



IMPORTANT INCOME TAX ADJUSTMENTS FOR SOME CHAPTERS SEP 25 / JAN 26

Disclaimer

This material explains key adjustments from some chapters in a simple way for quick understanding. It does not cover all chapters or the entire syllabus. Please study the remaining chapters from your main material for complete preparation.

I. Income From HP

1. Arrears of rent unrealised rent recovered received even after HP is sold it taxable under Income from HP and 30% std deduction is available.
2. Builder
 - Construction business – Constructed 10 offices.
 - 6 offices sold Income under PGBP
 - 4 offices – unsold inventory
 - For 4 offices ie. Unsold inventory
 - 2 years from end FY in completion certificate is rec. GAV = NIL
 - After 2 yrs it will be treated as DLO, ∴ taxed under Income from HP.
3. a. Residential property is let out like a regular business activity still it will be taxed under HP
(Explