for F.Y. 2020-21 was deposited directly by the contractor in Kathmandu. branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for A.Y. 2021-22 chargeable to income tax in India. (7 Marks, Nov. 2019-NS)

Solution: Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
 - (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.
- If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Since Mr. Jagdish do not satisfy any of the above condition, he is non resident in Financial year 2020-21. In case of non resident, income which is received in India or deemed to be received in India and income which accrues in India or deemed to accrue or arise in India is chargeable to tax.

Computation of total income of Mr. Jagdish (amount in Rs.);

Income from House Property:			
House Property in Bangkok (Let out portion) [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]		Nil	
Let out property in Pune			
Actual rent receivable being gross annual value [Rs. 27,500 x 12]	3,30,000		
Less: Municipal taxes paid during the year	Nil		
Net annual value	3,30,000		
Less: Deduction under Section 24			
Standard deduction [30% of NAV]	99,000		
Interest on borrowed capital [to be allowed as deduction on due basis]	84,000	1,47,000	
Arrears of rent received in Jaipur [Section 25A]	96,000		
Less: Deduction 30%	28,800	67,200	2/14,200
Profits from business in Thailand			Nil
[Since the same accrues and received outside India, hence it will not be taxable in India]			
Income from other sources :			
Interest on bonds of Japanese Company [50% received in India is taxable]		22,500	
Income from Apple Orchid in Nepal [Income is received in India] [Since it is directly credited in Indian branch of Bank, it is received in India, hence taxable]		5,00,000	5,22,500
Total Income			7,36,700

Illustration 3 - Computation of Total income: Mrs. Babu, working as Journalist with ABC Limited provides the following information from the year ended 31-3-2021.

Basic salary	Rs. 25,000 p.m.
DA (50% of it is meant for retirement benefits)	50% Basic Pay
Own contribution to Recognized Provident Fund (R.P.F.)	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. Account @ 15% p.a.	Rs. 15,000
Arrears of rent received from ABC Limited	Rs. 69,000

Received interest Rs. 10,000 from Axis Bank Savings account during the year, and interest of Rs. 12,040 from the debentures of M/s. Coal India Ltd.

She made payment through cheque Rs. 12,500 for Mediclaim Insurance Policy for her major daughter. She had contributed Rs. 1,196 pm towards Atal Pension Yojana and Rs. 5,000 pm towards Sukanya Samridhi account. M/s. ABC Limited has taken residential house of Mrs. Babu as Company's guest house and later purchased from her in the year 2019 at market value for Rs. 75 lakhs. Purchase cost was only Rs. 10 lakhs in April, 2004. During August, 2020 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2004 for Rs. 1,13,000 and market value of these two items were Rs. 2,50,000 and she has received insurance compensation of Rs. 3,15,000 during February, 2021.

Compute Total Income for the Assessment Year 2021-22. [CII for 2004-05 = 113, 2016-17 = 264, and 2020-21 = 301] (10 Marks, May 2018)

Solution: Computation of total income of Mrs. Babu (amounts in Rs.):

Income from salaries:		
Basic salary (Rs. 25,000 x 12)	3,00,000	
Dearness allowance (50% of basic pay)	1,50,000	
Employers contribution to RPF in excess of 12% of Salary [20% of Rs. 3,00,000 - 12% (Rs. 3,00,000 + Rs. 75,000)] [WN-1]	15,000	
Interest credited to RPF in excess of 9.5% p.a. [Rs. 15,000 - Rs. 15,000 x 9.5% ÷ 15%] [WN-2]	5,500	
Gross Salary	4,70,500	
Less: Standard Deduction u/s 16(ia)	50,000	4,20,500
Income from House Property:		
Arrears of rent received under Section 25A [WN-3]	69,000	
Less: Standard deduction @ 30%	20,700	48,300
Long-term capital gains:		
Gold Chain and Diamond Ring		
Insurance compensation received being Full value of consideration [WN-4]	3,15,000	
Less: Indexed cost of acquisition (Rs. 1,13,000 x 301 ÷ 113)	3,01,000	14,000
Income from other sources :		
Debenture Interest (assumed to be gross)	12,040	
Saving bank interest	10,000	22,040
Gross Total Income		5,04,840
Less: Deduction u/s 80C (Own contribution to RPF Rs.30,000 + Sukanya Samridhi A/c f 60,000)	90,000	
Less: Deduction u/s 80CCD - Atal Pension Yojna (Rs. 1,196 x 12)	14,352	1,04,352
Less: Deduction u/s SOD for medical insurance premium paid (Assumed to be dependant on her)		12,500
Less: Deduction u/s 80TTA - Interest on savings bank account. However, deduction cannot exceed Rs. 10,000.		10,000
Total Income (rounded off)		3,77,990

Working Notes:

- (1) Employer's contribution to recognized provident fund is exempt upto 12% of salary. (Salary means Basic Salary + DA, if the terms of employment so provide + % wise fixed commission on turnover).
Taxable amount = 20% of Rs. 3,00,000 - 12% of (Rs. 3,00,000 + Rs. 75,000).

- (2) Interest credited to recognised provident fund is exempt upto 9.5% p.a. Hence, interest @ 5.5% [15% - 9.5%] is taxable.
- (3) Arrears of rent received is chargeable to tax under the head Income from house property after allowing deduction of 30% of such arrears rent as per provisions of Section 25A of the Income tax Act, 1961.
- (4) As per Section 45(1A), if insurance compensation is received on loss of capital asset, the amount so received is treated as full value of consideration for computing Capital Gains.
- (5) Employees contribution to RPF and contribution to Sukanya Samridhi account qualifies for deduction under Section 80C and contribution to Atal pension Yojna qualifies for deduction under Section 80CCD.
- (6) Since the house has been sold in 2019, no capital gain will arise in the financial year 2020-21.

Illustration 4 - Computation of tax liability: Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2021-22:

	(Rs.)
Income from Salaries (computed)	27,88,000
Income from House Property (Computed)	15,80,000
Interest Income from FDR's	7,22,000

He has not claimed any deduction under chapter VIA. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income-tax Act, 1961. (5 Marks, Nov. 2018-NS)

Solution: Computation of tax liability of Mr. Rajat Saini (amount in Rs.)

Total Income	50,90,000
Tax on Total Income	13,39,500
Add: Surcharge @ 10% [Since Total Income exceeds Rs. 50,00,000]	1,33,950
Tax including surcharge	14,73,450
Less: Marginal Relief	70,950
Tax payable after marginal relief	14,02,500
Add: HEC @ 4%	56,100
Total tax payable	14,58,600

Note: Marginal relief is available in case total income exceeds Rs. 50 lakhs. The additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 50 lakhs should not be more than the amount of income exceeding Rs. 50 lakhs.

Illustration 5 - Computation of total income and tax liability: Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2020-21.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening Balances (01-04-2020) Cash & Bank	20,000	Staff salary, bonus and stipend to articled clerks	20,50,000
Fee from professional services	39,60,000		
Motor car loan from SBI	2,00,000	Other general and administrative expenses	12,00,000

@ 10% interest per annum			
		Office rent	48,000
		Life Insurance Premium	23,000
		Motor car (Acquired in January 2021 by way of online payment)	4,00,000
		Books bought (annual publication by credit card).	22,000
		Computer acquired on 01-11-2020 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		Public Provident Fund subscription	1,40,000
		Closing balances (31-03-2021) Cash & Bank	10,000
	41,80,000		41,80,000

Other Information:

- (i) Motor car was put to use for both official and personal purposes. $\frac{1}{4}^{\text{th}}$ of the motor car is for personal purpose. No interest on car loan was paid during the year.
- (ii) Mr. Hari purchased a flat in Jaipur for Rs. 15,00,000 in July 2013 cost of which was partly financed by a loan from State Bank of India of Rs. 10,00,000 @ 10% interest, his own savings Rs. 1,00,000 and a deposit from Bank of Baroda for Rs. 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @ Rs. 40,000 per month. The following particulars are relevant:
- (a) Municipal taxes paid by Mr. Hari Rs. 4,200 per annum
- (b) House insurance Rs. 1,000
- (iii) He earned Rs. 1,00,000 in share speculation business and lost Rs. 1,50,000 in commodity speculation business.
- (iv) Mr. Hari received a gift of Rs. 40,000 each from four of his family friends.
- (v) He contributed Rs. 1,11,000 to Prime Minister's Drought Relief Fund by way of bank draft.
- (vi) He donated to a registered political party Rs. 3,00,000 by way of cheque.
- Compute the total income of Mr. Hari and the tax payable for the Assessment Year 2021-22. (10 Marks, May 2018-NS)

Solution: Computation of total income of Mr. Hari : Since Mr. Hari follows cash system of accounting, only those income and expenses would be considered for computation of professional income, which have actually been received or paid, as the case may be. Accordingly, the computation is as follows, (amount in Rs.) –

Income from House Property :			
Let out portion :			
Actual Rent received/receivable [Rs. 40,000 x 12] (GAV)		4,80,000	
Less: Municipal Taxes paid by the assessee		-4,200	
Net Annual value		4,75,800	
Less: Deduction u/s 24 : (i) Standard Deduction @ 30% of NAV		-1,42,740	
(ii) Interest on borrowed capital [10% of Rs. 10,00,000]		-1,00,000	2,33,060
Profits & Gains of Business or Profession :			
Fee from professional services		39,60,000	
Less: Expenses allowable as deduction - Staff salary, bonus and stipend	-20,50,000		

Other administrative expenses	-12,00,000		
Office rent	-48,000		
Motor Car Maintenance [Rs. 12,000 x 3/4th towards professional use]	-9,000		
Car loan interest [Not allowable, as not paid during the year]	-	-33,07,000	
Less: Depreciation -			
Motor Car [Rs. 4,00,000 x 15% x 50% as used for less than 180 days during the previous year x 3/4th relating to professional use]	-22,500		
Books bought of annual publications [40% of Rs. 22,000]	-8,800		
Computers [50% of 40% of ₹25,000 since put to use for less than 180 days]	-5,000	-36,300	6,16,700
Speculation business Gains (Shares)		1,00,000	
Speculation business loss (Commodity)		1,50,000	
Balance speculation business loss to be carried forward since it cannot be set-off		-50,000	
from general business profits. Income from Other Sources			
Gift received from friends [Rs. 40,000 x 4]			1,60,000
Gross Total Income			10,09,760
Less: Deduction u/s 80C -			
Life Insurance Premium	23,000		
Public Provident Fund [Subject to maximum of Rs. 1,50,000]	1,40,000	-1,50,000	
Deduction u/s 80GGC:			
Donation to registered Political party [100% of Rs. 3,00,000]			
Deduction u/s 80G:		-3,00,000	
Donation to Prime Minister's Drought Relief Fund [50% of Rs. 1,11,000]		-55,500	-5,05,500
Total Income (rounded off)			5,04,260
Tax on Income at normal rates			13,352
Add: HEC @ 4%			534
Tax payable			13,890

Illustration 6-Computation of total income and tax liability : Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains his accounts on cash basis. His Profit & Loss Account for the year ended 31st March, 2021 is as follows:

Profit & Loss Account for the year ending March 31, 2021

Expenditure	Rs.	Income	Rs.
Staff Salary	18,25,000	Fees earned	
Rent of the office premises	6,00,000	Audit	23,00,000
Administrative expenses	5,75,000	Taxation	14,50,000
Stipend to Articled clerks	1,85,000	Consultancy services relating to syndication of loan from financial institution	10,00,000
Meeting, seminars and conferences	36,500		47,50,000
Depreciation	55,000	Gifts	1,00,000

Printing and Stationery	8,75,000	Dividends from Indian companies	12,00,000
Net Profit	19,13,500	Interest on deposit	15,000
	60,65,000		60,65,000

Other information:

- (1) Depreciation allowable under Income-tax Act Rs. 1,25,000.
- (2) Administrative expenses include Rs. 55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments.
- (3) Gifts represent fair market value of a LED TV which was given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal.
- (4) Last month's rent of Rs. 50,000 was paid without deduction of tax at source.
- (5) Mr. Pandey had taken a loan of Rs. 32,00,000 for the purchase of a house property stamp duty value Rs. 46,00,000 from a recognized financial institution on 1st May, 2020. He repaid Rs. 1,50,000 on 31st March, 2021 out of which Rs. 1,00,000 is towards principal payment and the balance is for interest on loan. The possession of the property will be handed over to him in October 2021.
- (6) Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to Rs. 27,000. He also paid Rs. 8,500 by cash towards preventive health checkup for himself and his spouse.

Compute the total income of Mr. Pandey and tax payable by him for Assessment Year 2021-22, assuming that Mr. Pandey does not want to opt for presumptive taxation scheme under section 44ADA. (10 Marks, Nov. 2017)

Solution: Computation of Total income and Tax payable (amounts in Rs.):

Income under the head Profits & Gains of Business and Profession		
Net profit as per Profit and Loss Account	19,13,500	
Add: Expenses debited but not allowable -		
Depreciation debited in Profit and loss Account [WN-1]	55,000	
Payment to tax consultant in cash is disallowed u/s 40A(3), since such cash payment is in excess of Rs. 10,000 in a day	55,000	
Payment of rent of office premises without deducting tax at source [30% of Rs. 50,000] [WN-2]	15,000	
Gifts from client [WN-3]	Nil	
Less: Income credited but not taxable under this head -		
Dividend on shares of Indian Companies not to be taxed under this head	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	15,000	
Depreciation allowable under Income-tax Act [WN-1]	1,25,000	6,98,500
Income from other sources :		
Dividend from shares of Indian company [Fully taxable in hands of shareholder]	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	-	12,00,000
Gross Total Income		18,98,500
Less: Deduction u/s 80 C (Repayment of loan taken for purchase of house) [WN-4]	nil	
Deduction u/s 80D [WN-5]	32,000	32,000

Total Income (rounded off to nearest Rs.10)		18,66,500
Tax on total income		3,72,450
Add: HEC @ 4%		14,898
Tax liability (rounded off to nearest Rs. 10)		3,87,350

Working Notes:

- (1) Depreciation debited to profit and loss account will be added back and allowable depreciation as per Income tax Act, shall be reduced.
- (2) An individual is liable to deduct tax at source on rent payments if his turnover in preceding financial year exceeds the monetary limits specified under Section 44AB. Presuming that turnover Mr. Pandey in preceding financial year exceeded the monetary limits of Section 44AB, he was liable to deduct tax at source. Since he has not deducted tax at source, 30% of rent payments shall be disallowed under Section 40(a)(ia) of the Act.
- (3) Gifts given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal is value of benefit received from clients during the course of profession is taxable under section 28(iv) under the head Profits and gains from business or profession. Since the same has already been credited to profit and loss account, hence no adjustment is required.
- (4) (i) Interest on borrowed capital is allowed as deduction under section 24. Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24. Further, Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the possession of property will be handed over in October, 2021. Hence, deduction under Section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2021-22.

No deduction shall be admissible in respect of interest on loans under Section 80EEA since the stamp duty value of the house property exceeds Rs. 45 lakh.
- (ii) Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2021-22, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2021-22.
- (5) (a) Premium paid to insure the health of his parents being senior citizen is eligible for deduction u/s 80D upto Rs. 30,000, even though they are not dependent.

(b) Expenditure on preventive health check up for himself and spouse is eligible for deduction upto Rs. 5,000 even if payment is made in cash.

Illustration 7 - Computation of Total Income: Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31-3-2021:

	(Rs.)
(i) Pension received (Net of TDS)	6,27,000
(ii) Short-term capital gains (from sale of listed shares)	65,000
(iii) Long-term capital gains (from sale of listed shares)	1,24,000
(iv) Interest on fixed deposit from bank	1,60,000
(v) Pertaining to consultancy services provided by him :	
Gross receipts	12,60,000
Expenses:	
Rent for premises	1,44,000
Salary of P.A.	1,20,000
Stenographer's salary	1,00,000
Business Development expenditure	91,000
Conveyance	3,00,000
(vi) Contribution to PPF	1,10,000
(vii) Premium on life insurance policy taken on 10-1-2021 (sum assured Rs. 5,00,000)	60,000
(viii) Medi-claim Insurance Premium for self (paid otherwise than by cash)	47,000
Preventive health checkup expenses (in cash)	6,000
(ix) Donation given in cash to a charitable trust registered under section 12AA (eligible for deduction u/s 80G) of the Income-tax Act, 1961.	14,000
(x) Interest received from Post Office Saving A/c.	18,000
Additional information :	
➤ TDS from pension	25,000
➤ 1/4 th of conveyance expenses is estimated for personal use.	

Compute the total income of the assessee for the assessment year 2021-22 under proper heads of income. Listed share were sold in recognized stock exchange. Ignore the provisions of Section 44ADA. (Modified, 10 Marks, May 2016)

Solution: Computation of total income of Mr. Vinod Kumar for A.Y. 2021-22

(amounts in Rs.):

Income under the head Salary :		
Pension received (Net of TDS)	6,27,000	6,02,000
Add: TDS from pension	25,000	
Gross salary	6,52,000	
Less: Standard deduction u/s 16(ia)	50,000	5,80,000
Profits and gains of business or profession:		
Gross receipts	12,60,000	
Less: Rent for premises	1,44,000	
Salary of P.A.	1,20,000	
Stenographer's salary	1,00,000	
Business Development expenditure	91,000	
Conveyance [WN-1]	2,25,000	
Capital Gains:		
Short-term capital gains (from sale of listed shares)	65,000	
Long-term capital gains (from sale of listed shares) [WN-2]	24,000	89,000

Income from Other Sources :		
Interest on fixed deposit from bank	1,60,000	
Interest received from Post Office Saving A/c. [Rs. 18,000 - Rs. 3,500] [WN-3]	14,500	1,74,500
Gross Total Income		14,45,500
Less: Deduction u/s 80C - Contribution to PPF	1,10,000	
Premium on life insurance policy taken on 10-1-2021 (sum assured Rs.5,00,000) [WN-4]	50,000	
Amount of deduction under Section 80C cannot exceed Rs. 1,50,000	1,60,000	1,50,000
Deduction u/s 80D:		
Mediclaime Insurance Premium for self (paid otherwise than by cash)	47,000	
Preventive health checkup expenses (in cash) [WN-5]	5,000	
	52,000	50,000
Deduction u/s 80TTB (Interest on fixed deposit from bank) [WN-6]		50,000
Deduction u/s 80G (Donation in cash exceeding Rs.2,000 is not eligible for deduction)		Nil
Total Income (rounded off)		11,95,500

Working Notes:

- (1) Since 1/4th of the conveyance expenses is estimated for personal use, hence, the same shall not be allowed under Section 37(1). Therefore, allowable conveyance expenses is 3/4th of Rs. 3,00,000 = Rs. 2,25,000.
- (2) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto Rs. 1 lakh as per section 112A.
- (3) Interest from post office saving bank account is exempt from tax under section 10(15) upto Rs. 3,500.
- (4) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2013. Thus, 10% of Rs. 5,00,000 = Rs. 50,000 shall be eligible for deduction u/s 80C.
- (5) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to Rs. 50,000. Further, deduction up to Rs. 5,000 in aggregate (within the monetary limits of X 50,000) shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Hence, maximum Rs. 50,000 shall be eligible in the above case.
- (6) In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto Rs. 50,000 under section 80TTB.

Illustration 8 - Computation of total income and tax liability: Mrs. Ann provides the following information for the Financial year ending 31-03-2021. Compute her total income and tax payable thereon for assessment year 2021-22 as per Income-tax Act, 1961. (10 Marks, Nov. 2015)

➤ **Income/Receipts:**

- 1) Salary from M/s. Prominent Technologies, - Rs. 60,000 per month (Joined from 1st March, 2020).
- 2) She is in receipt of HRA. Rs. 15,000 per month and also educational allowance of Rs. 1,500 per month for all the three of her children.
- 3) She bought a light goods vehicle on 01-08-2020 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of Rs. 11,000 per month from this business.
- 4) She received Rs. 8,500 as interest on Post Office Savings Bank Account.
- 5) She received Rs. 25,000 as interest from Company Deposits.
- 6) Amounts withdrawn from National Savings Scheme (Principal Rs. 10,000 & Interest Rs. 25,000)

➤ **Expenses / Payments:**

- (1) Interest payable to bank Rs. 1,000 per month on loan for the purchase of truck.
- (2) Total interest paid to bank for loan borrowed for investing in company deposits is Rs. 5,000.
- (3) Rent paid for residence is Rs. 1.8,000 per month.
- (4) Tuition fees paid for the year 2020-21 for her three children is Rs. 50,000, Rs. 30,000 and Rs. 20,000 respectively, to educational institution situated in India.
- (5) Medical insurance premium for her and for her husband is Rs. 30,000 (paid by cheque) and Rs. 25,000 (paid by cash) respectively.
- (6) She has deposited during the year, in 5 year Post office Recurring Deposit Scheme Rs. 20,000.

Solution: Computation of total income and tax liability of Mrs. Ann (amount in Rs.):

Basic Salary (Rs. 60,000 × 12)		7,20,000
HRA (Rs. 15,000 × 12)	1,80,000	
Less: Exempt u/s 10(13A) [WN-1]	1,44,000	36,000
Education Allowance (Rs. 1,500 × 12)	18,000	
Less: Exempt u/s 10(14) (Rs. 100 × 12 × 2)	2,400	15,600
Gross Salary		7,71,600
Less: Standard Deduction u/s 16(ia)		50,000
Income from Salary		7,21,600
Profits and gains from business or profession :		
Income from the business of letting on hire of light goods vehicle [WN-2]		88,000
Income from Other Sources :		
Interest on Post office Saving bank account	8,500	
Less: Exemption under Section 10(15)(i)	3,500	
Balance Interest	5,000	
Interest from National Savings scheme	25,000	
Interest on Company deposit	25,000	
	55,000	
Less: Deduction u/s 57 (Interest paid for making investment in company deposit)	5,000	50,000
Gross Total Income		8,59,600
Less: Deductions under Chapter VI-A		
Deduction u/s 80C [WN-3]	80,000	
Deduction u/s 80D [WN-3]	25,000	
Deduction under Section 80TTA [Interest on Post office saving bank account subject to	5,000	1,10,000

maximum of Rs. 10,000]		
Total Income		7,49,600
Tax on total income		62,420
Add: Health and Education cess @ 4%		2,497
Tax payable (Round off)		64,920

Working Notes:

- (1) HRA is exempt to the extent of the least of the following under section 10(13A) -
- (a) 50% of salary (assumed to be in Mumbai) i.e. 50% of Rs. 7,20,000 = Rs. 3,60,000;
- (b) Excess of rent paid over 10% of salary = Rs. 2,16,000 - Rs. 72,000 = Rs. 1,44,000;
- (c) Actual HRA received = Rs. 15,000 $\times$ 12 = Rs. 1,80,000.
- Least of the above i.e. Rs. 1,44,000 is exempt under section 10(13A).
- (2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each light goods vehicle will be deemed to be Rs. 7,500 for every month or part of the month during which the vehicle is owned by the assessee during the previous year. If, however, the assessee declares a higher amount, such amount will be considered as income. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed from such declared income. [Section 44AE] Actual income = Rs. 11,000 $\times$ 8 = Rs. 88,000.
- (3) Deductions u/s 80C and Section 80D:
 Tuition fees paid for two of his children (most favourable to Mrs. Ann) [5 year Post office recurring deposit do not qualify for deduction u/s 80C].
 Medical Insurance Premium for self paid in cheque qualifies for deduction subject to maximum of Rs. 25,000. [Health insurance premium paid for her husband in cash do not qualify for deduction u/s 80D]

Illustration 9 - Computation of total income and tax liability: Dr. Shashank is a noted child specialist of Mumbai. His Income and Expenditure account for the financial year ended 31-03-2021 is given below:

Expenditure	Rs.	Income	Rs.
To Staff salary	32,78,000	By Fee receipts	56,76,000
To Administrative expenses	11,64,000	By Winning at TV game show (Net of TDS)	35,000
To Medicine consumed	3,95,800	By LIC policy matured	1,15,000
To Consumables	57,500	By Honorarium for giving lectures at seminars	24,000
To Depreciation	1,25,000		
To Rent of clinic	1,20,000		
To Donation to National Children's Fund	51,000		
To Net Profit	6,58,700		
Total	58,50,000	Total	58,50,000

- (1) Depreciation computed as per Income Tax Rules, 1962 has been ascertained at Rs. 75,000.
- (2) Medicines consumed include cost of medicine for self and family of Rs. 18,000 and for treating poor patients of Rs. 24,000 from whom he did not charged any fee either.

- (3) Salary includes Rs. 30,000 paid in cash to a computer specialist who computerized his patient's data on 30th September, 2020 at 3 p.m.
- (4) Donation to National Children's Fund has been made by way of an account payee cheque.
- (5) He has paid a sum of Rs. 25,000 for a Life Insurance Policy (Sum assured Rs. 2,00,000) of himself, which was taken on 01-07-2013.
- (6) He also contributed Rs. 1,20,000 towards public Provident Fund.
- (7) Dr. Shashank also paid interest of Rs. 10,000 on loan taken for higher education of his daughter.
- (8) Dr. Shashank made investments in equity shares listed in a recognized stock exchange of 130,000 and units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme of Rs. 40,000.
- (9) Dr. Shashank also made donation of Rs. 1,00,000 to a charitable trust registered & eligible for deduction under Income-tax Act, 1961.
- You are required to compute the total income and tax payable by Dr. Shashank for the Assessment Year 2021-22.

Solution: Computation of Total Income and Tax Liability (amount in Rs.):

Profits and Gains of Business or Profession :		
Net Profits as per Income and Expenditure A/c	6,58,700	
Less:		
LIC policy matured	1,15,000	
Winnings from lottery (net of TDS)	35,000	
Honorarium for giving lectures at seminars	24,000	
Allowable depreciation as per Income tax rules	75,000	
	4,09,700	
Add: Expenditure debited but not allowable -		
Donation to National Children Fund	51,000	
Depreciation	1,25,000	
Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment is in excess of Rs. 10,000 in a day	30,000	
Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession.	-	
Cost of medicines for self and family use [WN-1]	18,000	6,33,700
Income from other sources:		
Honorarium for giving lectures at seminars	24,000	
Gross Winnings from lottery [WN-2]	50,000	74,000
Gross Total Income		7,07,700
Less: Deductions under Chapter VI-A		
Deduction u/s 80C:		
LIC premium of Rs. 25,000 for self (Sum Assured Rs. 2,00,000)] shall be allowed subject to 10% of capital sum assured since the policy is issued after 01-04-2013.	20,000	
Contribution towards Public Provident Fund.	1,20,000	
Deduction u/s 80CCG : Not eligible	Nil	
Deduction u/s 80E: Interest on loan taken for higher education of his daughter.	10,000	
Deduction u/s 80G : Donation to certain funds [WN-4]	76,385	2,26,385
Total Income (rounded off)		4,81,310
Tax on Lottery Winnings [Rs. 50,000 x 30%]	15,000	
Tax on Balance Income [Rs. 4,81,310 - Rs. 50,000 - Rs. 2,50,000]	9,066	

Total tax		24,066
Less: Tax rebate u/s 87A [100% of tax subject to maximum of Rs. 12,500]		12,500
Balance tax		11,566
Add: Health and Education cess @ 4%		463
Total Income-tax		12,028
Less: TDS on lottery winnings		15,000
Tax refundable (rounded off)		-2,970

Working Notes:

- (1) Cost of medicines consumed for self and family will not be allowed as deduction under section 37(1) of the Income-tax Act, 1961, being personal expenditure. Cost of medicines for treating poor patients is in nature of charity, hence not deductible.
- (2) Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". Hence, taxable amount is Rs. $(35,000 \times 100 \div 70) = \text{Rs. } 50,000$.
- (3) Rs. 1,15,000 received on maturity of LIC Policy is exempt from tax under section 10(10D).
- (4) Deduction under Section 80G (amount in Rs.5):

Donation to National Children Fund (Eligible for 100% deduction)		51,000
Contribution to Charitable trust recognized for section 80G purposes	1,00,000	
Deduction restricted to 50% of 10% of ATI i.e. $50\% \times (10\% \times \text{Rs. } 5,07,700)$		25,385
Total deduction under Chapter VI-A		76,385

Adjusted total income (for the purpose of computation of deduction under section 80G):

	Rs.
Gross total income	7,07,700
Less: Gross Winnings from lottery	50,000
Deduction u/s 80C	1,40,000
Deduction u/s 80CCG	Nil
Deduction u/s 80E	10,000
Adjusted total income (ATI)	5,07,700

Illustration 10 - Computation of total income and tax liability: Mr. Devansh an Indian Resident aged 38 years carries on his own business. He has prepared following Profit & Loss A/c for the year ending 31-03-2021:

Particulars	Rs.	Particulars	Rs.
Salary	48,000	Gross Profit	4,30,400
Advertisement	24,000	Cash Gift (on the occasion of Marriage)	1,20,000
Sundry Expenses	54,500	Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	7,200
Fire Insurance 10,000 relates to House Property)	30,000		
Income Tax and Wealth Tax	27,000		
Household expenses	42,500		
Depreciation (Allowable)	23,800		

Contribution to an University approved and notified u/s 35(l)(ii)	1,00,000		
Municipal taxes paid for House property	36,000		
Printing & Stationary	12,000		
Repairs & Maintenance	24,000		
Net Profit	1,35,800		
	5,57,600		5,57,600

Other information:

(i) Mr. Devansh owns a House Property which is being used by him for the following purposes :

- 25% of the property for own business
- 25% of the property for self-residence
- 50% let out for Residential purpose

(ii) Rent received from 50% let out portion during the year was Rs. 1,65,000.

(iii) On 01-12-2020 he acquired a vacant site from his friend for Rs. 1,05,000. The State Stamp Valuation Authority fixed the value of the site at Rs. 2,80,000 for stamp duty purpose.

(iv) He received interest on Post Office Savings bank Account amounting to Rs. 500.

(v) Cash gift on the occasion of marriage includes gift of Rs. 20,000 from Non-relatives.

(vi) LIC premium paid (Policy value Rs. 3,00,000 taken on 01-06-2014) Rs. 60,000 for his handicapped son. (Section 80U disability)

(vii) He purchased 10,000 shares of X Company Ltd. on 01-01-2013 for Rs. 1,00,000 and received a 1 :1 bonus on 1-1-2015. He sold 5,000 bonus shares in September 2020 for Rs.2,20,000. Shares are not listed and STT not paid).

Compute Total Income and Net Tax payable by Mr. Devansh for the Assessment Year 2021-22. (10 Marks, Nov. 2014)

Solution: Computation of total income and tax payable (amounts in Rs.):

Income from house property :			
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	1,65,000		
Less: Municipal taxes paid	18,000		
Net Annual Value (NAV)	1,47,000		
Less: Standard deduction u/s 24 @ 30% of NAV	44,100		1,02,9000
Income under the head Profits & Gains of Business and Profession			
Net profit as per Profit and Loss Account	1,35,800		
Add: Expenses debited but not allowable -			
Municipal Taxes of house property not relatable to Business [75% of Rs. 36,000] [WN-1]	27,000		
Fire Insurance of house property not relatable to Business [75% of Rs. 10,000] [WN-1]	7,500		
House hold expenses [WN-3]	42,500		
Income tax and wealth tax [WN-2]	27,000		
Less: Income credited but not taxable under this head –	2,39,800		
Cash Gift (on the occasion of Marriage)	1,20,000		

Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	7,200	
Capital Gains (Long Term)	1,27,200	1,12,600
Sale of Bonus Shares	2,20,000	
Less: Cost of Acquisition	Nil	2,20,000
Income from other sources:		
Cash gift on occasion of marriage is not taxable	-	
Interest on Post Office Savings bank Account [In case of individual account, a sum upto Rs.3,500 is exempt u/s 10(15)]	-	
Interest on debentures [Gross amount will be taxable i.e. Rs. 7,200 $\times$ 100 $\div$ 90]	8,000	
Purchase of immovable property for inadequate consideration [WN-4]	1,75,000	1,83,000
Gross Total Income		6,18,500
Less: Deduction u/s 80C (LIC Premium - Actual amt. or 15% of capital sum assured, whichever is less)		45,000
Total Income (rounded off to nearest Rs. 10)		5,73,500
Tax on total income :		
Tax on long term capital gains: 20% of Rs. 2,20,000	44,000	
Tax on balance income	5,175	
	49,175	
Less: Tax rebate u/s 87A [Not available since total income exceeds Rs. 5,00,000]	Nil	
Balance Tax	49,175	
Add: Health and Education cess @ 4%	1,967	
Tax liability (rounded off to nearest Rs.10)		51,140
Less: TDS on interest on debentures		800
Tax payable		50,340

Working Notes:

- (1) Since 25% of the house property is used by Mr. Devansh for his own residence and 50% of the property is let out for residential purposes, therefore expenditure relatable for the said portion shall not be allowed while computing business income. Thus following expenses shall be disallowed -
 - (a) 75% of Municipal taxes paid for the property i.e. 75% of Rs. 36,000 = Rs. 27,000
 - (b) 75% of Fire Insurance of House Property i.e. 75% of Rs. 10,000 = Rs. 7,500
- (2) Income tax and Wealth tax are disallowed under Section 40(a).
- (3) House hold expenses are specifically disallowed under Section 37(1).
- (4) Since Mr. Devansh purchased immovable property for inadequate consideration, the difference between the stamp duty value of Rs. 2,80,000 and the actual consideration of Rs. 1,05,000 paid is taxable u/s 56(2)(x) as Income from other sources, since the difference exceeds Rs. 50,000 being, the higher of 150,000 and 10% of consideration i.e. Rs. 10,500.
- (5) Contribution to an University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since the expenditure is already debited to Profit and loss account, no adjustment shall be required.

Illustration 11 - Computation of total income and tax liability: Ms. Purvi is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2021 reads as follows:

Expenditure	Rs.	Income	Rs.	Rs.
Salary to staff	15,50,000	Fees earned:		
Stipend to articled assistants	1,37,000	Audit	27,88,000	
Incentive to articled assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of Indian companies (Gross)		10,524
Meeting, seminar and conference	31,600	Income from unit Trust of India		7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,1,7,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is Rs. 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include Rs. 2,000 for the period from 01-10-2020 to 30-09-2021.
- (v) Salary include Rs. 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The total travelling expenses incurred on foreign tour was Rs. 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to Rs. 5,000 and Rs. 10,000 respectively paid in cash.
- (viii) She invested an amount of Rs. 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the A.Y. 2021-22. (1.0 Marks, CA IPCC May 2012)

Solution: Computation of total income and tax payable (amounts in Rs.):

Income from house property :		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Standard deduction u/s 24 @ 30% of NAV	24,780	57,820
Income under the head Profits & Gains of Business and Profession		
Net profit as per Income and Expenditure Account	9,28,224	
Add: Expenses debited but not allowable -		
Municipal Taxes of house property in respect of residential flat let out	3,000	
Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment is in excess of Rs. 10,000 in a day	30,000	
Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
Add: Value of benefits received from clients during the course of profession is taxable u/s 28 (iv).	10,500	
Less: Income credited but not taxable under this head -		
Dividend on shares of Indian Companies. The same is taxable under IFOS	10,524	
Income from Unit Trust of India. The same is taxable under IFOS	7,600	
Honorarium for valuation of answer papers. The same is taxable under the head 'Income from other sources'	15,800	
Rent received from residential flat let out - The same is taxable under the 'Income from house property'	85,600	
Depreciation on Motor Car @ 15 % [WN-2]	12,000	9,20,200
Income from other sources :		
Dividends from Indian companies (Taxable)	10,524	
Income from Unit Trust of India. (Taxable)	7,600	
Honorarium for valuation of answer papers	15,800	33,924
Gross Total Income		10,11,944
Less: Deduction u/s 80 C (investment in National Saving Certificate)	10,000	
Deduction u/s 80D [WN-3]	Nil	10,000
Total Income (rounded off to nearest Rs. 10)		10,01,940
Tax on total income		1,12,888
Add: Health and Education cess @ 4%		4,516
Tax liability (rounded off to nearest Rs.10)		1,17,409

Working Notes:

- (1) Repairs and maintenance paid in advance for the period 01-04-2021 to 30-09-2021 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (2) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).
- (3) (a) Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of "family" u/s 80D.
 (b) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Illustration 12 - Computation of total income: Mr. Harish is Production Manager of XYZ Ltd. From the following details, compute the taxable income for the assessment year 2021-22 :

(8 Marks, PCC May 2012)

Basic salary	Rs. 50,000 per month
Dearness allowance	40% of basic salary
Transport allowance (for commuting between place of residence and office)	Rs. 3,800 per month
Motor car running and maintenance charges fully paid by employer	Rs. 60,000
The motor car is owned by the company and driven by the employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.	Rs. 80,000
Expenditure on accommodation in hotels while touring on official duties met by employer	Rs. 60,000
Loan from recognized provident fund (maintained by the employer)	Rs. 24,000
Lunch provided by the employer during office hours. Cost to the employer	Rs. 60,000
Computer (cost 35,000) kept by the employer in the residence of Mr. Harish from 01-06-2020	Rs. 4,800
Mr. Harish made the following payments :	
Medical insurance premium: Paid in cash	
Paid by account payee Crossed cheque	Rs. 30,000

Solution: Computation of total income of Mr. Harish (amount in Rs.):

Basic Salary (Rs. 50,000 $\times$ 12)	6,00,000
Dearness Allowance @ 40% of basic salary	2,40,000
Transport allowance (Rs. 3,800 $\times$ 12)	45,600
Motor car running & maintenance charges paid by employer [WN-1]	28,800
Expenditure on accommodation in hotels while touring on official duties met by employer is not a perquisite in hands of employee, hence not chargeable to tax.	Nil
Loan from recognized provident fund (maintained by the employer) - Not chargeable to tax, since loan cannot be regarded as income.	Nil
Value of lunch provided during office hours (Rs. 24,000 - Rs. 15,000) [WN-2]	9,000
Computer provided in the residence of employee by the employer - Not chargeable to tax [Rule 3(7)(viii)]	Nil
Gross Salary	9,23,400
Less: Standard deduction u/s 16(ia)	50,000
Income chargeable under the head Salary	8,73,400
Less: Deduction u/s 80D in respect of medical insurance premium paid by cheque amounting to Rs. 30,000 but restricted to Rs. 25,000 [WN-3]	25,000
Total Income	8,48,400

Working Notes:

- (1) If the motor car (whose engine cubic capacity is above 1.60 litres) is owned by the employer and is used for both official and personal purpose by the employee, then the value of perquisite for use of motor car would be Rs. 2,400 per month. Therefore, value of perquisite for use of motor car would be Rs. 2,400 $\times$ 12 = Rs. 28,800.

- (2) Lunch provided by the employer during office hours is not considered as perquisite upto Rs. 50 per meal. Since, the number of working days is not given in the question, it is assumed to be 300 days during the F.Y. 2020-21. Therefore, Rs. 15,000 (i.e. $300 \times \text{Rs. } 50$) would be exempt and the balance Rs. 9,000 (i.e. Rs. 24,000 - Rs. 15,000) would be taxable.
- (3) Medical insurance premium paid in cash of Rs. 4,800 is not allowable as deduction under section 80D. Further, deduction for medical insurance premium paid through cheque is restricted to Rs. 25,000. It is logical to assume that Mr. Harish is not a senior citizen, and hence the maximum deduction allowable u/s 80D would be Rs. 25,000.

Illustration 13 - Computation of total income: Mr. Chandran (aged 38) owned 6 light goods vehicles as on 01-04-2020. He acquired 2 more light goods vehicles on 1-7-2020. He is solely engaged in the business of plying goods vehicles on hire since financial year 2013-14.

He did not opt for presumptive provision contained in section 44AE for the financial year 2019-20. His books were audited under section 44AB and the return of income was filed on 5-8-2020. He has unabsorbed depreciation of Rs. 70,000 and Business loss of Rs. 1,00,000 for the financial year 2019-20.

Following further information is provided to you :

- Deposited Rs. 20,000 in Tax Saver Deposit with UCO Bank in the name of married son.
- Paid medical insurance premium of Rs. 52,000 for his parents (both aged above 70) by means of bank demand draft.
- Paid premium on life insurance policy of his married daughter Rs. 25,000.
- Repaid principal of Rs. 40,000 and interest of Rs. 15,000 to Canara Bank towards education loan of his daughter, who completed B.E. Two years ago. She is employed after completion of her studies.

Assuming that Mr. Chandran has opted for presumptive provision contained in section 44AE of the Act, compute the total income of Mr. Chandran for A.Y. 2021-22. (8 Marks, IPCC Nov. 2011)

Solution: Computation of total income of Mr. Chandran (amount in Rs.):

Income from business of plying goods vehicle referred to u/s 44AE (Profits and Gains of Business or Profession)	[WN-1]	6,75,000
Less: Brought forward business loss of financial year 2019-20	[WN-2 & 3]	1,00,000
Gross Total Income		5,75,000
Less: Deduction under Chapter VI-A :		
U/s 80C: Deposited Rs. 20,000 in tax saver deposit with UCO Bank in the name of married son.	[WN-4]	No deduction
U/s 80C: Life insurance premium for insurance of married daughter.	[WN-5]	25,000
U/s 80D: Medical insurance premium paid for insurance of parents.	[WN-6]	50,000
U/s 80E: Interest paid towards education loan taken for studies of his daughter.	[WN-7]	15,000
Total Income		4,85,000

Working Notes:

(1) **Computation of income from business of plying goods vehicles on hire u/s 44AE. (amount in Rs.):**

6 light goods vehicle held throughout the year (Rs. 7,500 $\times$ 6 $\times$ 12)	5,40,000
2 light goods vehicle - held for 9 months (Rs. 7,500 $\times$ 2 $\times$ 9)	1,35,000
Income under section 44AE	6,75,000

- (2) *As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, unabsorbed depreciation of Rs. 70,000 shall not be allowed as a deduction since it is covered by Section 32.*
- (3) *Brought forward business loss of Rs. 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2020-21 was filed before the due date specified under section 139(1).*
- (4) *Fixed deposit in the name of married son does not qualify for deduction under section 80C.*
- (5) *Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction u/s 80C. Therefore, the life insurance premium paid for insurance policy of married daughter is allowed as deduction.*
- (6) *Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of Rs. 50,000. Hence, deduction of Rs. 50,000 is provided to Mr. Chandran, as his parents are senior citizens.*
- (7) *It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.*

Illustration 14 - Computation of total income and tax liability: *Ms. Rachna was gifted a land by her father in December, 2001 at the occasion of her marriage. The land was allotted to her father in November, 1991 at cost of Rs. 4 lacs by DDA for commercial purpose. The FMV of land on 01-04-2001 was Rs. 15 lacs. She set up a nursery on land, earns profit Rs. 2 lacs during the year 2020-21 from seedlings grown in nursery. She sold the nursery to her friend at Rs. 50 lacs in October, 2020. Her friend paid Rs. 20 lacs in cash and Rs. 30 lacs in the form of shares. Market value of land on date of sale was Rs. 90 lacs and shares Rs. 70 lacs.*

Rachna, with an intention to earn profit, invested Rs. 20 lacs in shares by purchasing shares for Rs. 1.5 lacs from National Stock Exchange and Rs. 5 lacs in subscription to equity shares forming part of eligible issue of capital by a public company. She spent Rs. 60,000 on purchase of computers, Rs. 20,000 on net connectivity and Rs. 2 lacs toward salary and other expenses. She paid monthly rent Rs. 2,500 for a shop which was taken in October 2020, for trading in shares. Depreciation rate on computers is 40%.

The value of shares purchased and sold during the year are as follows:

<i>Purchases including received from friend</i>	<i>Rs. 80,00,000</i>
<i>Sales</i>	<i>Rs. 1,00,00,000</i>

The market value of shares remains unsold as on 31-03-2021 is Rs. 40 lakhs. Ms. Rachna -

- *made contribution of Rs. 20,000 to approved pension fund;*
- *paid Rs. 30,000 to LIC for medical insurance premium of self and spouse;*
- *repays loan Rs. 1,00,000 and interest Rs. 20,000 to SBI taken in February, 2021 for her son's admission in Sri Ram College of Commerce B.Com.;*
- *invested Rs. 20,000 in public provident fund;*
- *contributed Rs. 25,000 to research association having its object to undertake scientific research.*

Rachna did not earn any short term capital gain during the year. Rachna has not celebrated her 40th birthday yet. Compute the total income of Ms. Rachna and tax thereon payable by her for Assessment Year 2021-22. (Modified Marks 12, PCC Nov. 2011)

Solution: Computation of total income and tax liability (amounts in Rs.):

Particulars		Details	Net
Profits and Gains of Business or Profession	[WN-1]		17,28,000
Long-term Capital Gains (Capital Gains Sale of Land):			
Full value of consideration	[WN-2]	90,00,000	
Less: Indexed Cost (Cost to Previous owner being FMV on 1-4-2001 i.e. Rs. 15 lacs $\times 301 \div$ CII of 2001-2002 i.e. 100)		45,15,000	44,85,000
Gross Total Income			62,13,000
Less: Deductions under Chapter VI-A			
U/s 80CCC : Contribution to approved pension fund		20,000	
U/s 80C : Contribution to PPF		20,000	
U/s 80D : Medical insurance premium paid for self and spouse Rs. 30,000, deduction limited to Rs. 25,000		25,000	
U/s 80E : Interest paid on education loan for studies of son		20,000	85,000
Total Income (rounded off to nearest Rs. 10)			61,28,000
Income tax:		Income	Tax
On LTCG @ 20%		44,85,000	8,97,000
On Balance Income + Agricultural income Rs. 2,00,000		18,43,000	3,65,400
Less: Tax on Basic Exemption Rs. 2,50,000 + Agricultural income Rs. 2,00,000		4,50,000	-10,000
			12,52,400
Add: Surcharge @ 10% since total income exceeds Rs. 50,00,000			1,25,240
Tax including surcharge			13,77,640
Add: Health and Education cess @ 4%			55,106
Tax liability (rounded off to nearest Rs. 10)			14,32,750

Working Note:

(1) Computation of business income (Trading in Shares) (amount in Rs.):

(a) Calculation of Gross Profit—

Trading A/c			
To Purchases:		By Sales	1,00,00,000
Market value of shares received from friend (Note (i))	70,00,000	By Closing Stock (assumed market value is less than cost)	40,00,000
Other purchases (Rs. 80 lakh - Rs. 30 lakh) [Note (ii)] To Gross Profit	50,00,000		
	20,00,000		
	1,40,00,000		1,40,00,000

Note: (i) The market value of shares shall be taken as cost since this value assessed to capital gains, (ii) It is assumed that the value of shares received from friend in consideration of land, included in purchases, is Rs. 30 lakhs.

(6) Calculation of Net Profit -

Gross Profit as per Trading Account		20,00,000
Less: Expenses on net connectivity	20,000	
Salary	2,00,000	
Rent (Rs. 2,500 x 6)	15,000	
Depreciation on Computers (Rs. 60,000 x 40% x 50%) (Assuming used for less than 180 days in the year)	12,000	2,47,000
		17,53,000
Less: Contribution to Scientific Research Institution u/s 35(1) (Rs.25,000 x 100%)		25,000
Business Income		17,28,000

(2) Computation of consideration on sale of land (amount in Rs.):

Value of cash received	20,00,000
Market value of shares received	70,00,000
Total Sale consideration	90,00,000

Illustration 15 - Computation of total income and tax liability: Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31-03-2021:

- (i) He is a partner in Badrinath & Co. He has received the following amounts from the firm :
- Interest on capital at 15% Rs. 3,00,000
- Salary as working partner (at 1% of firm's sales) Rs. 90,000
- (ii) He is engaged in a business in which he manufactures wheat flour from wheat. The Profit and Loss account pertaining to this business (summarised form) is as under:

To	Rs.	By	Rs.
Salaries	1,20,000	Gross profit	12,50,000
Bonus	48,000	Interest on Bank FD (Net of TDS 5,000)	45,000
Car expenses	50,000	Agricultural income	60,000
Machinery repairs	2,34,000		
Advance tax	70,000		
Depreciation:			
Car	3,00,000		
Machinery	1,25,000		
Net profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of assets are as under:

Car	Rs. 3,00,000
Machinery	6,50,000
(Used during the year for 170 days) Additions to machinery	
New purchased on 23-09-2020	2,00,000
New purchased on 12-11-2020	3,00,000
Old purchased on 12-4-2020	1,25,000

(All assets added during the year were put to use immediately after purchase) Of the total bonus amount, Rs. 15,000 was paid on 11-11-2020. One-fifth of the car expenses are towards estimated personal use of the assessee.

(iii) In March, 2019, he had sold a house at Chennai. Arrears of rent relating to this house amounting to Rs. 75,000 was received in February, 2021.

(iv) Details of his Savings and Investments are as under :

	(Rs.)
Life Insurance premium for policy in the name of his major son employed in LMN Ltd. at a salary of Rs. 6 lacs p.a. Sum assured Rs. 2,00,000	50,000
Contribution to Pension Fund on National Housing Bank	70,000
(This was met partially from out of premature withdrawal of deposit in Post Office Time Deposit made on 12-03-2018. Principal component Rs. 55,000 and Interest Rs. 5,000) Medical Insurance premium for his father aged 70, who is not dependent on him	52,000

You are required to compute the total income of Mr. Dinesh Karthik and the tax payable by him. Also indicate whether interest, if any, u/s 234A and 234B are payable, assuming that the return was filed on 28th October, 2021. Computation of interest, if any, is NOT required. (20 Marks, Modified IPCC May 2010)

Solution: Computation of total income and tax payable by Mr. Dinesh Karthik (amounts in Rs.):

Income from house property:		
Arrears of Rent received in respect of the Chennai house taxable u/s 25A	75,000	
Less: 30% deduction u/s 25A	-22,500	52,500
Profits and gains of business profession:		
Net profit as per P&L A/c	4,32,000	
Less: Items credited to profit and loss account not treated as business income		
Agricultural income (Exempt from tax)	-60,000	
Interest on Bank FDR (Net of TDS Rs. 5,000)	-45,000	
Pension from LIC Jeevan Dhara (Income from other sources)	-24,000	
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance Tax [not allowable as deduction u/s 40(a)]	70,000	
Car expenses disallowed @ 20% for personal use [Rs. 50,000 x 20%]	10,000	
Depreciation considered separately [Car Rs. 3,00,000 + Machinery Rs. 1,25,000]	4,25,000	
Less: Depreciation on car [WN-1]	-36,000	
Less: Depreciation on machinery - [WN-1]	-2,38,750	
Income from Wheat flour business	5,33,250	
Salary as working partner in partnership firm (assumed fully allowed in the hands of the firm u/s 40(b) of the Act) - Taxable as profits and gains of business or profession u/s 28	90,000	
Interest on capital - (As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm hand i.e. @ 12%) [Rs. 3,00,000 x 12% 15%]	2,40,000	8,63,250
Income from other sources :		
Interest from bank FD (gross) (Rs. 45,000 + Rs. 5,000)	50,000	
Pre-mature withdrawal from Post Office Time Deposit A/c [WN-2]	60,000	
Pension from LIC Jeevan Dhara	24,000	1,34,000

Gross Total Income		10,49,750
Less: Deduction under section -		
U/s 80C: Life insurance premium for policy in the name of major son not dependent on the assessee, restricted to 10% of sum assured i.e. 10% of Rs. 2,00,000.	20,000	
U/s 80C : Contribution to pension fund of NHF	70,000	
U/s 80D: Medical Insurance Premium on life of parent, being a senior citizen (i.e. of age exceeding 60 years) - Qualifies for deduction, even though the father is not dependent on the assessee. However, deduction cannot exceed Rs. 50,000.	50,000	1,40,000
Total Income		9,09,750
Tax on total Income inclusive of agricultural income of Rs. 60,000	1,06,450	
Less: Tax on agricultural income + basic exemption limit (Rs. 60,000 + Rs. 2,50,000)	-3,000	1,03,450
Add: HEC @ 4%		4,138
		1,07,588
Less: TDS on Bank FDR	-5,000	
Less: Advance Tax	-70,000	-75,000
Net tax payable (rounded off)		32,590

- **Interests under section 234A:** Mr. Dinesh Karthik receives salary of Rs. 90,000 from the firm, Badrinath & Co., which is given as 1% of the firm's sales. Therefore, the turnover of the firm is Rs. 90 lakh, being Rs. 90,000/1%. Since the turnover of the firm does not exceed Rs. 1 crore, the firm is not subject to tax audit. Therefore, his due date for filing of return would be 31st July, 2021. Since the return was filed after the due date, hence interest is payable under section 234A.
- **Interest u/s 234B:** Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is Rs. 10,000 or more. Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of the assessed tax. Therefore, in this case, interest under section 234B would be attracted on the balance tax payable.

Working Notes:

(1) Computation of depreciation allowable under the Income-tax Act, 1961:

Block I - Car		
15% on Rs. 3,00,000	45,000	
Less: 1/5th for personal use	9,000	36,000
Block II - Machinery		
WDV as on 1-4-2020 (given)		6,50,000
Add: Additions to machinery (used for 180 days or more)		
Old purchased on 12-04-2020		1,25,000
New purchased on 23-09-2020		2,00,000
Add: Additions to machinery (used for less than 180 days)		
New purchased on 12-11-2020		3,00,000
WDV as on 31-3-2021		12,75,000
Less: Normal Depreciation [15% of Rs. (6,50,000 + 1,25,000 + 2,00,000) + 7.5% of Rs. 3,00,000]	-1,68,750	
Less: Additional depreciation [Note]	-70,000	-2,38,750
WDV as on 1-4-2021		10,36,250

Note: Since assessee is engaged in the manufacture of wheat flour from wheat, hence, he is eligible for additional depreciation on new machines @ 20% of actual cost. Old machinery is not eligible for additional depreciation. [Rs. 2,00,000 $\times$ 20% + 3,00,000 $\times$ 10%, for half-year]. Remaining additional depreciation of Rs. 30,000 shall be allowed in financial year 2021-22.

- (2) The deduction under section 80C is allowable in respect of any sum deposited in a 5 year time deposit in an account under Post Office Time Deposit Rules, 1981. If any amount is withdrawn within 5 years from the date of deposit into that account is liable to tax under section 80C of the Act. When the contribution was made thereto, the same would have been allowed as deduction under section 80C of the Act in that year, hence, the premature withdrawal (along with interest accrued thereon) shall be liable to tax in the current year.

Illustration 16 - Computation of total income: Mr. Vidyasagar, resident individual aged 64, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for year ended 31-3-2021 (amounts in Rs.):

(i) Interest on capital received from Oscar Musicals & Co., at 15%	1,50,000
(ii) Interest from bank on fixed deposit (Net of TDS 11,500)	13,500
(iii) I.T. Refund received, relating to assessment year 2019-20 including interest of Rs. 2,300	34,500
(iv) Net profit from wholesale business	5,60,000

Amounts debited include the following:

Depreciation as per books	34,000
Motor car expenses	40,000
Municipal taxes for the shop (For two half years; payment for one half year made on 12-6-2021 and for the other, on 14-11-2021)	7,000
Salary to manager for whom single cash payment was made for	21,000
(v) WDV of assets (as on 1-4-2020) used in above wholesale business is : Computers	1,20,000
Motor car (20% used for personal use)	3,20,000
(vi) LIP paid for major son 90,000 PPF of his wife	70,000
Health Insurance premium for self	52,000

Compute the total income of the assessee for assessment year 2021-22. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31-3-2021. (8 Marks, IPCC May 2011)

Solution: Computation of total income and WDV (amounts in Rs.):

Profits and gains of business & profession: Net profit as per P&L A/c	5,60,000	
Add: Depreciation as per books	34,000	
Add: Disallowance of municipal taxes paid for the second half-year u/s 43B, since the same was paid after the due date of filing of return (Rs. 7,000/2)	3,500	
Add: Disallowance u/s 40A(3) in respect of salary paid in cash since the same exceeds Rs. 10,000 in a day	21,000	
Add: 20% of car expenses for personal use	8,000	
Less: Depreciation [WN-1]	-86,400	
Income from wholesale business	5,40,100	
Income from firm:		
Interest on capital from partnership firm [Rs. 1,50,000 $\times$ 12% $\div$ 15%] [WN-2]	1,20,000	6,60,100

Income from other sources :		
Interest on bank fixed deposit (Gross)	15,000	
Interest on income-tax refund	2,300	17,300
Gross Total Income		6,77,400
Less: Deduction under Chapter VIA [WN-3]		2,00,000
Total Income		4,77,400

Working Notes:**(1) Depreciation allowable under the Income-tax Rules, 1962:**

	Opening WDV	Rate	Depreciation	Closing WDV
Block 1 Computers	1,20,000	40%		72,000
Block 2 Motor Car	3,20,000	15%	48,000	
Less: 20% disallowance for personal use			9,600	2,81,600
			86,400	

- (2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm. Therefore, interest @ 12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Vidyasagar.

(3) Deductions under Chapter VI-A (amount in Rs.):

Under section 80C:		
LIP for major son	90,000	
PPF paid in wife's name	70,000	
	1,60,000	
As per section 80CCE, deduction is restricted to		1,50,000
Health Insurance premium (paid Rs. 52,000 restricted to Rs. 50,000, being the maximum deduction allowable u/s 80D, since Mr. Vidya Sagar is a senior citizen)		50,000
Total deduction		2,00,000

Illustration 17 - Computation of total income and tax liability ; From the following details compute the total income of Siddhant of Delhi and Tax payable for Assessment year 2021-22: (amounts in Rs.)

Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of Servant provided by the employer	12,000
Rent Paid by Siddhant for his accommodation	49,600
Bill paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000
Siddhant was provided with company's car (self driven, 1500 cc) also for official and personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.	

Siddhant purchased a flat in a Co-operative Housing Society for Rs. 4,75,000 in April, 2014, which was financed by a loan from Life Insurance Corporation of India of Rs. 1,60,000 @ 15% interest, his own savings of Rs. 85,000 and a deposit from a nationalised bank for Rs. 2,50,000 to whom this flat was given on lease for ten years. The rent payable was Rs. 3,500 per month.

The following particulars are relevant:

- | | | |
|--------|--|-----------------------|
| (i) | Municipal Taxes Paid | Rs. 4,300 (per annum) |
| (ii) | Society charges for passage Lights, watchman's salary | Rs. 1,900 (per annum) |
| (iii) | Insurance | Rs. 860 |
| (iv) | He earned Rs. 2,700 in share speculation business and lost Rs. 4,200 in Cotton Speculation business. | |
| (v) | In the year 2015-16 he had gifted Rs. 30,000 to his wife and Rs. 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum. | |
| (vi) | Siddhant received a gift of Rs. 25,000 each from four friends. | |
| (vii) | He contributed Rs. 5,600 to Public Provident Fund and Rs. 4,000 to Unit Linked Insurance Plan. | |
| (viii) | He received national award for humanitarian work from the Central Government in the form of a Land whose fair market value is Rs. 5,00,000 as on 31st March, 2021. (Marks 16, Modified IPCC Nov. 2009) | |

Solution: Computation of total income and tax liability of Mr. Siddhant (amounts in Rs.):

Income under the head Salary:		
Salary including dearness allowance	3,35,000	
Bonus	11,000	
Salary of servant provided by the employer (Taxable as perquisite)	12,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Siddhant (Taxable as perquisite)	11,000	
Car facility	[WN-1] 21,600	
Gross Salary	3,90,600	
Less: Standard deduction u/s 16(ia)	50,000	
Income under the head salary		3,40,600
Income from House Property :		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) [Rs. 3,500 x 12]	42,000	
Less: Municipal taxes paid	[WN-2(a)] 4,300	
Net Annual Value (NAV)	37,700	
Less: Standard Deduction @ 30% of NAV	11,310	
Less: Interest on loan from LIC	[WN-2(b)] 24,000	2,390
Profits and gains of business or profession :		
Profit in Share speculation business	2,700	
Loss in Cotton speculation business	-4,200	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income	-1,500	
Income from other sources :		
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per Section 64(1A). However, as per section 10(32) an exemption of Rs. 1,500 shall be available (Rs. 3,800 - Rs. 1,500)	2,300	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per Section 64(1) (Rs. 30,000 x 19%)	5,700	
Gift from four friends @ Rs. 25,000 each - Since the aggregate amount exceeds Rs. 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	1,00,000	1,08,000

Gross Total Income		4,50,990
Less: Deduction u/s 80C		
Contribution to Public Provident Fund	5,600	
Unit Linked Insurance Plan	4,000	9,600
Total Income		4,41,390
Tax on total income		9,570
Less: Rebate u/s 87A [100% of tax subject to maximum of Rs. 12,500 since his total income does not exceed Rs. 5,00,000]		9,570
Total Tax (rounded off)		Nil

Working Notes:

- (1) Car facility is a perquisite chargeable to tax. Since the car is for official and personal purposes, hence, taxable amount will be Rs. 1,800 x 12. Since car is self driven, therefore driver salary (Rs. 900) cannot be added to determine taxable value.
- (2) The following assumptions have been made while computing income under the head "Income from house property" -
 - (a) It is the owner, namely, Mr. Siddhant, who has paid the municipal taxes,
 - (b) The entire loan of Rs. 1,60,000 is outstanding as on 31-03-2021, and
 - (c) Society charges of Rs. 1,900 p.a. is not included in the rent of Rs. 3,500 p.m. payable by the tenant. Such charges have either been paid directly by Mr. Siddhant or recovered separately from the tenant.
- (3) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.
- (4) It has been assumed that Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Illustration 18 - Computation of total income: Dr. Shuba is medical practitioner. Her age is 64 as on 1st January 2021. The receipts and payments account of 2020-21 of her is as under:

To	Rs.	By	Rs.
Balance B/f	50,000	Purchase of commercial vehicle before 30 Sept.	4,00,000
Receipts from sale of Medicine	52,50,000	Drawing	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sept.	50,000
Lectures	5,000	Installment of loan paid (including interest Rs. 22,333)	1,21,000
Family pension	2,80,000	Medical insurance premium	72,000
Saving bank interest	1,000	Installment of housing loan (Principal component Rs. 48,000)	1,08,000
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medicine	50,47,000

Agriculture income	1,00,000	Payment for medical journal	5,000
Income from lottery (net after deduction of TDS @ 30%)	35,000	Vehicle expenses	50,000
		Balance C/F:	48,000
Total	63,21,000	Total	63,21,000

Other relevant information is as under:

- (i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of Rs. 10,00,000 out of which Rs. 6,00,000 was still due. She got it refinanced from SBI on 1st April 2020 at the rate of 10%. One fourth portion of the house is used for clinic purposes.
 - (ii) She invested in term deposit Rs. 1,50,000 in Bank of Baroda on 1st July 2020 for a period of 5 years in the name of her minor daughter at 9% interest p.a.
 - (iii) She purchased a commercial vehicle on 1st July 2020 at Rs. 4,00,000. A loan of Rs. 3,00,000 was taken to buy the van at 8% interest. One fourth use of vehicle is estimated to be personal.
 - (iv) She paid medical insurance premium for herself of Rs. 56,000 and for mother Rs. 56,000. Her mother is dependent on her.
 - (v) She got her share from HUF's income of Rs. 50,000.
- Compute the total income of the assessee for assessment year 2021-22. (8 Marks, IPCC Nov. 2010)

Solution: Computation of total income of Dr. Shuba (amounts in Rs.):

Income from house property:		
Annual value of self-occupied house	NIL	
Less: Interest on loan (Rs. 45,000, being 3/4th of Rs. 60,000) (subject to maximum of Rs. 30,000 since house was constructed before 01-04-1999)	-30,000	-30,000
Income from profession:		
Sale of medicine	52,50,000	
Add: Consultation fees	50,000	
Add: Visiting fee	2,00,000	
Less: Expenses -		
Medicine purchased	-50,47,000	
Medical journal	-5,000	
Depreciation on Surgical instruments (15% of Rs. 50,000)	-7,500	
Depreciation on motor vehicle [3/4th of 15% of Rs. 4,00,000]	-45,000	
Vehicle expenses [Rs. 50,000 $\times$ 3/4th]	-37,500	
Interest on loan [Rs. 22,333 $\times$ 3/4th]	-16,750	
Interest on housing loan [(Rs. 1,08,000 - Rs. 48,000) $\times$ 1/4th] [WN 2]	-15,000	3,26,250
Income from other sources:		
Family Pension [Rs. 2,80,000 - Deduction @ 1/3 of the pension or Rs. 15,000, whichever is lower i.e Rs. 15,000]	2,65,000	
Lecture fees	5,000	
Savings bank interest	1,000	
Interest on bank FD in the name of minor daughter [Rs. 1,50,000 $\times$ 9% $\times$ 9/12] - Clubbing of Income u/s 64 (Less: Exemption u/s 10(32) in respect of	8,625	

income of minor daughter) (Rs. 10,125 - Rs. 1,500)		
Winnings from lottery - Gross [Rs. 35,000 + 70%]	50,000	3,29,625
Gross Total Income		6,25,875
Less: Deduction u/s 80C for repayment of housing loan - Deduction allowed only for property assessed under "Income from House Property"	36,000	
Deduction u/s 80D for Medical insurance Premium - Self (Senior Citizen, Rs. 56,000 restricted to Rs. 50,000) + Mother (Senior Citizen, Rs. 56,000 restricted to Rs. 50,000)	1,00,000	
Interest on bank deposit including clubbed income of FDR - Eligible for deduction u/s 80TTB	9,625	1,45,625
Total income (rounded off)		4,80,245

Working Notes:

- (1) Since the residential house was constructed before 01-04-1999, the deduction for interest is restricted to Rs. 30,000.
- (2) Since 1/4th portion of house is used for business purposes, therefore, 1/4th share of interest paid is deductible while computing business income.
- (3) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
- (4) Term deposit of Rs. 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be Rs. 36,000 (i.e. 3/4th of Rs. 48,000).
- (5) Depreciation @ 15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life-saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation @ 40%.

Illustration 19 - Computation of total income and tax liability: The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31-3-2021 (amounts in Rs.):

Income from Salaries (Computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	3,60,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid)	110,000
Loss from card games	32,000
Income from betting	45,000
Life Insurance Premium paid	1,20,000

Compute the total income and show the items eligible for carry forward. (8 Marks, IPCC May 2011)

Solution: Computation of total income (amounts in Rs.):

Income from Salaries:		
Salaries computed	2,20,000	
Less: Loss from house property	1,50,000	70,000
Income from house property:		

Loss from house property	1,90,000	
Less: Set-off against Long Term Capital Gains (Since LTCG is chargeable to tax @ 20% and from which no deduction under Chapter VI-A is available, therefore loss from house property has been set-off against LTCG).	40,000	
Less: Set-off against salary income	1,50,000	—
Profits and gains of business or profession:		
Loss from cloth business	2,40,000	
Less: Income from speculation business (Normal business loss can be set-off against speculation business income).	30,000	
Less: Balance business loss of Rs. 2,10,000 set-off against long-term capital gains. [WN-1]	2,10,000	-
Loss from specified business covered by Section 35AD [WN-2]	-	-
Capital Gains:		
Long-term capital gains from sale of urban land		
Less: Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid) [WN-3]	3,60,000	1,10,000
Balance LTCG	2,50,000	
Less: Set-off of loss of cloth business	2,10,000	
Less: Set-off of Loss from house property	40,000	-
Income from other sources :		
Loss from card games [WN-4] Income from betting [WN-5]		45,000
Gross Total Income		1,15,000
Less: Deduction u/s 80C for Life Insurance Premium - [WN-6]		70,000
Total Income (comprising of income from betting)		45,000
Tax on Total Income @ 30%		13,500
Less: Tax rebate u/s 87A [100% of tax or Rs. 12,500 which ever is less]		12,500
Balance Tax		1,000
Add: Health and Education cess @4%		40
Tax payable (rounded off)		1,040

Working Notes:

- (1) Business loss cannot be set off against salary income. However, the balance business loss of Rs. 2,10,000 (Rs. 2,40,000 – Rs.30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs. 2,50,000 from sale of urban land.
- (2) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (3) Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per Section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A.
- (4) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (5) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

- (6) No deduction under Chapter VI-A can be allowed from income from betting, hence deduction restricted to salary income of Rs. 70,000.

Illustration 20 - Computation of total income: Mr. Pankaj, aged 60 years, who retired from the services of the Central Government on 30-6-2020, furnishes particulars of his income and other details as under:

- (1) Salary @ Rs. 16,000 p.m.
- (2) Pension @ Rs. 3,000 p.m. for July 2020 to Nov. 2020.
- (3) On 1-12-2020, he got 1/3th of his pension commuted for Rs. 1,20,000.
- (4) A house plot at Ernakulam sold on 1-2-2021 for Rs. 5,00,000 had been purchased by him on 3-11-1980 for Rs. 10,000. The stamp valuation authority had assessed the value of said house plot at Rs. 6,00,000 which was neither disputed by the buyer nor by him. The value of this house plot as on 1-4-2001 was Rs. 60,000 (The cost inflation index for the year 2020-21 is 301).
- (5) Received interest on bank FDRs of Rs. 72,500, dividend on mutual fund units of Rs. 15,000 and interest on maturity of NSC of Rs. 50,000 out of which an amount of Rs. 40,000 was already disclosed by him on accrual basis in the returns upto assessment year 2020-21.
- (6) Investment in purchase of NSC for Rs. 90,000 and payment for mediclaim insurance for self and wife of Rs. 12,500. Made investment in Tax Magnum units of Mutual Fund of SBI of Rs. 80,000. Compute the total income of Mr. Pankaj for assessment year 2021-22.
In the event of Mr. Pankaj being ready to make appropriate investment for availing exemption in respect of capital gain arising from sale of house plot, what will be the amount to be invested and the period within which the same should be invested -
 - (a) If he wishes to avail exemption under section 54F by constructing a new residential house;
 - (b) If he wants to avail exemption under section 54EC. (20 Marks, PCE MAY 2007)

Solution: Computation of total income of Mr. Pankaj (amount in Rs.):

Income from salaries:		
Basic salary (Rs. 16,000 x 3)	48,000	
Pension for 5 months from July, 2020 to Nov. 2020 (Rs. 3,000 x 5)	15,000	
Pension for 4 month from Dec., 2020 to March, 2021 (Rs. 2,000 x 4)	8,000	
Commuted value of pension	Exempt	
Gross Salary	71,000	
Less: Standard deduction u/s 16(ia)	50,000	21,000
Long-term capital gains:		
Full value of consideration [Since stamp duty value i.e. Rs. 6,00,000 exceed 110% of the consideration received i.e. Rs. 5,00,000,]	6,00,000	
Less: Indexed cost of acquisition (Rs. 60,000 x 301 + 100)	1,80,600	4,19,400
Income from other sources :		
FDR Interest Rs. 72,500 (gross)	72,500	
NSC Interest [Rs. 50,000 - (Interest already disclosed in earlier years Rs. 40,000)]	10,000	
Dividend on mutual fund units (Taxable)	15,000	97,500
Gross Total Income		5,37,900
Less: Deduction u/s 80C (NSC Rs. 90,000 + Unit of SBI Mutual Fund Rs.	1,50,000	

80,000: Maximum Rs. 1,50,000. However it cannot exceed the GTI (excluding LTCG)		
Less: Deduction u/s 80D for medical insurance premium paid	12,500	
Less: Deduction u/s 80TTB for interest on bank deposit restricted to Rs. 50,000	50,000	
The aggregate amount of deductions cannot exceed GTI (excluding LTCG since no deduction is admissible from LTCG)		1,18,500
Total Income (rounded off)		4,19,400

Investment in approved modes:

- **Section 54F (by constructing a new house):** In order to avail exemption u/s 54F, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration of Rs. 6,00,000 received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e. -

$$\text{Capital Gains Exempt} = \text{Long term capital gain} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

- **Section 54EC:** In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs. 4,19,400, within 6 months from the date of sale of house plot, in Section 54EC bonds. If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

Illustration 21 - Computation of total income and tax liability: The broad break-up of tax and allied details of Mrs. Rinky, born on 30th March, 1943 are as under (amounts in Rs.):

Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winning from a T.V. show	20,000
Business income	4,00,000
Net agricultural income	40,000
Mrs. Rinky has paid the following :	
LIC premium of self	40,000
LIC premium of husband	20,000
Premium for annuity contract with LIC in the name of her husband	25,000
Repayment of housing loan principal (loan taken by her son dependent on her)	30,000
Compute the tax payable by Mrs. Rinky. (9 Marks, Modified PCE May 2007)	

Solution: Computation of total income of Mrs. Rinky (amounts in Rs.):

Business income	4,00,000
Long term capital gains on sale of house	2,00,000
Short term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winnings from a T.V. show	20,000
Gross Total Income	6,50,000
Less: Deduction u/s 80C (Life insurance premium on self and husband)	60,000
Total Income (rounded off)	5,90,000

Computation of tax payable by Mrs. Rinku (amounts in Rs.):

Tax on incomes taxable at special rates: Tax on LTCG i.e. Rs. 2,00,000 @ 20%	40,000
Tax on game show winnings i.e. Rs. 20,000 @ 30%	6,000
Tax on balance income : Balance income including agricultural income (Rs. 3,70,000 + Rs. 40,000)	5,500
Less: Tax on agricultural income + basic exemption (Rs. 40,000 + Rs. 3,00,000)	-2,000
Tax payable	49,500
Add: Health and Education cess @ 4%	1,980
Tax liability (rounded off)	51,480

Working Notes:

- (1) Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.
- (2) Premium for annuity contract with LIC in husband's name and repayment of housing loan taken by dependent son are not eligible for deduction under section 80C.

Illustration 22 - Computation of total income and tax liability: Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2-3-2020 and came to India for the first time on 16-3-2020. She remained in India up till 19-9-2020 and left for USA on 20-9-2020. She returned to India again on 27-3-2021. While in India, she had purchased a show room in Mumbai on 22-4-2020, which was leased out to a company on a rent of Rs. 25,000 p.m. from 1-5-2020. She had taken loan from a bank for purchase of this showroom on which bank had charged interest of Rs. 97,500 upto 31-3-2021. She had received the following gifts from her relatives and friends during 1-4-2020 to 31-3-2021: (a int. in Rs.)

From parents of husband	51,000
From married sister of husband	11,000
From two very close friends of her husband, Rs. 1,51,000 and Rs. 21,000	1,72,000

Determine her residential status and compute the total income chargeable to tax alongwith the amount of tax payable on such income for the Asst. Year 2021-22. (14 Marks, PCE May 2007)

Solution: Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions -

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for assessment year 2021-22 has to be determined on the basis of her stay in India during the previous year relevant to assessment year 2021-22 i.e. previous year 2020-21 and in the preceding four assessment years. Her stay in India during previous year 2020-21 = 1-4-2020 to 19-9-2020 and 27-3-2021 to 31-3-2021 = 177 days. Stay during preceding four previous years = 16-3-2020 to 31-3-2020 = 16 days. Since Miss Charlie doesn't fulfill any of the basic conditions, she is non-resident in India for A.Y. 2021-22.

Computation of total income of Miss Charlie (amounts in Rs.):

Income from house property:		
Show room located in Mumbai remained on rent from 01-05-2020 to 31-03-2021 [Rs. 25,000 x 11] (Being GAV)	2,75,000	
Less: Municipal taxes	Nil	
Net annual value	2,75,000	
Less: Deduction u/s 24 @ 30% of Net annual value	82,500	
Interest on loan	97,500	95,000
Income from other sources : Gifts from friends of husband will be taxable u/s 56(2)(x)		1,72,000
Total income (rounded off)		2,67,000

Computation of tax payable by Miss Charlie (amounts in Rs.)

Tax on total income (Even if Charlie is a Non-Resident, hence basic exemption of Rs.2,50,000 is available)	850
Add: Health and Education cess @ 4%	34
Total tax payable (rounded off)	880

Working Notes:

- (1) Rs. 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relative and gifts from a relative are not chargeable to tax.
- (2) Rs. 11,000 received from married sister of husband is exempt, since sister falls within the definition of relative and gifts from a relative are not chargeable to tax.
- (3) Since Charlie is non resident, she is not entitled tax rebate under section 87A of the Income-tax Act, 1961.

Illustration 23 - Computation of total income and tax liability: Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31-03-2021:

- | | | |
|----|---|---------------------|
| a) | Basic Salary | Rs. 15,000 p.m. |
| b) | DA (50% of it is meant for retirement benefits) | Rs. 12,000 p.m. |
| c) | Commission as a percentage of turnover of the Company | 0.5% |
| d) | Turnover of the Company | Rs. 50 lacs |
| e) | Bonus | Rs. 50,000 |
| f) | Gratuity | Rs. 30,000 |
| g) | Own Contribution to R.P.F. | Rs. 30,000 |
| h) | Employer's contribution to R.P.F. | 20% of basic salary |
| i) | Interest credited in the R.P.F. account @ 15% P.A. | Rs. 15,000 |
| j) | Gold Ring worth Rs. 10,000 was given by employer on his 25th wedding anniversary. | |
| k) | Music System purchased on 02-04-2018 by the Company for Rs. 85,000 and was given to him for personal use. | |
| l) | Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of account are not maintained, | |
| m) | Received interest of Rs. 5,860 on bank FDRs, Dividend of Rs. 1,260 from shares of Indian Companies and | |

- interest of Rs. 7,540 from the debentures of Indian Companies,
- n) Made payment by cheques of Rs. 15,370 towards premium on Life Insurance policies and Rs. 22,500 for Mediclaim Insurance Policy,
- o) Invested in 6 years NSC Rs. 30,000 and in FDR of SBI for 7 years Rs. 50,000.
- p) Donation of Rs. 11,000 to an institution approved u/s 80G and of Rs. 5,100 to Prime Minister's National Relief Fund were given during the year through account payee cheque.
- Compute the total income and tax payable thereon. (20 Marks, PCE Nov. 2007)

Solution: Computation of total income and tax payable by Ramdin (amounts in Rs.):

Income under the head salary:			
Basic salary (Rs. 15,000 x 12)	1,80,000		
DA (Rs. 12,000 x 12)	1,44,000		
Commission on turnover (0.5% of Rs. 50 lacs)	25,000		
Bonus	50,000		
Gratuity [WN-1]		30,000	
Employer's contribution to RPF (20% of Rs. 1,80,000)	36,000		
Less: Exempt [WN-2]	33,240	2,760	
Interest credited in RPF account @ 15%	15,000		
Less: Exempt @ 9.5% p.a.	9,500	5,500	
Gift of Gold Ring (taxable, as it is not below Rs. 5,000)		10,000	
Perquisite value of music system given for personal use (10% of Rs. 85,000)		8,500	
Gross Salary		4,55,760	
Less: Standard deduction u/s 16(ia)		50,000	
Income under the head salary		4,05,760	
Income from business :			
Presumptive income u/s 44AE (Rs. 7,500 x 12 x 2). (he cannot claim lower profits and gains since he has not maintained books of accounts.)			1,80,000
Income from other sources :			
Interest on Bank FDRs		5,860	
Interest on debentures, assumed to be gross		7,540	
Dividend on shares [Taxable]		1,260	14,660
Gross total income			6,00,420
Less: Deduction u/s 80C			
LIC	15,370		
NSC	30,000		
FDR of SBI for 7 years	50,000		
Employee's contribution to RPF	30,000	1,25,370	
Deduction u/s 80D for medi-claim insurance		22,500	
Deduction u/s 80G [WN-3]		10,600	1,58,470
Total Income (rounded off)			4,41,950
Tax on total income			9,598
Less: Rebate u/s 87A, since total income does not exceed 15,00,000			
[100% of tax subject to maximum of Rs.12,500]			9,598

Tax payable Less: Tax deducted at source (Rs. 7,540 - Rs. 6,786)			NIL
			754
Tax refundable (Rounded off)			750

Working Notes:

- (1) Gratuity received during service is fully taxable.
- (2) Employer's contribution in the R.P.F. is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover) = 12% of 1,80,000 + (50% of Rs. 1,44,000) + Rs. 25,000 = 12% of Rs. 2,77,000 = Rs. 33,240.
- (3) Deduction under section 80G is computed as under:

Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of qualifying amount i.e. Rs. 11,000) (Qualifying amount = Amount contributed i.e. Rs. 11,000 or 10% of Adjusted Gross Total Income Rs. 4,52,550 i.e. 45,255, whichever is lower) Adjusted GTI = [Rs. 6,00,420 - Rs. 1,25,370 - Rs. 22,500]	5,500
Total Deduction	10,600

Illustration 24 - Computation of total income: Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-03-2021 revealed the following information:

- (1) The net profit was Rs. 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Dividend from UTI Rs. 22,000.
 - (b) Interest on debentures Rs. 17,500.
 - (c) Winnings from races Rs. 15,000.
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were: Opening stock Rs. 8,000; and Closing stock Rs. 12,000.
- (4) Rs. 1,00,000 was debited in the profit and loss account being contribution to a University approved and notified under section 35(l)(ii).
- (5) Salary includes Rs. 20,000 paid to his brother which is unreasonable to the extent of Rs. 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing Rs. 1,000 per packet presented to important customers.
- (7) Total expenses on car was Rs. 78,000. The car was used both for business and personal purposes. 3/4th is for business purposes.
- (8) Miscellaneous expenses included Rs. 30,000 paid to A & Co., a goods transport operator in cash on 31-01-2021 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was Rs. 55,000. Depreciation allowed as per IT rules was Rs. 50,000.
- (10) Drawing Rs. 10,000.
- (11) Investment in NSC Rs. 15,000.

Compute the total income of Mr. Y for the assessment year 2021-22. (8 Marks, IPCC May 2012)

Solution: Computation of total income of Mr. Y (amount in Rs.):

Profits and gains of business or profession	[WN-1]	11,21,500
Income from other sources	[WN-2]	54,500
Gross Total Income Less: Deduction u/s 80C (investment in NSC)		11,76,000
		15,000
Total Income (rounded off)		11,61,000

Working Notes:

(1) Computation of profits and gains of business or profession (amount in Rs.):

Net profit as per profit and loss account 11,20,000			
Add:	Expenses debited to P&L A/c but not allowable as deduction		
	Salary paid to brother disallowed to the extent considered unreasonable	2,500	
	[Section 40A(2)]		
	Motor car expenses attributable to personal use not allowable (Rs. 78,000 x 1/4)	19,500	
	Depreciation debited in the books of account	55,000	
	Drawings (not allowable since it is personal in nature, and debited to P&L A/c)	10,000	
	Investment in NSC (Since debited in P&L A/c)	15,000	1,02,000
Add:	Closing stock omitted to be recorded to be added		12,000
Less:	Under statement of opening stock		-8,000
Less:	Incomes credited to P&L A/c but not taxable as business income		
	Income from UTI [taxable under the head "Income from other sources"]	-22,000	
	Interest on debentures (taxable under the head "Income from other sources")	-17,500	
	Winnings from races (taxable under the head "Income from other sources")	-15,000	-54,500
Less:	Depreciation allowable under the Income-tax Rules,	1962	-50,000
	Profits and Gains of Business and Profession		11,21,500

Note:

- Cash paid to goods transport agency upto the extent of Rs. 35,000 is not subject to disallowance u/s 40A(3).
- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Contribution to a university approved and notified under section 35(1) (ii) is eligible for deduction @ 100%. Since the actual contribution (100%) has been debited to P&L A/c, hence no adjustment is required.

(2) Computation of "Income from Other Sources" (amount in Rs.):

Interest on Debentures (assumed to be gross interest)	17,500	
Winnings from Races	15,000	

Income from UTI	22,000	54,500
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Illustration 25 - Computation of total income: Ms. Vaishali, employed in a private sector company, furnishes following information for the year ended 31-03-2021 (amount in Rs.):

Income from salary (computed)	3,45,000
Saving Bank interest	15,000
Tax on non-monetary perquisite paid by employer	20,000
Amount contributed by her during the year are given below :	
Contribution to recognized provident fund	60,000
Health insurance premium - on self (paid by crossed cheque)	7,000
Medical expenditure for dependent sister with disability	20,000

Compute the total income of Ms. Vaishali for the assessment year 2021-22. (5Marks, Modf. PCC May 2012)

Solution: Computation of total income of Ms. Vaishali (amount in Rs.):

Income from salary (computed)	3,45,000
Income from other sources :	
Bank interest	15,000
Gross Total Income	3,60,000
Less: Deduction under Chapter VI-A -	-60,000
Contribution to recognized provident fund - Deductible u/s 80C	
Health insurance premium - on self (paid by crossed cheque) is eligible for deduction u/s 80D to the extent of Rs. 25,000	-7,000
Bank interest - Eligible for deduction u/s 80TTA subject to maximum of Rs. 10,000	-10,000
Medical expenditure for dependent sister with disability - Adhoc deduction u/s 80DD of Rs. 75,000.	-75,000
Total Income (rounded off)	2,08,000

Working Note : Tax on non-monetary perquisite paid by employer is exempt in the hands of employee u/s 10(10CC).

Illustration 26 - Computation of total income : Dr. Gurumoorthy, a resident individual at Madurai, aged 80 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2021 is as under :

Expenditure	Rs. ,	Income	Rs.
To Medicine consumed	38,40,000	By Consultation and Medical charges	51,00,000
To Staff salary	4,25,000	By Income-tax refund (Principal Rs. 15,000, interest Rs. 1,500)	16,500
To Clinic consumables	1,55,000	By Dividend from Indian companies	27,000
To Rent paid	1,20,000	By Winning from lottery (Net of TDS)	35,000
To Administrative expenses	3,00,000	By Rent	54,000
To Donation to IIT, Delhi for Research	1,00,000		

To	approved u/s 35 (2 A A) Net Profit	2,92,500	
		52,32,500	52,32,500

- (i) Rent paid includes Rs. 36,000 paid by cheque towards rent for his residence.
- (ii) Clinic equipments are :
 01-04-2020 Opening WDV 14,50,000
 07-02-2021 Acquired (cost) Rs. 1,00,000
- (iii) Rent received relates to property let out at Madurai. Gross annual value Rs. 54,000. The municipal tax of Rs. 9,000, paid in January 2021 has been included in "administrative expenses".
- (iv) Dr. Gurumoorthy availed a loan of Rs. 5,50,000 from a bank for higher education of his daughter. He repaid principal of Rs. 50,000, and interest thereon Rs. 65,000 during the year 2020-21.
- (v) He paid Rs. 1,50,000 as tuition fee to the university for full time education of his son.

Compute the total income of Dr. Gurumoorthy for the A.Y. 2021-22. (12 Marks, May 12) (Similar Nov. 08, 20 Marks)

Solution: Computation of total income of Dr. Gurumoorthy (amount in Rs.):

Income from House Property :

Rent Received/Gross Annual Value	54,000	
Less: Municipal taxes paid	9,000	
Net Annual Value (NAV)	45,000	
Less: Standard Deduction @ 30% u/s 24	13,500	31,500
Profits and Gains of Business or Profession:		
Net Profits as per Income and Expenditure A/c	2,92,500	
Less:		
Income tax refund (including interest)	-16,500	
Dividend from Indian companies	-27,000	
Winnings from lottery (net of TDS)	-35,000	
Rent received	-54,000	
Add: Expenditure debited but not allowable		
Rent paid for residence	36,000	
Municipal tax paid relating to residential house at Madurai included in administrative expenses	9,000	
Less: Expenditure allowed but not debited		
Depreciation on clinic equipments u/s 32 [15% of Rs. 4.5 lakh + 7.5% of Rs. 1 lakh]	-75,000	1,30,000
Income from other sources :		
Interest on Income tax refund	1,500	
Gross Winnings from lottery [WN-1]	50,000	
Dividend from Indian company (Taxable)	27,000	78,500
Gross Total Income		2,40,000
Less: Deduction u/s 80C (tuition fee paid to university for full time education of his son)	1,50,000	
Deduction u/s 80E (Interest on loan taken for higher education of daughter) [WN-2]	65,000	1,90,000
Total Income (rounded off)		50,000

Working Note:

- (1) Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30% Gross income from lottery, would, therefore, be Rs. 35,000 - 70% = Rs. 50,000.
- (2) Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winnings from lottery. Therefore the maximum deduction allowable would be Rs. 1,13,000.

Gross Total Income	2,40,000
Less: Winnings from lottery	50,000
Maximum deduction under Chapter VI-A	1,90,000

The total income of Rs. 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30% without any basic exemption limit.

- (3) Dr. Gurumoorthy is staying in a rented premises in Madurai itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Madurai which he has let out.

Illustration 27 - Computation of total income & tax liability: Shri Madan (age 67 years) gifted a building owned by him to his son's wife Smt. Hema on 01-10-2020. The building fetched a rental income of Rs. 10,000 per month throughout the year. Municipal tax for the first half-year of Rs. 5,000 was paid in June 2020 and the municipal tax for the second half-year was not paid till 30-09-2021.

Incomes of Shri Madan and Smt. Hema other than income from house property are given below :

Name	Business income	Capital gain	Other sources
Shri. Madan	3,00,000	50,000 (long-term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (short-term)	50,000

Note: Capital gain does not relate to gain from shares and securities.

Compute the total income of Shri. Madan and Smt. Hema taking into account income from property given above and also compute their income-tax liability for the assessment year 2021-22. (5 Marks, IPCC Nov. 2011)

Solution: Computation of property income and total income and tax liability (amounts in Rs.):

Income from House Property:	Madan (Rs.)	Hema (Rs.)
	Period 01-04-2020 to 30-09-2020	Period 01-10-2020 to 31-03-2021
Rent from Building @ 10,000 p.m. (GAV)	60,000	60,000
Less: Municipal Taxes	5,000	-
Net Annual Value (NAV)	55,000	60,000
Less: Standard deduction @ 30% of NAV	16,500	18,000
Income from Building/House Property	38,500	42,000
Computation of Total Income :	Madan (Rs.)	Hema (Rs.)
Income from House property [WN-2]	80,500	-
Business Income	3,00,000	-75,000
Long term Capital Gains	50,000	-
Short-term Capital Gains	-	20,00,000
Other Sources	1,50,000	50,000

Total Income (rounded off)	5,80,500	1,75,000
Computation of tax liability:		
Tax liability: Tax on LTCG in case of Madan @ 20%	10,000	-
Income-tax on Balance Normal Income (Madan is senior citizen hence eligible for basic exemption limit of 13,00,000)	16,100	Nil
Total Income-tax	26,100	Nil
Add: Health and Education cess @ 4%	1,044	Nil
Tax payable (rounded off)	27,140	Nil

Working Notes:

- (1) Municipal tax for second half-year was not paid till 31-03-2021, hence the same shall not be allowed as deduction.
- (2) As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.
Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01-10-2020 is includible in the hands of Shri Madan.

Illustration 28 - Computation of total income and tax liability : Mrs. Deepali (aged 40 years) is working with M/s. Good Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the previous year from her employer :

Basic salary : Rs. 60,000 per month.
Dearness allowance : 40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of Rs. 15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering Rs. 2,000 per month as rent of house. Mrs. Deepali has further furnished the following details :

- (i) She has paid professional tax of Rs. 6,000 during the year.
- (ii) She is owning only one house and payment of interest of Rs. 1,75,000 and principal of Rs. 1,50,000 was made for housing loan taken for purchase of house.
- (iii) She has also taken a loan of Rs. 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability. (8 Marks, PCC Nov. 2011)

Solution: Computation of Taxable Income and tax liability (amounts in Rs.):

Income from Salaries:		
Basic Salary (Rs. 60,000 x 12)		7,20,000
Dearness Allowances @ 40% of Basic salary		2,88,000
Perquisite value of Concessional Loan (10% of Rs. 2 lakh - Interest recovered Rs. 10,000)		10,000
Perquisite value of Concessional Accommodation:		
(i) 15% of Basic salary (15% of Rs. 7,20,000)	1,08,000	
(ii) Rent paid by the employer for the house (Rs. 15,000 x 12)	1,80,000	
Lower of the (i) or (ii) above	1,08,000	
Less: Rent recovered from the employee (Rs. 2,000 x 12)	24,000	84,000
Gross Salary Less: Deduction u/s 16(ia) Standard deduction		11,02,000

Less: Deduction u/s 16(iii) Professional Tax paid	50,000	
Income under the head Salaries	6,000	56,000
Income from House Property :		10,46,000
Rent received from employer (Rs. 15,000 x 12) being NAV	1,80,000	
Less: (i) Standard Deduction u/s 24(a) @ 30% of NAV	54,000	
(ii) Interest on capital borrowed u/s 24(b)	1,75,000	-49,000
		9,97,000
Gross Total Income Less: Deduction under Chapter VI-A :		
U/s 80C: Repayment of principal of Housing Loan		1,50,000
Total Income (rounded off)		8,47,000
Tax: Income-tax		81,900
Add: Health and Education cess @ 4%		3,276
Total Tax (rounded off to nearest Rs.10)		85,180

Note :

- (1) It has been assumed that dearness allowance does not form part of pay for retirement benefit.
- (2) Though professional tax can't exceed Rs. 2,500 but since question gives amount of Rs. 6,000, hence, whole of the amount is deductible assuming that it pertains to more than 1 year)

Illustration 29 - Computation of total income: Mr. Rajiv (aged 50 years) a resident individual and practicing Chartered Accountant furnishes you the Receipts and Payments Account for the financial year 2020-21:

Receipts	Rs.	Payments	Rs.
Opening balance (1-4-2020):		Staff salary, bonus and stipend to articled	21,50,000
Cash on hand and at Bank	12,000	clerks	
Fee from professional services	59,38,000	Other administrative expenses	1148,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of Rs. 88,000)	1,88,000
		Life insurance premium	24,000
		Motor car (acquired in January 2021)	4,25,000
		Medical insurance premium (for self and wife)	18,000
		Books bought of annual publications	20,000
		Computer acquired on 1-11-2020 (for professional use):.	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31-3-2021) : Cash on hand & at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you :

- 1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of Rs. 5,000. The building was constructed during the year 1998-99.
- 2) Motor car was put to use both for official and personal purpose, One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- 3) The Written down value of assets as on 01-04-2020 are given below :

Furniture & Fittings	= 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	= Rs. 80,000
Computers	= Rs. 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting. Compute the total income of Mr. Rajiv. (12 Marks, PCC May 2011)

Solution: Computation of total income of Mr. Rajiv: Since Mr. Rajiv follows cash system of accounting, only those income and expenses would be considered for computation of professional income, which have actually been received or paid, as the case may be. Accordingly, the computation is as follows, (amount in Rs.) -

Income from house property:

(1) Let out portion :			
Actual Rent received/receivable [Rs. 5,000 x 12] (NAV)	60,000		
Less: Deduction u/s 24 : (i) Standard Deduction @ 30%	-18,000		
(ii) Interest on borrowed capital [50% of Rs. 88,000]	-44,000		
Loss from let-out property		-2,000	
(2) Self occupied portion: Annual Value			
Less: Deduction u/s 24 for interest on borrowed capital (50% of Rs. 88,000 = Rs. 44,000; but limited to Rs. 30,000, as property constructed before 1-4-1999)	Nil		
Loss from self-occupied property	-30,000	-30,000	-32,000
Profits & Gains of Business or Profession :			
Fee from professional services		59,38,000	
Less: Expenses allowable as deduction –			
Staff salary, bonus and stipend	-21,50,000		
Other administrative expenses	-11,48,000		
Office rent	-30,000		
Motor Car Maintenance [Rs. 10,000 x 4/5 towards professional use]	-8,000		
Car loan interest (Not allowable, as not paid during the year)	-	-33,36,000	
Less: Depreciation -			
Motor Car [Rs. 4,25,000 x 15% x 50% as used for less than 180 days during the previous year x 4/5 relating to professional use]	-25,500		
Books bought of annual publications (40% of Rs. 20,000)	-8,000		
Furniture & Fittings [10% of Rs. 60,000]	-6,000		
Plant & Machinery [15% of Rs. 80,000]	-12,000		
Computers [40% of Rs. 50,000 + 50% of 40% of Rs. 30,000]	-26,000	-77,500	25,24,500
Gross Total Income			24,92,500
Less: Deduction u/s 80C -			
Housing Loan Repaid Life Insurance Premium	1,00,000		
Public Provident fund	24,000		
Deduction u/s 80D: Medical Insurance Premium	20,000	-1,44,000	

		-18,000	-1,62,000
Total Income (rounded off)			23,30,500

Illustration 30 - Computation of total income and tax liability: Mr. Janak, working as Finance Manager in Thilagam Realty Ltd., Jaipur, retired from the company on 31-10-2020 at the age of 60. The following amounts were received from the employer from 1st April, 2020 to 31st October, 2020 :

Basic Salary Rs. 30,000 p.m.

Dearness Allowance Rs. 20,000 p.m. (40% reckoned for superannuation benefits) Ex-gratia (lump sum) Rs. 55,000

In addition to the above -

- (i) The company had taken on lease a residential house at Jaipur, paying a lease rent of Rs. 9,000 p.m. Mr. Janak, who was paying to the company Rs. 6,000 p.m. towards aforesaid rent, vacated the said premises on 31-10-2020.
- (ii) The company had also provided to Mr. Janak a cooking range and micro-wave oven owned by it. The original cost of these assets was Rs. 40,000 and the written down value as on 1-4-2020 was Rs. 22,000.
- (iii) Mr. Janak has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2020-21. The cost of such education in a similar school is Rs. 1,800 p.m.
- (iv) Credit card facility: Rs. 30,000
- (v) The employer-company was contributing Rs. 7,000 p.m. to Central Government Pension Scheme. Employee also makes a matching contribution
- (vi) Professional tax paid by the employer Rs. 3,000.
- (vii) Subsequent to his retirement, Mr. Janak started his own business on 15-11-2020. The results of the said business from 15-11-2020 to 31-3-2021 were:
 - (a) Business loss (excluding current depreciation) Rs. 60,000
 - (b) Current year's depreciation Rs. 60,000
- (viii) Mr. Janak won a prize in a TV game show. He received a sum of Rs. 42,000 after deduction of tax at source to the tune of Rs. 18,000.
- (ix) Mr. Janak furnishes the under-mentioned data relating to savings, investments and out-goings :
 - (a) Life insurance premium, with a private insurance company Rs. 20,000 for his son and Rs. 20,000 for his married daughter.
 - (b) Medical insurance premium of Rs. 12,000 for himself and Rs. 16,000 for his father (aged 82), paid by credit card. His father is however not dependent on him.

You are required to compute the total income of Mr. Janak (showing clearly the computation under various heads of income) and tax payable by him. (20 Marks, PE-11 June, 2009)

Solution: Computation of total income and tax liability of Mr. Janak (amounts in Rs.):

Income from Salaries:			
Basic Salary (Rs. 30,000 x 7)		2,10,000	
Dearness allowance (Rs. 20,000 x 7)		1,40,000	
Ex-gratia		55,000	
Credit card facility		30,000	
Concessional Accommodation	[WN-1 & 2]	6,150	
Value of furniture	[WN-3]	2,333	

Value of concessional education facility [WN-4]	12,600	
Employer Contribution to pension scheme of Central Government (Rs. 7,000 x 7)	49,000	
Professional Tax paid by employer	3,000	
Gross Salary	5,08,083	
Less: Standard deduction u/s 16(ia)	50,000	
Less: Deduction u/s 16(iii) in respect of professional tax [WN-10]	3,000	4,55,083
Profit and Gains of Business or Profession [WN-9]	-1,20,000	
Income from other sources (Winnings from Game show) (Rs. 42,000 + Rs. 18,000) [WN-8]		60,000
Gross Total Income		5,15,083
Less: Deduction under chapter VI-A -		
U/s 80C: Life-insurance premium paid for son & married daughter (Rs. 20,000 + Rs. 20,000)	40,000	
U/s 80CCD(1): Contribution by employee to pension scheme of Central Govt. [WN-5]	26,600	
Total eligible deduction u/s 80C & 80CCD(1) can't exceed Rs. 1,50,000	66,600	66,600
U/s 80CCD(1B): Contribution by employee to pension scheme of Central Government [Rs. 49,000-Rs. 26,600] [WN-5]		22,400
U/s 80CCD(2): Contribution by employer to pension scheme of Central Government to the extent of 10% of salary [WN-6]		26,600
U/s 80D: Medical Insurance premium (Rs. 12,000 + Rs. 16,000) [WN-7]		28,000
Total income (rounded off)		3,71,480
Tax payable: Tax on winnings from game-show at special rate of 30%		18,000
Tax on balance income (age is 60 years; Basic exemption Rs. 3,00,000)		574
Total Income-tax		18,574
Less: Rebate u/s 87A since total income does not exceed Rs. 5,00,000 [100% of tax or Rs. 12,500 whichever is less]		12,500
Balance Tax		6,074
Add: Health and Education cess @ 4%		243
Total Tax		6,317
Less: TDS		18,000
Tax refundable (rounded off to nearest Rs. 10)		-11,678

Working Notes:

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. Rs. 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be Rs. 3,21,000 [i.e. (Rs. 30,000 + Rs. 8,000) x 7 + Rs. 55,000].
- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. Rs. 63,000, being 9,000 x 7] and 15% of salary [i.e. Rs. 48,150, being 15% of Rs. 3,21,000], This value (i.e. Rs. 48,150) would be reduced by the rent paid by the employee (i.e. Rs.

- 42,000, being 6,000 $\times$ 7). The value of concessional accommodation is Rs. 6,150 [i.e. Rs. 48,150 - Rs. 42,000],
- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to Rs. 2,333 [i.e. 10% of Rs. 40,000 $\times$ 7 + 12], It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.
 - (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 12,600 (i.e. Rs. 1,800 $\times$ 7).
 - (5) Employee's contribution to Central Government Pension Scheme is Rs. 7,000 p.m. The amount of contribution to the extent of 10% of salary shall qualify for deduction under Section 80CCD(1). The balance contribution shall qualify for deduction under Section 80CCD(1B).
 - (6) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction u/s 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of Rs. 1.5 lakh stipulated under section 80CCE.
 - (7) The deduction for medical insurance premium of Rs. 16,000 paid for father is allowable in full under section 80D, as the maximum limit is Rs. 50,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be Rs. 12,000 (for self) + Rs. 16,000 (for father) = Rs. 28,000.
 - (8) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB and no loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
 - (9) As per Section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. From a plain reading of the provisions of Section 71 (2A), it is possible to take a view that even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.
 - (10) Though professional tax can't exceed Rs. 2,500 but since question gives amount of Rs. 3,000, hence, whole of the amount is deductible assuming that it pertains to more than 1 year)

Illustration 31 - Computation of total income and tax liability:

- (i) Smt. Savita Rani, born on 01-07-1935, is a Deputy Manager in a company in Mumbai. She is getting a monthly salary and D.A. of Rs. 45,000 and Rs. 12,000 respectively. She also gets a house rent allowance of Rs. 6,000 p.m. She is a member of recognised P.P. wherein she contributes 15% of her salary & one-half of D.A. Her employer also contributes an equal amount.
- (ii) She is living in the house of her minor son in Mumbai.

- (iii) During previous year 2020-21, her minor son has earned an income of Rs. 30,000 (computed) from a house property, which has been transferred to him by her without consideration a few years back.
- (iv) During the previous year 2020-21, she sold Government of India Capital Indexed Bonds for Rs. 2,50,000 on 30-9-2020, which she had purchased on 1-7-2003 for Rs. 80,000.
- (v) Her employer give her an interest free loan of Rs. 1,50,000 on 1-10-2020 to one of her son's wife for the purchase of an Alto Maruti Car. Nothing has been repaid to the company towards the loan. The SBI lending rate is taken to be 8% p.a.
- (vi) During the previous year 2020-21 she paid Rs. 15,000 by cheque to GIC towards medical insurance premium of her dependant mother.
- Compute taxable income and tax liability of Mrs. Savita Rani.

Solution: Computation of taxable income & tax liability of Smt. Savita Rani (amount in Rs.):

Income from Salary:		
Basic Salary (Rs. 45,000 $\times$ 12)	5,40,000	
Dearness Allowance (Rs. 12,000 $\times$ 12)	1,44,000	
House Rent Allowance (Rs. 6,000 $\times$ 12) [WN-1]	72,000	
Employer's contribution in excess of 12% of salary [WN-2]	18,360	
Perquisite in respect of interest free loan (Rs. 1,50,000 $\times$ 8% $\times$ 6 $\div$ 12)	6,000	
Gross Salary	7,80,360	
Less: Standard deduction u/s 16(ia)	50,000	7,30,360
Income from House Property:		
Savita Rani is deemed owner of the house [WN-3]		30,000
Capital gains:		
Sale Proceeds	2,50,000	
Less: Indexed cost of acquisition (Rs. 80,000 $\times$ 301 $\div$ 109)	2,20,917	29,083
Gross total income		7,89,443
Less: Deduction u/s 80C (in respect of RPF Contribution)	91,800	
Deduction u/s 80D (Mediclaime)	15,000	1,06,800
Total Income (rounded off)		6,82,640

Computation of tax liability on total income (amounts in Rs.):

Tax on Long term capital gain being lower of -		
(i) 20% of Rs. 29,080	5,817	
(ii) 10% of (Rs. 2,50,000 - Rs. 80,000) (without benefit of indexation)	17,000	5,817
Add: Tax on other income of Rs. 6,53,560 (basic exemption limit is Rs. 5 lakhs)		30,710
Total tax		36,527
Add: Health and Education cess @ 4%		1,461
Tax payable (rounded off)		37,990

Working Notes:

- (1) Since Mrs. Savita resides in the house of her minor son and no rent is paid by her, hence HRA will not be exempt.
- (2) Salary (for RPF) = Basic salary + Dearness allowance (to the extent it forms part of retirement benefits) = 45,000 + (50% of Rs. 12,000) = Rs. 51,000 per month or Rs. 6,12,000 p.a.
Employer's contribution to RPF = 15% of Rs. 6,12,000 = Rs. 91,800; exempt = Rs. 73,440. Hence, taxable contribution = Rs. (91,800 - 73,440) = Rs. 18,360.

- (3) As per Section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of Rs. 30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

Illustration 32 - Computation of total income: Mr. Rajesh is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2021 are as follows:

Particulars	Rs.
Basic Salary	5,40,000
HRA (Computed)	1,80,000
Transport allowance	22,000

Apart from the above, his employer has sold the following assets to him on 1st January 2021:

- (i) Laptop computer for Rs. 20,000 (acquired in September, 2019 for Rs. 1,20,000).
(ii) Car 1800 cc for Rs. 3,20,000 (purchased in April, 2018 for Rs. 8,50,000).

He also owns a residential house, let out for a monthly rent of Rs. 15,000. The fair rental value of the property for the let out period is Rs. 1,50,000. The house was self-occupied by him from 1st January, 2021 to 31st March, 2021. He has taken a loan of Rs. 20 lacs for the construction of the property, and has repaid Rs. 1,05,000 (including interest Rs. 40,000) during the year.

Mr. Rajesh sold shares of different Indian companies on 14th April, 2020:

Name	Sales Value (per share)	Purchases Price (per share)	Acquired on	No. of shares
A Ltd.	Rs. 300	Rs. 120	2nd May, 2014	200
B Ltd.	Rs. 82	Rs. 65	16th April, 2020	125

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.75% on the gross consideration. The FMV of shares of A Ltd. as on 31-01-2018 is Rs. 150 per share. He received I.T. refund of Rs. 5,750 (including interest Rs. 750) relating to the Assessment Year 2015-16. Compute the total income of Mr. Rajesh. (20 Marks, PCC Nov. 2006)

Solution: Computation of Total income of Mr. Rajesh (amount in Rs.):

Income under the head salary	[WN-1]	9,56,000
Income from house property	[WN-2]	1,00,000
Capital gains	[WN-3]	2,115
Income from other sources: Interest on I.T. Refund		750
Gross Total Income		10,58,865
Less: Deduction under Chapter VIA -		
Deduction under section 80C: Repayment of housing loan (principal)	[WN-4]	-65,000
Total Income (rounded off)		9,93,870

Working Notes:

(1) **Income under the head salary (amount in Rs.):**

Basic salary		5,40,000
HRA (computed)		1,80,000
Transport Allowance		22,000
Transfer of laptop [Note-A]		40,000
Transfer of car [Note-B]		2,24,000

Gross Salary		10,06,000
Less: Standard deduction u/s 16(ia)		50,000
Income from salary	9,56,000	

Notes:

(A) Value of perquisite in respect of sale of laptop is as follows (amount in ₹.)

Actual cost of laptop	1,20,000
Less: Depreciation at @ 50% for one completed year	60,000
Value for the purpose of computing perquisite	60,000
Less: Amount paid to the employer	20,000
Value of perquisite	40,000

(B) Value of perquisite in respect of sale of car is as follows (amount in ₹.) -

Actual cost of the car	8,50,000
Less: Deprecation @ 20% on W.D.V. basis for 1st completed year	1,70,000
	6,80,000
Less: Deprecation @ 20% on W.D.V. basis for 2nd completed year	1,36,000
Value for the purpose of computing perquisite	5,44,000
Less: Amount paid to the employer	3,20,000
Value of perquisite	2,24,000

(2) Income under the head house property (amount in ₹.):

Fair Rent (₹. 1,50,000 $\times$ 12 $\div$ 9)	2,00,000		
Actual rent received	1,35,000		
Gross Annual Value (Higher of the above two)		2,00,000	
Less: Municipal tax paid		Nil	
Net Annual Value (NAV)		2,00,000	
Less: Deduction u/s 24			
Statutory deduction @ 30%	60,000		
Interest on loan for construction of property	40,000	1,00,000	1,00,000

(3) Income chargeable as "Capital Gains": Long-term capital gain exceeding ₹. 1,00,000 arising on sale of equity shares on which STT is paid in respect of equity shares, both at the time of acquisition and sale is taxable under section 112A @ 10%.

Capital gains:		
Short-term capital gains from sale of shares :		
Sales consideration from sale of shares of B Ltd. (125 $\times$ ₹. 82)	10,250	
Less: Expenses on Transfer -		
Brokerage @ 0.1% (₹. 10,250 $\times$ 0.1%) - STT not deductible	10	
Cost of shares (125 $\times$ ₹. 65)	8,125	2,115
Long-term capital gains from sale of shares :		
Sales consideration from sale of shares of A Ltd. (200 $\times$ ₹. 300)	60,000	
Less: Expenses on Transfer -		
Brokerage @ 0.1% (₹. 60,000 $\times$ 0.1%) - STT not deductible	60	
Cost of acquisition (200 $\times$ ₹. 150) (Benefit of indexation is not available as per Section 112 A)	30,000	

Long-term capital gains	29,940	
Long term capital gains in excess of Rs. 1,00,000 is taxable u/s 112A. Hence, taxable LTCG		Nil
Total Taxable Capital Gains		2,115

- (4) It is presumed that the housing loan has been taken from a borrower approved under section 80C (for example, a bank) for the purpose of availing deduction under that section.

Illustration 33 - Computation of total income: Mr. Ram (45 years of age), who does not maintain books of accounts for the year ended 31-3-2021, requests you to compute his total income and tax payable thereon from the following :

- Basic Salary - Rs. 20,000 p.m.
- CCA - Rs. 1,000 p.m.
- HRA - Rs. 5,000 p.m.
- Ram resides in Chennai, paying a rent of Rs. 6,000 per month.
- Ram is paid an education allowance of Rs. 500 per month per child for all the three of his children. Actual expenses (tuition fees only) amounts to Rs. 15,000, Rs. 10,000 and Rs. 5,000 respectively.
- Employer's contribution to Staff Group Insurance Scheme 15,440.
- He bought a light goods vehicle on 7-6-2020 and has been letting it on hire from the same date. He declares an income of Rs. 34,900 from the same.
- Interest from company deposits is Rs. 15,000 and Bank interest on fixed deposit is Rs. 85,000.
- Interest is payable on bank loans availed for buying truck and making company deposits as follows:-

Purpose	Date of loan	Amount	Interest rate
Light goods vehicle purchase	01-04-2020	5 lakh	10% p.a.
Company deposit	01-10-2020	1 lakh	9% p.a.
- Loss carried forward arising from speculating in shares during the preceding previous year and eligible for set-off is Rs. 1,00,000.
- Ram has invested Rs. 12,000 in NSC, Rs. 52,000 in Public provident fund, Rs. 9,000 as life insurance premium on his own life (sum assured Rs. 40,000 - Policy is taken before 01-04-2013) and Rs. 15,000 towards pension fund of LIC. (15 Marks, PCE May 2006)

Solution: Computation of total income and tax liability of Mr. Ram (amount in Rs.):

Income from Salaries:		
Basic Salary (Rs. 20,000 x 12)		2,40,000
CCA (Rs. 1,000 x 12)		12,000
HRA (Rs. 5,000 x 12)		60,000
Less: Exempt u/s 10(13A) [WN-1]	48,000	12,000
Education Allowance (Rs. 500 x 12 x 3)	18,000	
Less: Exempt u/s 10(14) (Rs. 100 x 12 x 2)	2,400	15,600
Gross Salary		2,79,600
Less: Standard deduction u/s 16(ia)		50,000
Income from salary		2,29,600
Profits and gains from business or profession:		
Income from the business of letting on hire, a light vehicle u/s 44AE (Rs. 7,500 x 10) [WN-2]		75,000

Income from Other Sources :		
Interest from company deposits	15,000	
Bank interest on fixed deposit	85,000	
	1,00,000	
Less: Deduction u/s 57 (Rs. 1,00,000 @ 9% for 6 months towards loan interest)	4,500	95,500
Gross Total Income		4,00,100
Less: Deduction under Chapter VI-A		
Deduction u/s 80C	[WN-4] 97,000	
Deduction u/s 80CCC	[WN-5] 15,000	1,12,000
Total Income (rounded off)		2,88,100
Tax on total income		1905
Less: Tax rebate u/s under Section 87A [100% of tax or Rs. 12,500 which ever is less]		1905
Balance Tax		Nil

Working Notes:

- (1) HRA is exempt to the extent of the least of the following under section 10(13A) - (a) 50% of salary (as the city is Chennai) i.e. 50% of Rs. 2,40,000 = Rs. 1,20,000
 (b) Excess of rent paid over 10% of salary = Rs. 72,000 - Rs. 24,000 = Rs. 48,000
 (c) Actual HRA received = Rs. 5,000 $\times$ 12 = Rs. 60,000
 Least of the above i.e. Rs. 48,000 is exempt under section 10(13A).

- (2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each light vehicle will be deemed to be Rs. 7,500 for every month or part of the month during which the light vehicle is owned by the assessee during the previous year. [Section 44AE]
 Presumptive income = Rs. 7,500 $\times$ 10 = Rs. 75,000.

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed.

- (3) Brought forward loss from speculation business can be set off only against income from speculation business and not against other business income.

(4) Deductions u/s 80C:

Investment in NSC	12,000
Investment in Public provident fund	52,000
Life insurance premium on own life restricted to 20% of sum assured	8,000
Tuition fees paid for two of his children (most favourable to Ram)	25,000
Total	97,000

- (5) Contribution to pension fund of LIC Rs. 15,000 is deductible under section 80CCC.

Illustration 34: Computation of total income and tax liability: Compute total income and tax liability of Mr. Ashok from the following information: Mr. Ashok owns a property consisting of two block of identical size. The first block is used for business purposes. The other block has been let out from 01-04-2020 to his cousin for Rs. 10,000 p.m. The cost of construction of each block is Rs. 5 lakhs (fully met from bank loan), rate of interest on bank loan is 10% p.a. the construction was completed on 31-03-2020. During the year ended 31-03-2021, he had to pay a penal interest of Rs. 2,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was Rs. 42,000. Principal repayment for each block was Rs. 23,000. An identical block in same neighborhood fetches a rent of Rs. 15,000 per month. Municipal tax paid in respect of each block was Rs. 12,000.

Following are the additional information provided:

The income from business prior to adjustment towards depreciation on any asset is Rs. 6,20,000. He follows mercantile system of accounting.

Depreciation on equipments used for business is Rs. 30,000.

On 23-3-2021, he sold shares of B Ltd., listed shares in BSE, for Rs. 2,30,000. The shares had been purchased 10 months back for Rs. 1,80,000. Security transaction tax paid may be taken as Rs. 220.

Brought forward business loss of a business discontinued on 12-1-2020 is Rs. 80,000. This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.

The following payments were effected by him during the year:-

- (i) L.I.P of Rs. 2,0,000 on his life and Rs. 12,000 of his son aged 22, engaged as a software engineer and drawing of salary of Rs. 2,5,000 p.m.
- (ii) Medclaim premium of Rs. 6,000 for himself and Rs. 5,000 for above son. The premiums were paid by cheque.

You are required to compute the total income and the tax payable.

The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 1-4-2020, as the bank had waived the same. (16 Marks, Modified Nov. 2005)

Solution: Computation of total income of Mr. Ashok (amount in Rs.):

Income from house property:			
House block 1 used for business, hence NAV = Nil [WN-1]		Nil	
House block 2 let out (higher of fair rent & rent receivable) (Rs. 15,000 x 12)		1,80,000	
Less: Municipal tax paid		12,000	
Net Annual Value (NAV)		1,68,000	
Less: Deductions under section 24 -			
(i) Standard deduction @ 30% of NAV	50,400		
(ii) Interest on Bank loan (10% of Rs. 5,00,000)	50,000	1,00,400	67,600
Profits & Gains of Business or Profession: [WN-2]			
Income prior to adjustment for depreciation		6,20,000	
Less: Depreciation on equipments	-30,000		
Depreciation on building (10% on Rs. 5,00,000)	-50,000	-80,000	
Business Income:		5,40,000	
Less: Set-off of brought forward business loss [WN-3]		80,000	4,60,000
Capital Gains: [WN-4]			

Short term Capital gains from sale of listed shares :	2,30,000	
Full value of consideration	1,80,000	50,000
Less: Cost of acquisition		5,77,600
Gross Total Income (GTI)		
Less: Deductions under Chapter VI-A [WN-5]		
Deduction u/s 80D (for self)	6,000	
Deduction u/s 80C [Life insurance premium of self and son Rs. 20,000 + Rs. 12,000 + repayment of housing loan Rs. 23,000]	55,000	61,000
Total Income (rounded off)	5,16,600	
Tax u/s 111A on STCG @ 15% of Rs. 50,000 + Tax on other income Rs. 4,66,600		18,330
Add: Health and Education cess @ 4%		733
Total tax Payable (rounded off)		19,060

Working Notes:

(1) Income from house property:

(a) The annual value of the house property which is used for business would not fall under the head "Income from house property". Therefore, the annual value of the first block is not chargeable to tax under the head "Income from house property". However, depreciation thereon @ 10% has been claimed while computing the income from business.

(b) As regards the second block, the sum for which the property may be reasonably expected to be let is Rs. 15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., Rs. 15,000 p.m.) or the actual rent received (Rs. 10,000 p.m.). Hence, the GAV of the second block is Rs. 1,80,000 (i.e., Rs. 15,000 p.m.)

(c) Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is Rs. 50,000 (i.e., 10% of Rs. 5 lakhs), which is allowable as deduction under section 24(b).

(2) **Profits and gains of business or profession:** Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs. 50,000 (being 10% of Rs. 5,00,000) and depreciation on equipments used for business is Rs. 30,000. Hence, the depreciation allowable during the year is Rs. 80,000.

(3) **Set-off of business loss :** As per Section 72, business loss relating to discontinued business is eligible for set-off.

(4) **Short-term capital gains (STCG):** The listed shares have been sold and securities transaction tax is paid, hence it is taxable @ 15% as per Section 111 A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.

(5) **Deductions under sections 80C and 80D:** Deduction u/s 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed that block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction u/s 80C. However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Hence, only mediclaim premium paid for self of Rs. 6,000 is eligible for deduction.

Illustration 35 - Computation of total income and tax liability: Mr. Hari provides the following information for the year ending 31-03-2021:

- | | | |
|--------|--|-------------|
| (i) | Rent from vacant site let on lease | 1,12,000 |
| (ii) | Rent from house property at Delhi | 20,000 p.m. |
| (iii) | Turnover from retail trade in grains (No books of account maintained and turnover is received in cash) | 24,37,500 |
| (iv) | Arrears of salary received from ex-employer | 90,000 |
| (v) | Purchase of 1,0,000 shares of X. Co. Ltd. (unlisted company), on 01-01-2017 | 1,00,000 |
| | He received a 1:1 bonus on 01-01-2018. Sale of 5,000 bonus shares in September, 2020 | 2,20,000 |
| (vi) | Received Rs. 1,50,000 on 12-02-2021 being amount due from Mr. A relating to goods supplied by Hari's father, which was written off as bad debt by his father in Assessment Year 2019-20 and allowed as deduction. Hari's father died in July 2020. | |
| (vii) | Brought forward business loss relating to discontinued textile business of Hari relating to the Assessment Year 2019-20. | 1,97,500 |
| (viii) | Brought forward depreciation relating to discontinued textile business of Hari. | 1,50,000 |
| (ix) | Hari contributed Rs. 30,000 to Prime Minister's National Relief Fund and Rs. 40,000 to Charitable Trust enjoying exemption under section 80G. | |

Compute the total income and the tax thereon of Mr. Hari for the Assessment Year 2021-22. (10 Marks, IPCC Nov. 2012)

Solution: Computation of Total Income & Tax Liability (amount in Rs.):

Income from Salaries			
Arrears of salary received from ex-employer		90000	
Less: Standard deduction u/s 16(ia)		50000	40000
Income from house property	[WN-1]		168000
Profit and gains of business or profession			
Income from business of retail trade in grains (8% of Rs. 24,37,500)	[WN-2]	195000	
Less: Set-off of brought forward business loss relating to A.Y. 2019-20 of discontinued textile business	[WN-5]	195000	Nil
Capital gains			
Sale consideration on sale of bonus shares		220000	
Less: Indexed cost of acquisition	[WN-3]	Nil	
Long term capital gains			220000
Income from other sources			
Rent from vacant site let on lease			112000
Gross Total Income			540000
Less: Deductions under Chapter VI-A	[WN-7]		46000
Total Income (rounded off)			494000
Tax on total income			
Tax on normal income of Rs. 2,74,000 (i.e. Rs. 4,94,000 - Rs. 2,20,000, being long term capital gains taxable @ 20%)		1200	
Tax on long-term capital gains @ 20% (i.e. Rs. 2,20,000 x 20%)		44000	45200
Less: Rebate u/s 87A since total income does not exceed Rs. 5,00,000 [100% of tax or Rs. 12,500 whichever is less]			12500
Balance Tax			32700

Add: Health and Education cess @ 4%		1308
Total Tax (Rounded off)		34010

Working Notes:**(1) Income from House Property at Delhi (amount in Rs.):**

Gross Annual Value (GAV) (Rs. 20,000 x 12)	2,40,000
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	2,40,000
Less: Deduction u/s 24 @ 30% of NAV	72,000
Income from house property	1,68,000

(2) Since Mr. Hari has not maintained books of accounts in respect of the business of retail trade in grains and the turnover from such business is less than Rs. 200 lacs, the business income would be computed on a presumptive basis under section 44AD @ 8% of turnover i.e. 8% x Rs. 24,37,500 = Rs. 1,95,000.

(3) Cost of acquisition of bonus shares is Nil as per section 55. Since the bonus shares were allotted on 1-1-2018, the period of holding of bonus shares exceeds 2 years, therefore, it is a long-term capital asset.

(4) Rs. 1,50,000 represents the amount due from Mr. A relating to goods supplied by Mr. Hari's father, which was written off as a bad debt by his father in the A.Y. 2019-20 and allowed as deduction to him. The said sum recovered by Mr. Hari, in the A.Y. 2021-22, would not be treated as his income since there is no such provision u/s 41(4) to treat the sum recovered by the successor in business as his income.

(5) Brought forward business loss of Rs. 1,97,500 from discontinued textile business can be set-off against the current year income of Rs. 1,95,000 from the business of retail trade. The balance loss of Rs. 2,500 can be carried forward to the next year to be set-off against the business income of that year.

(6) Section 44AD specifically provides that while computing income of an eligible business on presumptive basis, any deduction allowable under sections 30 to 38 shall be deemed to have been given full effect to and no further deduction under those sections shall be allowed. Hence, unabsorbed depreciation shall be deemed to have been allowed from presumptive income. Since Section 44AD covers all business except 44AE therefore unabsorbed depreciation even if relates to textile business shall be deemed to have been allowed from presumptive income pertaining to food grains business.

(7) Deduction under Chapter VI-A (amount in Rs.):

Deduction under section 80G		
Contribution to Prime Minister National Relief Fund (Eligible for 100% deduction)		30,000
Contribution to Charitable trust recognized for section 80G purposes	40,000	
Deduction restricted to 50% of 10% of Adjusted Total Income i.e. 50% x (10% x Rs. 3,20,000)		16,000
Total deduction under Chapter VI-A		46,000

Adjusted total income (for the purpose of computation of deduction under section 80G) (amount in Rs.):

Gross total income	5,40,000
Less: Long term capital gains	2,20,000
Adjusted total income	3,20,000

(8) It is assumed that Mr. Hari is a resident below the age of 60 years.

Illustration 36 - Computation of Total income: Mr. Balaji furnishes you the following information for the financial year ended 31st March, 2021 :

Pension from Central Government	2,47,000
Rent from let out property	2,40,000
Interest on moneys borrowed for let out property - paid	1,60,000
Interest on moneys borrowed for let out property - unpaid	12,000
Income from business in trade in grains and pulses	4,10,000
Loss from speculation in grains and pulses	50,000
Loss from speculation in Jewellery	80,000
Unabsorbed depreciation of discontinued textiles business of assessment year 2018-19	2,00,000

He let out a factory building with machinery for a monthly rent of Rs. 20,000.

The WDV of factory building as on 01-04-2020 was Rs. 8,10,000 (depreciation rate 10%) and WDV of machineries being Rs. 4,91,300 (depreciation rate 15%).

Compute the total income of Mr. Balaji for the Assessment year 2021-22. (8 Marks, PCC Nov. 2012)

Solution: Computation of total income of Mr. Balaji (amount in Rs.):

Income from salaries			
Pension from Central Government [WN-1]		2,47,000	
Less: Standard Deduction under Section 16(ia)		50,000	1,97,000
Income from house property			
Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent) Less: Municipal Taxes paid	2,40,000	Nil	
Net Annual Value (NAV)		2,40,000	
Less: Deduction under section 24			
(a) Standard deduction @ 30% of NAV	72,000		
(b) Interest on borrowed capital (Rs. 1,60,000 + Rs. 12,000) [WN-2]	1,72,000	2,44,000	-4,000
Income from business or profession			
Income from business of trading in grains and pulses [WN-3]	2,40,000	4,10,000	
Rent of factory building with machinery (Rs. 20,000 x 12)			
Less: Depreciation			
- Factory building (Rs. 8,10,000 x 10%)		81,000	
- Machinery (Rs. 4,91,300 x 15%)	73,695	85,305	
Less: Brought forward depreciation relating to A.Y. 2018-19 from discontinued textile business [WN-4]		4,95,305	2,95,305
Total Income (rounded off)			4,88,305

Working Notes:

- (1) Uncommuted pension is fully taxable in the hands of both government and non-government employees. It is presumed that pension received by Mr. Balaji is uncommuted pension. From such pension income, standard deduction of Rs. 50,000 is admissible.
- (2) Interest accrued is allowable as deduction under section 24(b). Therefore, interest of Rs. 12,000 accrued but not paid during the year can also be claimed as deduction.
- (3) Composite rent from letting out of building along with machinery is not taxable under the head "Income from house property", if the two lettings are not separable. It would be taxable either as business income or income from other sources.
It has been assumed that the composite rent received by Mr. Balaji from letting out of factory building and machinery is not separable and letting out of factory building by Mr. Balaji is incidental to his main business of trading in grains and pulses and therefore, such income would be taxable under the head "Profit and gains from business or profession".
- (4) Unabsorbed depreciation under section 32 can be carried forward indefinitely and set-off against income under any head, even if it relates to a discontinued business.
- (5) As per Section 73, loss from a speculation business can be set off only against profit of another speculation business. Therefore, loss from speculation in grains and pulses amounting Rs. 50,000 and loss from speculation in jewellery of Rs. 80,000 cannot be set off in the current year since there is no profit from any other speculation business. The total loss from speculation business of Rs. 1,30,000 (i.e. Rs. 80,000 + Rs. 50,000) has to be carried forward for set off against profit and gains of any speculation business in the succeeding 4 years.
Note: It is presumed that the loss from speculation in grains and pulses has not arisen on account of a hedging contract in respect of commodities entered into by Mr. Balaji in the course of his business of trading in grains and pulses.

Illustration 37 - Computation of Total Income and Tax Liability: Mrs. Rani a resident aged 50 years is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31st March, 2021 are given below :

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Staff Salary	52,40,000	By Fees receipts	60,00,000
To Clinic rent	1,20,000	By Dividend from Indian Companies (Gross)	10,500
To Medicines and needles	1,05,000	By Winning from Lotteries net of TDS (TDS Rs. 6,000)	14,000
To Depreciation	81,000	By Income-tax Refund	1,750
To Administrative expenses	1,52,000		
To Donation to Prime Minister's National Relief Fund	20,000		
To Excess of Income over Expenditure	3,08,250		

	60,26,250	60,26,250
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- (i) Depreciation in respect of all assets has been ascertained at ₹ 60,000 as per Income-tax rules.
- (ii) Medicines & needles of ₹. 22,000 have been used for her family.
- (iii) Fees Receipts include ₹. 24,000 being honorarium for valuing acupuncture examination answer books.
- (iv) She has also received ₹. 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (v) She has paid an LIC premium of ₹. 12,000 for self (Sum Assured ₹. 50,000).
- (vi) She has paid ₹. 2,500 for purchase of lottery tickets.
- Compute the total Income and tax payable thereon of Mrs. Rani for the A.Y. 2021-22. (10 Marks, IPCC May 2013)

Solution: Computation of Total Income and Tax Liability of Mrs. Rani (amount in ₹.):

Profits and Gains of Business or Profession:		
Net Profits as per Income and Expenditure A/c	3,08,250	
Less: Income tax refund	1,750	
Dividend from Indian companies	10,500	
Winnings from lottery (net of TDS)	14,000	
Honorarium for valuing acupuncture examination answer books	24,000	
Allowable depreciation as per Income tax rules	60,000	
Add: Expenditure debited but not allowable -	1,98,000	
Donation to Prime Minister's National Relief Fund	20,000	
Deprecation	81,000	
Cost of medicines and needles for self use	22,000	3,21,000
Income from other sources:		
Honorarium for valuing acupuncture examination answer books	24,000	
Gross Winnings from lottery [WN-1]	20,000	
Dividend from Indian company (Taxable)	10,500	54,500
Gross Total Income		3,75,500
Less: Deduction u/s 80C [LIC premium of ₹. 12,000 for self (Sum Assured ₹. 50,000) shall be allowed subject to 10% of capital sum assured assuming that the policy is issued on or after 01-04-2013]	5,000	
Deduction u/ s 80G (Donation to Prime Minister's National Relief Fund) [WN-3]	20,000	25,000
Total Income (rounded off)		3,50,500
Tax on Lottery Winnings [₹. 20,000 x 30%]		6,000
Tax on Balance Income (₹. 3,50,500 - ₹. 20,000 - ₹. 2,50,000)		4,025
Total tax		10,025
Less: Tax rebate under Section 87A [100% of tax or ₹. 12,500 which ever is less]		9,500
Total Income-tax		Nil
Less: TDS on dividends (₹. 10,500 x 10%)		1,050
Less: TDS on lottery winnings		6,000
Tax payable (rounded off)		-7,050

Working Notes:

- (1) Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". Hence, taxable amount is Rs. $(14,000 + 6,000) = \text{Rs. } 20,000$. Further cost of lottery tickets is not allowed as deduction.
- (2) Rs. 57,860 received on maturity of one LIC Policy, is exempt from tax under section 10(10D).
- (3) Donation to Prime Minister's National Relief Fund is eligible for 100% deduction.
- (4) Income tax refund shall not be taxable but interest on IT refund is taxable.

Illustration 38 - Computation of Total Income: The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31-03-2021:

Particulars	Rs.	Particulars	Rs.
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15-9-2020)	25,000
Wealth tax	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		
Advance income-tax	1,500		
Net Profit	1,35,000		
	2,30,000		2,30,000

Other information:

- (1) Aditya bought a car during the year for Rs. 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for Rs. 17,000. The use of the car was 3/4th for business and 1/4th for personal use.
 - (2) Medical expenses were incurred for the treatment of Nikita, his wife.
 - (3) Salary had been paid on account of car driver.
 - (4) Rent includes arrears of rent from April 2020 to October 2020 @ Rs. 5,000 p.m., paid in cash on 01-11-2020.
 - (5) Mr. Aditya had also let out a house property at a monthly rent of Rs. 25,000. The annual letting value is considered to be Rs. 2,50,000. The municipal taxes are Rs. 6,000, out of which Rs. 3,000 are paid by the tenant and Rs. 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is Rs. 20,000.
 - (6) Mr. Aditya's minor daughter received Rs. 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was Rs. 10,000.
 - (7) Aditya incurred an expense of Rs. 50,000 on the medical treatment of his dependant son, who has disability of more than 80%.
 - (8) Aditya had taken a loan during the year 2020-21 for the education of his son, who is pursuing B. Com. in Delhi University. Interest paid on the same during the year was Rs. 10,000.
- Compute the total income of Mr. Aditya. (10 Marks, Nov. 2013)

Solution: Computation of Total Income of Mr. Aditya (amounts in Rs.):

Income from house property:		
Gross Annual Value [Actual Rent Receivable (Rs. 25,000 x 12) or Annual letting value Rs. 2,50,000 which ever is higher]	3,00,000	
Less: Municipal taxes [WN-1]	Nil	
Net annual Value (NAV)	3,00,000	
Less: Standard deduction (@ 30% of NAV)	90,000	
Less: Interest on borrowed capital	20,000	1,90,000
Profits and gains of business profession:		
Net profit as per P&L A/c	1,35,000	
Less: Items credited to profit and loss account not treated as business income		
Gift of cash from a friend (received on 15-09-2020)	-25,000	
Sale of car	-17,000	
Interest on income-tax refund	-3,000	
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance Income Tax [Not allowable as deduction u/s 40(a)]	1,500	
Car expenses disallowed @ 25% for personal use [Rs. 3,000 x 25%]	750	
Depreciation on car [Rs. 3,000, Since, the car is sold in the year of purchase, hence block does not exist at year end, hence no depreciation shall be admissible]	3,000	
Wealth tax [Disallowed under Section 40(a)]	5,000	
Salary of car driver for personal use [Rs. 18,000 x 25%]	4,500	
Arrears of rent paid in cash [Since, it exceeds Rs. 10,000, the same shall be disallowed under section 40A(3)] (Rs. 5,000 x 7)	35,000	
Medical expenses [Personal expenses, hence disallowed under Section 37(1)]	4,500	1,44,250
Capital Gains:		
Original cost of car	20,000	
Sale proceeds of car	17,000	
Short term capital loss [Short term capital loss cannot be set off from any other head of Income and hence the same shall be carried forward]	-3,000	Nil
Income from other sources :		
Interest on income tax refund	3,000	
Gift of cash from a friend [Not taxable u/s 56(2)(x), since it does not exceed Rs. 50,000]	Nil	
Interest on company deposits of Mr. Aditya's daughter will be clubbed with Aditya's		
Income and exemption of Rs. 1,500 u/s 10(32) shall be allowed. (Rs. 10,000 - Rs. 1,500)	8,500	11,500
Gross Total Income		3,45,750
Less: Deduction under section -		
Section 80DD : Medical treatment of dependent disabled suffering from severe		

disability [Fixed sum shall be allowed as deduction, irrespective of expenditure incurred]	1,25,000	
Section 80E: Interest on loan taken for higher education of son	10,000	1,35,000
Total Income (rounded off)		2,10,750

Working Note:

- (1) Municipal taxes of Rs. 3,000 yet to be paid by Mr. Aditya., shall not be allowed as deduction, since Municipal taxes paid during the previous year is allowed as deduction. Municipal taxes paid by tenant (Rs.3,000) are also not eligible for deduction.
- (2) Income of Rs. 75,000 received by Mr. Aditya's minor daughter from stage acting will not be clubbed in hands of Aditya.

Illustration 39 - Computation of Total Income and tax liability: From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2021. Tax payable need not be calculated.

(i) Salary including Dearness Allowance	5,00,000
(ii) Bonus	15,000
(iii) Salary to servant provided by Employer	12,000
(iv) Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat	14,500
(v) Cost of Laptop provided by the employer (Used both for official and personal purposes)	40,000

Following additional information is provided:

- (1) Kamal purchased a flat in a Co-operative Housing Society in Delhi for Rs. 10,75,000 in April, 2014 by taking loan from State Bank of India amounting to Rs. 5,00,000 @ 15% per annum interest, Rs. 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of Rs. 5,500. The outstanding amount of loan is Rs. 1,60,000.
- (2) Municipal Taxes paid by Kamal Rs. 4,500 p.a.
- (3) Insurance in respect of the said flat Rs. 1,275
- (4) Kamal earned a profit of Rs. 15,000 in shares speculation business and incurred a loss of 20,200 in speculation business of cotton.
- (5) In the year 2015-16, he had gifted Rs. 50,000 to his wife and Rs. 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.
- (6) Kamal received a gift of Rs. 25,000 each from his four friends on the occasion of his birthday.
- (7) He contributed Rs. 10,500 to Public Provident Fund and Rs. 6,000 to Unit Linked Insurance plan.
- (8) He deposited Rs. 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
- (9) He has taken a policy on life for his married daughter on 1-4-2020 and paid a premium of Rs. 2.5,000. The sum assured for policy is Rs. 2,00,000. (10 Marks, May 2014)

Solution: Computation of total income and tax liability of Mr. Kamal (amounts in Rs.):

Income under the head Salary:		
Salary including dearness allowance	5,00,000	
Bonus	15,000	
Salary of servant provided by the employer (Taxable as perquisite)	12,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Kamal (Taxable as perquisite)	14,500	

Laptop for official and personal use	Exempt	
Gross Salary	5,41,500	
Less: Standard deduction u/s 16(ia)	50,000	4,91,500
Income from House Property :		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) [Rs. 5,500 x 12]	66,000	
Less : Municipal Taxes paid	4,500	
Net Annual Value (NAV)	61,500	
Less: Standard Deduction @ 30% of NAV	18,450	
Less: Interest on loan from SBI [Rs. 1,60,000 x 15% x 1]	24,000	19,050
Profits and gains of business or profession:		
Profit in Share speculation business	15,000	
Loss in Cotton speculation business	-20,200	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.	-5,200	
Income from Other Sources :		
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal as per Section 64(1A). However, as per section 10(32) an exemption of Rs. 1,500 shall be available (Rs. 4,500 - Rs. 1,500)	3,000	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per Section 64(1) (Rs. 50,000 x 15%)	7,500	
Gift from four friends @ Rs. 25,000 each - Since the aggregate amount exceeds Rs. 50,000, hence, whole of the sum will be taxable u/s 56(2) (x)	1,00,000	1,10,500
Gross Total Income		6,21,050
Less: Deduction u/s 80C		
Contribution to Public Provident Fund	10,500	
Tax saver deposit with a Nationalised Bank in the name of his married son [WN-1]	Nil	
LIC premium in respect of policy taken in name of married daughter [WN-2]	20,000	
Unit Linked Insurance Plan	6,000	36,500
Total Income (rounded off)		5,84,550
Tax on total income		29,410
Add: Health and Education cess @ 4%		1,176
Total Tax (rounded off)		30,590

Working Notes:

- (1) Tax saver deposit in the name of married son does not qualify for deduction under section 80C.
- (2) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction u/s 80C. Therefore, the life insurance premium paid for insurance policy of married daughter is allowed as deduction. However, the same cannot exceed 10% of capital sum assured since the policy is taken after 31-03-2012.
- (3) It has been assumed that Kamal own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied

for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Illustration 40 - Computation of Total Income: Mr. Raghuveer, a resident individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31.1.1 March, 2021:

- (i) The net profit was Rs. 6,50,000.
- (ii) The following incomes were credited in the Profit & Loss Account:
 - Interest on government securities Rs. 25,000
 - Dividend from a foreign company Rs. 18,000
 - Gold coins worth Rs. 55,000 received as gift from his father.
- (iii) Depreciation debited in the books of account was Rs. 85,000. Depreciation allowed as per Income-tax Act, 1961 was Rs. 96,000.
- (iv) Interest on loan amounting to Rs. 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31st March, 2021.
- (v) General expenses included:
 - An expenditure of Rs. 20,500 which was paid by a bearer cheque.
 - Compensation of ₹4,500 paid to an employee while terminating his services in business unit.
- (vi) He contributed the following amounts by cheque:
 - Rs. 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
 - Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - Rs. 28,000 towards premium for health insurance and Rs. 2,500 on account of preventive health check up for self and his wife.
 - Rs. 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

You are required to compute the total income of Mr. Raghuveer for the Assessment Year 2021-22. (10 Marks, Nov. 2016)

Ans: Computation of total income of Mr. Raghuveer (amount in Rs.):

Profits and Gains of Business or Profession		
Net profit as per profit and loss account	6,50,000	
Add: Expenses debited to P&L A/c but not allowable as deduction		
Interest on loan amounting to was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31-3-2021 [WN-1]	68,000	
Expenditure which was paid by a bearer cheque. [WN-2]	20,500	
Depreciation debited in the books of account	85,000	
Compensation paid to an employee while terminating his services in business unit. [WN-3]	-	
	8,23,500	
Less: Incomes credited to P&L A/c but not taxable as business income		
Interest on government securities	25,000	
Dividend from a foreign company	18,000	
Gold coins received as gift from his father	55,000	
Depreciation allowable under the Income-tax Rules, 1962	96,000	6,29,500

Income from Other sources		
Interest on government securities	25,000	
Dividend from a foreign company [WN-4]	18,000	
Gold coins received as gift from his father [WN-5]	-	43,000
Gross Total Income		6,72,500
Less: Deduction under Chapter VI-A -		
U/s 80C : Sukanya Samridhi Scheme	45,000	
U/s 80D : Insurance premium [WN-6]	25,000	
Medical Expenses of Father (82 Yrs) [WN-6]	35,000	
U/s 80G : Contribution to Swachh Bharat Kosh [WN-7]	20,000	1,25,000
Total Income		5,47,500

Working Note:

- (1) As per Section 36(1) (iii), interest on capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- (2) As per Section 40A(3), expenditure in respect of which aggregate payments made to a person in a day, in excess of Rs. 10,000, made otherwise than by way of account payee cheque/demand draft is disallowed in full.
- (3) Compensation of Rs. 4,500 paid to an employee while terminating his services in business unit is allowed as deduction under section 37.
- (4) Dividend from Foreign Company is Taxable under the Head "Income from Other Sources".
- (5) As per Section 56(2) (x), gift received from a relative (father) is exempt from tax.
- (6) Deduction in respect of health insurance premium paid on the health of himself and preventive health check up for self and his wife shall be allowed subject to maximum of Rs. 25,000.
Deduction under section 80D in respect of medical expenditure of his father who is a senior citizen shall be allowed of Rs. 35,000.
- (7) 100% deduction under section 80G for contribution to Swachh Bharat Kosh set up by the Central Government shall be allowed without any restriction.

Illustration 41 - Computation of total income : Ms. Rekha, a resident individual aged 50, provides the following information for the financial year 2020-21:

- (i) **She is a partner in AK & Co. and received the following amount from the firm:** Share of profit from the firm Rs. 35,000
Interest on capital @ 15% p.a. Rs. 3,00,000
Salary as working partner Rs. 1,00,000
(fully allowed in the hands of the firm)
- (ii) She is running a rice mill as proprietor. The Net profit as per Profit & Loss Account is Rs. 4,50,000. The following items are debited to Profit and Loss account:
 - Advance Income-tax paid Rs. 1,00,000
 - Personal drawings Rs. 50,000**The Following items are credited to Profit and Loss Account:**
 - Interest on savings bank account with SBI Rs. 12,000
 - Interest on savings account with post office Rs. 5,000
 - Dividend from listed Indian Company Rs. 80,000

- (iii) She owned a house property in Mumbai which was sold in January, 2018. She received Rs. 90,000 by way of arrear rent in respect of the said property in October, 2020.
- (iv) She made the following investments:
 Life insurance premium on a policy in the name of her married daughter Rs. 60,000. (The policy was taken on 01-10-2015 and the sum assured being Rs. 5,00,000).
 Health insurance premium on a policy covering her mother aged 75. She is not dependent on Ms. Rekha. Premium paid by cheque Rs. 55,000.
 Compute the Total Income and the tax liability of Ms. Rekha for the Assessment Year 2021-22. (10 Marks, May 2017)

Solution: Computation of total income and tax payable by Ms. Rekha (amounts in Rs.);

Income from house property:		
Arrears of Rent received in respect of the Mumbai house taxable u/s 25A	90,000	
Less: 30% deduction u/s 25A	-27,000	63,000
Profits and gains of business profession:		
Net profit as per P&L A/c	4,50,000	
Less: Items credited to profit and loss account not treated as business income		
Interest on savings bank account with SBI	-12,000	
Interest on savings account with post office	-5,000	
Dividend from listed Indian Company	-80,000	
Add: Items debited to profit and loss account to be disallowed/considered separately	1,00,000	50,000
Advance Tax (not allowable as deduction u/s 40(a) Personal drawings		
Income from Rice Mill	5,03,000	
Share of profit from firm is exempt from tax under Section 10(2A)	-	
Salary as working partner in partnership firm (Taxable as profits and gains of business or profession u/s 28)	1,00,000	
Interest on capital (As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @ 12%) [Rs. 3,00,000 x 12% ÷ 15%]	2,40,000	8,43,000
Income from other sources:		
Interest on savings bank account with SBI	12,000	
Interest on savings account with post office 5,000 - Rs. 3,500] [W.N]	1,500	
Dividend from listed Indian Company (Taxable in hands of shareholder - assumed to be Gross)	80,000	93,500
Gross Total Income		9,99,500
Less: Deduction under section -		
80C: Life insurance premium for policy in the name of her married daughter, restricted to 10% of sum assured i.e. 10% of Rs. 5,00,000.	50,000	
80D: Medical Insurance Premium on life of parent, being a senior citizen (i.e. of age exceeding 60 years) - Qualifies for deduction, even though the mother is not dependent on the assessee. However, deduction cannot exceed Rs. 50,000.	50,000	
80TTA: Interest on savings bank account with SBI and post office (Rs. 12,000 + Rs. 1,500). However, deduction cannot exceed Rs. 10,000. [W.N]	10,000	1,10,000
Total Income		8,89,500
Tax on total Income		90,400
Add: Health and Education cess @ 4%		3,616

<i>Less: Advance Tax</i>		94,016 -1,00,000
Net tax refundable (rounded off)		-5,980

Working Note: Interest on Post Office Saving Bank Account is exempt from tax u/s 10(15) upto Rs.3,500. As per Section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Ms. Rekha, though the interest from savings bank account after exemption u/s 10(15) is Rs.13,500.

Illustration 42 - Computation of Total Income and tax liability: From the following particulars of Shri Jagdish (Aged 59 years) for the Assessment Year 2021-22, you are required to find out his taxable income and net tax liability:

- (i) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 1,0,000 per month (Part of salary for retirement benefits). House rent allowance Rs. 4,000 per month and rent paid for house in Mumbai is Rs. 7,000 per month.
 - (ii) He owns a commercial building at New Delhi, which is let out on 01-07-2020 at a monthly rent of Rs.46,000, He paid for municipal taxes of Rs. 27,000 and Rs. 25,000 for the financial year 2019-20 and 2020-21 on 31-03-2021 and 20-04-2021 respectively.
 - (iii) He deals in shares. During financial year 2020-21 he earned Rs. 1,70,000 from his share business and paid Rs. 30,000 as security transaction tax.
 - (iv) He purchased 4,000 unlisted shares of Shyam Limited on 16-01-2008 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2008. Shri Jagdish sold 3000 Bonus Shares on 28-12-2020 for Rs. 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08 :129, 2020-21 : 301)
 - (v) He received net dividend of Rs. 11,70,000 as dividend income from listed domestic company. Interest from saving bank account deposits with IDBI Bank Rs. 15,000 and lottery winnings (Net of TDS @ 30%) is Rs. 21,000.
- He paid the following amount out of his taxable income :
- (c) Deposits in Public Provident Fund Rs. 2,00,000.
 - (d) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque. **(Modified 14 Marks, May 2019-NS)**

Solution: Computation of total income and tax liability of Mr. Jagdish (amount in Rs.);

Income from salaries:			
Basic salary (Rs. 51,000 x 12)		6,12,000	
Dearness allowance (Rs. 10,000 x 12)		1,20,000	
House Rent Allowance	[WN-1]	37,200	
Gross Salary		7,69,200	
Less: Standard Deduction u/s 16(ia)		50,000	7,19,200
Income from House Property:			
Actual rent being Gross Annual Value [Rs. 46,000 x 9]		4,14,000	
Less: Municipal taxes paid [taxes paid during FY 2020-21 shall be allowed as deduction on actual payment basis]		27,000	
Net Annual Value		3,87,000	

Less: Deductions under section 24 -			
(a) Statutory Deduction @ 30% of NAV		1,16,100	
(b) Interest on loans		Nil	2,70,900
Profits and gains from business or profession :			
Income from business in dealing in shares		1,70,000	
Less: Security transaction tax [Same is allowed as deduction as per provisions of Sec. 36(1)(xv)]		30,000	1,40,000
Capital gains			
Sale consideration on sale of bonus shares		2,00,000	
Less: Indexed cost of acquisition	[WN-2]	Nil	2,00,000
Income from other sources:			
Dividend from shares of Indian company	[WN-4]	13,00,000	
Gross Winnings from lottery	[WN-3]	30,000	
Saving bank interest		15,000	13,45,000
Gross Total Income			26,75,100
Less: Deduction u/s 80C (PPF subject to maximum of Rs.1,50,000)		1,50,000	
Less: Deduction u/s 80D for medical insurance premium paid [(Wife 19,000 and dependent son 12,000) subject to maximum of Rs.25,000]		25,000	
Less: Deduction u/s 80TTA - Interest on savings bank account. However, deduction cannot exceed Rs. 10,000.		10,000	1,85,000
Total Income (rounded off)			24,90,100
Long term capital gains taxable u/s 112 @ 20% (Rs. 2,00,000 x 20%)		40,000	
Winnings from lottery taxable u/s 115BB @ 30%		9,000	
(Rs. 30,000 x 30%) Balance Income taxable at normal rates Rs. (24,90,100 - 30,000 - 2,00,000) i.e. Rs. 22,60,100		4,90,530	
Total Tax		5,39,530	
Add: HEC @ 4%		21,581	
Total tax liability (rounded off)		5,61,110	
Less: TDS on dividends (Rs. 13,00,000 x 10%)		1,30,000	
Less: TDS on lottery winnings		9,000	
Tax payable			4,22,110

Working Notes:

- (1) HRA is exempt to the extent least of the following (amount in Rs.) -

(1) Actual HRA received 4,000 x 12]	48,000
(2) Rent paid -10% of salary [Rs. 7,000 x 12 - 10% of (Rs. 6,12,000 + Rs. 1,20,000)]	10,800
(3) 50% of the salary [50% of 6,12,000 + Rs. 1,20,000]	3,66,000
Exempted HRA	10,800
Taxable HRA	37,200
- (2) Cost of acquisition of bonus shares is Nil as per section 55. Since the bonus shares were allotted on 1-2-2008, the period of holding of bonus shares exceeds 2 years, therefore, it is a long-term capital asset.
- (3) Winnings from lottery should be grossed up for the changeability under the head "Income from other sources". Hence, taxable amount is Rs. (21,000 x 100 ÷ 70) = Rs. 30,000.
- (4) Dividend from shares of Indian company is taxable in hands of shareholder at normal rate. Company is liable to deduct tax at source @ 10% under Section 194. Hence, it should be grossed up for the

changeability under the head "Income from other sources". Hence, taxable amount is Rs. $(11,70,000 \times 100 - 90) = \text{Rs. } 13,00,000$.

Illustration 43 - Computation of Total Income: Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of Rs. 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in-turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2020-21.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

Rs. 17,000 were paid as Interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2020-21, Mr. Madhvan purchased a rural agricultural land for Rs. 2,50,000. Stamp valuation of such property is Rs. 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2021-22. All workings should form part of your answer. (8 Marks, May 2019-NS)

Solution: Computation of taxable income of Mr. Madhvan (amount in Rs.):

Income from Salary:		
Basic salary (Rs. 30,000 $\times$ 12)	3,60,000	
Rent free accommodation (15% of salary i.e. Rs. 54,000 or Lease rent paid i.e. Rs. 65,000 whichever is less shall be taxable value of rent free accommodation)	54,000	
Gross Salary	4,14,000	
Less: Standard deduction u/s 16(ia)	50,000	3,64,000
Income from House Property :		
House I .	[WN-1] 39,900	
House II	[WN-1] 1,33,500	1,73,400
Income from Other Sources :		
Purchase of Rural Agricultural land for inadequate consideration	[WN-2]	-
Gross Total Income		5,37,400

Working Notes:

(1) **Income from House property :**

Particulars	House I	House II
Gross Annual value:		
Expected rent or actual rent whichever is higher	75,000	2,85,000
Less: Municipal taxes paid	18,000	70,000
Net Annual value	57,000	2,15,000
Less: Deduction u/s 24		
Standard deduction (30% of NAV)	17,100	64,500

Less: Interest on borrowed capital		17,000
	39,900	1,33,500

- (2) Since agricultural land is not a capital asset, the provisions of section 56(2) (x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.

Illustration 44 - Computation of Total Income and Tax liability: Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the year ended 31-3-2021:

(a)	Analysis of her bank account in her ledger reveals the under-mentioned data:	Rs.
(i)	Winnings from a TV Game show (Net)	70,000
(ii)	Gift received from mother's father	80,000
(iii)	Gift received from Ramya, her close friend	60,000
(iv)	Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (@ 15% p.a.)	3,00,000
(v)	Rent received for a vacant plot of land	2,00,000
(vi)	Amount received from Sharks Pvt. Ltd., for a house at Salem, for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2020.	1,50,000
(vii)	Amount received under Key-man Insurance Policy	2,20,000
(viii)	Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement.	3/10,000
(b)	Donation given in cash to a charitable trust registered u/s 12AA	12,000
(c)	She owns agricultural lands at Colombo, Sri Lanka, She has derived agricultural income therefrom.	1,80,000
(d)	(i) Public Provident Fund paid in the name of her minor daughter	75,000
	(ii) Interest credited in the said PPF account during the year	8,900
(e)	Share of profits received from Vidyut & Co.	1,90,000

You are required to compute the total income of the assessee and the tax payable for the assessment year 2021-22. Computation should be made under proper heads of income. (10 Marks, Nov. 2018-NS)

Solution: Computation of Total income and Tax payable (amounts in Rs.):

Income from House Property:		
Arrears of rent received under Section 25A	1,50,000	
Less: Standard deduction @ 30% [WN-1]	45,000	1,05,000
Profits and gains of business or profession :		
Share of profit from Vidyut & Co. amounting Rs. 1,90,000 is exempt from tax u/s 10(2A)	-	
Amount received under Key-man Insurance Policy	2,20,000	
Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @ 12%) [Rs. 3,00,000 x 12% 15%]	2,40,000	4,60,000
Income from other sources:		
Winnings from a TV Game show (Gross) [WN-2]	1,00,000	
Gift received from mother's father [Gift received from mother's father has been brought to tax u/s 56(2)(x) on the basis of the view that maternal grandparents are not "lineal ascendants" and hence, do not fall within the definition of 'relative' given	80,000	

there under, However, there is an alternate view that maternal grandparents are lineal ascendants and hence, fall under the definition of relative u/s 56(2). If this view is considered, gift of Rs. 80,000 from mother's father would not be taxable.] Gift received from Ramya, her close friend [Taxable u/s 56(2)(x), since it exceeds Rs. 50,000]	60,000	
Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement [WN-3]	3,10,000	
Interest credited in PPF account [Exempt from tax]	Nil	
Agricultural Income from land situated in Colombo	1,80,000	
Rent received for a vacant plot of land	2,00,000	9,30,000
Gross Total Income		14,95,000
Less: Deduction u/s chapter VI-A		
U/s 80C : Contribution to Public Provident Fund in name of minor daughter [Contribution made in name of any child of the Individual qualifies for deduction u/s 80C]	75,000	
U/s 80G: Donation given in cash to a charitable trust registered u/s 12 AA [No deduction shall be allowed u/s 80G in respect of donation of any sum exceeding Rs. 2,000 unless such sum is paid by any mode other than cash.]	Nil	75,000
Total Income (rounded off)		14,20,000
Computation of tax liability:		
Winnings from TV Game show under Section 115BB @ 30% (Rs. 1,00,000 x 30%)		30,000
Balance Income taxable at normal rates Rs. (14,20,000 - 1,00,000) i.e. Rs. 13,20,000		2,08,500
Total Tax		2,38,500
Add: HEC @ 4%		9,540
Total tax liability		2,48,040
Less: TDS on lottery winnings		30,000
Tax payable		2,18,040

Working Notes:

- (1) According to Section 25A, recovery of arrears of rent received is taxable as "Income from House Property" whether the assessee is owner of the house or not. Hence, in the given case, the amount of Rs. 1,50,000 received by Miss Sakshitha from Sharks Pvt. Ltd. by way of arrears of rent after giving deduction of 30%, shall be taxable as her income for the previous year 2020-21 even if she ceases to be the owner of the house property during the previous year.
- (2) Winnings from TV game show should be grossed up for the chargeability under the head "Income from other sources" since tax is deducted at source @ 30% under Section 194B as amount of winnings exceeds Rs. 10,000. Hence, taxable amount is Rs. $(70,000 \times 100 - 70) = \text{Rs. } 1,00,000$.
- (3) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if, such sum is forfeited and the negotiations do not result in transfer of such capital asset shall be chargeable to tax under Section 56(2)(ix) as Income from other Sources.



13

TAX DEDUCTION AT SOURCE, TAX COLLECTION AT SOURCE AND ADVANCE TAX

Topic References:

-  Tax Deduction at Source
-  Tax Collection at Source
-  Advance tax
-  Interest Under Section 234B & 234C

TAX DEDUCTION AT SOURCE

1. *What do you mean by tax deduction at source and tax collection at source?.*

Ans: The meaning of relevant terms are as under -

- (1) **Tax deduction at source :** TDS is one of the means of recovery of income tax from the assessee in the previous year itself. In case of certain income, tax is deducted at source by the payer at the prescribed rate at the time of credit or payment of such income to the payee. The payee gets the benefit of TDS from his income tax liability. TDS is also known as "Withholding Tax".
- (2) **Tax Collection at source :** In certain cases, tax is collected at source by the seller from buyer at the time of debiting the amount to account of the buyer or the receipt of payment, whichever is earlier.

2. *Write a note on deduction at source and advance payment u/s 190 of the Income-tax Act, 1961.*

Ans: **Deduction at source and advance payment [Section 190] :** As per provisions of Section 4 of the Income-tax Act, the regular assessment in respect of any income is to be made in a later assessment year. However, the tax on such income shall be payable by deduction or collection at source or by advance payment or by payment u/s 192(1A).

3. *Write a note on direct payment of tax under section 191 of the Income-tax Act, 1961.*

Ans: The provisions relating to direct payment are as under -

- (1) **Direct Payment [Section 191]:** In case of income in respect of which provision is not made for deducting income-tax at the time of payment, and in any case where income-tax has not been deducted in accordance with the provisions of the Act, income-tax shall be payable by the assessee directly.
- (2) **Tax payments in respect of ESOP to be paid by the assessee directly :** For the purposes of paying income-tax directly by the assessee, if the income of the assessee in any assessment year, beginning on or after 01-04-2021, includes income of the nature specified in section 17(2)(vi) i.e. ESOP and such specified security or sweat equity shares are allotted or transferred directly or indirectly by the current employer, being an eligible start-up referred to in section 80-IAC, the income-tax on such income shall be payable by the assessee within 14 days —
 - (i) after the expiry of 48 months from the end of the relevant assessment year; or
 - (ii) from the date of the sale of such specified security or sweat equity share by the assessee; or
 - (iii) from the date of the assessee ceasing to be the employee of the employer who allotted or transferred him such specified security or sweat equity share,
 whichever is the earliest.

- (3) **Assessee deemed to be in default on account of failure to deduct or pay tax:** If any person including the principal officer of a company,-
 (a) who is required to deduct any sum in accordance with the provisions of this Act; or
 (b) referred to in Section 192(1A), being an employer, does not deduct, or after so deducting fails to pay, or does not pay, the whole or any part of the tax, as required by or under this Act, and where the assessee has also failed to pay such tax directly, then, such person shall be deemed to be an assessee in default within the meaning of Section 201(1), in respect of such tax.
- (4) **Tax can be recovered by other modes :** As per Section 202, TDS is one of the modes of recovery and other modes of recovery may also be adopted against the assessee.
- (5) **Direct demand cannot be made :** As per Section 205, if tax has been deducted at source, the assessee shall not be called upon to pay the tax himself to the extent to which tax has been deducted from that income.

4. **Explain the provisions of deduction of tax at source under the head Salaries.**

Ans: TDS in case of income under the head 'Salaries' [Section 192]:

- (1) **Person responsible for deducting tax at source :** Any person responsible for paying any income chargeable under the head 'Salaries' shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of making payment of salary.
- (3) **Rate of tax deduction :** The TDS is to be made at the average of income tax computed on the basis of the rates in force for the financial year in which the payment is made. In other words, the total tax to be deducted, on the estimated income of the employee for the relevant financial year, is divided by the number of months of his employment during that financial year. The employer may increase or reduce the amount of TDS for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.
- (4) **Computation of TDS on salaries :** The amount of tax to be deducted at source in case of 'Salaries' shall be higher of Amount [H] of table I or Amount [G] of table II:

Table-I	Rs.	Table-II	Rs.
Income under the head salaries [A]	XX	Income under the head salaries [A]	XX
Less: Loss from house property [B]	XX	Less: Loss from house property [B]	XX
Add: Income under any other head [C] (Ignore loss of other head)	XX		
Gross amount [D = A - B + C]	XX	Gross amount [C = A - B]	XX
Less: Deductions under Chapter VIA [E]	XX	Less: Deductions under Chapter VIA [D]	XX
Net amount on which tax is to be deducted		Net amount on which tax is to be deducted	
[F = D - E]	XX	[E = C - D]	XX
Tax on [F]	XX	Tax on [E]	XX
Less: Tax deduction under any other section		Less: Relief under section 89 [F]	
and relief under section 89 [G]	XX		XX
Amount of tax to be deducted at source		Amount of tax to be deducted at source	
[H = F - G]	XX	[G = E - F]	XX

- (5) **Tax on non-monetary perquisites paid by employer :** An employer shall have an option to pay tax on behalf of an employee, without making any deduction from his income, on the income in the nature of perquisites, which is not provided for by way of monetary payment. Such tax shall be computed as under,-
Tax on non-monetary perquisites = Non monetary perquisites $\times$ Average rate of income tax
- (6) **Deferring TDS or tax payment in respect of income pertaining to Employee Stock Option Plan (ESOP) of start-ups [Section 192(1C) [Inserted by Finance Act, 2020 w.e.f. 01-04-2020]:** For the purposes of deducting or paying tax, a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in Section 17(2) (vi) in any previous year relevant to the assessment year, beginning on or after 01-04-2020, shall deduct or pay, as the case may be, tax on such income within 14 days —
- after the expiry of 48 months from the end of the relevant assessment year; or
 - from the date of the sale of such specified security or sweat equity share by the assessee; or
 - from the date of the assessee ceasing to be the employee of the person,
- whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.
- (7) **Salary from more than one employer :** Where, during the financial year, an assessee is employed simultaneously under more than one employer, or where he has held successively employment under more than one employer, he may furnish to the employer at his choice, such details of the income under the head "Salaries" due to or received by him from the other employer or employers, the tax deducted at source therefrom, and thereupon the employer shall take into account the details so furnished for the purposes of making the deduction.
- (8) **Deductor to obtain proof or evidence or particulars of prescribed deductions/ exemptions/ set-off of losses claimed by the employee [Section 192(2D)] :** The person responsible for making the payment referred to in Section 192(1) shall, for the purposes of estimating income of the assessee or computing tax deductible under Section 192(1), obtain from the assessee the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) under the provisions of the Act in such form and manner as may be prescribed.

Rule 26C has been inserted in the Income-tax Rules, 1962, with effect from 1st June, 2016, to require furnishing of evidence of the following claims by an employee to the person responsible for making payment under section 192(1) in Form No.12BB for the purpose of estimating his income or computing the tax deduction of tax at source:

S.No.	Nature of Claim	Evidence or particulars
1.	House Rent Allowance	Name, address and PAN of the landlord(s) where the aggregate rent paid during the previous year exceeds Rs. 1 lakh.
2.	Leave Travel Concession or Assistance	Evidence of expenditure
3.	Deduction of interest under the head "Income from house property"	Name, address and PAN of the lender
4.	Deduction under Chapter VI-A	Evidence of investment or expenditure.

Illustration 1 Computation of TDS on salaries : Rajkumar is employed in a company in Ahmedabad. He received salary of Rs. 8,00,000 (Computed) from his employer during financial year 2020-21. During financial year 2020-21, he made payments of Rs. 1,50,000 eligible for deduction under section 80C. Compute the amount of tax deductible at source per month from the salary of Mr. Rajkumar, if Mr. Rajkumar has following other incomes, as reported to the employer company :

Loss under the head House property	Rs. 60,000
Loss from business	Rs. 50,000
Professional fees gross income	Rs. 1,00,000 (TDS deducted Rs. 10,000)
(expenses incurred to earn professional income Rs. 80,000)	

Solution: Amount of tax to be deducted from salary income : Higher of the amount arrived at in (A) or (B) below - (A) Computation of tax due on salary income after deducting loss from house property (amount in Rs.):

Income from salary (Computed)	8,00,000
Less: Loss from house property	60,000
Gross total income (GTI)	7,40,000
Less: Deduction u/s 80C	1,50,000
Total income	5,90,000
Tax due	30,500
Add: HEC @ 4%	1,220
Tax to be deducted at source	31,720

(B) Computation of tax due on salary income including other incomes (not loss) but excluding loss from house property (amount in Rs.):

Income from salary (Computed)	8,00,000
Loss from house property	-60,000
Professional Income (Rs. 1,00,000 - Rs. 80,000)	20,000
Gross total income (GTI)	7,60,000
Less: Deduction u/s 80C	1,50,000
Total Income	6,10,000
Tax due	34,500
Add: HEC @ 4%	1,380
Total tax	35,880
Less: Tax deducted at source under other sections	10,000
Tax to be deducted at source	25,880

Therefore, amount of tax to be deducted at source = Rs. 31,720

Monthly installment of TDS = Rs. 2,643

5. Explain the provisions of tax deduction at source on premature withdrawal from recognised provident fund. (2 Marks, Nov. 2016)

Ans: Payment of accumulated balance due to an employee [Section 192A] :

(1) **Person responsible for deducting tax at source :** The trustees of the Employees' Provident Fund Scheme, 1952, or any person authorised under the scheme to make payment of accumulated balance due to employees, shall, in a case where the accumulated balance due to an employee participating in a

recognised provident fund is includible in his total income owing to the provisions of rule 8 of Part A of the Fourth Schedule not being applicable, shall be liable to deduct tax at source.

- (2) **Time of tax deduction:** At the time of payment of accumulated balance due to the employee.
- (3) **Rate of tax deduction at source:** 10%. However, any person entitled to receive any amount on which tax is deductible under this section do not furnish his PAN to the person responsible for deducting such tax, then, tax would be deductible at the maximum marginal rate i.e. 42.744%.
- (4) **No TDS in the following cases :** No deduction under this section shall be made where the amount of such payment or, as the case may be, the aggregate amount of such payment to the payee is less than Rs. 50,000.

6. **Write a short note on TDS on interest on securities.**

Ans: Interest on securities [Section 193]:

- (1) **Person responsible for deducting tax at source :** The person responsible for paying any income to a resident by way of interest on securities shall be liable to deduct tax at source.
- (2) **Time of tax deduction :** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
Note : Where any income by way of interest on securities is credited to any account, whether called "Interest payable account" or "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.
- (3) **Rate of tax deduction:** 10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the following cases:** No tax shall be deducted from,-
 - (i) any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as notified by the Central Government.
 - (ii) any interest payable on any security of the Central Government or a State Government. However, tax shall be deducted @ 10% if the interest payable on 7.75% Savings (Taxable) Bonds, 2018 exceeds Rs. 10,000 during the financial year.
 - (iii) any interest payable to an individual or a Hindu undivided family, who is resident in India, on any debenture issued by a company in which the public are substantially interested, if,—
 - (a) the amount of interest or, as the case may be, the aggregate amount of such interest paid or likely to be paid on such debenture during the financial year by the company to such individual or Hindu undivided family does not exceed Rs. 5,000; and
 - (b) such interest is paid by the company by an account payee cheque.
 - (iv) any interest payable to the Life Insurance Corporation of India in respect of any securities owned by it or in which it has full beneficial interest; or
 - (v) any interest payable to the GIC and its subsidiary companies, in respect of any securities owned by the corporation or such company or in which the corporation or such company has full beneficial interest; or
 - (vi) any interest payable to any other insurer in respect of any securities owned by it or in which it has full beneficial interest;

- (vii) any interest payable on any security issued by a company, where such security is in dematerialised form and is listed on a recognised stock exchange in India.
- (viii) Any interest is payable on debentures issued by any institution or authority or any public sector company or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as notified by the Central Government;

Accordingly, the Central Government has, vide Notification No. 27 & 28/2018, dated 18-06-2018, notified -

- (i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited (PFCL) and
- (ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited (IRFCL)

Thus, no tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond".

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

7. Write a note on TDS on dividends.

Ans: Dividends [Section 194] [Amended by Finance Act, 2020 w.e.f. 01-04-2020]:

- (1) **Person responsible for deducting tax at source :** The principal officer of an Indian company or a company which has made the prescribed arrangements for the declaration and payment of dividends (including dividends on preference shares) within India, shall, before making any payment by any mode in respect of any dividend or before making any distribution or payment to a shareholder, who is resident in India, of any dividend referred under section 2(22) (a) to 2(22) (e).
- (2) **Rate of tax deduction :** 10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (3) **No TDS in the following cases :** No TDS shall be made in the case of a shareholder, being an individual, if -
 - (i) the dividend is paid by the company by any mode other than cash; and
 - (ii) the amount of such dividend or, as the case may be, the aggregate of the amounts of such dividend distributed or paid or likely to be distributed or paid during the financial year by the company to the shareholder, does not exceed Rs. 5,000.
- (4) **Non-Applicability :** The provisions of this section shall not apply to such income credited or paid to —
 - (a) the LIC of India established under the LIC Act, 1956, in respect of any shares owned by it or in which it has full beneficial interest;
 - (b) the GIC of India or to any of its subsidiary companies in respect of any shares owned by it or in which it has full beneficial interest;
 - (c) any other insurer in respect of any shares owned by it or in which it has full beneficial interest.

8. *Write a note on TDS on interest other than "Interest on securities". OR List any 5 instances where the tax deductible at source in terms of Section 194A will not apply. (5 Marks, PCC May 2018)*

Ans: Interest other than "Interest on securities" [Section 194A] [Amended by Finance Act, 2020 w.e.f. 01-04-2020] :

- (1) **Person responsible for deducting tax at source :** Any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any income by way of interest other than interest on securities, shall be liable deduct tax at source.
An individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the financial year in which such interest is credited or paid, shall be liable to deduct income-tax under this section.
- (2) **Time of tax deduction :** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
Note : Where any income by way of interest as aforesaid is credited to any account, whether called "Interest payable account" or "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.
- (3) **Rate of tax deduction:** 10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the following cases :** No tax shall be deducted,-
 - (i) where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed,-
 - (a) Rs. 40,000 (Rs. 50,000 in case payee is senior citizen) where the payer is a banking company (including any bank or banking institution);
 - (b) Rs. 40,000 (Rs. 50,000 in case payee is senior citizen) where the payer is a co-operative society engaged in carrying on the business of banking;
 - (c) Rs. 40,000 (Rs. 50,000 in case payee is senior citizen) on any deposit with post office under any scheme framed and notified by the Central Government;
 - (d) Rs. 5,000 in any other case.

However, in case of interest on fixed time deposits (including recurring deposits) with banking company or co-operative society referred to above or interest on deposits with housing finance companies, the aforesaid limits of Rs. 5,000/ Rs. 40,000/ Rs. 50,000 shall be computed branch-wise.

Threshold limit for non-deduction of tax to be reckoned with reference to the aggregate interest credited or paid by all branches of a banty co-operative bank/ public company which has adopted CBS : However, the threshold limit will be reckoned with reference to the total income credited or paid by the banking company or the co-operative society or the public company, as the case may be, (and not with reference to each branch), where such banking company or co-operative society or public company has adopted core banking solutions.

- (ii) **to such income credited or paid to,-**
- (a) any banking company or any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank), or
 - (b) any financial corporation established by or under a Central, State or Provincial Act, or
 - (c) the Life Insurance Corporation of India established under the Life Insurance Corporation Act, 1956, or
 - (d) the Unit Trust of India established under the Unit Trust of India Act, 1963, or
 - (e) any company or co-operative society carrying on the business of insurance, or
 - (f) such other institution, association or body or class of institutions, associations or bodies which the Central Government notifies. (National Skill Development Fund and Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi have been notified by the Central Government for this purpose) However, no notification shall be issued on or after 01-04-2020.
- (iii) **to such income credited or paid by a firm to a partner of the firm;**
- (iv) to such income credited or paid by a co-operative society (other than a co-operative bank) to a member thereof or to such income credited or paid by a co-operative society to any other co-operative society;
- (v) to such income credited or paid in respect of deposits under any scheme framed by the Central Government and notified by it in this behalf in the Official Gazette;
- (vi) to such income credited or paid in respect of deposits (other than time deposits**) with a banking company (including any bank or banking institution).
- (vii) to such income credited or paid in respect of,-
- (a) deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank;
 - (b) deposits (other than time deposits**) with a co-operative society, other than a co-operative society or bank referred to in (a) above, engaged in carrying on the business of banking;
- (viii) income credited or paid by the Central Government under any provision of this Act or the Estate Duty Act, 1953, or the Wealth-tax Act, 1957, or
- (ix) to such income credited by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal;
- (x) to such income paid by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal where the amount of such income or, as the case may be, the aggregate of the amounts of such income paid during the financial year does not exceed Rs. 50,000;
- (xi) to such income which is paid or payable by an infrastructure capital company or infrastructure capital fund or a public sector company or scheduled bank in relation to a zero coupon bond issued by such company or fund or public sector company or scheduled bank,
- (xii) to any income by way of interest referred to in section 10(23FC).

However, a co-operative society referred to point no (iv) and point no. (vii) above, shall be liable to deduct tax at source, if—

- (a) the total sales, gross receipts or turnover of the co-operative society exceeds X 50 crore during the financial year immediately preceding the financial year in which the interest is credited or paid; and
- (b) the amount of interest, or the aggregate of the amounts of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than Rs. 50,000 in case of payee being a senior citizen and Rs. 40,000 in any other case.

**** Time deposits means deposits (including recurring deposits) repayable on the expiry of fixed periods.**

(5) No TDS/TDS at lower rate for notified persons : The Central Government may, by notification in the Official Gazette, provide that the deduction of tax shall not be made or shall be made at such

lower rate, from such payment to such person or class of persons, as may be specified in the said notification.

(6) Other aspects:

- (i) *The person responsible for making the payment may, at the time of making any deduction, increase or reduce the amount to be deducted under this section for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.*
- (ii) *In case of banks following CBS software, TDS is to be made at the time of actual credit given to depositor's/ payee's account and not on daily or monthly basis when interest is credited to a provision account for reporting purpose. [Circular No. 3, dated 2-3-2010]*
- (iii) ***Deduction of tax at source on interest income accrued to minor child, where both the parents have deceased [Notification No. 05/2017, dated 29-05-2017] :*** *The Principal Director General of Income-tax (Systems) has specified that in case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.*
- (iv) ***Deduction of tax at source on interest on deposits made under Capital Gains Accounts Scheme, 1988 where depositor has deceased [Notification No. 08/2017, dated 13-09-2017]:*** *The Principal Director General of Income-tax (Systems) has specified that in case of deposits under the Capital Gains Accounts Scheme, 1988 where the depositor has deceased:*
 - (a) *TDS on the interest income accrued for and upto the period of death of the depositor is required to be deducted and reported against PAN of the depositor, and*
 - (b) *TDS on the interest income accrued for the period after death of the depositor is required to be deducted and reported against PAN of the legal heir, unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.*
- (v) ***TDS u/s 194A of the Act on interest on fixed deposit made on direction of courts :*** *It is clarified that interest on FDRs made in the name of Registrar General of the court or the depositor of the fund on the directions of the court, will not be subject to TDS under Section 194A till the matter is decided by the court. However, once the court decides the ownership of the money lying in the fixed deposit, the provisions of section 194A will apply to the recipient of the income. Circular No. 23/2015, dated 28-12-2015*
- (vi) ***Interest payable under Land Acquisition Act:*** *Any interest under the Land Acquisition Act, including the interest on enhanced/increased compensation, shall be liable to TDS.*
- (vii) ***TDS in respect of interest on deposits in joint names :*** *In case deposits are held in joint names, then in absence of any contradictory information, the interest of such deposits shall be aggregated with the interest on deposits of that individual's account who has the highest interest income. Consequently, such individual shall get the certificate and credit of TDS so deducted.*

Illustration 2 - TDS u/s 194A: *Examine the TDS implications under section 194A in the cases mentioned hereunder -*

- (1) *On 1-10-2020, Mr. Paresh made a 6 month fixed deposit of 112 lakh @ 10% p.a. with XYZ Co-operative Bank. The fixed deposit matures on 31-3-2021.*
- (2) *On 1-07-2020, Mr. Suresh made three nine month fixed deposits of Rs. 5,00,000 each carrying interest @ 8% p.a. with Bapu Nagar Branch, Malviya Nagar Branch and Ambey Nagar Branches of PNB Bank, a bank which has adopted CBS. The fixed deposits mature on 31-03-2021.*

- (3) On 1-07-2020, Mr. Rajesh started a 9 months recurring deposit of Rs. 1,80,000 per month @ 6.25% p.a. with TP Bank. The recurring deposit matures on 31-03-2021. Interest on such deposit amount is Rs. 42,590.

Solution:

- (1) XYZ Co-operative Bank has to deduct tax at source @ 7.5% on the interest of Rs. 60,000 [Rs. 12 lakhs $\times$ 7.5% $\times$ 6/12] under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs. 4,500.
- (2) PNB Bank has to deduct tax at source @ 7.5% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 90,000 [Rs. 5,00,000 $\times$ 3 $\times$ 8% $\times$ 9/12], which exceeds the threshold limit of Rs. 40,000. Since PNB Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs. 90,000 exceeds the threshold limit of Rs. 40,000, tax has to be deducted @ 7.5% under section 194A.
- (3) Tax has to be deducted under section 194A by TP Bank on the interest of Rs. 42,590 falling due on recurring deposit on 31-03-2021 Mr. Rajesh, since -
- "recurring deposit" has been included in the definition of "time deposit"; and
 - such interest exceeds the threshold limit of Rs. 40,000.
9. When and how tax is to be deducted at source on the income by way of winnings from lotteries or crossword puzzles under section 194B of the Income-tax Act, 1961?

Ans: Winnings from lottery or crossword puzzle [Section 194B]:

- (1) **Person responsible for deducting tax at source :** The person responsible for paying to any person any income by way of winnings from any lottery or crossword puzzle or card game and other game of any sort shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** At the time of payment of such income.
- (3) **Rate of tax deduction:** 30%.
- (4) **No TDS:** No tax shall be deducted if such winnings does not exceed Rs. 10,000.
- Notes :** (i) Winnings in kind : In case where the winnings are wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the winnings, the person responsible for paying shall, before releasing the winnings, ensure that tax has been paid in respect of the winnings. (ii) Meaning of card games : Card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode in which people compete to win prizes or any other similar game.

10. State the provision regarding deduction of tax at source in respect of winnings from horse races.

Ans: Winnings from horse races [Section 194BB]:

- (1) **Person responsible for deducting tax at source :** Any person, being a bookmaker or a person to whom a licence has been granted by the Government for horse racing in any race course or for arranging for wagering or betting in any race course, shall be responsible for deducting tax at source.
- (2) **Time of tax deduction:** At the time of payment of such income.
- (3) **Rate of tax deduction:** 30%.
- (4) **No TDS :** No tax shall be deducted if such winnings does not exceed Rs. 10,000.

11. Discuss the provisions relating to deduction of tax at source on payments to contractors and sub-contractors.

Ans: Payments to contractors [Section 194C] [Amended by Finance Act, 2020 w.e.f. 01-04-2020]:

- (1) **Person responsible for deducting tax at source :** Any specified person responsible for paying any sum to any resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a contractee shall be liable to deduct tax at source.

"Specified person" shall mean, —

- (a) the Central Government or any State Government; or
 - (b) any local authority; or
 - (c) any corporation established by or under a Central, State or Provincial Act; or
 - (d) any company; or
 - (e) any co-operative society; or
 - (f) any authority, constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both; or
 - (g) any society registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India; or
 - (h) any trust; or
 - (i) any university established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a university under section 3 of the University Grants Commission Act, 1956; or
 - (j) any Government of a foreign State or a foreign enterprise or any association or body established outside India; or
 - (k) any firm; or
- (1) **any person, being an individual or a Hindu undivided family or an association of persons or a body of individuals, if such person,-**
- (A) does not fall under above categories; and
 - (B) has total sales, gross receipts or turnover from business or profession carried on by him exceeding Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid to the account of the contractor.
- (2) **Time of tax deduction :** Tax is deducted at source at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier. Note : Where any sum as aforesaid is credited to any account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.
- (3) **Rate of tax deduction:**
- (a) 1% (0.75% applicable from 14-05-2020 to 31-03-2021) where the payment is being made or credit is being given to an individual or a Hindu undivided family;
 - (b) 2% (1.5% applicable from 14-05-2020 to 31-03-2021) where the payment is being made or credit is being given to a person other than an individual or a Hindu undivided family.
- (4) **Definition of Work:** "Work" shall include —
- (a) advertising;

- (b) *broadcasting and telecasting including production of programmes for such broadcasting or telecasting;*
- (c) *carriage of goods or passengers by any mode of transport other than by railways;*
- (d) *catering;*
- (e) *manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee under the provisions contained in Section 40A(2)(b) but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer.***

****Note:** Where any sum is paid or credited for carrying out any work mentioned in clause (e), tax shall be deducted at source -

- (i) *on the invoice value excluding the value of material, if such value is mentioned separately in the invoice; or*
- (ii) *on the whole of the invoice value, if the value of material is not mentioned separately in the invoice.*

Objective of amendment: It has been noted that some assesseees are using the escape clause of the section by getting the contract manufacturer to procure the raw material supplied through its related parties. As a result, a substantial amount of income escapes the tax net.

Therefore, to bring clarity in the section and plug the leakage, the definition of "work" under section 194C is amended to provide that in a contract manufacturing, the raw material provided by the assessee or its associate shall fall within the purview of the 'work' under section 194C. Associate is proposed to be defined to mean a person who is placed similarly in relation to the customer as is the person placed in relation to the assessee under the provisions contained in Section 40A(2)(b) of the Act.

(5) No TDS in the following cases :

- (i) **If the contract does not exceed Rs. 30,000 :** No deduction shall be made from the amount of any sum credited or paid or likely to be credited or paid to the account of, or to, the contractor, if such sum does not exceed Rs. 30,000.

However, where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year exceeds Rs. 1,00,000, the payer shall be liable to deduct tax at source.

- (ii) **Individual/HUF not liable to deduct tax at source if payment is for personal purposes:** No individual or Hindu undivided family shall be liable to deduct income-tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for personal purposes of such individual or any member of Hindu undivided family.

- (iii) **No TDS when payment made to goods transport agency, if PAN furnished:** No deduction shall be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor during the course of business of plying, hiring or leasing goods carriages, where such contractor owns 10 or less goods carriages at any time during the previous year and furnishes a declaration to that effect along with his PAN, to the person paying or crediting such sum. The person responsible for paying or crediting any sum to such contractor shall furnish, to the prescribed income-tax authority or the person authorised by it, such particulars, in such form and within such time as may be prescribed.

- (iv) **No TDS on GST component:** The CBDT has clarified that wherever in terms of the agreement/contract between the payer and the payee, the GST component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source under Chapter XVII-B of the Act on the amount paid/payable without including such GST component.

12. Write a note on TDS on insurance commission.

Ans: Insurance commission [Section 194D]:

- (1) **Person responsible for deducting tax at source:** Any person responsible for paying to a resident any income by way of remuneration or reward, whether by way of commission or otherwise, for soliciting or procuring insurance business (including business relating to the continuance, renewal or revival of policies of insurance) shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS :** No deduction shall be made where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed Rs. 15,000.
- (5) **No adjustment permissible for debits:** In case of reversal of commission paid to an agent on account of refund of premium to the insured, the reversal (debits) cannot be adjusted against subsequent credit of insurance commission to the agent's account. The full amount of commission credited will be liable to TDS, because TDS is made from the amount credited or paid to payee's account.

13. Write a note on TDS on payment in respect of life Insurance policy.

Ans: Payment in respect of life insurance policy [Section 194DA]:

- (1) **Person responsible for deducting tax at source :** Any person responsible for paying to a resident any sum under a life insurance policy, including the sum allocated by way of bonus on such policy, other than the amount not includible in the total income under Section 10(10D), shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of payment thereof.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021) on the amount of income comprised therein.
- (4) **No TDS:** No deduction shall be made where the amount of such payment or, as the case may be, the aggregate amount of such payments to the payee during the financial year is less than Rs. 1,00,000.

Illustration 3 - Section 194DA: Examine the applicability of the provisions for tax deduction at source under section

194DA in the following cases -

- (1) Mr. X, a resident, is due to receive Rs. 4.50 lakhs on 31-03-2021, towards maturity proceeds of LIC policy taken on 1-04-2018, for which the sum assured is Rs. 4 lakhs and the annual premium is Rs. 1,25,000.

- (2) Mr. Y, a resident, is due to receive Rs. 3 lakhs on 31-03-2021 on LIC policy taken on 31-03-2012, for which the sum assured is Rs. 2.8 lakhs and the annual premium is Rs. 25,000.
- (3) Mr. Z, a resident, is due to receive Rs. 95,000 on 1-08-2020 towards maturity proceeds of LIC policy taken on 1-08-2014 for which the sum assured is Rs. 90,000 and the annual premium was Rs. 12,000.

Solution:

- (1) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, the maturity proceeds of Rs. 4.50 lakhs due on 31-03-2021 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 3.75% under section 194DA on the amount of income comprised therein i.e., on Rs. 75,000 (Rs. 4,50,000, being maturity proceeds - Rs. 3,75,000, being the entire amount of insurance premium paid).
- (2) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01-04-2012, the sum of Rs. 3 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (3) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, and consequently, the maturity proceeds of Rs. 95,000 due on 1-08-2020 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

14. Write a note on tax deduction on payments to non-resident sportsmen or sports associations.

Ans: *Payments to non-resident sportsmen or sports associations [Section 194E]:*

- (1) **Person responsible for deducting tax at source:** Any person responsible for paying to a non-resident sportsman (including an athlete) or an entertainer, who is not a citizen of India or a non-resident sports association or institution of income referred under section 115BBA shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 20% (Plus HEC @ 4%) - Effective rate 20.8%
- (4) **Income referred to in section 115BBA :**
- (i) Income received or receivable by a non-resident sportsman (including an athlete) by way of—
 - (a) participation in any game or sport in India (However, games like crossword puzzles, horse races etc. taxable under section 115BB are not included herein); or
 - (b) advertisement; or
 - (c) contribution of articles relating to any game or sport in India in newspapers, magazines or journals.
 - (ii) Guarantee amount paid or payable to a non-resident sports association or institution in relation to any game or sport played in India. However, games like crossword puzzles, horse races etc. taxable under section 115BB are not included herein.
 - (iii) income received or receivable by a non-resident entertainer (who is not a citizen of India) from his performance in India.

Illustration 4 - TDS u/s 194E : Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer, by a newspaper for contribution of articles Rs. 25,000.

Solution: Under section 194E, the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @ 20%. Further, since Ricky Ponting is a non-resident, health and education cess @ 4% on TDS would also be added. Therefore, tax to be deducted = Rs. 25,000 $\times$ 20.8% = Rs. 5,200.

15. **Write a note on Payments in respect of deposits under National Savings Scheme, etc.**

Ans: Payments in respect of deposits under National Savings Scheme, etc. [Section 194EE]:

- (1) **Person responsible for deducting tax at source:** Any person responsible for paying to any person any amount referred to in Section 80CCA(2)(a) i.e. National Savings Scheme shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** At the time of payment of such sum.
- (3) **Rate of tax deduction:** 10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS:**
 - (i) No deduction shall be made under this section where the amount of such payment or, as the case may be, the aggregate amount of such payments to the payee during the financial year is less than Rs. 2,500.
 - (ii) No deduction shall be made under this section where payment is made to the heirs of the assessee.

16. **What are the provisions regarding deduction of tax at source in respect of commission, etc. on the sale of lottery tickets?**

Ans: Commission, etc. on the sale of lottery tickets [Section 194G]:

- (1) **Person responsible for deducting tax at source :** Any person who is responsible for paying, to any person, who is or has been stocking, distributing, purchasing or selling lottery tickets, any income by way of commission, remuneration or prize on such tickets shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
Note : Where any income is credited to any account, whether called "Suspense Account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS:** No deduction shall be made if such amount does not exceed Rs. 15,000.

17. **What are the provisions regarding deduction of tax at source in respect of commission or brokerage u/s 194H?**

Ans: Commission or brokerage [Section 194H] [Amended by Finance Act, 2020 w.e.f. 01-04-2020]:

- (1) **Person responsible for deducting tax at source :** Any person, not being an individual or a Hindu undivided family, who is responsible for paying, to a resident, any income by way of commission (not being insurance commission referred to in Section 194D) or brokerage, shall be liable to deduct tax at source.
Individual or HUF - Liable for TDS: An individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the

financial year in which such commission or brokerage is credited or paid, shall be liable to deduct tax at source under this section.

- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the following cases:** No deduction shall be made,-
 - (i) in a case where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed Rs. 15,000.
 - (ii) any commission or brokerage payable by Bharat Sanchar Nigam Limited or Mahanagar Telephone Nigam Limited to their public call office franchisees.
- (5) **"Commission or brokerage"** includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

18. **What are the provisions regarding deduction of tax at source in respect of payment of rent?**

Ans: **Rent [Section 194-1] [Amended by Finance Act, 2020 w.e.f. 01-04-2020]:**

- (1) **Person responsible for deducting tax at source:** Any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any income by way of rent shall be liable to deduct tax at source.

Individual or HUF - Liable for TDS: An individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the financial year in which such income by way of rent is credited or paid, shall be liable to deduct tax at source under this section

- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:**
 - (i) 2% (1.5% applicable from 14-05-2020 to 31-03-2021) for the use of any machinery or plant or equipment; and
 - (ii) 10% (7.5% applicable from 14-05-2020 to 31-03-2021) for the use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings.
- (4) **No TDS: No tax shall be deducted at source :**
 - (i) where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed Rs. 2,40,000.

- (ii) where the income by way of rent is credited or paid to a business trust, being a real estate investment trust, in respect of any real estate asset, referred to in Section 10(23FCA), owned directly by such business trust.

Notes:

- (i) **Meaning of Rent:** 'Rent' means any payment under any lease, sub-lease, tenancy or any other agreement or arrangement for use (either separately or together) of any -
- (a) land; or
 - (b) building (including factory building); or
 - (c) land appurtenant to a building (including factory building); or
 - (d) machinery; or
 - (e) plant; or
 - (f) equipment; or
 - (g) furniture; or
 - (h) fittings,
- whether or not any or all of such assets are owned by the payee.
- (ii) **Where any income is credited to any account, whether called "Suspense account" or by any other name,** in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.
- (iii) **No TDS on Goods and Services Tax (GST) component:** Section 194-1 refers to 'income by way of rent'. GST paid by the tenant doesn't partake the nature of "income" of the landlord. The landlord only acts as a collecting agency for Government for collection of GST. Therefore, TDS will be made on rental income excluding GST. - Circular No. 4/2008, dated 28-4-2008.
- (iv) **Cooling charges paid to cold storage - Liable to TDS u/s 194C :** In case of cold storage, cooling charges paid to it by its customers are in respect of preservation of perishable goods through mechanical process and the storage of such goods is only incidental in nature. Thus, such cooling charges does not amount to 'rent' and hence not liable to TDS under section 194-1, but liable under section 194C of the Act. - Circular No. 1/2008 dated 10-1-2008
- (v) **No requirement to deduct tax at source under section 194-1 on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator :** In view of Explanation to section 194-1 of the Act, though, the normal meaning of the word "Rent" stood expanded, however, the primary requirement is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-1 of the Act. Therefore, section 194-1 of the Act, will not apply on remittance of passenger service fees (PSF) by an airline to an airport operator.- Circular No. 21/2017, dated 12-06-2017
- (vi) **Applicability of TDS provisions of section 194-1 of the Income-tax Act, 1961 on lump sum lease premium paid for acquisition of long term lease:** It has been clarified that lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of section 194-1 of the Act. Therefore, such payments are not liable for TDS under section 194-1 of the Act. - Circular No. 35/2016 dated 13-10-2016

19. *Explain the provisions relating to tax deducted at source under section 194-IA on payment on transfer of certain immovable property other than agricultural land.*

Ans: **Payment on transfer of certain immovable property other than agricultural land [Section 194-IA]:**

- (1) **Person responsible for deducting tax at source:** Any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property [i.e. any land (other than agricultural land) or any building or part of a building.]
- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such sum to the account of the transferor or at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 1% (0.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the certain cases:** Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property is less than Rs. 50 lakh.
"Consideration for transfer of any immovable property" shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.
- (5) **No requirement of tax deduction account number :** The provisions of section 203A containing the requirement of obtaining Tax deduction account number (TAN) shall not apply to the person required to deduct tax in accordance with the provisions of section 194-IA.
- (6) **Section not to apply where Section 194L A applicable:** Since tax deduction at source for compulsory acquisition of immovable property is covered under section 194L A, the provisions of section 194-IA do not get attracted in the hands of the transferee in such cases.

Illustration 5 - TDS u/s 194-IA: Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs. 60 lakh and Rs. 15 lakh, respectively, to Mr. Y on 1-8-2020. He has purchased the house property and the land in the year 2019 for Rs. 40 lakh and Rs. 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1-8-2020, is Rs. 85 lakh and Rs. 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians. (Similar, 4 Marks, May 2015)

Solution:

- (1) **Tax implications in the hands of Mr. X:** As per section 50C, the stamp duty value of house property (i.e. Rs. 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceed 110% of the consideration received. Therefore, Rs. 45 lakh (i.e., Rs. 85 lakh - Rs. 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y. 2021-22.
 Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
- (2) **Tax implications in the hands of Mr. Y:** In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds Rs. 50,000 and 10% of the consideration.

Therefore, in this case Rs. 25 lakh (Rs. 85 lakh - Rs. 60 lakh) would be taxable in the hands of Mr. Y u/s 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified there under.

- (3) **TDS implications in the hands of Mr. Y:** Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 45,000, being 0.75% of Rs. 60 lakh.
TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Illustration 6 TDS u/s 194-IA: Mr. Dhanapal wishes to purchase a residential house costing Rs. 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area from Rs. 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. (2 Marks, Nov. 2018-NS)

Solution: As per Section 194-IA, Any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property [i.e. any land (other than rural agricultural land) or any building or part of a building, shall be liable to deduct tax at source @ 0.75 % where the total amount of consideration for the transfer of immovable property is not less than Rs. 50 lakh.

Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Dhanpal is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 45,000, being 0.75% of Rs. 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

20. **State the provisions of Section 194-IB relating to tax deduction at source on payment of rent by certain individuals or Hindu undivided family.**

Ans: **Payment of rent by certain individuals or Hindu undivided family [Section 194-IB]:**

- (1) **Person responsible for deducting tax at source:** Any person, being an individual or a Hindu undivided family (other than those referred to in the second proviso to section 194-1), responsible for paying to a resident any income by way of rent shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** The income-tax shall be deducted on such income.
- at the time of credit of rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of the payee; or
 - at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the following cases:** No deduction shall be made where the amount of rent does not exceed Rs. 50,000 for a month or part of a month during the previous year. Thus, tax is deductible at source when the amount of rent is more than Rs. 50,000 per month (or part of month)
- (5) **No requirement of tax deduction account number:** The provisions of section 203A shall not apply to a person required to deduct tax in accordance with the provisions of this section.

- (6) **If PAN not available - Rate of TDS 20% but amount of TDS cannot exceed rent payable for last month:** In a case where the tax is required to be deducted as per the provisions of section 206AA, such deduction shall not exceed the amount of rent payable for the last month of the previous year or the last month of the tenancy, as the case may be.
- (7) **Meaning of Rent [Explanation] :** "Rent" means any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any land or building or both.

Illustration 7 - TDS on Rent: Mr. X, a salaried individual, pays rent of Rs. 60,000 per month to Mr. Y from June, 2020. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December, 2020? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Solution: Since Mr. X pays rent exceeding Rs. 50,000 per month in the F.Y. 2020-21, he is liable to deduct tax at source @ 3.75% of such rent for F.Y. 2020-21 under section 194-IB. Thus, Rs. 22,500 [Rs. 60,000 $\times$ 3.75% $\times$ 10] has to be deducted from rent payable for March, 2021.

If Mr. X vacated the premises in December, 2020, then tax of 15,750 [Rs. 60,000 $\times$ 3.75% $\times$ 7] has to be deducted from rent payable for December, 2020. In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 3.75%. In case 1 above, this would amount to Rs. 1,20,000 [Rs. 60,000 $\times$ 20% $\times$ 10] but the same has to be restricted to Rs. 60,000 being rent for March, 2021. In case 2 above, this would amount to Rs. 84,000 [Rs. 60,000 $\times$ 20% $\times$ 7] but the same has to be restricted to Rs. 60,000, being rent for December, 2020.

Illustration 8 - TDS on Rent: Mr. A owns a building situated at New Delhi which is given on monthly rent of Rs. 75,000. to Mr. B w.e.f. 01-06-2020. Rent is paid by Mr. B on first day of every month. Discuss whether TDS provisions are applicable for the financial year 2020-21 in the following cases—

- Case 1:** Mr. B is carrying on business having annual turnover of business amounting Rs. 2.5 crores in preceding financial year. However, building is used by him for his residential purposes.
- Case 2:** Mr. B is carrying on business having annual turnover of business amounting Rs. 0.5 crores in preceding financial year.
- Case 3:** Mr. B is a salaried employee. He gets house rent allowance from the employer. On the basis of rent paid to Mr. A, he claims exemption under section 10(13A) pertaining to house rent allowance.

Solution: The TDS provisions in three independent cases are discussed as under:

- Case 1:** In this case since the turnover of Mr. B exceed Rs. 1 crore, he is liable to deduct tax at source under Section 194-1 @ 7.5%. Hence, the amount of tax to be deducted at source = Rs. 75,000 $\times$ 10 $\times$ 7.5% = Rs. 56,250.
- Case 2:** In this case since the turnover of Mr. B does not exceed Rs. 1 crore, he is not liable to deduct tax at source under Section 194-1. However, Mr. B is required to deduct tax at source under section 194-IB. Tax is deductible at the time of payment/ credit of rent for the last month during the financial year 2020-21. The amount of tax deductible on 1st March, 2021 is as under: Rs. 75,000 $\times$ 10 $\times$ 3.75% = Rs. 28,125
- Case 3:** The answer will remain same as of case 2.

21. Explain the provisions relating to tax deduction at source from payment under Joint development agreement.

Ans: *Payment under specified agreement [Section 194-IC]: The relevant provisions are discussed as under*

- (1) **Person responsible for deduction of tax at source:** Any person responsible for paying to a resident any sum by way of consideration (not being consideration in kind) under a joint development agreement, is responsible for tax deduction under section 194-IC.
- (2) **Time of tax deduction:** Tax is deductible at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque/draft or by any other mode, whichever is earlier.
- (3) **Threshold limit:** Nil.
- (4) **Rate of tax deduction:** Tax is deductible at the rate of 10% (7.5% applicable from 14-05-2020 to 31-03-2021). If PAN of recipient is not available, tax is deductible at the rate of 20%.
- (5) **Meaning of joint development agreement:** It is a registered agreement in which a land owner (i.e., a person who owns land or building or both) agrees to allow another person to develop a real estate project on such land or building or both, in consideration of a share (being land or building or both) in such project, whether with or without payment of part of the consideration in cash.

22. State the provisions regarding deduction of tax at source in respect of the payment by way of fees or royalty for professional or technical services.

Ans: *Fees for professional or technical services [Section 194J] [Amended by Finance Act, 2020 w.e.f. 01-04-2020]:*

- (1) **Person responsible for deducting tax at source:** Any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any sum by way of,-
 - (a) fees for professional services, or
 - (b) fees for technical services, or
 - (ba) any remuneration or fees or commission by whatever name called, other than those on which tax is deductible under section 192, to a director of a company; or
 - (c) royalty, or
 - (d) any sum referred in Section 28(va), shall be liable to deduct tax at source.

Individual or HUF - Liable for TDS: An individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum by way of fees for professional services or technical services is credited or paid, shall be liable to deduct tax at source under this section.

- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Note: Where any such sum is credited to any account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such sum, such crediting shall be deemed to be credit of such sum to the account of the payee and the provisions of this section shall apply accordingly.

- (3) **Rate of tax deduction:**

Nature of Income	Rate of TDS
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	Existing Rates	Reduced rates (Applicable from 14-05-2020 to 31-03-2021)
Fees for technical services (not being a professional services)	2%	1.5%
Royalty where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films	2%	1.5%
In the case of a payee, engaged only in the business of operation of call centre	2%	1.5%
In all other cases	10%	7.5%

Objective of amendment: It is noticed that there are large number of litigation on the issue of short deduction of tax treating assessee in default where the assessee deducts tax u/s 194C, while the tax officers claim that tax should have been deducted u/s 194J of the Act.

Therefore to reduce litigation, the rate for TDS in section 194J is reduced in case of fees for technical services (other than professional services) to 2% from existing 10%. The TDS rate in other cases u/s 194J would remain same at 10%. This amendment will take effect from 1st April, 2020.

- (4) **No TDS in the following cases:** No deduction shall be made,-
- (i) **Where the amount of such sum or, as the case may be, the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed -**
- Rs. 30,000, in the case of fees for professional services, or
 - Rs. 30,000, in the case of fees for technical services, or
 - Rs. 30,000, in the case of royalty, or
 - Rs. 30,000, in the case of sum referred under section 28(va).
- (ii) **Individual / HUF making payment for personal purposes - Not liable to TDS:** No individual or a Hindu undivided family shall be liable to deduct income-tax on the sum by way of fees for professional services in case such sum is credited or paid exclusively for personal purposes of such individual or any member of Hindu undivided family.
- (5) **Meaning of professional services:** "Professional services" means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or advertising or such other profession as is notified by the Board for the purposes of Section 44AA or of this section.
- Notified professional services:** The services notified under section 194-J are services rendered by following persons in relation to the sports activities: Sports Persons, Umpires and Referees, Coaches and Trainers, Team Physicians and Physiotherapists, Event Managers, Commentators, Anchors and Sports Columnists.
- (6) **Other issues:**
- (i) **Reimbursement of actual expenses liable to TDS:** The actual expenses reimbursed cannot be deducted out of the bill amount for deducting tax at source as Section 194J refers to 'any sum paid'. However, no TDS provisions will be attracted if reimbursement is claimed separately.

- (ii) **No TDS on Goods and Services Tax (GST) component:** The CBDT has clarified that wherever in terms of the agreement/contract between the payer and the payee, the GST component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source under Chapter XVII-B of the Act on the amount paid/payable without including such GST component.
- (iii) **TP As liable to deduct tax under section 194 J on payment to hospitals on behalf of insurance companies:** The CBDT has, through Circular No. 8/2009 dated 24-11-2009, clarified that TPAs (Third Party Administrator's) who are making payment on behalf of insurance companies to hospitals for settlement of medical/ insurance claims etc. under various schemes including cashless schemes are liable to deduct tax at source under section 194J on all such payments to hospitals etc. This is because the services rendered by hospitals to various patients are primarily medical services and, therefore, the provisions of section 194J are applicable to payments made by TPAs to hospitals etc.
- (7) **Payment for acquisition of software not liable for TDS :** The Central Government vide Notification No. 21/2012, dated 13-6-2012, notifies that no tax shall be deducted under section 194-J on the payment made by a person for acquisition of software from another person, being a resident, where -
- (i) the software is acquired in a subsequent transfer and the transferor has transferred the software without any modification,
 - (ii) tax has been deducted -
 - (a) under section 194-J on payment for any previous transfer of such software; or
 - (b) under section 195 on payment for any previous transfer of such software from a non resident, and
 - (iii) the transferee obtains a declaration from the transferor that the tax has been deducted either under sub clause (a) or (b) of clause (ii) along with the Permanent Account Number of the transferor.

Illustration 9 - Section 194J: XYZ Ltd. makes a payment of Rs. 2.9,000 to Mr. Ganesh on 1-10-2020 towards fees for professional services and another payment of Rs. 22,000 to him on the same date towards fees for technical services.

Discuss whether TDS provisions under section 194J are attracted.

Solution: TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y. 2020-21.

23. State the provisions regarding deduction of tax at source in respect of Income in respect of units.

Ans: Income in respect of units [Section 194K] [Inserted by the Finance Act, 2020, iv.e.f. 1-4-2020]:

- (1) **Person responsible for deducting tax at source:** Any person responsible for paying to a resident any income in respect of—
- (a) units of a Mutual Fund specified under section 10(23D); or
 - (b) units from the Administrator of the specified undertaking; or
 - (c) units from the specified company, shall, be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is to be deducted at source at the time of credit of such income to the account of the payee or at the time of payment thereof by any mode, whichever is earlier.

Where any income is credited to any account, whether called "suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be the credit of such income to the account of the payee and the provisions of this section shall apply accordingly.

- (3) **Rate of TDS** -10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS in the following cases:** The provisions of this section shall not apply —
- where the amount of such income or the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year by the person responsible for making the payment to the account of, or to, the payee does not exceed 15,000; or
 - if the income is of the nature of capital gains.

24. **State the provisions regarding deduction of tax at source in respect of the payment of compensation on acquisition of certain immovable property.**

Ans: **Payment of compensation on acquisition of certain immovable property [Section 194L A]:**

- (1) **Person responsible for deducting tax at source:** Any person responsible for paying to a resident any sum, being in the nature of compensation or the enhanced compensation or the consideration or the enhanced consideration on account of compulsory acquisition, under any law for the time being in force, of any immovable property (other than agricultural land), shall be liable to deduct tax at source.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 10% (7.5% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS:** (i) No deduction shall be made where the amount of such payment or, as the case may be, the aggregate amount of such payments to a resident during the financial year does not exceed Rs. 2,50,000.
- (ii) No deduction shall be made under this section where such payment is made in respect of any award or agreement which has been exempted from levy of income-tax under section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

25. **Explain the provisions relating to tax deduction at source on payment of certain sums by certain individuals or Hindu undivided family.**

Ans: **Payment of certain sums by certain individuals or Hindu undivided family [Section 194M] :**

- (1) **Applicability:** Individual or Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of section 194C, 194H or 194J) responsible for paying any sum to any resident -
- for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract,
 - by way of commission (not being insurance commission referred to in section 194D) or brokerage; or
 - by way of fees for professional services during the financial year.
- (2) **Time of tax deduction:** Tax is deducted at source at the time of credit of such sum or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (3) **Rate of tax deduction:** 5% (3.75% applicable from 14-05-2020 to 31-03-2021)
- (4) **No TDS :** No such deduction under this section shall be made if such sum or, as the case may be, aggregate of such sums, credited or paid to a resident during a financial year does not exceed Rs. 50 lakh.

- (5) **No requirement of tax deduction account number :** The provisions of section 203A containing the requirement of obtaining Tax deduction account number (TAN) shall not apply to the person required to deduct tax in accordance with the provisions of section 194-M.
- (6) **Non-applicability of TDS u/s 194M:** An individual or a Hindu undivided family is not liable to deduct tax at source under section 194M if -
- they are required to deduct tax at source under section 194C for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession in the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.
 - they are required to deduct tax at source under section 194H on commission (not being insurance commission referred to in section 194D) or brokerage i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the immediately preceding financial year.
 - they are required to deduct tax at source under section 194J on fees for professional services i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.

Illustration 10 - TDS under Section 194M: X is a salaried employee. He makes the following payments to a resident contractor for a work contract for personal purpose. Amount of payment is Rs. 25,00,000 on 10 August, 2020 and Rs. 30,00,000 on 22 November, 2020. Determine the amount of tax to be deducted at source if any. Would your answer be different if X is a businessman and his books are not audited in the immediately preceding financial year and payment to contractor is for business purposes?

Solution: Mr. X has made the payment to the contractor for personal purposes. Hence, tax is not deductible under section 194C. Aggregate payment to the recipient during the financial year 2020-21 is Rs. 55,00,000 (more than the threshold of Rs. 50,00,000 under section 194M). Tax is deductible under section 194M. The amount of TDS is 3.75% of Rs. 55,00,000. In case X is businessman and whose turnover does not exceed Rs. 1 crore, he is not required to deduct tax at source under Section 194C but will be required to deduct tax at source under Section 194M and the answer shall remain same.

26. **Explain the provisions relating to tax deduction at source in case payments are made in cash by a banking company, cooperative society engaged in business of banking or post office.**

Ans: **Payment of certain amounts in cash [Section 194N] [Amended by Finance Act, 2020 w.e.f. 01-07-2020]:**

- (1) **Person responsible for deducting tax at source:** Every person, being,-
- a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act); or
 - a co-operative society engaged in carrying on the business of banking; or
 - a post office, who is responsible for paying any sum, being the amount or the aggregate of amounts, as the case may be, in cash exceeding Rs. 1 crore rupees during the previous year, to any person (herein referred to as the recipient) from one or more accounts maintained by the recipient with it shall deduct tax at source.

- (2) **Amount and rate of TDS:** 2% of the sum paid.
Differential rate of deduction for recipient not having filed returns: However, in case of a recipient who has not filed the returns of income for all of the 3 assessment years relevant to the 3 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 to him, the provision of this section shall apply with the modification that—
- (i) the sum shall be the amount or the aggregate of amounts, as the case may be, in cash exceeding Rs. 20 lakh during the previous year; and
 - (ii) the deduction shall be —
 - (a) @ 2% of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds Rs. 20 lakh during the previous year but does not exceed 1 crore; or
 - (b) @ 5% of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds Rs. 1 crore during the previous year
- The Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the above provision shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification.*
- (3) **Time of tax deduction:** At the time of payment of such sum.
- (4) **Non applicability:** Tax deduction at source shall not apply to any payment made to,—
- (i) the Government;
 - (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post office;
 - (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934;
 - (iv) any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007;
- (5) **No TDS or TDS at reduced rates:** The Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the provision of this section shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification. Accordingly, the Central Government has, in consultation with the RBI, notified the following class of persons, payment to who would not attract liability to deduct tax at source u/s 194N:
- (i) **Cash Replenishment Agencies (CRAs) and franchise agents of White Label Automated Teller Machine Operators (WLATMO's):** For availing exemption from applicability of TDS u/s 194N, CRAs and franchise agents of WLATMOs should maintain a separate bank account from which withdrawal is made only for the purposes of replenishing cash in the Automated Teller Machines (ATMs) operated by such WLATMOs. Further, the WLATMO should furnish a certificate every month to the bank certifying that the bank account of the CRAs and the franchise agents of the WLATMOs have been examined and the amounts being withdrawn from their bank accounts has been reconciled with the amount of cash deposited in the ATM's of the WLATMO's.

- (ii) **Commission agent or trader, operating under Agriculture Produce Market Committee (APMC), and registered under any law relating to Agriculture Produce Market of the concerned State :** For availing exemption from the applicability of TDS u/s 194N, the commission agent/trader should intimate to the banking company or co-operative society or post office, his account number through which he wishes to withdraw cash in excess of ₹ 1 crore in the previous year along with his Permanent Account Number (PAN) and the details of the previous year. Also, he should certify to the banking company or co-operative society or post office that the withdrawal of cash from the account in excess of ₹ 1 crore during the previous year is for the purpose of making payments to the farmers on account of purchase of agriculture produce. Further, the banking company or co-operative society or post office has to ensure that the PAN quoted is correct and the commission agent or trader is registered with the APMC, and for this purpose, collect necessary evidences and place the same on record.
- (iii) (a) **The authorised dealer and its franchise agent and sub-agent; and**
 (b) **Full-Fledged Money Changer (FFMC) licensed by the RBI and its franchise agent;** Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -
 (a) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or
 (b) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and subagent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

- (6) **Person to whom credit is to be given for tax deducted and paid:** Rule 37BA provides the manner of giving credit for tax deducted and remitted to the Central Government i.e., it specifies the person to whom credit for tax deducted is to be given and also the assessment year for which the credit may be given. Accordingly, rule 37BA(3A) provides that, for the purposes of section 194N, credit for tax deducted at source shall be given to the person from whose account tax is deducted and paid to the Central Government account for the assessment year relevant to the previous year in which such tax deduction is made.

Illustration 11 - TDS u/s 194N: X Ltd. is a manufacturing company (having head office at Delhi and branch office at Jaipur). X Ltd. has a current account with SBI Delhi and overdraft account with SBI Jaipur. The two accounts are separately operated by head office and branch office. Head office and branch office have separate TAN and GSTIN. Cash withdrawn by head office and branch office from these two accounts is as follows —

- from SBI Delhi by head office on 10 July, 2020 : ₹. 15 lakh
- from SBI Jaipur by branch office on 10 October, 2020 ₹. 70 lakh
- from SBI Delhi by head office on 10 January, 2021: ₹. 40 lakh

Determine the amount of tax to be deducted at source. X Ltd. has always submitted the return before the due date. What would be your answer if X Ltd. has filed the returns for the three preceding years after the due date of furnishing the return of income.

Solution: Total cash payment to X Ltd. (head office and branch office) during the F.Y. 2020-21 is 1.15 crore. Cash payment by SBI up to 9th January, 2021 does not exceed Rs. 1 crore. It exceeds Rs. 1 crore only after cash payment of Rs. 40 lakh on 10th January, 2021. Tax deductible by SBI on 10th January, 2021 is Rs. 2,50,000 (being 2% of the sum paid of Rs. 1.25 crore).

X Ltd. has filed the returns for the three preceding years after the due date of furnishing the return of income: First proviso is applicable to a recipient, who has not filed his returns of income for all 3 assessment years relevant to the three previous years [in respect of which time-limit to file the return of income under section 139(1) has expired] immediately preceding the previous year in which the payment is made. In such a case, the modified threshold limit of Rs. 20 lakhs would apply; and the banker will have to deduct tax at the differential rates as specified, namely:

- 2% of the sum paid, where it exceeds Rs. 20 lakhs but does not exceed Rs. 1 crore; and
- 5% of the sum paid in cash exceeding Rs. 1 crore. Thus, the amount of TDS shall be as under :

Date of cash withdrawal	Amount of cash withdrawal (Rs. in lakh)	Cumulative Amount (Rs. in lakh)	Amount of TDS
10th July 2020	15	15	Nil
10th October 2020	70	85	2% of Rs. 85 lakh = Rs. 1,70,000
10th January 2021	40	125	2% of Rs. 15 lakh and 5% of Rs. 25 lakh =
			X 30,000 + Rs. 1,25,000 = Rs. 1,55,000.

27. Explain the provisions relating to tax deduction at source in respect of Payment of certain sums by e-commerce operator to e-commerce participant.

Ans: Payment of certain sums by e-commerce operator to e-commerce participant [Section 194-0] [Inserted by Finance Act, 2020 w.e.f. 01-10-2020]:

- (1) **Person responsible for deducting tax at source:** Where sale of goods or provision of services of an e-commerce participant is facilitated by an e-commerce operator through its digital or electronic facility or platform (by whatever name called), such e-commerce operator shall deduct tax at source.

For this purpose:

- (a) "electronic commerce" means the supply of goods or services or both, including digital products, over digital or electronic network;
 - (b) "e-commerce operator" means a person who owns, operates or manages digital or electronic facility or platform for electronic commerce;
 - (c) "e-commerce participant" means a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce;
 - (d) "services" includes "fees for technical services" and fees for "professional services", as defined in the Explanation to section 194J.
- (2) **Time of tax deduction:** E-commerce operator shall deduct tax at source, at the time of credit of amount of sale or services or both to the account of an e-commerce participant or at the time of payment thereof to such e-commerce participant by any mode, whichever is earlier.

- (3) **Rate of TDS:** 1% (0.75% applicable from 01-10-2020 to 31-03-2021) of the gross amount of such sales or services or both. [5% in case recipient does not have PAN]
Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant for the sale of goods or provision of services or both, facilitated by an e-commerce operator, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale or services for the purpose of deduction of income-tax under this sub-section.
- (4) **No TDS:** No deduction shall be made from any sum credited or paid or likely to be credited or paid during the previous year if the following conditions are satisfied —
- E-commerce participant is an individual or Hindu undivided family,
 - Gross amount of such sale or services or both during the previous year does not exceed Rs. 5,00,000; and
 - Such e-commerce participant has furnished his Permanent Account Number or Aadhaar number to the e-commerce operator.
- (5) **Tax under other section not deductible :** A transaction in respect of which tax has been deducted by the e-commerce operator under this section, or which is not liable to deduction because of above threshold limit, then such sum shall not be liable to tax deduction at source under any other provision of this Chapter. However, the said provisions shall not apply to any amount or aggregate of amounts received or receivable by an e-commerce operator for hosting advertisements or providing any other services which are not in connection with the sale or services referred to in section 194-0(1).
- (6) **Removal of difficulty:** If any difficulty arises in giving effect to the provisions of this section, the Board may, with the approval of the Central Government, issue guidelines for the purpose of removing the difficulty.
Every guideline issued by the Board under section 194-0(4) shall be laid before each House of Parliament, and shall be binding on the income-tax authorities and on the e-commerce operator.
- (7) E-commerce operator shall be deemed to be the person responsible for paying to e-commerce participant.

28. **Write a note on tax deductible at source when income is payable 'net of tax'.**

Ans: **Income payable 'net of tax' [Section 195A]:** In a case where under an agreement or other arrangement (other than agreement under section 192(1A) whereby employer agrees to pay tax on non-monetary perquisites provided to employees), the tax chargeable on any income is to be borne by the payer, then the amount on which tax shall be deducted is determined as follows -

$$\text{Amount on which tax is to be deducted at source} = \frac{\text{Income payable net of tax}}{100\% - \text{Rate of TDS}}$$

For example: As per an agreement, the income payable net of tax is Rs. 95,000. The rate of tax is 5%. In such a case, the amount on which tax has been charged shall be determined as follows - (Income net of tax) + (100% - Rate of TDS) = Rs. 95,000 + (100% - 5%) = Rs. 1,00,000.

Illustration 12 - TDS Implications: Examine the TDS implications in the following cases along-with reasons thereof:

- (i) Ms. Varsha received a sum of Rs. 95,000 on 31st December 2020 towards maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.

- (ii) Mr. Deepak transferred a residential house property to Mr. Karan for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.
- (iii) XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2020-21:
 - Rs. 22,000 towards fee for professional services
 - Rs. 18,000 towards royalty
- (iv) Payment of Rs. 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specifications of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav.
- (v) Talent Private Limited pays Rs. 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192.
- (vi) Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18-03-2021, the total amount credited by Shyam Limited in the ledger account of Radha Limited is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2021 by Shyam Limited. (7 Marks, May 2019-NS)

Ans: *The TDS implications are as under —*

- (i) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt under section 10(10D) in the hands of Ms. Varsha the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.
- (ii) Since the sale consideration of residential house property does not exceed Rs. 50 lakh, Mr. Karan is not required to deduct tax at source under section 194-IA.
- (iii) TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 is applicable for fees for professional services and royalty, separately. It is assumed that there is no other payment to Mr. Narayan towards fees for professional services and royalty during the P.Y. 2020-21.
- (iv) According to section 194C, the definition of "work" does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Vaibhav, since the contract is a contract for 'sale'.
- (v) Section 194J provides for deduction of tax at source @ 7.5% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @ 7.5% has to be deducted at source under section 194J in respect of the sum of Rs. 12,000 paid by Talent Private Limited to its director Ms. Sudha. Amount of TDS = Rs. 12,000 $\times$ 7.5% = Rs. 900.
- (vi) According to Section 194J, in case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source @ 1.5% if the amount credited to the account of the payee exceeds Rs. 30,000. Thus the amount of tax to be deducted at source = Rs. 70,000 $\times$ 1.5% = Rs. 1,050.

Illustration 13 - Liability for TDS: Discuss the liability for tax deduction at source in the following cases -

- (1) Mr. Anand has been running a sole proprietary business whose accounts are audited under section 44AB of Income-tax Act, 1961. He pays a monthly rent of Rs. 15,000 for the office premises to Mr. R, an individual who himself has taken the same on rent. Besides, Anand also pays service charges of Rs. 10,000 per month to Mr. R towards the use of furniture, fixtures and vacant land appurtenant thereto.
- (2) By virtue of an agreement with Nationalised Bank, a Catering Organisation [Pvt. Ltd. Co.] receives Rs. 50,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of bank.

Solution: The above mentioned cases have been discussed hereunder -

- (1) As per Section 194-1, if payer is an individual or HUF whose turnover of business exceed Rs. 1 crore in preceding year, then he shall be liable to deduct tax at source. Here, since accounts of Mr. Anand are audited u/s 44AB(a), his turnover exceeds Rs. 1 crore, he is liable to deduct tax at source @ 7.5% if rental income exceeds Rs. 2,40,000. Further, Section 194-1 provides that rent includes any payment by whatever name called, for the use of land or building together with furniture, fittings etc.. Therefore, service charges of Rs. 10,000 p.m will also be liable to TDS. Therefore, total rent = 15,000 + Rs. 10,000 $\times 12$ = Rs. 3,00,000; TDS = Rs. 3,00,000 $\times 7.5\%$ = Rs. 22,500.
- (2) Explanation to section 194C provides that catering services are covered under the expression "work" for the purpose of tax deduction at source under this section and the catering organisation will have to be treated as contractor. As the payment exceeds Rs. 30,000, the nationalised bank is required to deduct tax at source at 1.5% on the payments made to catering organisation less than 194C. Therefore, tax to be deducted at source = 50,000 $\times 12$ $\times 1.5\%$ = Rs. 9000.

Illustration 14 - Liability for TDS: Discuss the applicability of provisions of Tax Deduction at Source, the rate and amount of tax deduction to be made in the following cases for the financial year 2020-21.

- (A) Mr. Bobby, a resident whose turn over during the previous financial year is Rs. 205 lakhs and for the current year 2020-21 it is Rs. 80 lakhs.
 - (i) Shop rent paid to Mr. Rajsekharan, a resident Rs. 20,000 per month.
 - (ii) On 1-11-2020 paid towards fee for technical services t 25,000 and royalty of Rs. 20,000 to Mr. Swamy, a resident who is having PAN. No other payment made to Mr. Swamy.
 - (iii) On 01-10-2020 payment of Rs. 2,00,000 made to Mr. A for purchase of diaries according to specifications. However, no material was supplied for such diaries.
 - (iv) Contract payments made to Mr. Satheesan on 01-05-2020 for painting Rs. 25,000 and another contract for interior furnishing on 22-03-2021 for Rs. 20,000.
- (B) Mr. Thirlok, an individual not assessed to tax pays towards Rent Rs. 60,000 per month. (5 Marks, May 2018)

Solution:

- (A) As the turnover of Bobby for financial year 2019-20, i.e. Rs. 205 lakhs, has exceeded the monetary limit of Rs. 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2020-21, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

- (i) *Shop rent paid to Mr. Rajsekharan : Tax is to be deducted under section 194-1 @ 7.5% as the rental payment exceeds Rs. 2,40,000. Since the amount of shop rent does not exceed Rs. 2,40,000, tax is not required to be deducted at source.*
- (ii) *TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 is applicable for fees for professional services and fees for technical services, separately. Hence, no tax is required to be deducted at source on payment made to Mr. Swamy.*
- (iii) *As per Section 194C, Any person responsible for paying any sum to any resident contractor for carrying out any work in pursuance of a contract between the contractor and a contractee shall be liable to deduct tax at source @ 0.75% in case payee is individual if the amount of contract exceeds Rs. 30,000.*

Work shall include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer, but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer.

In this case no material was supplied by Mr. Bobby for diaries, hence, no tax will be deducted at source.

- (iv) *TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case. (B) Since Mr. Thrilok, an individual, pays rent exceeding Rs. 50,000 per month in the F.Y. 2020-21, he is liable to deduct tax at source @ 3.75% of such rent for F.Y. 2020-21. Thus, tax of $27,000 \times 3.75\% \times 12$ has to be deducted under section 194-IB from rent payable for March, 2021.*

Illustration 15 - Liability for TDS: *The following issues arise in connection with the deduction of tax at source under Chapter XVII-B. Discuss the liability for tax deduction in these cases:*

- (1) *An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether he is liable for deduction of tax on the entire amount during the current year.*
- (2) *A T.V. Channel pays Rs. 10 lakhs as prize money to the winner of a Quiz Programme.*
- (3) *State bank of India pays Rs. 50,000 per month as rent to the Central Government for a building in which one of its branches is situated.*
- (4) *A television company pays Rs. 50,000 to a cameraman for shooting of a documentary film.*
- (5) *State Government pays Rs. 20,000 as commission to one of its agent on sale of lottery tickets.*
- (6) *A Turf Club awards a jack-pot of Rs. 5 lakhs to the winner of one of its races.*

Solution: *The aforesaid cases have been dealt with as follows -*

- (1) *As per Section 192, tax is deductible at source by any person who is responsible for paying any income chargeable under the head "Salaries". However, under section 192(2A), the employee will be entitled to relief u/s 89 and consequently he will be required to furnish to the person responsible for making the payment such particulars in such form and verified in such manner as may be prescribed and therefore the person responsible for making the payment shall compute the relief and take it into account while making deduction of tax at source from salary.*

- (2) As per Section 194B, the person responsible for paying by way of winnings from any card game and other game in an amount exceeding Rs. 10,000 shall at the time of payment deduct tax @ 30%.
Hence, TDS = Rs. 10,00,000 $\times$ 30% = Rs. 3,00,000.
- (3) As per Section 196, payments made to Central Government are not liable for tax deduction at source.
- (4) If the cameraman is an employee of the T.V. Company, the provisions of Section 192 will apply. But if he is a professional man, Section 194-J will apply. Herein, it is assumed that he is a professional person. Since the amount paid exceeds Rs. 30,000, therefore tax @ 7.5% will have to be deducted at the time of credit of Rs. 50,000 or on its payment, whichever is earlier.
TDS = Rs. 50,000 $\times$ 7.5% = Rs. 3,750.
- (5) Under section 194G, the person responsible for paying to any person stocking, distributing, purchasing or selling lottery tickets, shall at the time of credit of the commission or payment thereof, whichever is earlier, deduct income-tax @ 3.75%. Such deduction shall be made only if the amount of commission exceeds Rs. 15,000. Therefore, TDS liability in the given case = Rs. 20,000 $\times$ 3.75% = Rs. 750.
- (6) The payment by way of winnings from any horse race is governed by section 194BB. Under this section, the person responsible for payment shall, at the time of payment, deduct tax @ 30% if the amount exceeds Rs. 10,000.
Hence, TDS liability in the given case = Rs. 5,00,000 $\times$ 30% = Rs. 1,50,000.

Illustration 16 - Liability for TDS: State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2020-21:

- (1) Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2020 for contribution of articles in relation to the sport of cricket.
- (2) Rent of Rs. 1,70,000 paid by a partnership firm for use of plant and machinery.
Winning from horse race Rs. 1,50,000.
- (3) Rs. 2,50,000 paid to Mr. A, a resident individual on 22-02-2021 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (4 Marks, Nov. 2014)

Solution:

- (1) Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2020 for contribution of articles in relation to the sport of cricket shall be liable for deduction at source under Section 194E @ 20.8%. **Hence, tax shall be deducted at source:** Rs. 27,000 $\times$ 20.8% = Rs. 5,616.
- (2) No deduction shall be made under section 194-1 where the amount of rental income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed Rs. 2,40,000. Since Rent of Rs. 1,70,000 was paid by a partnership firm for use of plant and machinery, therefore no tax shall be deducted at source.
- (3) The payment by way of winnings from any horse race is governed by section 194BB. Under this section, the person responsible for payment shall, at the time of payment, deduct tax @ 30% if the amount exceeds Rs. 10,000. Hence, TDS liability in the given case = Rs. 1,50,000 $\times$ 30% = Rs. 45,000.
- (4) As per section 194-LA, any person responsible for paying to a resident any sum, being in the nature of compensation or the enhanced compensation or the consideration or the enhanced consideration on account of compulsory acquisition, under any law for the time being in force, of any immovable

property (other than agricultural land), shall be liable to deduct tax at source @ 7.5% if the amount of such payment or, as the case may be, the aggregate amount of such payments to a resident during the financial year exceeds Rs. 2,50,000. Hence, no tax shall be required to be deducted at source on Rs. 2,50,000 paid to Mr. A, a resident individual on 22-02-2021 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Illustration 17 - Liability for TDS: State with reasons, whether tax deduction at source provisions are applicable to the following transactions and if so, the rate of tax deduction:

- (1) An insurance company paid Rs. 45,000 as insurance commission to its agent Mr. Hari.
- (2) X & Co. (Firm), engaged in wholesale business, assigned a contract for construction of its godown building to Mr. Ravi, a contractor. It paid Rs. 25,00,000 to Mr. Ravi as contract payment.
- (3) AB Ltd. allowed a discount of Rs. 50,000 to XY & Co. (a firm) on prompt payment of its dues towards supply of automobile parts.
- (4) Y & Co. engaged in real estate business, conducted a lucky dip and gave Maruti car to prize winner.

Solution: The applicability of TDS provisions is discussed herein below -

- (1) **TDS @ 3.75%:** As per Section 194D, any person paying insurance commission in excess of Rs. 15,000 to any resident person is liable to deduct tax @ 3.75%. Therefore, the insurance company must deduct tax at source @ 3.75% in respect of the insurance commission paid to Mr. Hari.
- (2) **TDS liability @ 0.75%:** Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors. Therefore, tax @ 0.75% is deductible at source under section 194C for the contract payments made to individual for the construction of godown building.
- (3) **No TDS liability:** Discount allowed to a customer for prompt payment is not covered by any of the tax deduction at source provisions of the Income-tax Act, 1961. Therefore, AB Ltd. need not deduct any tax at source since no payment was involved in allowing discount to its customer viz. XY & Co.
- (4) **TDS liability @ 30%:** In respect of lucky dip conducted by Y & Co., the provisions of Section 194B would apply. As per Section 194B, winning from lottery or crossword puzzle or card game of any sort exceeding Rs. 10,000 payable by any person to any other person, is subject to tax deduction @ 30%. Since the value of prize i.e. Maruti car would exceed Rs. 10,000, therefore, tax is deductible at source @ 30%. As the winning is in kind, the winner must deposit 30% of the prize value to Y & Co. for remitting the same as tax. Only after such deduction/recovery, the Maruti car is to be delivered to the prize winner.

Illustration 18 - Liability for TDS: Ashwin a resident individual carrying on business furnishes you the following information:

Turnover during financial year	Rs.
2019-20	1,20,00,000
2020-21	98,00,000

State whether tax deduction at source provisions are attracted for the under-mentioned expenses incurred during the financial year 2020-21:

Particulars	Rs.
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Commission paid to Babloo	22,500
Payment to Vijay for repair of office building	23,000
Payment of fees for technical services, to Vivek	35,000

All payments are made to residents.

If tax has to be deducted at source, state the amount of tax to be deducted at source.

(4 Marks, May 2016)

Solution: Since the turnover of Ashwin for financial year 2019-20, i.e. Rs. 120 lakhs, has exceeded the monetary limit of Rs. 100 lakhs therefore, he has to comply with the tax deduction provisions during the financial year 2020-21, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

- (1) **Commission paid to Babloo:** Tax is to be deducted under section 194H @ 3.75% as the commission exceeds Rs. 15,000. Amount of Tax deducted at source = 3.75% of Rs. 22,500 = Rs. 843.75
- (2) **Payment of Rs. 23,000 to Vijay for repair of office building:** TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
- (3) **Payment of fees for technical services, to Vivek:** Tax is to be deducted under section 194-J @ 7.5% as the fees for technical services exceeds Rs. 30,000. Amount of Tax deducted at source = 7.5% of Rs. 35,000 = Rs. 2,625.

Illustration 19 - Liability for TDS u/s 194-J: An individual practicing as a chartered engineer is in receipt of fees from a company, which had retained him for purposes of valuation of properties. Total fee agreed upon between the parties was Rs. 50,000 and the engineer was also to be reimbursed of all expenses incurred by him to visit the various locations where properties are situated. The engineer was paid following amounts by company:

20th July 2020 - Rs. 10,000 (advance of fees)

25th July 2020 - Rs. 20,000 (towards expenses incurred)

5th August 2020 - Rs. 40,000 (balance of fees on completion of work)

10th August 2020 - Rs. 25,000 (in total settlement of claim for reimbursement of expenses).

Discuss the liability of the company in regard to tax deduction at source on these payments.

Solution: As per Section 194J, tax is to be deducted on any sum paid by way of fees for professional services @ 7.5%, if the aggregate of such sum exceeds Rs. 30,000. It has been clarified by CBDT, that if the claim of fees and reimbursement of expenses is made in a single bill, then such reimbursement will come under the ambit of expression 'any sum by way of fees for professional services'. However, if such claim was made under separate bills, then such reimbursement will not come under the ambit of said expression.

Thus, total fees = Rs. 10,000 + Rs. 40,000 = Rs. 50,000; TDS = Rs. 50,000 x 7.5% = Rs. 3,750.

Illustration 20 - Liability for TDS: Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year:	(Rs.)
2019-20	1,05,00,000
2020-21	1,25,00,000

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2020-21 :

Interest paid to VCO Bank	(Rs.)
	41,000

Contract payment to Raj (2 contracts of Rs. 12,000 each)	24,000
Shop rent paid (one payee)	2,50,000
Commission paid to Balu	17,000

(4 Marks, PCC May 2011) (Similar IPCC May 2012, 4 Marks)

Solution: As the turnover of Ashwin for financial year 2019-20 i.e. Rs. 105 lakhs, has exceeded Rs. 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2020-21, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

- (1) **Interest paid to UCO Bank:** TDS u/s 194A is not attracted in respect of interest paid to a banking company.
- (2) **Contract payment of Rs. 24,000 to Raj for 2 contracts of Rs. 12,000 each:** TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
- (3) **Shop rent paid to one payee:** Tax is to be deducted u/s 194-1 @ 7.5% as the rental payment exceeds Rs. 2,40,000.
- (4) **Commission paid to Balu:** Tax is to be deducted u/s 194H @ 3.75% as the commission exceeds Rs. 15,000.

Illustration 21 - Liability for TDS and disallowance under section 40(a): M/s. Arora Ltd., submits the following details of expenditure pertaining to the financial year 2020-21: **(5 Marks, PCC Nov. 2010)**

- (i) Payment of professional fees to Mr. Man Rs. 50,000. Tax not deducted at source.
 - (ii) Interior works done by Mr. Hari for Rs. 2,00,000 on a contract basis. Payment made in the month of March 2021.
Tax deducted in March 2021 was paid on 30-06-2021.
 - (iii) Factory Rent paid to Mrs. Rao Rs. 15,00,000. Tax deducted at source and paid on 01-12-2020.
 - (iv) Interest paid on Fixed Deposits Rs. 2,00,000. Tax deducted on 31-12-2020 and paid on 28-09-2020.
 - (v) Payment made to M/s. Green & Co. towards import of raw materials Rs. 25,00,000. No tax was deducted at source. The supplier Green & Co. is located in London.
- Examine the above with reference to allowability of the same in the assessment year 2021-22 under the Income-tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

Solution: Allowability of expenses of M/s. Arora Ltd for the assessment year 2021-22:

- (i) Payment of professional fees is subject to TDS under section 194J, if the amount thereof exceeds Rs. 30,000 during a financial year. Since no tax is deducted at source, 30% of such expenditure i.e. Rs. 15,000 shall be disallowed under section 40(a).
- (ii) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before 30th November, 2021), the expenditure on interior works will be allowed as deduction. Hence, disallowance u/s 40(a) is not attracted.
- (iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 30th November, 2021. In this case, since tax deducted under section 194-1 was paid after the due date of filing the return, the expenditure can be claimed only in the subsequent year i.e., P.Y. 2021-22. Hence, for the P.Y. 2020-21 relevant to the assessment year 2021-22, 30% of such expenditure i.e. Rs. 4,50,000 shall be disallowed under section 40(a). The same will be allowed in financial year 2021-22.

- (iv) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before November 30th, 2021), the expenditure by way of interest on deposit will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.
- (v) Since payment towards import of raw materials does not attract provisions of TDS, the expenditure will be allowed as deduction. Hence, no disallowance is attracted under section 40(a).

Illustration 22 - Liability for TDS and disallowance under section 40(a): During the financial year 2020-21, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31-3-2020 was Rs. 99 lakhs): **(4 Marks, IPCC May 2011)**

- (i) Interest of Rs. 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) Interest of Rs. 4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;
- (iii) Rs. 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iv) He had sold goods worth Rs. 5 lakhs to Mr. Deva. He gave Mr. Deva a cash discount of Rs. 12,000 later. Commission of Rs. 20,000 was paid to Mr. Vidyasagar on 02-7-2020. In none of these transactions, tax was deducted at source. Briefly discuss whether any disallowance arises under the provisions of Section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961.

Solution: Disallowance under section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

The assessee is a resident individual, whose turnover does not exceed Rs. 100 lakhs in the immediately preceding previous year i.e., previous year 2019-20 (as his turnover is less than Rs. 100 lakhs in that year) and the TDS obligations have to be considered bearing this in mind.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, only where his turnover exceeded Rs. 100 lakhs in the preceding financial year i.e., P.Y. 2019-20. From the data given, it is clear that his turnover from business does not exceed Rs. 100 lakh in P.Y. 2019-20. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- (ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i).
- (iii) Disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salaries. Hence 30% of Rs. 3,00,000 i.e. Rs. 90,000 shall be disallowed.
- (iv) The obligation to deduct tax at source under section 194H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, only where his turnover from business exceed Rs. 100 lakh in the immediately preceding previous year. From the data given, it is clear that his turnover did not exceed Rs. 100 lakh in the P.Y. 2019-20. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2020-21. Therefore, disallowance under section 40(a)(ia) is not attracted in this case. **(4 Marks, May 2014)**

Illustration 23 - Liability for TDS: What are the provisions relating to tax deduction at source in respect of?

(A) ABC and Co. Ltd. paid Rs. 19,000 to one of its Directors as sitting fees on 01-01-2021.

(B) Mr. X sold his Plouse to Mr. Y on 01-02-2021 for Rs. 60 lacs.

Ans: The relevant provisions are discussed as under -

- (A)** As per section 194-J, a company shall be liable to deduct tax at source @ 7.5% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. The limit of Rs. 30,000 under section 194-J is not applicable on any remuneration or fees or commission payable to director of a company.

Tax deductible under section 194-J = ₹. 19,000 $\times$ 7.5% = ₹. 1,425.

- (B) Since the sale consideration of house property exceeds ₹. 50 lacs, Mr. Y is required to deduct tax at source under section 194-IA at the time of credit of such sum to the account of Mr. X or at the time of payment, whichever is earlier. Tax @ 0.75% of the sale consideration is required to be deducted by Mr. Y under section 194-IA. Tax deductible under section 194-IA = ₹. 60 lacs $\times$ 0.75% = ₹. 45,000.

29. State whether tax is to be deducted at source on interest or dividend or other sums payable to Government, Reserve Bank or certain corporations.

Ans: Interest or dividend or other sums payable to Government, Reserve Bank or certain corporation [Section 196]: No deduction of tax shall be made by any person from any sums payable to -

- (i) the Government, or
- (ii) the Reserve Bank of India, or
- (iii) a corporation established by or under a Central Act which is, under any law for the time being in force, exempt from income-tax on its income, or
- (iv) a Mutual Fund specified under section 10(23D), where such sum is payable to it by way of interest or dividend in respect of any securities or shares owned by it or in which it has full beneficial interest, or any other income accruing or arising to it.

30. Briefly explain the provisions of Section 197 in respect of obtaining certificate for deduction of tax at a lower rate. (4 Marks, PCE Nov. 2007)

Ans: Certificate for deduction of tax at a lower rate or nil rates [Section 197]:

- (1) **Applicability:** Section 197, applies where, in the case of any income of any person or sum payable to any person, income-tax is required to be deducted at the time of credit or payment, as the case may be, at the rates in force as per the provisions of Sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194-I, 194J, 194LA, 194LBB, 194LBC, 194M and 195 of the Act.
- (2) **Application by the Assessee:** The assessee can make an application to the Assessing Officer for deduction of tax at a lower rate or for non-deduction of tax.
- (3) **Certificate by Assessing officer:** If the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at lower rates or no deduction of income-tax, as the case may be, he may give to the assessee a certificate to this effect. However, as per Section 206AA, such certificate will be issued only if the applicant furnishes his PAN.
- (4) **TDS at the rate specified in the certificate:** The person responsible for paying the income shall deduct income-tax at such lower rates or deduct no tax as specified in the certificate until such certificate is cancelled by the Assessing Officer.

31. List out the provisions of section 197A when no tax deduction at source is made.

Ans: No deduction to be made in certain cases [Section 197A]:

- (1) **No tax deduction u/s 192A, 193, 194A, 194D, 194DA & 194-1:** No deduction of tax shall be made under section 192A or section 193 or section 194A or section 194D or section 194DA or section 194-1 in the case of a person (not being a company or a firm), if such person furnishes to the person responsible for paying any income of the nature referred to in section 192A or section 193 or section 194A or section 194D or Section 194DA or section 194-1, a declaration in writing in duplicate inform 15G/15H to the effect that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be Nil. However, the above provisions shall not apply (except in case of senior citizen) where the aggregate of the amounts of such incomes credited or paid or likely to be credited or paid during the previous year in

which such income is to be included exceeds the maximum amount which is not chargeable to income-tax.

- (2) **No deduction when payment made by Off shore banking unit to NR/NOR:** Further, no tax deduction at source shall be made by Offshore Banking Unit from interest paid to a non-resident or not ordinarily resident on deposit made by him, or on borrowing made by such unit from him.
- (3) **No TDS from income of New Pension System Trust:** No deduction of tax shall be made from any payment to any person for, or on behalf of, the New Pension System Trust referred to in Section 10(44).
- (4) **Payment made to Specified Associations etc. - Not liable/liable at lower rate of TDS:** No deduction of tax shall be made, or deduction of tax shall be made at such lower rate, from such payment to such person or class of persons, including institution, association or body or class of institutions, associations or bodies, as may be notified by the Central Government in the Official Gazette, in this behalf. [Amended by Finance Act, 2020 w.e.f. 01-04-2020]
- (5) **Payer to furnish such declaration :** The payer shall deliver to Principal Chief Commissioner or Chief Commissioner of Income Tax or the Principal Commissioner or Commissioner of Income Tax, one copy of such declaration on or before 7th day of the month next following the month in which the declaration is furnished to him. However, as per Section 206AA, such declaration shall become invalid if no PAN is furnished by deductee.

Notification No. 46/2016 dated 17-06-2016	Payment of nature specified u/s 10(23DA) made to Securitisation trust - Not liable for TDS: No deduction of tax under Chapter XVII of the said Act shall be made on the payments of the nature specified in section 10(23DA) of the said Act received by any securitisation trust as defined in clause (d) of the Explanation to section 115TC of the said Act.
Notification No. 47/2016 dated 17-06-2016	Specified payments made to Scheduled banks or Payment systems company authorised by RBI - Not liable for TDS : No deduction of tax under Chapter XVII of the said Act shall be made on the payments of the nature specified below, in case such payment is made by a person- (i) to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934, excluding a foreign bank, or (ii) to any payment systems company authorised by the Reserve Bank of India u/s 4(2) of the Payment and Settlement Systems Act, 2007, namely:- (i) bank guarantee commission; (ii) cash management service charges; (iii) depository charges on maintenance of DEMAT accounts; (iv) charges for warehousing services for commodities; (v) underwriting service charges; (vi) clearing charges (MICR charges) including interchange fee or any other similar charges by whatever name called charged at the time of settlement or for clearing activities under the Payment and Settlement Systems Act, 2007; (vii) credit card or debit card commission for transaction between merchant establishment and acquirer bank,

32. *List out the provisions of section 197B when deduction is to be made at lower rate.*

Ans: *Lower deduction in certain cases for a limited period [Section 197B]* [Inserted by the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020, w.r.e.f. 14-5-2020]: In case the provisions of sections 193, 194, 194A, 194C, 194D, 194DA, 194EE, 194F, 194G, 194H, 194-I, 194-IA, 194-IB, 194-IC, 194J, 194K, 194LA, 194LBA(1), 194LBB(i), 194LBC(1), 194M and 194-O require deduction of tax at source during the period commencing from 14-05-2020 to 31-03-2021, then notwithstanding anything contained in these sections the deduction of tax shall be made at the rate being the 3/4th of the rate specified in these sections.

33. *Whether the tax deducted will be included in the income of an assessee? Will the same be eligible for credit?*

Ans: *The relevant provisions are discussed as under -*

(1) *Tax deducted is income received [Section 198]:* All sums deducted in accordance with the foregoing provisions of this Chapter shall, for the purpose of computing the income of an assessee, be deemed to be income received. It has been provided that for the purpose of computing the income of an assessee, the tax paid under section 192(1A) (tax paid on non monetary perquisites) shall not be deemed to be income received.

Similarly the sum deducted in accordance with the provisions of section 194N for the purpose of computing the income of an assessee, shall be deemed to be income received.

(2) *Credit for tax deducted [Section 199]:*

(a) *Credit of TDS on furnishing of certificate of deduction of tax at source:* Any deduction made in accordance with the foregoing provisions of this Chapter and paid to the Central Government shall be treated as a payment of tax on behalf of the person from whose income the deduction was made, or of the owner of the security, or of the depositor or of the owner of property or of the unit-holder, or of the shareholder, as the case may be.

(b) *Credit of tax paid under Section 192(1A) :* Any sum referred to in Section 192(1 A) and paid to the Central Government shall be treated as the tax paid on behalf of the person in respect of whose income such payment of tax has been made.

(c) *Mode and Year in which credit available:* The Board may, for the purposes of giving credit in respect of tax deducted or tax paid in terms of the provisions of this Chapter, make such rules as may be necessary, including the rules for the purposes of giving credit to a person other than those referred above and also the assessment year for which such credit may be given.

34. *Write a note on the duties of person deducting tax as provided under section 200.*

Ans: *Duty of person deducting tax [Section 200]:*

(1) *Depositing of TDS within prescribed time:* Any person deducting any sum in accordance with the foregoing provisions of this Chapter shall pay within the prescribed time, the sum so deducted to the credit of the Central Government or as the Board directs.

(2) *Depositing of tax under 192(1A) within prescribed time:* Any person, being an employer referred u/s 192(1 A), shall pay within the prescribed time, the tax to the credit of the Central Government or as the Board directs.

(3) *Government deductor to furnish prescribed statement to the prescribed authority, where tax deducted has been paid without production of challan :* In case of an office of the Government, where the sum

deducted in accordance with the foregoing provisions of this Chapter or tax referred to in Section 192(1A) has been paid to the credit of the Central Government without the production of a challan, the Pay and Accounts Officer or the Treasury Officer or the Cheque Drawing and Disbursing Officer or any other person, by whatever name called, who is responsible for crediting such sum or tax to the credit of the Central Government, shall deliver or cause to be delivered to the prescribed income-tax authority, or to the person authorised by such authority, a statement in such form, verified in such manner, setting forth such particulars and within such time as may be prescribed. Penalty for delay in submission of prescribed form [Section 272A]: Rs. 100 for each day of continuing default, subject to the limit of the amount of tax deductible or collectible in respect of which the statement is to be furnished.

- (4) **Furnishing of prescribed statements :** Any person deducting any sum or, as the case may be, any person being an employer referred under section 192(1A) shall, after paying the tax deducted to the credit of the Central Government within the prescribed time, prepare such statements for such period as may be prescribed and deliver or cause to be delivered to the prescribed income-tax authority or the person authorised by such authority, such statement in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed.
- (5) **Correction statement to be furnished:** The person may also deliver to the prescribed authority a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under this sub-section in such form and verified in such manner as may be specified by the authority.

35. What are the due dates for payment of tax deducted or collected at source?

Ans: As per Rule 30, the due dates for payment of tax deducted or collected at source are as follows -

Sums deducted by an office of the Government	Sums deducted by any other deductor
(a) Where the tax is paid without production of an income-tax challan : on the same day;	(a) Where the income or amount is credited or paid in the month of March : on or before 30th April; and
(b) Where tax is paid accompanied by an income-tax challan : on or before 7 days from the end of the month in which the deduction is made or income-tax is due under section 192(1A).	(b) In any other case : on or before 7 days from the end of the month in which the deduction is made; or income-tax is due u/s 192(1A). (In case of TCS, the due date is as given in (b) above, for all cases i.e. on or before 7 days from end of the month in which collection is made)
Tax deducted under sections 194-IA and 194-IB have to be remitted within 30 days from the end of the month of deduction. A challan-cum-statement in Form 26QB/26QC has to be furnished within 30 days from the end of the month of deduction.	

36. What are the due dates for furnishing quarterly TDS/TCS statement?

Ans: Due dates for furnishing quarterly TDS/TCS statement [Rule 31 A]:

Quarterly statements	Due Dates for quarterly TDS statements (Government deductor and other deductor)
Quarter ending 30th June	31st July
Quarter ending 30th Sept	31st October
Quarter ending 31st December	31st January
Quarter ending 31st March	31st May of the financial year immediately following the financial year in which the deduction is made.

Note:

- (i) Due dates for furnishing statement of TCS are same as due dates for furnishing statement of TDS applicable to others.
- (ii) **Form:** 24Q (TDS salaries); 27Q (TDS on non-salaries for non-resident or not ordinarily resident or foreign company); 26Q (TDS non-salaries for other assesseees); 27EQ (TCS).

37. What are the due dates for issuance of TDS or TCS certificates?

Ans: Due dates of issuance of TDS/TCS certificates [Rule 31]:

TDS on	Form No. of TDS certificate	Periodicity	Due date
Salaries	Form No. 16	Annually	By 15th June of the immediately following financial year.
Other payments	Form No. 16 A (In case of TCS Form no. 27D)	Quarterly	within 15 days from the due date of furnishing quarterly statement of TDS under Rule 31A.

38. Explain the provisions of Section 200A in respect of processing of statements of tax deducted at source.

Ans: Processing of statements of tax deducted at source [Section 200A]:

- (1) **Processing of TDS statements:** Where a statement of tax deduction at source or correction statement has been made by a person deducting any sum (hereafter referred to as deductor) under section 200, such statement shall be processed in the following manner, namely:
- (a) the sums deductible under this Chapter shall be computed after making the following adjustments, namely -
- any arithmetical error in the statement; or
 - an incorrect claim, apparent from any information in the statement;
- (b) the interest, if any, shall be computed on the basis of the sums deductible as computed in the statement;
- (c) the fee, if any, shall be computed in accordance with the provisions of section 234E;
- (d) the sum payable by, or the amount of refund due to, the deductor shall be determined after adjustment of the amount computed under (b) and (c) above against any amount paid under section 200 or section 201 or section 234E and any amount paid otherwise by way of tax or interest or fee;
- (e) an intimation shall be prepared or generated and sent to the deductor specifying the sum determined to be payable by, or the amount of refund due to, him; and
- (f) the amount of refund due to the deductor shall be granted to the deductor.

Time limit for sending intimation: No intimation shall be sent after the expiry of 1 year from the end of the financial year in which the statement is filed.

Meaning of Incorrect claim: "An incorrect claim apparent from any information in the statement" shall mean a claim, on the basis of an entry, in the statement -

- of an item, which is inconsistent with another entry of the same or some other item in such statement;
 - in respect of rate of deduction of tax at source, where such rate is not in accordance with the provisions of this Act.
- (2) **Scheme for Centralised processing of statements:** For the purposes of processing of statements, the Board may make a scheme for centralised processing of statements of tax deducted at source to expeditiously determine the tax payable by, or the refund due, to the deductor.

Note: 'Tax paid in excess of that deducted/deductible at source - Refund : In case a deductor has paid tax in excess of that deducted by him, or, that deductible by him, inadvertently, then, Section 200A provides for the refund of such excess tax paid to the deductor. - **Circular No. 2/2011, Dated 27-4-2011.**

39. **Explain the consequences of not deducting tax and paying to Government account u/s 201 of the Income-tax Act, 1961. (4 Marks, Nov. 2015)**

Ans: **Consequences of failure to deduct or pay [Section 201]:**

- (1) **Persons deemed to be assessee in default:** The following persons shall be deemed to be an assessee in default if they do not deduct the whole or any part of the tax or after deducting fails to pay the tax:-

- (a) Any person who is required to deduct any sum according to the Act; or
- (b) An employer paying tax on non-monetary perquisites under section 192(1 A).
Deductor not to be treated as assessee in default: However, such person who fails to deduct the whole or any part of the tax on the sum paid/ credited to a payee shall not be deemed to be an assessee in default in respect of such tax if such payee,-
 - (a) has furnished his return of income under section 139;
 - (b) has taken into account such sum for computing income in such return of income; and
 - (c) has paid the tax due on the income declared by him in such return of income, and the person furnishes a certificate to this effect from a Chartered Accountant in such form as may be prescribed.

- (2) **Penalty:** No penalty shall be charged unless the Assessing Officer is satisfied that such person has failed to deduct and pay the tax without good and sufficient reasons.

- (3) **Liable to pay interest:** The defaulter shall be liable to pay simple interest as follows - (i) **Rate of Interest and amount on which payable :** In case of -

Non-deduction	Interest at 1% per month or part thereof on amount of such tax for the period from the date on which such tax was deductible/collectible to the date on which such tax is deducted; and
Non-payment	Interest at 1.5% per month or part thereof on amount of such tax for the period from the date on which such tax was deducted to the date on which such tax is actually paid.

- (ii) **Time of payment of interest:** Such interest shall be paid before furnishing the periodical statement.
- (iii) **Mandatory nature of interest:** Such interest is of mandatory nature, thus it is mandatory for the Assessing Officer to charge the interest on non-compliance of deduction of payment of tax. Further, it is the responsibility of the assessee-in-default to pay such interest, the Revenue need not to issue any notice for the same. - **Kanai Industries P. Ltd. v. Asst. CIT [2003] 261ITR 488 (Cat)**

It has been provided that in case of any person, including the principal officer of a company, who fails to deduct the whole or any part of the tax in accordance with the provisions of this Chapter on the sum paid to a payee or on the sum credited to the account of a payee, and not deemed to be an assessee in default under section 201, the interest shall be payable from the date on which such tax was deductible to the date of furnishing of return of income by such payee.

- (4) **Tax & interest to be 'charge' on assets:** Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest shall be a charge upon all the assets of the person or the company.

- (5) **Time-limit for deeming the assessee to be in default:** No order shall be made u/s 201(1) deeming a person to be an assessee in default for failure to deduct the whole or any part of the tax from a person resident in India, at any time after the expiry of
- seven years from the end of the financial year in which payment is made or credit is given; or
 - two years from the end of the financial year in which the correction statement is delivered under the proviso to Section 200(3),
- whichever is later.

Scope of this provision: It must be noted that the aforesaid time-limits do not apply to order where —

- the deductor has deducted but not deposited the tax deducted at source, as this would be a case of defalcation of government dues,
- the employer has failed to pay the tax wholly or partly, under section 192(1A), as the employee would not have paid tax on such perquisites,
- the deductee is a non-resident as it may not be administratively possible to recover the tax from the non-resident.

- (6) **Expenditure not deductible:** Disallowance under section 40(a) would be attracted in respect of expenditure which is subject to TDS, if tax is not deducted therefrom during the relevant previous year or after being deducted, is not paid within the prescribed time.

Illustration 24 - Liability for interest u/s 201: An amount of ₹ 40,000 was paid to Mr. X on 01-07-2020 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹. 50,000 was due to Mr. X on 28-02-2021, from which tax @ 7.5% (amounting to ₹. 6,750) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹. 6,750 was deposited only on 22-06-2021. Compute the interest chargeable under section 201(1A).

Solution: Interest under section 201(1A) would be computed as follows (amount in ₹.):

1% on tax deductible but not deducted i.e. 1% on ₹. 3,000 for 8 months	240
1.5% on tax deducted but not deposited i.e. on ₹. 6,750 for 4 months	405
Total interest	645

40. **Write a note on certificate for tax deducted.**

Ans: **Certificate for tax deducted [Section 203]:**

- Certificate to be furnished to payee within prescribed time :** Every person deducting tax shall, furnish to the payee, a certificate to the effect that tax has been deducted, and specifying the amount so deducted, the rate at which the tax has been deducted and such other particulars as may be prescribed.
- Employer to furnish certificate of tax paid on non monetary perquisites:** Every person, being an employer, referred to in Section 192(1A) shall, within such period, as may be prescribed, furnish to the person in respect of whose income such payment of tax has been made, a certificate to the effect that tax has been paid to the Central Government, and specify the amount so paid, the rate at which the tax has been paid and such other particulars as may be prescribed.

41. **Write a note on tax deduction and collection account number.**

Ans: **Tax deduction and collection account number [Section 203A]:**

- Obtaining of Tax deduction and collection account number:** Every person, deducting or collecting tax in accordance with the provisions of this Chapter, who has not been allotted a tax deduction account number or tax collection account number, shall, within such time as may be prescribed, apply to the Assessing Officer for the allotment of a "tax deduction and collection account number".

- (2) **Quoting of Tax deduction and collection Account number :** Where a "tax deduction account number" or a "tax collection account number" or a "tax deduction and collection account number" has been allotted to a person, such person shall quote such number
- in all challans for the payment of any sum in accordance with the provisions of Section 200 or Sec. 206C(3);
 - in all certificates furnished under section 203 or section 206C(5);
 - in all the statements prepared and delivered or caused to be delivered in accordance with the provisions of Section 200(3) or Section 206C(3);
 - in all the returns, delivered in accordance with the provisions of Section 206 or Section 206C(5A) or Section 206C(5B) to any income-tax authority; and
 - in all other documents pertaining to such transactions as may be prescribed in the interests of revenue.
- (3) **Notified deductors or collectors not required to obtain and quote TAN:** The provisions of this section shall not apply to such person, as may be notified by the Central Government in this behalf.

42. Write a note on person responsible for paying taxes deducted at source.

Ans: According to Section 204, the person responsible for paying taxes deducted at source means -

S.No.	Nature of payment income -	Person responsible for paying -
(1)	"Salaries", other than payments by the Central/ State Government	(i) The employer himself or, (ii) If the employer is a company, the company itself, including the principal officer thereof.
(2)	"Interest on securities", other than payments made by or on behalf of the Central/State Government	The local authority, corporation or company, including the principal officer thereof;
(3)	Any sum payable to a non-resident Indian, being any sum representing consideration for the transfer by him of any foreign exchange asset, which is not a short-term capital asset	The authorised person responsible for remitting such sum to the non-resident Indian or for crediting such sum to his Non-resident (External) Account maintained in accordance with the FEMA, 1999, and any rules made thereunder; "Authorised person" shall have the meaning assigned to it in Section 2(c) of FEMA, 1999.
(4)	Furnishing of information relating to payment to a nonresident, not being a company, or to a foreign company, of any sum, whether or not chargeable under the provisions of this Act	The payer himself, or, if the payer is a company, the company itself including the principal officer thereof.
(5)	Credit, or, as the case may be, payment of any other sum chargeable under the provisions of this Act	The payer himself, or, if the payer is a company, the company itself including the principal officer thereof.
(6)	Credit, or as the case may be, payment of any sum chargeable under the provisions of this Act made by or on behalf of the Central/State Government	The drawing and disbursing officer or any other person, by whatever name called, responsible for crediting, or paying such sum.

43. *Discuss the provisions relating to Furnishing of statement in respect of payment of any income to residents without deduction of tax.*

Ans: Furnishing of statement in respect of payment of any income to residents without deduction of tax [Section 206A]

- (1) **Periodical statement to be furnished in respect of interest paid to resident without TDS :** Any banking company or co-operative society or public company referred to in the proviso to in Section 194A(3)(i) [i.e., a public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of residential houses in India and which is eligible for deduction u/s 36(1)(viii)] responsible for paying to a resident any income not exceeding Rs. 40,000, where the payer is a banking company or a co-operative society, and Rs. 5,000 in any other case by way of interest (other than interest on securities), shall prepare such statement in such form, containing such particulars, for such period, verified in such manner and within such time, as may be prescribed, and deliver or cause to be delivered the said statement to the prescribed income-tax authority or to the person authorised by such authority.
- (2) **Periodical statement to be furnished in respect of other payments to resident without TDS :** The Board may require any person, other than a person mentioned above, responsible for paying to a resident any income liable for deduction of tax at source under Chapter XVII, to prepare such statement in such form, containing such particulars, for such period, verified in such manner and within such time, as may be prescribed, and deliver or cause to be delivered the said statement to the income-tax authority or the authorised person.
- (3) **Correction statement to be furnished:** The person responsible for paying to a resident any income referred above may also deliver to the income-tax authority, a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under the said sub-sections in such form and verified in such manner, as may be prescribed.
- (4) **Penalty in case of failure to deliver such statements within time [Section 272A(2)]:** A sum of Rs. 100 for every day during which the failure continues. According to section 273B, no penalty shall be imposed if the assessee proves that there was reasonable cause for the said failure.

44. *Explain the consequences of non-furnishing of Permanent Account Number to the deductor.*

Ans: Requirement to furnish Permanent Account Number [Section 206AA]:

- (1) **PAN to be furnished :** Every deductee (from whose income tax is required to be deducted) shall furnish his PAN to the deductor and both shall indicate the same in all the correspondence, bills, vouchers and other documents which are sent to each other.
- (2) **Consequences of failure to furnish PAN:** If the PAN is not furnished, then, -
 - (a) **TDS to be made at higher rate:** the tax shall be deducted at the highest of following rates -
 - (i) at the rate specified in the relevant provision of this Act; or
 - (ii) at the rate or rates in force, as per the annual Finance Act;
 - (iii) at the rate of 20%. [5% in case where the tax is required to be deducted u/s 194-0] [Amended by Finance Act, 2020 w.e.f. 01-04-2020 i.e. AY2020-21]
 - (b) any declaration under section 197A shall become invalid. In that case also, the tax shall be deducted at the higher rate as computed in (a) above.
 - (c) no certificate under section 197 for deduction of tax at lower rate shall be granted.

- (3) **Wrong PAN shall amount to 'No PAN':** Where the PAN provided to the deductor is invalid or does not belong to the deductee, it shall be deemed that the deductee has not furnished his PAN and the aforesaid provisions shall apply accordingly.
- (4) **Non applicability:** The provisions of this section shall not apply to a non-resident, not being a company, or to a foreign company, in respect of—
- payment of interest on long-term bonds as referred to in section 194LC; and
 - any other payment subject to such conditions as may be prescribed.

Illustration 25 -Tax deduction at source: Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- Mr. Tandon received a sum of Rs. 1,75,000 as per-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- A sum of Rs. 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).
- Ms. Kaul won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retails Ltd. for its customer.
- Finance Bank Ltd. sanctioned and disbursed a loan of Rs. 10 crores to Borrower Ltd. on 31-03-2021. Borrower Ltd. paid a sum of Rs. 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
- Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2020 to February, 2021) at Hyderabad where he pays a monthly house rent of Rs. 52,000 for those three months, totalling to Rs. 1,56,000. Rent is paid by him on the first day of the relevant month. (7 Marks, Nov. 2019)

Ans: The TDS implications are as under —

- No TDS liability:** Section 192A provides for deduction of tax @ 7.5% on premature taxable withdrawal from employees provident fund scheme. Accordingly, in a case where the accumulated balance due to an employee participating in a recognized provident fund is includible in his total income, tax is to be deducted at source. In given case the amount received on pre-mature withdrawal from EPF on account of termination of employment due to ill health of Mr. Tandon is exempt from tax in his hands. Hence no tax is required to be deducted at source under Section 192A of the Act.
- No TDS liability:** As per Section 194A, tax has to be deducted under section 194A @ 7.5% of the interest income on recurring deposit as "recurring deposit" is included in the definition of "time deposit". However, as per the third proviso to section 194A(3), no tax is required to be deducted at source in the case of senior citizens where the amount of interest or the aggregate of the amount of interest credited or paid during the financial year by a banking company, co-operative society engaged in banking business or post office does not exceed Rs. 50,000. Since in this case Mr. Hasan is senior citizen and the amount on interest credit to RD account is Rs. 42,000, tax is not required to be deducted at source.
- TDS liability @ 30%:** In respect of lucky dip conducted by M/s. Maximums Retails Ltd., the provisions of Section 194B would apply. As per Section 19413, winning from lottery or crossword puzzle or card game of any sort exceeding Rs. 10,000 payable by any person to any other person, is subject to tax deduction @ 30%. Since the value of prize is Rs. 21,000, therefore, tax is deductible at source @ 30% of Rs. 21,000 = Rs. 6,300

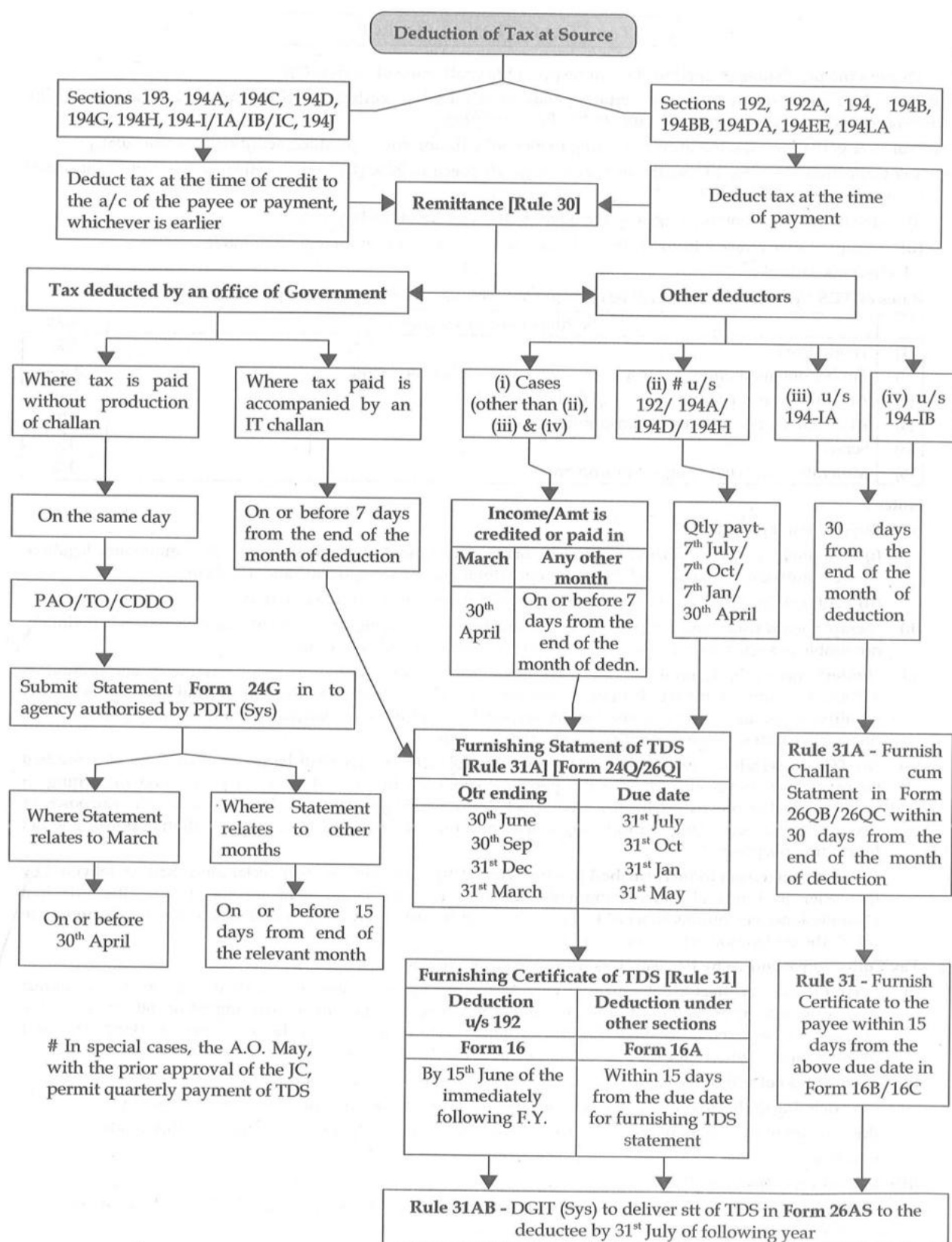
- (iv) **No TDS Liability:** Tax is deducted at source under Section 194A in respect of Interest other than Interest on securities. As per Section 2(28A) of Income-tax Act, 1961, the term "interest" means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised. Though service fees falls under the ambit of interest but no tax is to be deducted at source in respect of interest income credited or paid to, any banking company or any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank). Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 1,00,000 to Finance Bank Ltd.
- (v) Since Mr. Ashok pays rent exceeding Rs. 50,000 per month in the F.Y. 2020-21, he is liable to deduct tax at source @ 3.75% of such rent for F.Y. 2020-21 under section 194-IB. Thus, Rs. 5,850 [Rs. 52,000 $\times$ 3.75% $\times$ 3] has to be deducted from rent payable for February, 2021.

Illustration 26 - Tax deduction at source: Discuss whether the person making payment is liable to deduct tax at source in the following circumstances. Also compute the amount of tax to be deducted.

- (i) Interest of Rs. 1,650 paid by XYZ Ltd. to Kush and Rs. 5,500 to his HUF on 15-05-2020, by way of account payee cheque on account of debentures of the company held by them separately. Debentures of XYZ Ltd. are listed in Bombay Stock Exchange.
- (ii) Interest of Rs. 6,500 paid by Pawari Ltd. to Kamini and Rs. 4,500 to Mahak HUF on 31-01-2021, by way of account payee cheque on account of debentures of the company held by them. Debentures of Pawan Ltd. are not listed on a recognised stock exchange in India.
- (iii) Interest of Rs. 42,500 on recurring deposit credited to Mr. Punit.
- (iv) PQR Ltd. paid Rs. 10,00,000 to non-resident entertainer on 28-07-2020 in respect performance in an event of promotion of a new product.
- (v) Sports World Magazine paid Rs. 4,00,000 to Ricky Ponting, a non-resident cricketer, for writing an article for the September issue. The payment for the same was made on 25-06-2020.
- (vi) Sitting fees of Rs. 25,700 paid to director of the company on 28-08-2020.
- (vii) Rs. 1,80,000 paid to Mr. A on 25-03-2021. by Rajasthan State Government on compulsory acquisition of his urban land.

Solution:

	Tax deductible or not	Amount to tax to be deducted at source (Rs.)	Reason
(i)	Not deductible	Nil	As per the proviso to section 193 the company shall not be liable to deduct tax at source on the interest less than Rs. 5,000 paid to a resident individual in respect of listed debentures by way of account payee cheque. Therefore, no tax shall be deducted at source on the interest paid to Kush by XYZ Ltd. provided Kush is a resident in India during the year.
	Deductible	412.5 (Rs. 5,500 $\times$ 7.5%)	Tax shall be deducted at source on interest paid by XYZ Ltd. to the HUF of Kush on 15-05-2020 under section 193.
(ii)	Deductible	487.5 (Rs. 6,500 $\times$ 7.5%)	Pawan limited is liable to deduct tax at source on the interest paid to Kamini on account of debentures under section 193, since the payment exceeds Rs. 5,000.
	Not deductible	Nil	As per the proviso to section 193 a company shall not be liable to deduct tax at source on the interest paid to a resident individual or Hindu Undivided Family in respect of debentures, whether or not listed on a recognized stock exchange in India, if such payment made does not exceed Rs. 5,000 during the year and the same is paid by way of account payee cheque. Therefore, Pawan Ltd. is not liable to deduct tax at source on interest paid to Mahak HUF, provided Mahak HUF is resident in India.
(iii)	Deductible	3187.5 (Rs. 42,500 $\times$ 7.5%)	As per the provisions of section 194A, since, recurring deposits are included in time deposit, tax shall be deducted at source on interest paid on account of recurring deposit.
(iv)	Deductible	Rs. 2,08,000 (Rs. 10,00,000 $\times$ 20.8%)	As per the provisions of section 194E, any person making payment to a non-resident entertainer, which is taxable under section 115BBB, shall deduct tax at source @ 20.8%.
(v)	Deductible	Rs. 83,200 (Rs. 4,00,000 $\times$ 20.8%)	As per the provisions of section 194E, any person making payment to a non-resident sportsperson, which is taxable under section 115BBB, shall deduct tax at source @ 20.8%.
(vi)	Deductible	Rs. 1927.5 (Rs. 25,700 $\times$ 7.5%)	According to section 194J, the company shall be liable to deduct tax at source @ 7.5% under this section on any fees paid to a director on which the tax is not deductible under section 192.
(vii)	Not deductible	Nil	No tax shall be deducted at source under section 194LA in case the consideration or enhanced consideration during the year does not exceed Rs. 2,50,000.



TAX COLLECTION AT SOURCE

42. Discuss the provisions of Section 206C in respect of tax collection at source. OR
Write any four cases where seller of certain goods is required to collect tax from buyers and also state the circumstances where TCS is not applicable.

(5 Marks, May 2018)

Ans: Profits & gains from the business of trading in alcoholic liquor, forest produce, scrap etc. [Section 206C]: (1) Tax Collection at source by 'Seller' of specified goods [Section 206C(1)] : Every seller shall collect tax at source from the buyer at the time of -

- (i) debiting of the amount payable by the buyer to the account of the buyer; or
- (ii) receipt of such amount from the buyer in cash or by cheque or draft or any other mode, whichever is earlier.

Rates of TCS by seller: The tax shall be collected at following percentage of the aforesaid amount -

	Nature of specified goods	Rate of TCS	
		Rate	Reduced rates (Applicable from 14-05-2020 to 31-03-2021)
(1)	Tendu leaves	5%	3.75%
(2)	Timber obtained under a forest lease or under any other mode; or	2.5%	1.875%
(3)	Any other forest produce not being timber or tendu leaves	2.5%	1.875%
(4)	Alcoholic Liquor for human consumption; or	1%	1%
(5)	Scrap	1%	0.75%
(6)	Minerals, being coal or lignite or iron ore	1%	0.75%

Notes:

(a) **Buyer doesn't include,-**

- (i) A public sector company, Central or State Government, an embassy, a High commission, legation, commission, consulate and the trade representation, of a foreign State and a club; or
- (ii) A buyer in retail sale of such goods purchased for his personal consumption.

(b) **"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.

(c) **"Seller"** means the Central or State Government; or any local authority; or any statutory corporation or authority; or any company or firm or co-operative society and also includes an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of profession during the financial year immediately preceding the financial year in which the specified goods 206C(1) are sold.

(2) **No TCS in certain cases [Section 206C(1A)]:** No collection of tax shall be made in the case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration in

writing in duplicate in the prescribed form to the effect that the said goods are to be utilised for the purposes of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

Copy of declaration to be furnished [Section 206C(1B)] : One copy of such declaration shall be delivered by the seller to Principal Chief Commissioner or Chief Commissioner of Income Tax or the Principal Commissioner or Commissioner of Income Tax, on or before 7th day of the month next following the month in which the declaration is furnished to him.

(3) Tax Collection at source by licensor/ lessor [Section 206C (1C)]:

- (i) **Person liable to collect tax at source:** Every person, who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest either in whole or in part in any parking lot or toll plaza or mine or quarry, to licensee or lessee, (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purpose of business, shall be liable to collect tax at source.
- (ii) **Time of tax collection:** Such tax shall be collected at source at the time of -
 - (a) debiting of the amount payable by the licensee/lessee to the account of licensee or lessee; or
 - (b) receipt of such amount from licensee or lessee in cash or by cheque or draft or any other mode, whichever is earlier.
- (iii) **Rate of tax collection:** 2% (1.5% applicable from 14-05-2020 to 31-03-2021)
Note: "Mining and quarrying" shall not include mining and quarrying of mineral oil. "Mineral oil" includes petroleum and natural gas.

(4) Tax collection at source @ 1%/ 0.75% on motorcar if consideration exceeds X 10,00,000 [Section 206C(1F)] : Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding Rs. 10,00,000, shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 1% (0.75% applicable from 14-05-2020 to 31-03-2021) of the sale consideration as income-tax,

"Buyer" means a person who obtains in any sale, goods of the nature specified in the said sub-section, but does not include,—

- (i) the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
- (ii) a local authority as defined in Explanation to Section 10(20); or
- (iii) a public sector company which is engaged in the business of carrying passengers.

(5) TCS on Remittance of foreign currency by an authorised dealer (AD) under liberalised remittance scheme (LRS) of Reserve Bank of India (RBI) [Section 206C(1G)(a)] [Inserted by Finance Act, 2020 w.e.f. 01-10-2020]:

- (i) **Transaction liable to TCS:** Receipt for remittance, under LRS, out of India, for a buyer, in respect of a purpose other than tour program package (herein after referral an "other remittance"), if the remittance is Rs.7 lakhs or more.
- (ii) **Person liable to collect tax at source:** Every person being an authorised dealer (AD) is obliged to collect tax at source. Authorised dealer means a person authorised by the RBI under Section 10(1) of the FEMA Act, 1999 to deal in foreign exchange or foreign security".

- (iii) **Rate of TCS:**
- (a) **Other remittance:** 5% (10% in Non-PAN cases) of amount in excess of ₹ 7 lakhs;
 - (b) Remittance out of loan obtained from any financial institution defined in section 80E for pursuing education, if the remittance is more than ₹. 7 lakhs: 0.5% in excess of ₹. 7 lakhs (5% in Non-PAN cases).
- (iv) **When tax to be collected:** Tax is to be collected at the time when the amount is debited to buyer's account or receipt of the amount for remittance, whichever is earlier.
- (v) The authorised dealer shall not collect the sum on an amount in respect of which the sum has been collected by the seller.
- (6) **Sale of Overseas Tour Programme Package (OTPP/Package) I Section 206C(1 G)(6)]:**
- (i) **Meaning of Overseas Tour Programme Package (OTPP):** Any tour package which offers 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.
 - (ii) **Person liable to collect tax at source:** Seller of package/OTPP is obliged to collect tax on the amount received/ receivable for sale of OTPPP, from the buyer.
 - (iii) **Buyer:** Buyer, though not defined for the purpose, could be any person who purchases OTPPP. It could be any individual/ firm/ LLP/ company or any other person. It could be a resident/non-resident or a citizen/ non/citizen.
 - (iv) **Rate of TCS:** 5% on the amount received/receivable for OTPPP. It could include all expenses/charges included in the price of tour package.
 - (v) **When tax to be collected:** At the time of debit of amount to buyer's account or receipt, whichever is earlier.
- (7) **Certain common provisions for obligation) under Section 206C (1G):**
- (i) If the buyer (i.e. Remittee/OTPP Purchaser) is obliged to deduct tax under some other provision and has deducted tax, then TCS Provision shall not apply.
 - (ii) If the buyer is any one of the following, TCS provision would not apply - Central Government (CG), State Government, An embassy, A High Commission, A legation, A commission, A consulate, Trade representation of foreign State, and Local authority [as defined in Explanation below section 10(20)].
- (8) **TCS on sale of goods where consideration exceeds ₹.50 lakh [Section 206C(1H)]:**
- (i) **Person liable to collect tax at source:** Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding ₹. 50 lakh in any previous year, other than the goods being exported out of India or goods covered in Section 206C(1)/(IF)/(1G) shall collect tax at source.
- Meaning of seller:** Seller means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ₹. 10 crore rupees during the financial year immediately preceding the financial year in which the sale of goods is carried out, not being a person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein. Thus, seller does not cover:
- (a) Any person not carrying on business;
 - (b) Any person carrying on business whose turnover does not exceed ₹. 10 crores in preceding financial year; and
 - (c) Person(s) notified by Central Government, for the purpose, subject to fulfilment of conditions specified in the Notification.
- Meaning of buyer:** "Buyer" means a person who purchases any goods, but does not include,-

- (a) the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
- (b) a local authority as defined in the Explanation to Section 10(20); or
- (c) 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 such conditions as may be specified therein;
- (ii) **Rate of TCS:** 0.1% (0.075% applicable from 01-10-2020 to 31-03-2021) of the sale consideration exceeding Rs. 50 lakh (If the buyer has not provided the Permanent Account Number or the Aadhaar number to the seller, the rate of TCS shall be 1%.)
- (iii) **When tax to be collected:** The collection is to be made at the time of receipt of the consideration for sale of goods.
- (iv) **Non applicability:** TCS provisions shall not apply, if the buyer is liable to deduct tax at source under any other provision of this Act on the goods purchased by him from the seller and has deducted such amount.
- (9) **Payment of tax to the credit of Central Government [Section 206C (3)]:** Any person collecting any amount under section 206C shall pay the amount so collected to the credit of Central Government within the prescribed time.
- (10) **Furnishing of statements within prescribed time :** The person collecting tax shall, after paying the tax collected to the credit of the Central Government within the prescribed time, prepare such statements for such period as may be prescribed and deliver or cause to be delivered to the prescribed income-tax authority or the person authorised by such authority, such statement in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed.

Scope and applicability of the TCS provisions for amendment made by Finance Act, 2016 [Circular No. 22/2016 dated 08-06-2016 and Circular No. 23/2016 dated 24-06-2016]		
	Question	Answer
(1)	Whether TCS @ 0.75% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/distributors?	To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 0.75% from the purchaser on sale of motor vehicle of the value exceeding Rs. 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.
(2)	Whether TCS @ 0.75% on sale of motor vehicle is applicable only to luxury cars?	No, as per section 206C(1F), the seller shall collect tax @ 0.75% from the purchaser on sale of any motor vehicle of the value exceeding Rs. 10 lakhs.
(3)	Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?	Tax is to be collected at source @ 0.75% on sale consideration of a motor vehicle exceeding Rs. 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
(4)	Whether TCS @ 0.75% on sale of motor vehicle is applicable in case of an individual?	The definition of "Seller" as given in clause (c) of the Explanation to section 206C(11) shall be applicable in the case of sale of motor vehicles also.

		Accordingly, an individual whose turnover from business exceed Rs. 100 lakh during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.
(5)	How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?	The provisions of TCS on sale of motor vehicle exceeding Rs. 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding Rs. 10 lakhs would attract TCS @ 0.75%.

Guidelines u/s 194-0(4) and Section 206C(1-I) of the Income-tax Act, 1961 [Circular No. 17/2020 dated 29-9-2020]:

	Issue	Guidelines
1.	Applicability on transactions carried through various Exchanges	(1) It has been represented that there are practical difficulties in implementing the provisions of TDS and TCS contained in section 194-0 and section 206C(1H) of the Act in case of certain exchanges and clearing corporations. It has been stated that sometime in these transactions there is no one to one contract between the buyers and the sellers. (2) In order to remove such difficulties, it is provided that the provisions of section 194-0, and section 206C(1H), of the Act shall not be applicable in relation to, — (i) transactions in securities and commodities which are traded through recognized stock exchanges or cleared and settled by the recognized clearing corporation, including recognized stock exchanges or recognized clearing corporation located in International Financial Service Centre; (ii) transactions in electricity, renewable energy certificates and energy saving certificates traded through power exchanges registered in accordance with Regulation 21 of the CERC; and For this purpose, — (i) "recognized clearing corporation" shall have the meaning assigned to it in clause (i) of the Explanation to clause (23EE) of section 10 of the Act; (ii) "recognized stock exchange" shall have the meaning assigned to it in clause (ii) of the Explanation 1 to section 43(5) of the Act; and (iii) "International Financial Services Centre" shall have the meaning assigned to it in section 2(q) of the Special Economic Zones Act, 2005.
2.	Applicability on payment gateway	(1) In e-commerce transactions, the payments are generally facilitated by payment gateways. It is represented that in these transactions, there may be applicability of section 194-0 twice i.e. once on e-main commerce operator who is facilitating sell of goods or provision of services or both and once on payment gateway who also happen to qualify as e-commerce operator for facilitating service. To illustrate a buyer buys goods worth Rs. 1 lakh on e-commerce website "XYZ". He makes payment of Rs. 1 lakh through digital platform of "ABC". On these facts liability to deduct tax under section 194-0 may fall on both "XYZ" and "ABC". (2) In order to remove this difficulty, it is provided that the payment gateway will not be required to deduct tax u/s 194-0 of the Act on a transaction, if the tax has been deducted by the e-commerce operator u/s 194-0 of the Act, on the same transaction. Hence, in the above example, if "XYZ" has deducted tax u/s 194-0 on Rs. 1 lakh, "ABC" will not be required to deduct tax u/s 194-0 of the Act on

		<i>the same transaction. To facilitate proper implementation, "ABC" may take an undertaking from "XYZ" regarding deduction of tax.</i>
3.	<i>Applicability of on insurance agent or insurance aggregator</i>	(3) <i>It has been represented that insurance agents or insurance aggregators in many cases have no involvement in transactions between insurance company and the buyer for subsequent years. It has been represented that in subsequent years, the liability to deduct tax may arise on the insurance agents or insurance aggregators even if the transactions have been completed directly with the insurance company. This may result into hardship for the insurance agents/aggregators.</i> (4) <i>In order to remove difficulty it is provided that in years subsequent to the first year, if the insurance agent or insurance aggregator has no involvement in transactions between insurance company and the buyer of insurance policy, he would not be liable to deduct tax u/ s 194-0 of the Act for those subsequent years. However, the insurance company shall be required to deduct tax on commission payment, if any, made to the insurance agent or insurance aggregator for those subsequent years under the relevant provision of the Act.</i>
4.	<i>Calculation of threshold for the financial year 2020-21</i>	(1) <i>Since both section 194-0, and section 206C(1H), of the Act would come into effect from 01-10-2020, it was requested to clarify how the various thresholds specified under these sections shall be computed and whether the tax is required to be deducted/collected in respect of amounts received before 01-10-2020.</i> (2) <i>it hereby clarified that, —</i> (i) <i>Since the threshold of Rs. 5 lakh for an individual/Hindu undivided family (being e-commerce participant who has furnished his PAN/Aadhaar) is with respect to the previous year, calculation of amount of sale or services or both for triggering deduction u/s 194-0 of the Act shall be counted from 1-4-2020. Hence, if the gross amount of sale or services or both facilitated during the previous year 2020-21 (including the period up to 30-09-2020) in relation to such an individual/Hindu undivided family exceeds Rs. 5 lakh, the provision of section 194-0 shall apply on any sum credited or paid on or after 1-10-2020.</i> (ii) <i>Since section 206C(1H) of the Act applies on receipt of sale consideration, the provision of this sub-section shall not apply on any sale consideration received before 1-10-2020. Consequently it would apply on all sale consideration (including advance received for sale) received on or after 1-10-2020 even if the sale was carried out before 1-10-2020.</i> (iii) <i>Since the threshold of Rs. 50 lakh is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under 206C(1H) shall be computed from 1-4-2020. Hence, if a person being seller has already received Rs. 50 lakh or more up to 30-09-2020 from a buyer, the TCS u/s 206C (1H) shall apply on all receipt of sale consideration during the previous year, on or after 1-10-2020, from such buyer.</i>
5.	<i>Applicability to sale of motor vehicle</i>	(1) <i>The provisions of section 206C(1F) of the Act apply to sale of motor vehicle of the value exceeding Rs. 10 lakh. Section 206C(1H) of the Act exclude from its applicability goods covered u/s 206C(1F). It has been requested to clarify that whether all motor vehicles are excluded from the applicability of section 206C(1H) of the Act.</i> (2) <i>In this regard it may be noted that the scope of section 206C(1H)/(1F) are different. While section 206C(1F) is based on single sale of motor vehicle, section 206C(1H) is for receipt above Rs. 50 lakh during the previous year against</i>

		aggregate sale of good. While section 206C(1F) is for sale to consumer only and not to dealers, section 206C(1H) is for all sale above the threshold. Hence, in order to remove difficulty it is clarified that, — (i) Receipt of sale consideration from a dealer would be subjected to TCS under section 206C(1H) of the Act, if such sales are not subjected to TCS under section 206C(1F) of section 206C of the Act. (ii) In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value of Rs. 10 lakh or less to a buyer would be subjected to TCS under section 206C(1H) of the Act, if the receipt of sale consideration for such vehicles during the previous year exceeds Rs. 50 lakh during the previous year. (iii) In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value exceeding Rs. 10 lakh rupees would not be subjected to TCS under section 206C(1H) of the Act if such sales are subjected to TCS under section 206C(1F) of the Act.
6.	Adjustment for sale return, discount or indirect taxes	It is requested to clarify that whether adjustment is required to be made for sales return, discount or indirect taxes including GST for the purpose of collection of tax under sub-section 206C(1H) of the Act. It is hereby clarified that no adjustment on account of sale return or discount or indirect taxes including GST is required to be made for collection of tax under section 206C(1H) of the Act since the collection is made with reference to receipt of amount of sale consideration.
7.	Fuel supplied to non-resident airlines	It is requested to clarify if the provisions of section 206C(1H) of the Act shall apply on fuel supplied to non-resident airlines at airports in India. To remove difficulties it is provided that the provisions of section 206C(1H) of the Act shall not apply on the sale consideration received for fuel supplied to non-resident airlines at airports in India.

Illustration 27 - TCS Applicability - Section 206C(1G): X Ltd., Y Ltd., Z Ltd., D Ltd., and E Ltd. want to know the amount of tax collection at source in the different cases given below —

- (1) On 30-10-2020, X wants to transfer Rs. 1.5 lakh to USA through X Ltd. (an authorised foreign exchange dealer). The money will be transferred under LRS of RBI.
 - (2) On 05-10-2020, Y wants to transfer Rs. 2 lakh to Canada through Y Ltd. (an authorised foreign exchange dealer). Further, on 01-12-2020, he wants to transfer Rs. 6 lakh to Germany through Y Ltd.
 - (3) On 01-10-2020, Z wants to transfer Rs. 4 lakh to Singapore through Z Ltd. (an authorised foreign exchange dealer). Further, on 01-01-2021, he wants to transfer Rs. 6 lakh to Japan through D Ltd. (another authorised foreign exchange dealer).
 - (4) On 10-09-2020, SA Ltd. transfers Rs. 8 lakh to Canada through E Ltd. (an authorised foreign exchange dealer). Further, on 01-03-2021, SA Ltd. transfers Rs. 6.5 lakh to USA through E Ltd.
- In none of the cases given above, remittance is out of loan obtained from a financial institution for the purpose of pursuing any education.

Solution: Under section 206C(1G), an Authorized dealer who receives an amount (or aggregate of amounts) of Rs. 7 lakh (or more) in a financial year for remittance out of India under the Liberalised Remittance Scheme (LRS) of RBI, is required of collect tax at source. TCS rate is 5% (a non-PAN/Aadhaar, it is 10%). If, however, tax is deducted by the remitter of money under any provision of the Act, TCS provisions of section 206C(1G) are not applicable. TCS requirement in the given cases is as follows —

- (1) Tax will be collected at source by X Ltd. @ 5 % of [Rs. 15 lakh - Rs. 7 lakh] i.e. Rs. 8 lakh on 30-10-2020.

- (2) On 05-10-2020, Y Ltd. (the authorised dealer) does not know whether the total remittance by Y through it will exceed Rs. 7 lakh. Consequently, TCS is not required on 05-10-2020. However, on 01-12-2020, the aggregate amount transferred by Y through Y Ltd. during the financial year 2020-21, exceeds Rs. 7 lakh. Consequently, TCS @ 5% will be collected on [Rs. 8 lakh - Rs. 7 lakh] i.e. Rs. 1 lakh on 01-12-2020.
- (3) Z Ltd. (authorised dealer) receives Rs. 4 lakh from Z for remittance to Singapore on 01-10-2020. As the amount does not exceed the threshold limit of Rs. 7 lakh, TCS is not required by Z Ltd. from payment received from Z. Moreover, D Ltd. (another authorised dealer) receives Rs. 6 lakh from Z for remittance to Japan. As the amount of remittance by Z through D Ltd. does not exceed Rs. 7 lakh, TCS is not required even by D Ltd.
- (4) The provisions of tax collection at source under section 206C(1G) by authorised dealer are not applicable in case of remittance before 01-10-2020. Therefore, remittance of Rs. 8 lakh on 10-09-2020 is not subject to TCS. However, on remittance of Rs. 6.5 lakh on 01-03-2021, TCS provisions of section 206C(1G) are applicable (as the aggregate remittance by S Ltd. through E Ltd. during the financial year 2020-21 is more than Rs. 7 lakh). TCS on 01-03-2021 will be 5% of Rs. 6.5 lakh.

Illustration 28 - TCS Applicability - Section 206C(1G): G Ltd. and H Ltd. want to know their TCS obligation under section 206C(1G) below-

- (1) X takes an education loan from ITDFC Bank for his son's MBA Course in Harvard University. Out of the sanctioned loan, Rs. 65 lakh is remitted by X through G Ltd. (an authorised agent) on 16-12-2020.
- (2) Y's son wants to complete his graduation from the London School of Economics. Total cost of education (including boarding and lodging) is Rs. 1.50 crore. Y takes a loan of Rs. 80 lakh from PNB and the balance amount is financed out of his past savings. On 01-03-2021, he remits Rs. 1.1 crore through H Ltd. (an authorised agent) as follows —
- (a) Rs. 60 lakh is remitted out of loan sanctioned by PNB; and
- (b) Rs. 50 lakh is remitted out of past savings of Y.

Solution:

- (1) G Ltd. will collect tax at source @ 0.5% of Rs. 65 lakh - Rs. 7 lakh i.e. Rs. 58 lakh within the parameters of section 206C(1G).
- (2) H Ltd. will collect tax at source under section 206C(1G) as follows —

	Rs.
Remittance of Rs. 60 lakh out of education loan (0.5% of Rs. 53 lakh i.e. Rs. 60 lakh - Rs. 7 lakh)	26,500
Remittance of Rs. 50 lakh out of sources other than education loan (5% of Rs. 43 lakh (Rs. 50 lakh - Rs. 7 lakh))	2,15,000
Total	2,41,500

Illustration 29 - TCS Applicability - Section 206C(1H): Discuss whether tax is required to be collected at source in following independent cases:

Seller	Turnover of seller during FY 2020-21	Turnover of the seller in FY 2019-20	Buyer	Consideration for sale of goods (excluding exports) during -	
				1-4-2020 and 30-9-2020	1-10-2020 and 31-3-2021
P	Rs. 12 crore	Rs. 9 crore	A Ltd.	Rs. 30 lakh	Rs. 40 lakh

Q	Rs. 9 crore	Rs. 11 crore	B Ltd.	Rs. 40 lakh	Rs. 20 lakh
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Solution: TCS liability under Section 206C(1H) is discussed as under

Seller	TCS liability
P	Since the turnover in FY 2019-20 does not exceed Rs. 10 crore, hence no TCS Liability.
Q	Since the turnover in FY 2019-20 exceeds Rs. 10 crore, hence tax is to be collected at source @ 0.075% of Rs. 10 lakh (Rs. 60 lakh - Rs. 50 lakh).

Illustration 30 - TCS: Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for Rs. 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than Rs. 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. (2 Marks, Nov. 2018-NS)

Ans: To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 0.75% from the purchaser on sale of motor vehicle of the value exceeding Rs. 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers / distributors. Thus, XYZ Ltd. selling cars to Rahil & Co. will not be required to collect tax at source. However, when Rahil & Co. sells car to individual buyers, it will be required to collect tax at source @ 0.75% of the amount of the sale consideration of car.

46. What are the clarifications made by CBDT with respect to Section 206C(1F) relating to following issues:

- Whether TCS on sale of motor vehicle is applicable only to luxury car Rs.
- Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding Rs. 10 lakhs Rs.
- Whether TCS is applicable in case of an individual?
- Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer Rs. (4 Marks, Nov. 2019)

Ans:

- No, as per section 2.06C(1F), the seller shall collect tax @ 0.75% from the purchaser on sale of any motor vehicle of the value exceeding Rs. 10 lakhs.
- Tax is to be collected at source @ 0.75% on sale consideration of a motor vehicle exceeding Rs. 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
- The definition of "Seller" as given in clause (c) of the Explanation below section 206C(11) shall be applicable in the case of sale of motor vehicles also. Accordingly, an individual whose turnover from business exceed Rs. 100 lakh in the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.
- To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 0.75% from the purchaser on sale of motor vehicle of the value exceeding Rs. 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

47. Explain the provisions relating to furnishing of Permanent Account Number by collectee.

Ans: Requirement to furnish Permanent Account Number by collectee [Section 206CC]:

- (1) **Collectee to furnish PAN to Collector:** Any person paying any sum or amount, on which tax is collectible at source under Chapter XVII-BB (herein referred to as collectee) shall furnish his Permanent Account Number to the person responsible for collecting such tax (herein referred to as collector).
- (2) **TCS at higher rate if PAN is not furnished:** If PAN is not furnished by collectee to collector, then tax shall be collected at the higher of the following rates, namely: —
 - (i) at twice the rate specified in the relevant provision of this Act; or
 - (ii) at the rate of 5%.
- (3) **Declaration without PAN not to be valid:** No declaration under section 206C(1 A) shall be valid unless the person furnishes his Permanent Account Number in such declaration.
- (4) **TCS at higher rate in case of invalid declaration:** In case any declaration becomes invalid, the collector shall collect the tax at source in accordance with the above provisions.
- (5) **Lower TCS certificate not to be granted unless PAN furnished:** No certificate under section 206C(9) shall be granted unless the application made under that section contains the Permanent Account Number of the applicant.
- (6) **Quoting of PAN:** The collectee shall furnish his Permanent Account Number to the collector and both shall indicate the same in all the correspondence, bills, vouchers and other documents which are sent to each other.
- (7) **Invalid PAN means No PAN:** Where the Permanent Account Number provided to the collector is invalid or does not belong to the collectee, it shall be deemed that the collectee has not furnished his Permanent Account Number to the collector and the provisions of this section shall apply accordingly.
- (8) **Non applicability in case of non resident collectee :** The provisions of this section shall not apply to a non-resident who does not have permanent establishment in India.
"Permanent establishment" includes a fixed place of business through which the business of the enterprise is wholly or partly carried on. [Explanation]

48. **Explain: the difference between tax deduction-at-Source and tax collection .-atsomce.(4 Marks, May 2015)**

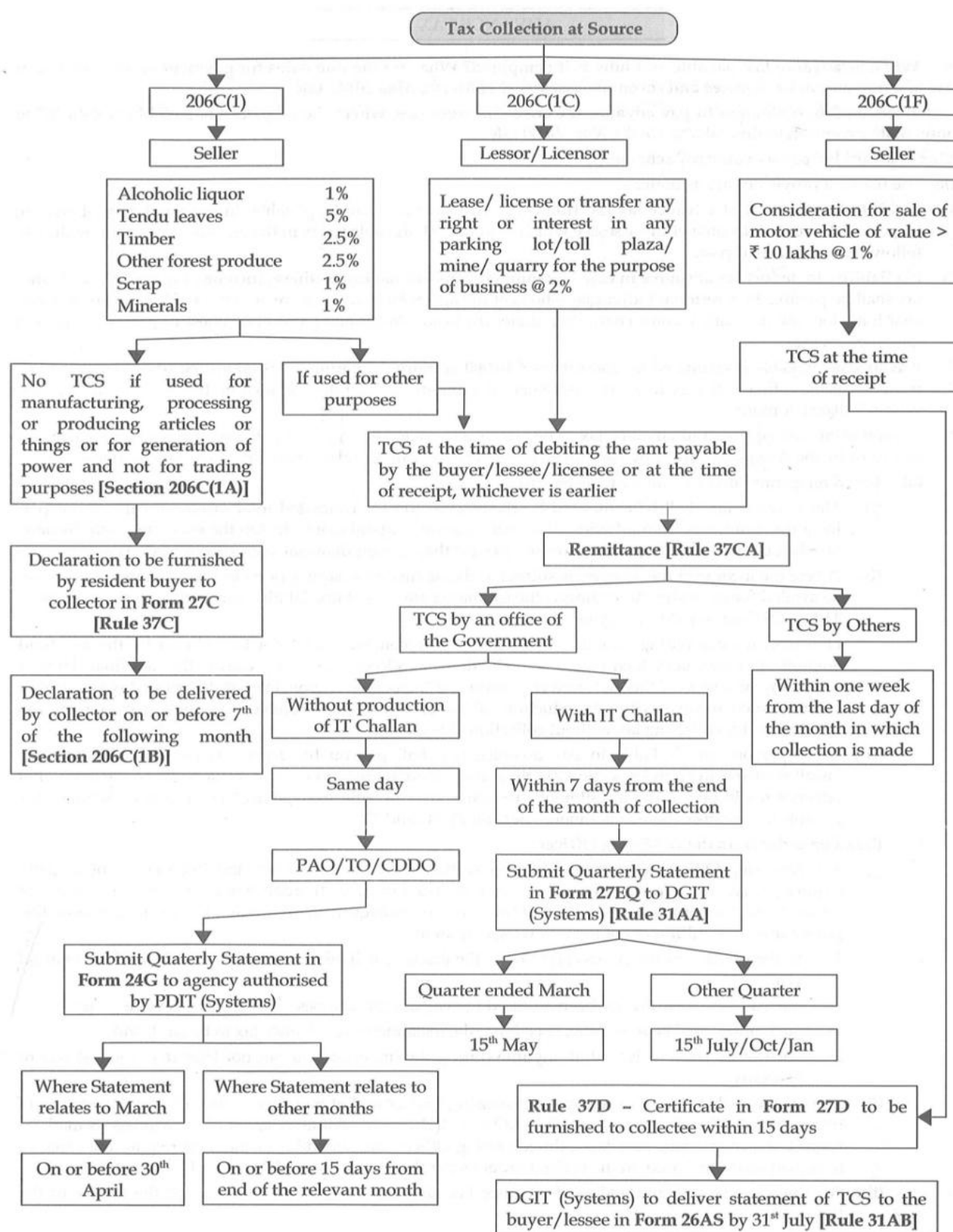
Ans: The difference between tax deduction at source and tax collection at source is as under -

	TCS	TCS
(1)	Tax deduction at source means deduction of tax at source from the sums required to be paid to recipient.	It means collection of tax at source on the sums received from the payer.
(2)	TDS is made by the payer of the income.	TCS is made by the recipient of the sum.
(3)	TDS is deducted from the sum required to be paid. For example, if sum is Rs. 100 and TDS rate is 10%, then, payer will pay Rs. 90 (100 - 10%) to the payee.	TCS is collected over and above the sum collectible from the payer. For example, if sum receivable is Rs. 100 and TCS rate is 1%, then, the recipient will collect Rs. 101 (100 +1%) from the payer.
(4)	TDS is made on contract for various services viz. interest, rent, works contract, commission, fees for professional services etc.	TCS is collected by the seller from the buyer of specified goods or on specified contracts e.g. liquor, bullion, jewellery, toll plaza or motor car etc.

49. *Explain the provisions for levy of fees for/default, in furnishing statements of TDS and TCS.*

Ans: *Fee for default in furnishing statements [Section 234E]:*

- (1) ***Fees of Rs. 200 per day for delay in furnishing statements :*** Where a person fails to deliver or cause to be delivered a statement within the time prescribed in Section 200(3)/206C(3), he shall be liable to pay, by way of fee, a sum of Rs. 200 for every day during which the failure continues.
- (2) ***Fees cannot exceed tax payable:*** The amount of fee referred above shall not exceed the amount of tax deductible or collectible, as the case may be.
- (3) ***Fees to be paid before furnishing statements :*** The amount of fee referred above shall be paid before delivering or causing to be delivered a statement in accordance with Section 200(3)/206C(3).



ADVANCE TAX

50. *When is 'advance tax' payable and how is it computed? What are the due dates for payment of advance tax in case of a non-corporate assessee and corporate assessee? (4 Marks, May 2014) OR Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is Rs. 10,000 or more. State exception to this rule. (2 Marks, Nov. 2017) OR What is meant by 'pay-as-you-earn' scheme?*

Ans: *The relevant provisions are as under -*

- (1) **Liability for payment of advance tax [Section 207]** : Advance tax shall be payable during any financial year, in respect of the current income of the assessee which would be chargeable to tax in the assessment year immediately following that financial year.
- (2) **No liability to deduct tax at source in case of senior citizens not having business income:** However, no advance tax shall be payable by a resident individual who is of the age of 60 years or more at any time during the previous year if he does not have any income chargeable under the head 'Profits and gains of business or profession during the previous year.
- (3) **Advance tax payable if estimated tax liability is Rs. 10,000 or more** : According to Section 208, advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year is Rs. 10,000 or more.
- (4) **Computation and payment of advance tax** The advance tax may be computed either by the assessee on his own accord or by the Assessing Officer by passing an order. The relevant provisions are discussed here under -
 - (a) **Based on estimation of income by the assessee :**
 - (i) The advance tax shall be computed by the assessee on the estimated total income for the entire year including winnings from lotteries, crossword puzzles, capital gains etc. On the estimated total income, tax shall be computed as per the rates in force for the relevant financial year - Section 209(1)(a).
 - (ii) Where the income of the assessee is subject to the deduction at source or collection at source, credit may be availed for the same. Accordingly, the estimated amount of tax liability after reducing the amount of TDS/TCS shall be paid by way of advance tax. However, for computing liability for advance tax, income-tax shall not be reduced by the aforesaid amount of income-tax which would be deductible or collectible at source during the said financial year under any provision of this Act from any income, if the person responsible for deducting tax has paid or credited such income without deduction of tax or it has been received or debited by the person responsible for collecting tax without collection of such tax.
 - (iii) Every person who is liable to pay advance tax shall pay on his accord as per the due dates for installment specified under section 211. In a case, where there is an increase or decrease in the amount of advance tax in one of the installments, the same may be adjusted against the amount of advance tax payable in the subsequent installment - Section 210(1) and (2).

(b) Based on order from the Assessing Officer:

- (i) The Assessing Officer is empowered under section 210(3) to pass order and issue notice of demand requiring an assessee to pay advance tax for a financial year. Such order may be passed whether or not the assessee has paid any installment of advance tax. However, the Assessing Officer may invoke this power subject to fulfillment of the following conditions:
- In the opinion of the Assessing Officer, the assessee is liable to pay advance tax for that financial year;
 - Such assessee has already been assessed by way of regular assessment in any previous year;
 - Such order shall be in writing, specifying the instalments of advance tax to be paid; and
 - Such order shall be issued at anytime during the financial year but not later than the last day of February.
- (ii) If, after the making of an order by the Assessing Officer and at any time before 1st March, a return of income is furnished by the assessee u/s 139 or 142(1) or a regular assessment of the assessee is made in respect of any previous year later, the Assessing Officer may amend his order and require the assessee to pay advance tax based on the revised order as per the due dates specified u/s 211 - Section 210(4).
- (iii) For the purpose of computation of advance tax, the Assessing Officer may adopt the higher of the following:
- The total income of the latest previous year in respect of which the assessee has been assessed under regular assessment; or
 - The total income returned by the assessee in any return of income for any previous year subsequent to the previous year for which regular assessment has been made - Section 209(1).
- (iv) While estimating the income, net agricultural income, if any, shall be taken into account for the purpose of calculation of advance tax - Section 209(2).
- (v) Upon receipt of the order or amended order as the case may be, if the assessee, considers that the amount of advance tax determined by the Assessing Officer is greater than the amount estimated by him, he may file intimation in Form 28A to the Assessing Officer declaring the amount estimated by him. It needs mention that while furnishing the intimation seeking revision, the assessee shall pay the amount of advance tax as declared in Form 28A - Section 210(5).
- (vi) On the other hand, where the amount estimated by the assessee is greater than the amount determined by the Assessing Officer, the excess shall be paid by the assessee on his own accord in accordance with the instalments of advance tax specified under section 211- Section 210(6).

51. What are the due dates of instalments and the quantum of advance tax payable by corporate assessee and non corporate assessee? OR Enlist the instalments of advance tax and due dates thereon in case of companies. (4 Marks, PCC June 2009) (4 Marks, PCC May 2008)

Ans: Installments of advance tax and due dates [Section 211]:

- (1) Advance tax on the current income calculated in the manner laid down in section 209 shall be payable by —
- (a) Advance tax payment schedule for both corporates and non-corporates [other than an assessee who declares profits and gains in accordance with the provisions of Section 44AD(1) or Section 44ADA(1)]: All the assessee, other than the assessee referred to in clause (b), who are liable to pay the

same, in four installments during each financial year and the due date of each instalment and the amount of such installment shall be as specified in the Table below :

Due date of installment	Amount payable
On or before the 15th June	Not less than 15% of such advance tax,
On or before the 15th December	Not less than 45% of such advance tax, as reduced by the amount, if any, paid in the earlier installment.
On or before the 15th September	Not less than 75% of such advance tax, as reduced by the amount or amounts, if any, paid in the earlier installment or installments.
On or before the 15th March	100% of such advance tax, as reduced by the amount or amounts, if any, paid in the earlier installment or installments.

- (6) **Assessee's falling under Presumptive basis taxation under Section 44AD or Section 44ADA :** An assessee who declares profits and gains in accordance with the provisions of Section 44AD(1) or Section 44ADA(1), to the extent of the whole amount of such advance tax during each financial year on or before the 15th March. However, any amount paid by way of advance tax on or before the 31st day of March shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of this Act. (2) In case the Assessing Officer issues the notice of demand for deposit of advance tax, then the same shall be payable on or before due dates falling after date of service of notice of demand.

Note: If the notified bank is closed on the last day of payment of installment of advance tax, then such installment can be paid on the following working day without levy of interest under section 234B and 234C.

Illustration 31 - Computation of Total income and advance tax: Mr. John commenced a proprietary business in the year 2002. His capital as on 1-4-2019 was Rs. 6,00,000. On 10-4-2019 his wife gifted Rs. 2,00,000 which he invested in the business of the same date. Mr. John earned profit from his proprietary business as given below. Previous year 2019-20 = Profit Rs. 3,00,000 Previous year 2020-21 = Profit Rs. 4,40,000 Compute the income from business chargeable to tax in the hands of Mr. John for the assessment year 2021-22. During the financial year 2020-21, he sold a vacant site which resulted in chargeable long-term capital gain of Rs. 5,00,000 (computed). The vacant site was sold on 20-12-2020.

Compute the total income and tax liability of Mr. John and the instalments of advance tax payable for the financial year 2020-21. (8 Marks, PCC May 2010)

Solution: Computation of business income of Mr. John for the assessment year 2021-22 (amount in Rs.):

Capital as on 01-04-2019	6,00,000
Add: Gift from wife (10-04-2019)	2,00,000
	8,00,000
Add: Profit for the year ended 31-03-2020	3,00,000
Capital as on 01-04-2020	11,00,000
Profit for the year ended 31-03-2021	4,40,000
Income proportionately assessable in the hands of Mr. John (Rs. 4,40,000 $\times$ Rs. 9,00,000 $\div$ Rs. 11,00,000)	3,60,000
Amount of income taxable in the hands of Mrs. John by virtue of clubbing (Rs. 4,40,000 $\times$ Rs. 2,00,000 $\div$ Rs. 11,00,000)	80,000

Computation of total income and tax liability of Mr. John (amounts in Rs.):

Profits and gains of business or profession:		
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Income from the business		3,60,000
Long-term Capital Gains		5,00,000
Total Income		8,60,000
Tax: Tax on LTCG @ 20%	1,00,000	
Tax on balance income	5,500	1,05,500
Add: HEC @ 4%		4,220
Net tax payable (rounded off)		1,09,720

Installments of Advance tax: Since the vacant plot was sold on 20-12-2020, hence, advance tax on LTCG arising from such sale will be included in the installment due after that date i.e. in the last installment on 15-3-2021. Advance tax shall be payable in 4 installments in the following manner (all amounts in Rs.)

Installment date	Total tax due (Rs.)	Amount payable	Cumulative Installments (Rs.)	Net Instalment Payable (Rs.)
15-06-2020	5,720	15% of advance tax	858	858
15-09-2020	5,720	45% of advance tax Less advance tax paid in earlier installment	2,574	1,716
15-12-2020	5,720	75% of advance tax Less advance tax paid in earlier installments	4,290	1,716
15-03-2021	1,09,720	100% of advance tax Less advance tax paid in earlier installments	1,09,720	1,05,430

Illustration 32 - Computation of Total income, tax liability and advance tax: Balamurugan furnishes the following information for the year ended 31-03-2021 (all amounts in Rs.):

Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	3,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,60,000
Long term capital gain	70,000

Compute his total income, tax liability and advance tax obligations. (6 Marks, PCC May 9.011)

Solution: Computation of Total income of Balamurugan for the year ended 31-3-2021 (amounts in Rs.):

Income from salaries (Computed)		2,60,000
Income from house property: Loss from house property	15,000	
Less: Set-off against LTCG [WN-1]	15,000	Nil
Business Income: Loss from normal business	1,35,000	
Less: Income from speculation business	1,00,000	
Less: Set off against long-term capital gains [WN-2]	35,000	Nil
Capital Gains : Long-term capital gains	70,000	
Less: Business loss set-off	35,000	
Less: House property loss set-off	15,000	20,000
Income from other sources: Lottery Winnings [WN-3]		3,00,000
Total Income (rounded off)	5,80,000	

Computation of tax liability (amounts in Rs.):

On LTCG of Rs. 20,000 @ 20%	4,000
On other Income of Rs. 2,60,000	500
On lottery winnings of Rs. 3,00,000 @ 30%	90,000
Total Tax	94,500
Add: HEC @ 4%	3,780
Total tax liability	98,280
Less: TDS Rs. 3,00,000 @ 30%	90,000
Tax payable (rounded off)	8,280

Applicability of Advance Tax: The assessee need not pay advance tax since his tax liability is less than Rs. 10,000.

Working Notes:

- (1) Long term capital gains are chargeable to tax @ 20% and Chapter VIA deduction are not available from such gains, hence loss from house property is set off against long term capital gains.
- (2) Business loss cannot be set-off against salary income.
- (3) No set off is allowed against lottery income. Further, no benefit of basic exemption limit is allowed from lottery winnings and chargeable to tax @ 30%.

Illustration 33 - Computation advance tax installments: Mr. Barun provides you the following information and requests you to determine the Advance Tax liability with due dates for the financial year 2020-21.

Estimated tax liability for the financial year 2020-21 65,000-
Tax deducted at source for this year Rs. 5,000 (2 Marks, Nov. 2016)

Solution: The assessee has to deposit advance tax of Rs. 60,000 i.e. Rs. 65,000 - Rs. 5,000.

Instalment date	Total tax due (Rs.)	Amount payable	Cumulative Instalments (Rs.)	Net Instalment Payable (Rs.)
15-06-2020	60,000	15% of advance tax	9,000	9,000
15-09-2020	60,000	45% of advance tax Less advance tax paid in earlier installment	27,000	18,000
15-12-2020	60,000	75% of advance tax Less advance tax paid in earlier installments	45,000	18,000
15-03-2021	60,000	100% of advance tax Less advance tax paid in earlier installments	60,000	15,000

Illustration 34 - Computation of Total income, tax liability and advance tax: Mr. Subramany is engaged in the business of producing and selling toys. During the previous year 2020-21 his turnover was Rs. 1.80 crores (received in cash). He opted for paying tax as per presumptive taxation scheme laid down in Section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax Rs. (3 Marks, Nov. 2017)

Solution: An assessee who declares profits and gains in accordance with the provisions of Section 44AD(1) shall be liable to pay advance tax. Hence, Mr. Subramanyam will be liable to pay advance tax to the extent of the whole amount of such advance tax during on or before the 15th March of that financial year. The tax liability of Mr. Subramanyam and amount of advance tax to be deposited is as under:

Profit & gains of business or profession as per provisions of Sec. 44AD [8% of Rs. 1,80,00,000]/ Total income	14,40,000
Tax on total income	2,44,500
Add: HEC @ 4 %	9,780
Total tax (including HEC) (Rounded off) i.e. the minimum amount of Advance tax to be deposited by 15th March, 2021 [Being due date of payment of such advance tax]	2,54,280

INTEREST UNDER SECTION 234B & 234C

52. Discuss briefly the provisions in respect of interest for defaults in payment of advance tax, OR
Briefly discuss the provisions of Section 234B of the Income-tax Act, 1961 for short-payment of non-payment of advance tax. (4 Marks, May 2016)

Ans: Interest for defaults in payment of advance tax [Section 234B] : The provisions for payment of interest under section 234B are as follows —

(1) **Liability to pay interest under section 234B(1):** An assessee shall be liable to pay interest u/s 234B(1) where, -

- (a) in spite of being liable to pay advance tax the assessee fails to pay the same, or
- (b) the advance tax paid by the assessee is less than 90% of the assessed tax.

(2) **Computation of Interest under Section 234B(1):**

(a) Where the assessee does not pay any self-assessment tax under section 140A:

- (i) **Rate of interest:** 1% p.m. or a part thereof.
- (ii) **Period for which interest is to be paid:** Period beginning from 1st April of the relevant assessment year and ending on the date of completion of assessment under section 143(1) or regular assessment.
- (iii) **Amount on which interest payable:**
 - (a) In case where no advance tax is paid by the assessee: On the amount of Assessed Tax.
 - (b) In case where advance tax paid by the assessee is less than 90% of the assessed tax: On (Assessed Tax - Advance tax paid by the assessee).

(b) Where the assessee pays self-assessment tax u/s 140A before the completion of regular assessment:

- (i) **Rate of interest:** 1% p.m. or a part thereof.
- (ii) **Period for which Interest is to be paid:** Interest will be computed for two periods -
 - (a) Firstly for period beginning from 1st April of the relevant assessment year and ending on the date of payment of self-assessment tax by the assessee.
 - (b) Secondly for the period beginning from the date following the date on which self-assessed tax was paid by the assessee and ending on the date of completion of regular assessment.
- (iii) **Amount on which interest is to be calculated -**
 - (a) If no advance tax paid by assessee: Assessed Tax - Tax paid on self-assessment u/s 140A.

- (b) if advance tax paid by the assessee is less than 90% of the assessed tax;
Assessed Tax - Advance tax paid by the assessee - Tax paid on self-assessment under section 140A.

Notes:

- (1) **"Assessed tax"** means the tax on the total income determined u/s 143(1) and where a regular assessment is made, the tax on the total income determined under such regular assessment as reduced by the amount of --
- any tax deducted or collected at source;
 - any relief of tax allowed under section 89;
 - any relief of tax allowed under section 90 on account of tax paid in a country outside India;
 - any relief of tax allowed under section 90A on account of tax paid in a specified territory outside India referred to in that section;
 - any deduction, from the Indian income-tax payable, allowed under section 91, on account of tax paid in a country outside India; and
 - any tax credit allowed to be set off in accordance with the provisions of Section 115JAA or Section 115JD. (2) 'Regular assessment' means an assessment made under section 143(3) or 144. Where an assessment is made for the first time under section 147 or 153A, the assessment so made shall also be regarded as a regular assessment.

Illustration 35 - Interest payable under section 234D: ABC Ltd. whose due date of filing the return for the assessment year 2021-22 was 30-11-2021 failed to file his return. The Assessing Officer completed his assessment on 25-12-2022 and determined a tax liability of Rs. 2,20,000 (without giving credit for advance tax or TDS). ABC Ltd. had paid an advance tax of Rs. 40,000 and a TDS of Rs. 18,000. Determine the interest payable by 'ABC Ltd.' under section 234B.

Solution: Period for which interest is to be paid = 01-04-2021 to 25-12-2022 = 21 months.

Assessed Tax = (Rs. 2,20,000 - Rs. 18,000) = Rs. 2,02,000.

Amount on which interest payable = Assessed tax - Advance tax Paid = Rs. 2,02,000 - Rs. 40,000 = Rs. 1,62,000. Rate of interest = 1% p.m or part thereof.

Interest payable under section 234B = Rs. 1,62,000 $\times$ 1% $\times$ 21 = Rs. 34,020.

53. Discuss briefly the provisions in respect of interest for deferment of advance tax, OR
 Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income. (4 Marks, IPCC May 2013) (4 Marks, Nov. 2015) (2 Marks, Nov. 2016) OR
 How the interest shall be calculated under section 234C for deferment of advance tax,

Ans: **Interest for deferment of advance tax [Section 234C]:** If an assessee fails to pay any installment of advance tax or makes late payment of any installment of advance tax, then he is liable to pay interest under section 234C as under -

- (1) **In case of an assessee other than those covered under Section 140A and Section 140AA:** In case of an assessee other than those covered u/s 140A(1) and 140AA(1), the interest shall be the aggregate of the following -

Conditions	Rate :	Months	Amount on which interest payable
Where advance tax paid on or before 15th June is less than 12% of tax due on returned income	1% p.m.	3	15% of the tax due on returned income less advance tax paid upto 15th June

Where advance tax paid on or before 15th September is less than 36% of tax due on returned income	1% p.m.	3	45% of the tax due on returned income less advance tax paid upto 15th September
Where advance tax paid on or before 15th December is less than 75% of tax due on returned income	1% p.m.	3	75% of the tax due on returned income less advance tax paid upto 15th December
Where advance tax paid on or before 15th March is less than 100% of tax due on returned income	1% p.m.	1	100% of tax due on returned income less advance tax paid upto 15th March

- (2) **In case of assessee falling under Section 44AD and 44ADA:** In case of an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), as the case may be, the interest shall be the aggregate of the following -

Conditions	Rate	Months	Amount on which interest payable
Where advance tax paid on or before 15th March is less than 100% of tax due on returned income	1% p.m.	1	100% of tax due on returned income less advance tax paid upto 15th March

Other points:

- (1) **"Tax due on returned income"** means tax chargeable on the total income declared in the return of income furnished by the assessee as reduced by -

- (i) any tax deductible or collectible at source;
- (ii) any relief of tax allowed under section 89;
- (iii) any relief of tax allowed under section 90 on account of tax paid in a country outside India;
- (iv) any relief of tax allowed under section 90A on account of tax paid in a specified territory outside India referred to in that section;
- (v) any deduction, from the income-tax payable, allowed under section 91, on account of tax paid in a country outside India; and
- (vi) any tax credit allowed to be set off in accordance with the provisions of Section 115JAA or Section 115JD.

- (2) **In case of shortfall in payment of advance tax is on account of capital gains or other casual incomes or newly set up business :** In case shortfall in payment of tax due on returned income is on account of under estimate or failure to estimate -

- (i) the amount of capital gains; or
- (ii) casual incomes like income from horse race, etc.; or
- (iii) income under the head "Profits and gains of business or profession" in cases where the income accrues or arises under the said head for the first time; or
- (iv) income of the nature referred to in Section 115BDDA(1), no interest shall be leviable under section 234C if the assessee pays whole of the tax due on such incomes in the remaining instalments which are due or where no such installments are due, by 31st March of the financial year.

Illustration 36 - Computation of Interest u/s 234B and 234C: The following particulars are furnished by Ms. Priyanka for the financial year 2020-21 (assessment year 2021-22):

Tax on total income (paid on 30-11-2021)	1,50,000
Date of filing the return	30-11-2021

Due date for filing the return

30-11-2021

Compute the total interest payable under sections 234B and 234C.

Solution: The total interest payable by Ms. Priyanka is computed as under -

Interest for -	Calculation	Rs.
Default in payment of advance tax u/s 234B	Rs. 1,50,000 $\times$ 1% $\times$ 8 months (April to November) 15% of Rs. 1,50,000 i.e. Rs. 22,500 $\times$ 1% $\times$ 3 months 45% of Rs. 1,50,000 i.e. Rs. 67,500 $\times$ 1% $\times$ 3 months	12,000 675 2,025
Deferment of advance tax u/s 234C	75% of Rs. 1,50,000 i.e. Rs. 1,12,500 $\times$ 1% $\times$ 3 months 100% of Rs. 1,50,000 i.e. Rs. 1,50,000 $\times$ 1% $\times$ 1 month	3,375 1,500
Total Interest Payable		19,575

Illustration 37 – Interest payable u/s 234B: Mr. Sachal, a resident individual aged 54, furnishes income details as under —

- Wholesale Cloth business, whose turnover is Rs. 150 lakhs, for which accounts are audited u/s 44AB. Income from such business Rs. 8,10,000.
 - Income from other sources Rs. 2,70,000.
 - Tax deducted at source 125,000.
 - Advance tax paid Rs. 1,04,000 on 14-3-2021.
- Return of income will be filed on 11-12-2021. The assessee is willing to pay the requisite self-assessment tax. Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. (4 Marks, May 2017)

Solution: An assessee shall be liable to pay interest u/s 234B(1) where the advance tax paid by the assessee is less than 90% of the assessed tax. Assessed tax means tax on assessed income - TDS. The tax liability shall be computed as under (amount in Rs.):

Total Income	10,80,000
Tax on total income	1,36,500
Add: HEC @ 4%	5,460
Tax payable	1,41,960
Less: Tax deducted at source	25,000
Assessed tax	1,16,960
90% of assessed tax	1,05,264
Advance tax deposited	1,04,000
Since advance tax deposited falls short off 90% of assessed tax, assessee shall be liable to pay interest under Section 234B	
Amount on which interest payable = Assessed tax - Advance tax paid	12,960
Period for which interest is to be paid = 01-04-2021 to 11-12-2021 (Number of months)	9
Rate of interest (per month or part thereof)	1%
Interest payable under Section 234B	1,166

14

PROVISIONS FOR FILING OF RETURN OF INCOME AND SELF ASSESSMENT

Topic Referencer

-  Provisions for Filing of Return of Income
-  Permanent Account Number (PAN)
-  Scheme of submission of return through Tax Return Preparer
-  Persons Authorised to Verify Return & Interest under section 234A
-  Self Assessment

1. Explain the provisions of compulsory filing of return of income under section 139(1) of the Income-tax Act, 1961. Also specify the due dates of filing return of income. (2 Marks, Nov. 2016) OR
Every person is required to file a return of income on or before due date in the prescribed form and manner as per Section 139(1). What is the meaning of due date of filing Income Tax Returns for different categories of assessee as per Section 139(1) of the Income-tax Act, 1961? (4 Marks, Nov. 2018-NS)
- Ans:** **Voluntary Return of Income [Section 139(1)]:** Return of income filed under section 139(1) is furnished by the assessee voluntarily and not in response to notice issued by the department, hence it is known as voluntary return of income. As per Section 139(1),-
- (i) **A company or a firm; or**
 - (ii) A person other than a company or a firm, if his total income or total income of any other person in respect of whom he is assessable during the previous year exceeds the maximum amount not chargeable to income tax, shall be required to furnish return of income on or before the specified due dates. It has been provided that a person other than company or firm has to furnish return of income on or before the due date in such form and verified in such manner and setting forth such other particulars, as may be prescribed —
 - (a) if his total income or total income of any other person in respect of which he is assessable during the previous year, without giving effect to the provisions of Chapter VI-A or Section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB exceeded the maximum amount not chargeable to tax;
 - (b) if such person is not required to furnish return under Section 139(1) and has during the previous year —
 - (i) has deposited an amount or aggregate of the amounts exceeding Rs. 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
 - (ii) has incurred expenditure of an amount or aggregate of the amounts exceeding Rs. 2 lakh for himself or any other person for travel to a foreign country; or
 - (iii) has incurred expenditure of an amount or aggregate of the amounts exceeding Rs. 1 lakh towards consumption of electricity; or
 - (iv) fulfils such other conditions as may be prescribed.
- Note:** Company or Firm is mandatorily required to furnish return whether having income or loss : Every company or a firm shall furnish, on or before the due date, the return in respect of its income or loss in every previous year.

Due dates for filing return of income:

	Types of assessee	Due Date
(a)	Any assessee who is required to furnish audit report u/s 92E.	30th November of the A.Y.
(b)	Assessee's other than those covered in (a) above : (i) A company; (ii) A person other than a company, required to get its accounts audited under this Act or any other law for the time being in force; (iii) A weriffg partner of a firm, where the accounts of the firm are required to be audited under this Act or any other law for the time being in force. [Omitted by the Finance Act, 2020, w.e.f. 1-4-2020 i.e. AY 2020-21]	31st October of the A.Y. [Amended by Finance Act, 2020 w.e.f. 01-04-2020 i.e. AY 2020-21]
(c)	Any other assessee	31st July of the A.Y.

2. Explain the provisions of filing return of income by residents who is Beneficial Owner / Beneficiary of any asset located outside India.

Ans: **Beneficial Owner/ Beneficiary of any asset located outside India required to file return of income in the prescribed form and manner:** Every person, being a resident other than not ordinarily resident in India within the meaning of section 6(6), who is not required to furnish a return under section 139(1) if such person, at any time during the previous year, —

- (a) holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has a signing authority in any account located outside India; or
- (b) is a beneficiary of any asset (including any financial interest in any entity) located outside India, shall be required to file return of income or loss for the previous year in the prescribed form and verified in the prescribed manner on or before the due date.

However, an individual being a beneficiary of any asset (including any financial interest in any entity) located outside India would not be required to file return of income, where, income, if any, arising from such asset is includible in the income of the person referred to in (a) above in accordance with the provisions of the Income-tax Act, 1961.

Explanation: (1) "Beneficial owner" in respect of an asset means an individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, direct or indirect, of himself or any other person. (2) "Beneficiary" in respect of an asset means an individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person other than such beneficiary.

Illustration 1 - Provisions relating to filing of return of income : Paras aged 55 years is resident of India. During the F.Y. 2020-21, interest of Rs. 2,88,000 was credited to his Non-resident (External) Account with SBI. Rs. 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned Rs. 3,000 as interest on this saving account. Is Paras required to file return of income Rs. What will your answer be, if he has incurred Rs. 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Solution: An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or Section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB, exceeds the maximum amount not chargeable to tax i.e Rs.2,50,000 (for A.Y. 2021-22).

Computation of total income of Mr. Paras for A.Y. 2021-22 (amount in Rs.):

Income from other sources:	
Interest earned from Non-resident (External) Account Rs. 2,88,000 [Exempt u/s 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	Nil
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under section 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

Since the total income of Mr. Paras for A.Y. 2021-22, before giving effect to the deductions under Chapter VI-A or Section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y. 2021-22. Note: In the above solution, interest of Rs. 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to the deductions under Chapter VI-A or Section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for A.Y. 2021-22. If he has incurred expenditure of Rs. 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1).

3. Indicate the three situations where the Return of Income has to be compulsorily filed u/s 139(1) of the Income-tax Act, 1961. (3x2 = 6 Marks, May 2018-NS)

Ans: The three situations where the Return of Income has to be compulsorily filed u/s 139(1) of the Income-tax Act, 1961 are as under:

- (i) Companies and firms (whether having profit or loss or nil income);
- (ii) a person, being a resident other than not ordinarily resident, having any asset (including any financial interest in any entity) located outside India or signing authority in any account located outside India, whether or not having income chargeable to tax;
- (iii) Individuals, HUFs, AOPs or BOIs and artificial judicial persons whose total income before giving effect to the provisions of Chapter VI-A or Section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB exceeds the basic exemption limit.
- (iv) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person -
 - (a) has deposited an amount or aggregate of the amounts exceeding Rs. 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
 - (b) has incurred expenditure of an amount or aggregate of the amounts exceeding Rs. 2 lakh for himself or any other person for travel to a foreign country; or
 - (c) has incurred expenditure of an amount or aggregate of the amounts exceeding Rs. 1 lakh towards consumption of electricity; or
 - (d) fulfils such other prescribed conditions.

4. *Interest is chargeable under section 234A for delay or default in furnishing return of income. Discuss briefly. (4 Marks, PCC May 2008) (4 Marks, PCC Nov. 2009)*

Ans: *Interest for defaults in furnishing return of income [Section 234A]:*

- (1) **When interest under section 234A payable :** Interest under section 234A is payable in case of failure to file a return of income on or before the due date mentioned in Section 139(1) i.e. where an assessee furnishes the return of income after the due date or does not furnish the return of income.
- (2) **Rate of Interest:** Simple interest @ 1 % per month or part of a month.
- (3) **Period for which interest is payable:** The period commencing on the date immediately following the due date and ending on the following dates:

<i>Circumstances</i>	<i>Ending on the following dates</i>
<i>Where the return is furnished after due date</i>	<i>The date of furnishing of the return</i>
<i>Where no return is furnished</i>	<i>The date of completion of assessment</i>

- (4) **Amount on which interest is calculated :** The interest is to be calculated on the amount of tax on total income as determined under section 143(1), and where the regular assessment is made, on the amount of the tax on the total income determined under regular assessment, as reduced by the amount of -
- (a) advance tax, if any, paid;
 - (b) any tax deducted or collected at source;
 - (c) any relief of tax allowed under section 89;
 - (d) any relief of tax allowed under section 90 on account of tax paid in a country outside India;
 - (e) any relief of tax allowed under section 90A on account of tax paid in a specified territory outside India referred to in that section;
 - (f) any deduction, from the Indian income-tax payable, allowed under section 91, on account of tax paid in a country outside India; and
 - (g) any tax credit allowed to be set off in accordance with the provisions of section 115JAA or Section 115JD. Note: Section 143(1) provides that if any tax or interest is found due on the basis of a return of income after adjustment of advance tax, relief of tax allowed under section 89, tax deducted at source, tax collection at source and self-assessment tax, an intimation would be sent to the assessee and such intimation is deemed to be a notice of demand issued under section 156. If any refund is due on the basis of the return, it shall be granted to the assessee and an intimation to this effect would be sent to the assessee. Where no tax or refund is due, the acknowledgment of the return is deemed to be an intimation under section 156.

Other points:

- (a) The interest payable under section 234A(1) shall be reduced by the interest, if any, paid under section 14.0A (self- assessment) towards the interest chargeable under this section.
- (b) Where as a result of an order under rectification or appeal or revision, the amount of tax on which interest was payable under 234A(1) has been increased or reduced, as the case may be, the interest shall be increased or reduced accordingly. In a case, where the interest is increased, the Assessing Officer shall serve on the assessee a notice of demand specifying the sum payable, and the same shall be paid by the assessee. In case of refund, the same shall be granted to him.
- (c) No interest under section 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

- (d) *Rounding off: As per Rule 119A, the amount in respect of which interest is to be calculated shall be rounded off to the nearest multiple of Rs. 100 and for this purpose, any fraction of Rs. 100 shall be ignored.*

5. *Explain the quantum of late fees u/s 234F for delay in furnishing return of income within the prescribed time limit u/s 139(1) for A.Y. 2021-22. (3 Marks, Nov. 2018-NS) (2 Marks, May 2018) (2 Marks, May 2019)*

Ans: *Fee for default in furnishing return of income [Section 234F]: The relevant provisions are discussed as under— Fee of Rs. 5,000 / Rs. 10,000 payable for delay in furnishing return of Income : Without prejudice to the provisions of this Act, where a person required to furnish a return of income under section 139, fails to do so within the time prescribed in Section 139(1), he shall pay, by way of fee, a sum of, —*

- (a) *Rs. 5,000, if the return is furnished on or before the 31st day of December of the assessment year;*
 (b) *Rs. 10,000 in any other case.*

Rs. 1,000 payable if total income does not exceed Rs. 5,00,000 : If the total income of the person does not exceed Rs. 5,00,000, the fee payable under this section shall not exceed Rs. 1,000.

6. *Write a note on option to furnish return of income to employer.*

Ans: *Option to furnish return of income to employer [Section 139(1A)]:*

- (1) *This section gives an option to a person, being an individual who is in receipt of income chargeable under the head "Salaries", to furnish a return of his income for any previous year to his employer, in accordance with such scheme as may be notified by the CBDT and subject to such conditions as may be specified therein.*
 (2) *Such employer shall furnish all returns of income received by him on or before the due date, in such form (including on a floppy, diskette, magnetic cartridge tape, CD-ROM or any other computer readable media) and manner as may be specified in that scheme.*
 (3) *In such a case, any employee who has filed a return of his income to his employer shall be deemed to have furnished a return of income under section 139(1).*

7. *Write a note on scheme of electronic furnishing of return.*

Ans: *Filing of returns in electronic format [Section 139(1B)] : Any person, being a company or being a person other than a company, may, at his option, on or before the due date, furnish a return of his income for any previous year in accordance with electronic furnishing of return scheme, in prescribed form on or before due date of furnishing return. Return so filed shall be deemed to be a return furnished under section 139(1).*

8. *Write a note on power of the Central Government to exempt persons from filing return of income.*

Ans: *Power of Central Government to exempt persons from filing of return [Section 139(1 C)] : The Central Government may, by notification in the Official Gazette, exempt any class or classes of persons from the requirement of furnishing a return of income having regard to conditions specified in that notification.*

9. *Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required Rs.(4 Marks, May 2015) OR "Filing of Return of Income on or before due date is necessary for carry forward of losses." Discuss the correctness of this statement. (4 Marks, Nov. 2014)*

Write a note on filing of return of loss under section 139(3) of the Income-tax Act, 1961.

Ans: Provisions relating to filing of return of loss [Section 139(3)] : If any person has sustained a loss in any previous year under the,-

- (i) "Profits and Gains of Business or Profession" under section 72(1), or
- (ii) Speculation loss under section 73(2), or
- (iii) Specified business loss under Section 73A(2), or
- (iv) "Capital Gains" under section 74(1), or
- (v) Loss from the activity of owning and maintaining race horses under section 74A(3), then, such loss can be carried forward and set-off, only if the person furnishes a return of loss in prescribed form and containing prescribed particulars on or before the due date specified in Section 139(1).

Notes:

- (1) Loss from house property under section 71B can be carried forward and set off even if return of loss is not filed under section 139(3).
- (2) "Unabsorbed depreciation" under section 32(2) can be carried forward and set off even if no return of loss is furnished under section 139(3).
- (3) In case, if return of loss is not furnished within time limit, it will not affect inter-source adjustments under section 70 and inter-head adjustments under section 71. Hence, the loss of an assessment year can be set-off against income of same year, but the same will not be carried forward if return of loss is not filed as per the due date under section 139(1).
- (4) Brought forward losses of earlier years can be carried forward even if return of loss of current assessment year is not filed as per the provisions of Section 139(3).
- (5) The Supreme Court in *Prakash Nath Khanna v. CIT* [2004] 266 1TR 1 (SC) has held that a belated return of loss filed under section 139(4) will not be regarded as filed in accordance with Section 139(3) and thus, the loss cannot be carried forward.

10. Write a note on provisions in respect of filing a belated return under section 139(4).

Ans: Belated return [Section 139(4)]: Any person who has not furnished a return within the time allowed to him under Section 139(1), may furnish the return for any previous year at any time -

- (i) before the end of the relevant assessment year; or
- (ii) before the completion of the assessment, whichever is earlier.

Note: Assessment referred above refers to assessment made under section 144.

Illustration 2 - Return of loss: Mr. X has a business loss of Rs. 1,50,000 before providing for depreciation. Depreciation as per Section 32 amounted to Rs. 50,000. The due date of filing ROI is 31st October, 2021 while Mr. X filed the return on 15th November, 2021.

Discuss whether he can carry forward business loss and unabsorbed depreciation.

Solution: Since Mr. X has furnished return of loss after due date i.e. 31st October, 2021, hence business loss of Rs. 1,50,000 cannot be carried forward.

However, unabsorbed depreciation can be carried forward without furnishing return of such loss.

Illustration 3 - Belated return: Mr. Y wants to furnish return of income for assessment year 2021-22. on 1st April, 2021. Can he do so? (2 Marks, Nov. 2016)

Solution: The belated return under section 139(4) can be furnished upto the end of relevant assessment year. In this case, belated return for assessment year 2021-22 can be furnished upto 31st March, 2021. Hence, Mr. Y cannot furnish the return of income on 1st April, 2021.

11. *State provisions for furnishing of revised return under section 139(5) of the Income-tax Act, 1961.*

Ans: Provisions relating to filing of revised return [Section 139(5)] : If any person, having furnished a return u/s 139(1) or 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time —

- (i) *before the end of the relevant assessment year, or*
- (ii) *before the completion of the assessment, whichever is earlier.*

12. *What are the particulars required to be furnished with the return of income, as per Section 139(6)? (4 Marks, 1PCC May 2010)*

Ans: Particulars required to be furnished with the return of income as per Section 139(6): As per Section 139(6), the prescribed form of return of income, shall in certain prescribed cases, require the assessee to furnish the particulars of,-

- (i) *income exempt from tax,*
- (ii) *assets of the prescribed nature and value, held by him as a beneficial owner or otherwise or in which he is a beneficiary,*
- (iii) *details of bank account and credit card held by the assessee,*
- (iv) *expenditure exceeding the prescribed limits incurred by the assessee under prescribed heads; and*
- (v) *such other outgoings, as may be prescribed.*

13. *Explain the particulars to be furnished with return of income in the case of an assessee engaged in business or profession.*

Ans: Particulars to be furnished with return of income in the case of an assessee engaged in business or profession [Section 139(6A)] : The prescribed form of the return shall, in the case of an assessee engaged in any business or profession, also require him to furnish—

- (i) *the report of any audit referred to in section 44AB.*
- (ii) *the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.*
- (iii) *the names and addresses of his partners, if any, in such business or profession.*
- (iv) *if he is a member of an association or body of individuals,*
 - (a) *the names of the other members of the association or the body of individuals; and*
 - (b) *the extent of the share of the assessee and the shares of all such partners or members, as the case may be, in the profits of the business or profession.*

14. *(a) When can a return of income be treated as defective? (b) An Assessing Officer finds a defect in the return of income and intimated the defect vide letter date 09-10-2020, which was received by Mr. Ram on 14-12-2020. What is the date by which Mr. Ram has to rectify the defect, assuming that Mr. Ram has not applied for extension of time?*

Ans: Provisions relating to defective return [Section 139(9)]: The provisions relating to defective return are discussed as under -

(1) **Defective Return:** *A return of income shall be regarded as defective unless all the following conditions are fulfilled, namely:*

- (a) *The annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computations of gross total income and total income have been duly filled in; The return of income is accompanied by the following, namely:*
 - (i) *a statement showing the computation of the tax payable on the basis of the return.*

- (ii) the report of the audit obtained u/s 44AB (If such report has been furnished prior to furnishing the return of income, a copy of such report and the proof of furnishing the report should be attached), the
- (iii) proof regarding the tax, if any, claimed to have been deducted or collected at source and the advance tax and tax on self-assessment, if any, claimed to have been paid. (However, the return will not be regarded as defective if (a) a certificate for tax deducted or collected was not furnished under section 203 or section 206C to the person furnishing his return of income, (b) such certificate is produced within a period of 2 years).
- (iv) the proof of the amount of compulsory deposit, if any, claimed to have been paid under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974;
- (c) Where regular books of account are maintained by an assessee, the return of income is accompanied by the following —
- (i) copies of manufacturing account, trading account, profit and loss account or income and expenditure account, or any other similar account and balance sheet;
- (ii) the personal accounts as detailed below -
- | | | |
|----|--|--|
| 1. | Proprietary business or profession | Personal account of the proprietor |
| 2. | Firm, association of persons or body of individuals | Personal accounts of all the partners/members |
| 3. | Partner or member of a firm, association of persons or body of individuals | Partner's personal account in firm or member's personal account in the association of persons or body of individuals |
- (d) Where the accounts of the assessee have been audited, the return should be accompanied by copies of the audited profit and loss account and balance sheet and the auditor's report.
- (e) Where the cost accounts of an assessee have been audited under section 148 of Companies Act, 2013, the return should be accompanied by such report.
- (f) Where regular books of account are not maintained by the assessee, the return should be accompanied by—
- (i) a statement indicating -
- (1) the amount of turnover or gross receipts,
 - (2) gross profit,
 - (3) expenses; and
 - (4) net profit of the business or profession;
- (ii) the basis on which such amounts mentioned in (1) above have been computed,
- (iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

Note: Many of these particulars are now required to be incorporated as part of the relevant return form, for example, details of tax deducted at source, advance tax paid, self-assessment tax paid, amount of turnover/gross receipts etc.

- (2) **Time limit to rectify defect:** The defect has to be rectified within 15 days from date of intimation (i.e. date on which the letter specifying the defect is served on the assessee) of defect by Assessing Officer.

The time limit can be extended by the Assessing Officer on an application made by assessee in this behalf.

- (3) **Consequences of not rectifying defect within specified/ extended time limit:** In that case, the defective Return shall be treated as an invalid return; and the provisions of the Act shall apply as if the assessee had failed to file the return. However, where the assessee rectifies the defect after specified/ extended time limit but before completion of the assessment the Assessing Officer may condone the delay and treat the return as a valid return.
- (4) **Section 139(9) applies even now [Authors' Note]:** Even though section 139C provides for filing of annexure less returns, however, it is provided in section 139C itself that all the documents shall be submitted on demand before the Assessing Officer. Thus, when the assessing officer calls for any such document and the same is not furnished as required, the return may be treated as defective as per this section.
15. **Explain with brief reason whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:**
- Defective or incomplete return filed under section 139(9).
 - Belated return filed under section 139(4).
 - Return already revised once under section 139(5).
 - Return of loss filed under section 139(3). (PCC Nov. 2008, 1 x 4 = 4 Marks)

Ans: Any person who has furnished a return under section 139(1) or under Section 139(4) can file a revised return under section 139(5), if he discovers any omission or any wrong statement in the return filed earlier. Accordingly:-

- A defective or incomplete return filed under section 139(9) can be revised if it was filed within the time limit specified under section 139(1) and the defect is rectified within 15 days or further period as allowed by the Assessing Officer.
- A belated return filed under section 139(4) can be revised under section 139(5).
- A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. upto the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- A return of loss filed under section 139(3) is deemed to be a return filed under section 139(1), and therefore, can be revised under section 139(5).

Illustration 4 - Belated return and revised return: Mr. Sachin filed return on 30th September, 2021 related to Assessment Year 2021-22. In the month of October 2021, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

- What is the time limit for filing a belated return?
- Can Mr. Sachin file a revised return?

Justify the above with the relevant provisions under section 139.

Assume that the due date for furnishing return of income was 31st July, 2021 and the assessment was not completed till the month of October 2021. (5 Marks, Nov. 2017)

- Belated return [Section 139(4)]:** Any person who has not furnished a return within the time allowed to him under Section 139(1), may furnish the return for any previous year at any time -
 - before the end of the relevant assessment year; or
 - before the completion of the assessment, whichever is earlier.

Hence, for AY 2021-22, belated return can be furnished upto 31-03-2022.

- (ii) Yes, Mr. Sachin can revise the return. As per Section 139(5), if any person, having furnished a return u/s 139(1) or 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time -
- before the end of the relevant assessment year, or y before the completion of the assessment, whichever is earlier.
- Hence, belated return filed under Section 139(4) by Mr. sachin can be revised under Section 139(5) upto 31-03-2022.

Illustration 5 - Loss return: Mr. Prakash furnishes you the following details in respect of the Financial Year 2020-21.

- (i) **Loss from the business carried on by him as a proprietor :** ₹. 11,20,000(*)
- (ii) **Deduction u/s 80-IB :** ₹. 5,50,000 (*)
- (iii) **Unabsorbed Depreciation:** ₹. 4,80,000 (*)
- (iv) **Loss from House property :** ₹. 2,50,000 (*) (*) Computed as per the Income-tax Act, 1961

The due date for filing the return for Mr. Prakash was 31st July, 2021 under section 139(1). However, he filed the return on 29-9-2021. Discuss with reference to the relevant provisions of Income-tax Act, 1961 if the losses and deductions could be carried forward/claimed by Mr. Prakash. (5 Marks, Nov. 2017)

Ans: The relevant provisions are discussed as under —

- (1) As per Section 139(3), If any person has sustained a loss in any previous year under the,-
- (a) "Profits and Gains of Business or Profession" under section 72(1), or
 - (b) Speculation loss under section 73(2), or
 - (c) Specified business loss under Section 73A(2), or
 - (d) "Capital Gains" under section 74(1), or
 - (e) Loss from the activity of owning and maintaining race horses under section 74A(3), then, such loss can be carried forward and set-off, only if the person furnishes a return of loss in prescribed form and containing prescribed particulars on or before the due date specified in Section 139(1).
- Notes:** (i) Loss from house property under section 71B can be carried forward and set off even if return of loss is not filed under section 139(3).
(ii) "Unabsorbed depreciation" under section 32(2) can be carried forward and set off even if no return of loss is furnished under section 139(3).
- (2) As per Section 80AC, it is mandatory to furnish return of income on or before due date for claiming deduction under sections 80-IA to Section 80RRB. The effect of this provision is that in case of failure to file return of income on or before the stipulated due date, the assessee would lose the benefit of deduction under these sections.
- (3) **Conclusion:** In this case since the return is filed on 29-09-2021 after due date of furnishing return of Income, hence, it is belated return.
Thus, from the above, —
- (a) Loss from the business carried on by him as a proprietor amounting ₹. 11,20,000 cannot be carried forward.
 - (b) Deduction u/s 80-IB amounting ₹. 5,50,000 shall not be admissible as per provisions of Section 80AC.

- (c) Unabsorbed Depreciation amounting Rs. 4,80,000 shall be carried forward even if return is not furnished as per due dates under section 139(1).
- (d) Loss from House property amounting Rs. 2,50,000 shall be carried forward even if return is not furnished as per due dates under section 139(1).

16. **Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective. (4 Marks, Nov. 2019)**

Ans: A return of income shall be regarded as defective unless all the following conditions are fulfilled, namely: Where regular books of account are not maintained by the assessee, the return should be accompanied by -

- (i) a statement indicating -
- the amount of turnover or gross receipts,
 - gross profit,
 - expenses; and
 - net profit
- of the business or profession;
- (ii) the basis on which such amounts mentioned in (i) above have been computed,
- (iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

PERMANENT ACCOUNT NUMBER (PAN)

17. **Explain the provisions relating to allotment and quoting of Permanent Account Number. OR State whether the Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable. OR Enumerate eight transactions for which quoting of PAN is mandatory. (4 Marks, PCC Nov. 2007) OR**

Discuss the provisions of Section 139A(1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer. (4 Marks, May 2019-NS)

Ans: Permanent Account Number (PAN) [Section 139A] :

(1) **Persons liable to apply for allotment of PAN [Section 139A(1)] :** The following persons are liable to apply for allotment of PAN within prescribed time-limit specified against each case (Time limit as per Rule 114)-

(a) whose total income or total income of any other person in respect of which he is assessable exceeded the maximum amount not chargeable to tax	On or before 31st May of Assessment Year for which such income is assessable (if he has not been allotted any PAN earlier)
(b) who is carrying on a business or profession whose total sales/turnover/gross receipts are likely to exceed Rs. 5,00,000	Before the end of that financial year (if he has not been allotted any PAN earlier)
(c) who is liable to file a return under section 139(4A)	Before the end of that financial year (if he has not been allotted any PAN earlier)
(d) being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to Rs. 2,50,000 or more in a financial year	On or before 31st May of the immediately following such financial year (if he has not been allotted any PAN earlier)

(e) who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person mentioned in (d) above or any person competent to act on behalf of such person.	On or before 31st May of the immediately following financial year in which the person referred to in (d) above enters into financial transaction specified therein (if he has not been allotted any PAN earlier)
(f) who intends to enter into such transaction as may be prescribed by the Board in the interest of revenue.	

(2) **Notified class of persons [Section 139A(1A)] :** The Central Government may, by notification in the Official Gazette, specify any class or classes of persons by whom tax is payable under this Act or any tax or duty is payable under any other law for the time being in force, including importers and exporters whether any tax is payable by them or not and such persons shall, within such time as mentioned in that notification, apply to the Assessing Officer for the allotment of a permanent account number.

(3) **Specified class of persons to apply for allotment of PAN [Section 139A(1B)]:** The Central Government may, for the purpose of collecting any information which may be useful for or relevant to the purposes of this Act, notify any class or classes of persons who shall apply to the Assessing Officer for the allotment of the permanent account number and such persons shall, within notified time, apply to the Assessing Officer for the allotment of a permanent account number.

(4) **Assessing Officer has power of suo motu allotment of PAN [Section 139A(2)] :** The Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person (whether any tax is payable by him or not) in the manner and in accordance with the procedure as may be prescribed.

(5) **Any other person may apply for allotment of PAN [Section 139A(3)]:** Any person, not falling in any of the above categories, may apply to the Assessing Officer for the allotment of a permanent account number and, thereupon, the Assessing Officer shall allot a permanent account number to such person.

(6) **Documents in which PAN to be quoted [Section 139A(5)]:** Such person shall quote Permanent Account Number-

- (i) in all returns to or correspondences with any Income Tax authority;
- (ii) in all challans for the payment of any sum due under this Act; and
- (iii) in all documents pertaining to transactions prescribed by CBDT in the interests of the revenue.

Further, every person shall intimate any change in his address/name/nature of business, on the basis of which PAN was allotted to him.

(7) **Obligation of person to intimate PAN to the payer deducting tax at source [Section 139A(5A)] :** Every person receiving any sum or income or amount from which tax has been deducted, shall intimate his permanent account number to the person responsible for deducting such tax.

(8) **Quoting of PAN in certain documents [Section 139A(5B)]:** Where any amount has been paid after deducting tax at source, the person deducting tax shall quote the PAN of the person to whom the amount was paid in the following documents:

- (i) in the statement furnished under section 192(2C) giving particulars of perquisites or profits in lieu of salary provided to any employee;
- (ii) in all certificates for tax deducted issued to the person to whom payment is made;

- (iii) in all returns made to the prescribed income-tax authority under section 206;
- (iv) in all statements prepared and delivered or caused to be delivered in accordance with the provisions of section 200(3).
- (9) **Requirement to intimate PAN and quote PAN not to apply to certain persons:** The section 139A(5A) and (5B) shall not apply to a person who -
- (i) does not have taxable income; or
- (ii) who is not required to obtain PAN
- if such person furnishes a declaration under section 197A in the prescribed form and manner that the tax on his estimated total income for that previous year will be nil.
- (10) **Inter-changeability of PAN with the Aadhaar number [Section 139A (5E)]:** Every person who is required to furnish or intimate or quote his permanent account number under this Act, and who,-
- (i) has not been allotted a permanent account number but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of the permanent account number, and such person shall be allotted a permanent account number in such manner as may be prescribed;
- (ii) has been allotted a permanent account number, and who has intimated his Aadhaar number in accordance with provisions of section 139A(2), may furnish or intimate or quote his Aadhaar number in lieu of the permanent account number.
- (11) **Quoting and Authentication of PAN/ Aadhaar number [Section 139A(6A)] :** Every person entering into such transaction, as may be prescribed, shall quote his permanent account number or Aadhaar number, as the case may be, in the documents pertaining to such transactions and also authenticate such permanent account number or Aadhaar number, in such manner as may be prescribed.
- (12) **Recipient of documents to ensure that PAN/ Aadhaar number is duly quoted [Section 139(6B)]:** Every person receiving any document relating to the transactions referred to in section 139A(6A), shall ensure that permanent account number or Aadhaar number, as the case may be, has been duly quoted in such document and also ensure that such permanent account number or Aadhaar number is so authenticated.
- (13) **Transactions in relation to which PAN to be quoted mandatorily [Rule 114B] :** Every person shall quote his permanent account number in all documents pertaining to the transactions specified in the Table below, namely: —

	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle or vehicle, as defined in section 2(28) of the Motor Vehicles Act, 1988 which requires registration by a registering authority under Chapter IV of that Act, other than two wheeled vehicles.	All such transactions.
2.	Opening an account [other than a time-deposit referred to at SI. No. 12 and a Basic Savings Bank Deposit Account] with a banking company or a cooperative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act).	All such transactions.
3.	Making an application to any banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or	All such transactions.

	<i>banking institution referred to in section 51 of that Act) or to any other company or institution, for issue of a credit or debit card.**</i>	
4.	<i>Opening of a demat account with a depository, participant, custodian of securities or any other person registered under Section 12(1A) of the Securities and Exchange Board of India Act, 1992.</i>	<i>All such transactions.</i>
5.	<i>Payment to a hotel or restaurant against a bill or bills at any one time.**</i>	<i>Payment in cash of an amount exceeding Rs. 50,000.</i>
6.	<i>Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.**</i>	<i>Payment in cash of an amount exceeding Rs. 50,000.</i>
7.	<i>Payment to a Mutual Fund for purchase of its units.</i>	<i>Amount exceeding Rs. 50,000.</i>
8.	<i>Payment to a company or an institution for acquiring debentures or bonds issued by it.</i>	<i>Amount exceeding Rs. 50,000.</i>
9.	<i>Payment to the Reserve Bank of India, constituted under section 3 of the Reserve Bank of India Act, 1934 for acquiring bonds issued by it.**</i>	<i>Amount exceeding Rs. 50,000.</i>
10.	<i>Deposit with a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act).</i>	<i>Deposits in cash exceeding Rs. 50,000 during any one day</i>
11.	<i>Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act).**</i>	<i>Payment in cash for an amount exceeding Rs. 50,000 during any one day.</i>
12.	<i>A time deposit with, - (i) a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act); (ii) a Post Office; (iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or (iv) a non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934, to hold or accept deposit from public.</i>	<i>Amount exceeding Rs. 50,000 or aggregating to more than Rs. 5,00,000 during a financial year.</i>
13.	<i>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 under section 18 of the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution.**</i>	<i>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.</i>
14.	<i>Payment as life insurance premium to an insurer as defined in section 2(9) of the Insurance Act, 1938.</i>	<i>Amount aggregating to more than Rs. 50,000 in a financial year.</i>
15.	<i>A contract for sale or purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.</i>	<i>Amount exceeding Rs. 1 lakh per transaction.</i>
16.	<i>Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange.</i>	<i>Amount exceeding Rs. 1 lakh per transaction.</i>
17.	<i>Sale or purchase of any immovable property.</i>	<i>Amount exceeding Rs. 10</i>

		lakh or valued by stamp valuation authority referred to in section 50C of the Act at an amount exceeding Rs. 10 lakh.
18.	Sale or purchase, by any person, of goods or services of any nature other than those specified at SI. No. 1 to 17 of this Table, if any.**	Amount exceeding Rs. 2 lakh per transaction.
** Not applicable in case of non residents.		

In case of minor : Where a person, entering into any transaction referred to in this rule, is a minor and who does not have any income chargeable to income-tax, he shall quote the permanent account number of his father or mother or guardian, as the case may be, in the document pertaining to the said transaction.

Person not having PAN: Any person who does not have a permanent account number and who enters into any transaction specified in this rule, he shall make a declaration in Form No. 60 giving therein the particulars of such transaction.

Non applicability: The provisions of this rule shall not apply to the following class or classes of persons, namely:-

- (i) the Central Government, the State Governments and the Consular Offices;
- (ii) the non-residents referred to in Section 2(30) of the Act in respect of the transactions other than a transaction referred to at SI. No. 1 or 2 or 4 or 7 or 8 or 10 or 12 or 14 or 15 or 16 or 17 of the Table.

Explanation: For the purposes of this rule,—

- "Payment in connection with travel" includes payment towards fare, or to a travel agent or a tour operator, or to an authorised person as defined in section 2(c) of the Foreign Exchange Management Act, 1999;
- "Travel agent or tour operator" includes a person who makes arrangements for air, surface or maritime travel or provides services relating to accommodation, tours, entertainment, passport, visa, foreign exchange, travel related insurance or other travel related services either severally or in package;
- "Time deposit" means any deposit which is repayable on the expiry of a fixed period.

Manner for allotment of PAN to a person who has not been allotted a PAN but possesses Aadhaar number
[Notification No. 59/2019, dated 30-8-2019]: Rule 114(4) requires submission of application for allotment of PAN by the applicant in the prescribed form accompanied by the prescribed documents as proof of identity, address and date of birth of such applicant.

The CBDT has, vide this notification, inserted rule 114(1A) w.e.f. 1-9-2019 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN in accordance with section 139A(5E), shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents under Rule 114.

Further, sub-rule (1B) has also been inserted in Rule 114 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents under Rule 114.

Illustration 6 - PAN: Mr. X's sales for year ended 31-3-2021 were Rs. 15 lakhs. He earned income of Rs. 1,50,000 for the same year. As his income doesn't exceed maximum amount not chargeable to tax, he is of the opinion that neither he is required to apply for PAN nor he is required to furnish his return of income.

Solution: Here, since Mr. X's sales exceeds Rs. 5 lakhs, hence he is liable to apply for PAN. Hence, his intention is wrong. However, he is not required to file his return of income as his income doesn't exceed Rs. 2,50,000.

Illustration 7 - PAN: State whether quoting of PAN in the following transactions is mandatory or riot, as per the provisions of Income-tax Act, 1961 for A.Y. 2021-22:

- (i) Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of Rs. 50,000 against the bill raised by the hotel.
- (ii) Mr. Abhishek, in a single transactions, makes contract of Rs. 1,20,000 for sale/ purchase of securities (other than shares) as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- (iii) Payment to Mutual Funds of Rs. 70,000 for purchase of its units. Your answers must be supported with reasons. (3 Marks, May 2018-NS)

Ans:

- (i) No, since payment in cash of an amount exceeding Rs. 50,000 requires quoting of PAN.
- (ii) Yes, since quoting of PAN is necessary for an amount exceeding Rs. 1 lakh per transaction.
- (iii) Yes, since quoting of PAN is necessary for an amount exceeding Rs. 50,000 per transaction.

18. Pertaining to the following transactions, what is the minimum amount above which quoting of Permanent Account Number is mandatory?. (5 Marks/May 2018);

Ans: Monetary limit for mandatory quoting of PAN:

	Transaction,	Minimum amount above which quoting of PAN is mandatory as per Rule 1MB of the Income-tax Rules, 1962
1.	Sale or purchase of car.	All such transactions (There is no minimum amount)
2.	Payment to a hotel or restaurant against a bill or bills at any one time.	Payment in cash of an amount exceeding Rs. 50,000
3.	Payment in connection with travel to any foreign country.	Payment in cash of an amount exceeding Rs. 50,000
4.	Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding Rs. 50,000.
5.	A Time Deposit with a Post Office.	Amount exceeding Rs. 50,000 or aggregating to more than Rs. 5 lakhs during a financial year
6.	Payment as life insurance premium to an insurer.	Amount aggregating to more than Rs. 50,000 in a financial year
7.	Sale or purchase, of shares of a company not listed in a recognised stock exchange.	Amount exceeding Rs. 1 lakh per transaction
8.	Sale or purchase of any immovable property.	Amount exceeding Rs. 10 lakh or valued by stamp valuation authority referred to in Section 50C at an amount exceeding Rs. 10 lakh.

19. Briefly mention the provisions of Income Tax Act with regard to Quoting Aadhar Number u/s 139AA of the Act. (5 Marks, May 2018) OR

Discuss the provisions of Section 139A(1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer. (4 Marks, May 2019-NS)

Ans: **Quoting of Aadhaar number [Section 139AA]:**

(1) **Quoting of Aadhaar number in PAN Application and Return of Income:** Every person who is eligible to obtain Aadhaar number shall quote Aadhaar number —

- (i) in the application form for allotment of permanent account number;
- (ii) in the return of income.

Quoting of Enrollment ID of Aadhaar application form if Aadhaar number not available: However, where the person does not possess the Aadhaar number, the Enrollment ID of Aadhaar application form issued to him at the time of enrollment shall be quoted in the application for permanent account number or, as the case may be, in the return of income furnished by him.

(2) **PAN allottees to intimate Aadhaar Number:** Every person who has been allotted permanent account number and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority in such form and manner as may be prescribed, on or before 31-03-2021 by the Central Government in the Official Gazette.

Consequences of failure to intimate Aadhaar Number: If a person fails to intimate the Aadhaar Number, the permanent account Number (PAN) allotted to such person shall be made inoperative after 31-03-2021.

(3) **Non applicability to notified persons:** The provisions of this section shall not apply to such person or class or classes of persons or any State or part of any State, as may be notified by the Central Government in this behalf, in the Official Gazette.

Explanation:

(i) "Aadhaar number", "Menthol" and "resident" shall have the same meanings respectively assigned to them in clauses (a), (m) and (v) of section 2 of the Aadhaar (Targeted Delivery of Financial and other Subsidies, Benefits and Services) Act, 2016;

(ii) "Enrollment ID" means a 28 digit Enrollment Identification Number issued to a resident at the time of enrollment.

Accordingly, the Central Government has, vide Notification No. 37/2017 dated 11-05-2017 effective from 01-07-2017, notified that the provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrollment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

SCHEME OF SUBMISSION OF RETURN THROUGH TAX RETURN PREPARER

20. Write a short note on scheme of submission of return through Tax Return Preparer. (6 Marks, CA PCE May 2007) (5 Marks, CS Dec. 2007)

Ans: **Scheme for submission of returns through Tax Return Preparers [Section 139B]:**

(1) **Applicability:** This section provides that, for the purpose of enabling any 'specified class or classes of persons' to prepare and furnish their returns of income, the CBDT may notify a scheme to provide that

- such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the scheme.
- (2) **Tax Return Preparer (TRP):** Tax Return Preparer means any individual, who has been authorised to act as a Tax Return Preparer under aforesaid scheme.
- (3) **Persons not eligible to become TRP:** However, the following cannot become tax return preparers -
- any officer of Scheduled Bank,
 - any legal practitioner,
 - a Chartered Accountant, and
 - an employee of specified class of persons. (Since a company and a person whose accounts are required to be audited under section 44AB or any other law are not "specified class of persons", hence, the employee of a company and an employee of a person whose accounts are required to be audited under section 44AB or any other law can become TRPs).
- (4) **Specified class of persons i.e. persons eligible to furnish return under this scheme:** The "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 or under any other existing law, who is required to furnish a return of income under the Act.
- (5) **Tax return preparer to affix signature:** The Tax Return Preparer shall assist the persons in furnishing the return of income in a manner that will be specified in the scheme, and shall also affix his signature on such return.
- (6) **The Scheme notified under the said section may provide for the following -**
- the manner in which and the period for which the Tax Return Preparers shall be authorised,
 - the educational and other qualifications to be possessed, and the training and other conditions required to be fulfilled, by a person to act as a Tax Return Preparer,
 - the code of conduct for the Tax Return Preparers,
 - the duties and obligations of the Tax Return Preparers,
 - the circumstances under which the authorisation given to a Tax Return Preparer may be withdrawn, and
 - any other relevant matter as may be specified by the Scheme.
- (7) **Accordingly, the CBDT has, in exercise of the powers conferred by this section, framed the Tax Return Preparer Scheme, 2006, which came into force from 1-12-2006.**

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family.
Tax Return Preparer	Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme. However, the following person are not entitled to act as Tax Return Preparer : - any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. - any legal practitioner who is entitled to practice in any civil court in India. - an accountant.
Educational qualification for Tax	An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the

<i>Return Preparers</i>	<i>Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as Tax Return Preparer.</i>
<i>Preparation of and furnishing the Return Income by the Preparer</i>	<i>An eligible person may, at his option, furnish his return of income u/s 139 for of any assessment year after getting it prepared through a Tax Return Preparer. Tax Return However, the following eligible person (an individual or a HUF) cannot furnish a return of income for an assessment year through a Tax Return Preparer:</i> (i) <i>who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited u/s 44AB or under any other law for the time being in force; or</i> (ii) <i>who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a Tax Return Preparer unless he has furnished the original return of income for that assessment year through such or any other Tax Return Preparer.</i>

Illustration 8 - Filing of return through tax return preparer: Comment on the allowability of the following claims made by the assessee : (4 Marks, PCE Nov. 2007)

Mrs. H, an individual, engaged in the business of Beauty Parlour, has got her books of Account for the financial year ended on 31-3-2021, audited under section 44AB.

Her total income for the assessment year 2021-22 is Rs. 3,35,000.

She wants to furnish her return of income for assessment year 2021-22 through a tax return preparer. Can she do so?

Solution: As per Section 139B, the persons whose accounts are required to be audited under section 44AB or any other law cannot furnish their return of income through tax return preparers. Here, since Mrs. H has got her books of accounts audited under section 44AB, hence she cannot file her return through tax return preparer.

21. Explain the power of board to dispense with furnishing documents, etc. with the return.

Ans: **Power of board to dispense with furnishing documents, etc. with the return [Section 139C] :** The Board may make rules that a class or classes of persons may not be required to furnish documents, statements, receipts, certificates, reports of audit or any other documents along with the return of income, and the said documents, statements, receipts, certificates, reports of audit etc. shall be furnished as and when demanded by the Assessing Officer or as provided in Section 139D.

22. Write a note on filing of return in electronic form as provided in Section 139D of the Income-tax Act, 1961.

Ans: **Filing of return in electronic form [Section 139D]:** The Board may make rules providing for -

- (a) the class or classes of persons who shall be required to furnish the return in electronic form;
- (b) the form and the manner in which the return in electronic form may be furnished;
- (c) the documents, statements, receipts, certificates or audited reports which may not be furnished along with the return in electronic form but shall be produced before the Assessing Officer on demand;
- (c) the computer resource or the electronic record to which the return in electronic form may be transmitted.

PERSONS AUTHORISED TO VERIFY RETURN & INTEREST U/S 234A

23. Specify the persons who are authorised to verify return under section 140. (4 Marks, IPCC May 2008, 2011) (4 Marks, Nov. 2015) (2 Marks, Nov. 2016) OR

Can an individual who is not in India, verify the return of income from outside India Rs. Is there any other option?

Ans: Return by whom to be verified [Section 140]: The return under section 1.39 shall be verified –

	Assessee	Return to be verified
1.	Individual	(i) by the individual himself; (ii) where he is absent from India, by the individual himself or by some person duly authorised by him in this behalf; (iii) where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf; and (iv) where, for any other reason, it is not possible for the individual to verify the return, by any person duly authorised by him in this behalf.
2.	Hindu undivided family	(a) by the karta, and (b) where the karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member of such family.
3.	Company	(i) by the managing director thereof, or where for any unavoidable reason, such managing director is not able to verify the return, or where there is no managing director, by any director thereof or any other person, as may be prescribed for this purpose. [Amended by Finance Act, 2020 w.e.f 01-04-2020 i.e. AY 2020-21] (ii) where the company is not resident in India, the return may be verified by a person who holds a valid power of attorney from such company to do so, which shall be attached to the return. (iii) where the company is being wound up, whether under the orders of a court or otherwise, or where any person has been appointed as the receiver of any assets of the company, the return shall be verified by the liquidator of such company. (iv) where the management of the company has been taken over by the Central Government or any State Government under any law, the return of the company shall be verified by the principal officer thereof. (v) where in respect of a company, an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority u/s 7 or section 9 or section 10 of the Insolvency and Bankruptcy Code, 2016, the return shall be verified by the insolvency professional appointed by such Adjudicating Authority.
4.	Firm	by the managing partner thereof, or where for any unavoidable reason, such managing partner is not able to verify the return, or where there is no managing partner as such, by any partner thereof, not being a minor.
5.	Limited liability partnership	by the designated partner thereof, or where for any unavoidable reason, such designated partner is not able to verify the return, or where there is no designated partner as such, by any partner thereof or any other person, as may be prescribed for this purpose. [Amended by Finance Act, 2020 w.e.f. 01-04-2020 i.e. AY 2020-21]

6.	Local authority	by the principal officer thereof.
7.	Political party	by the chief executive officer of such party (whether such chief executive officer is known as secretary or by any other designation).
8.	Association of persons	by any member of the association or the principal officer thereof.
9.	Any other person	by that person or by some person competent to act on his behalf.

Illustration 9 - Verification and time limit: State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
 (b) Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of Rs. 160 lakhs for the year ended 31-03-2021, whether or not opting to offer presumptive income u/s 44AD, is 30th September 2021.

Solution:

- (a) **Disagree.** The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:-
 (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
 (ii) where there is no designated partner.
 (b) **Disagree.** In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date u/s 139(1) for filing of return of income for the year ended 31-03-2021, shall be 31st July, 2021.
 In case Mr. A does not opt for presumptive taxation provisions u/s 44AD and, has to get his accounts audited u/s 44AB, since his turnover exceeds Rs. 1 crore, the due date for filing return would be 31st October, 2021.

SELF ASSESSMENT

24. Briefly mention the concept of Self-Assessment tax u/s 140A of the Income-tax Act and its components. (2Marks, May 2018-NS)

Ans: **Self Assessment [Section 140A]:** Every person, before submitting a return of income u/s 139/142(1)/148/153A, is under an obligation to make a self-assessment of his income and after taking in account the amount of tax, if any, already paid, pay the self-assessment tax and interest and fees, if due and the return shall be accompanied by proof of payment of such tax, interest and fee.

(1) **Computation of self-assessment tax:** The self-assessment tax is to be computed as follows -

Compute the total income in accordance with the provisions of the Act	XXX
Compute the tax payable on total income which is stated as per return of income required to be furnished u/s 139,142,148,153A	XXX
Less: Taxes and relief as under -	
(a) Amount of tax already paid under any provision of the Act (e.g. advance tax)	XXX
(b) Any tax deducted or collected at source	XXX
(c) Any relief of tax claimed u/s 89	
(d) Any relief of tax or deduction claimed under section 90 or 91 on account of tax paid in any country outside India	XXX
(e) Any relief of tax claimed under section 90A on account of tax paid in any specified territory	XXX

	country outside India	
(f)	Amount of tax credit claimed to be set-off in accordance with Section 115JAA or Section 115JD	XXX
(g)	Any tax or interest payable according to the provisions of section 191(2) [Amended by Finance Act, 2020 i.e. 01-04-2020 i.e. AY2020-21]	XXX
	Add: Fee payable under Section 234F for default in furnishing of return	XXX
	Add: Interest payable -	XXX
(a)	Under section 234A for delay in furnishing the return or	XXX
(b)	Under section 234B for default or short payment of advance tax or	XXX
(c)	Under section 234C for deferment of advance tax	XXX
	Note: The interest payable under section 234A and 234B shall be computed on the following amount -	
	Tax on total income declared in return :	
	Less: Taxes and relief as under -	
(a)	Advance tax	XXX
(b)	Any tax deducted or collected at source	XXX
(c)	Any relief of tax claimed u/s 89	
(d)	Any relief of tax or deduction claimed u/s 90 or 91 on account of tax paid in any country outside India	XXX
(e)	Any relief of tax claimed u/s 90A on account of tax paid in any specified territory country outside India	XXX
(f)	Amount of tax credit claimed to be set-off in accordance with Section 115JAA or Section 115JD	XXX
	Amount on which interest payable under section 234A and 234B	XXX

- (2) **Adjustment of shortfall in payment of self assessment tax [Explanation to Section 140A(1)]:** Where the amount paid by the assessee falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter towards the interest payable as aforesaid and the balance, if any, shall be adjusted towards the tax payable.
- (3) **Self-assessment tax deemed to be paid towards regular assessment [Section 140A(2)] :** After a regular assessment under section 143 or section 144 or an assessment under section 153A has been made, any amount paid as above shall be deemed to have been paid towards such regular assessment or assessment, as the case may be.
- (4) **Default in payment of self assessment tax [Section 140A(3)] :** If any assessee fails to pay the whole or any part of such tax or interest or fee in accordance with the above provisions, he shall, without prejudice to any other consequences which he may incur, be deemed to be an assessee in default in respect of the tax or interest or fees remaining unpaid, and all the provisions of this Act shall apply accordingly. Accordingly, -
- interest u/s 220 shall be imposable on the amount of self-assessment tax (including interest);
 - penalty u/ s 221 shall be imposable only upto the amount of tax in arrears. Section 221 applies, when there is default in payment of "tax" and the penalty therein may be imposed only upto the amount of "tax" in arrears. "Interest" is different from "tax" and no penalty under section 221 can be imposed for default in payment of interest, as section 221 provides for the imposition of penalty only upto the amount of "tax" in arrears. - *Shree Niwas & Sons v. ITO* [1974] 96ITR 562 (Cal.)

Illustration 10 - Revised Return: Mr. Vineet submits his return of income on 12-09-2021 for AY 2021-22 consisting of income under the head house property and other sources. On 21-01-2022, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since the assessment year has not elapsed. Discuss. Would your answer be different if he discovered this omission on 21-04-2022? (2 Marks, May 2014)

Solution: If any person, having furnished a return under section 139(4) discovers any omission or any wrong statement therein, then, he may furnish a revised return at any time,-

- before the expiry of the relevant assessment year; or
- before the completion of the assessment, whichever is earlier.

A belated return filed under section 139(4) can be revised. Since Mr. Vineet has filed the return before the expiry of assessment year under section 139(4), such return can be revised under Section 139(5).

However, he cannot revise return had he discovered this omission only on 21-04-2022, since it is beyond 31-03-2022, being the end of A.Y. 2021-22.

25. Where the Karta of an Hindu undivided family is absent from India, the return of income can be verified by any male member of the family. Give reasoning for the statement to be true or false. (2 Marks, May 2014)

Ans: The statement is false. Where the karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member of such family. Thus, only adult member of the family can verify the return.

Illustration 11 - Requirement to file return: Mr. A is a resident Indian. During the F.Y. 2020-21, interest of Rs. 92,000 was credited to his Non-resident (External) Account with the SBI. Rs. 20,000 being interest on fixed deposit with SBI was credited to his savings bank account during this period. He also earned Rs. 4,000 as interest on this savings account. Is Mr. A required to file return of income? (4 Marks, Nov. 2005)

Solution: Interest amounting to Rs. 92,000, being interest credited to Non-resident (External) Account, is exempt from tax under section 10(4)(ii). Interest on saving bank account is eligible for deduction u/s 80TTA subject to maximum of Rs. 10,000. Balance income = Interest on fixed deposit = Rs. 20,000, less than the maximum amount not chargeable to tax. Therefore, A is not required to file the return of income under section 139(1).

Illustration 12 - Computation of Interest u/s 234A, 234B and 234C: The following particulars are furnished by Abdul for the financial year 2020-21 (assessment year 2021-22):

Tax on total income (paid on 31-10-2021)	Rs. 1,50,000
Due date for filing the return	31st October, 2021.
Actual date of filing the return	1st November, 2021

Calculate the total interest payable under sections 234A, 234B and 234C. (CS June 2003, CS Dec. 2001)

Solution: Computation of interest payable by Abdul (amounts in Rs.):

Interest under section 234A [WN]		NIL
Interest under section 234B for 6 months i.e. 1-4-2021 to 31-10-2021 (Rs. 1,50,000 $\times$ 1% $\times$ 7)		10,500
Interest under section 234C as follows -		
15% of Rs. 1,50,000 i.e. Rs. 22,500 $\times$ 1% $\times$ 3 months	675	
45% of Rs. 1,50,000 i.e. Rs. 67,500 $\times$ 1% $\times$ 3 months	2,025	
75% of Rs. 1,50,000 i.e. Rs. 1,12,500 $\times$ 1% $\times$ 3 months	3,375	
100% of Rs. 1,50,000 i.e. Rs. 1,50,000 $\times$ 1% $\times$ 1 month	1,500	7,575
Total interest payable		18,075

Working Note: The Supreme Court in *CIT v. Dr. Prannoy Roy* [2009] 309ITR 231 (SC) has held that no interest shall be payable, when tax paid before due date though return is filed after due date. Since the tax has been paid on 31-10-2021 i.e. on or before the due date of filing of return of income and no tax is due on 01-11-2020 on the date of filing of the return, therefore, no interest can be charged.

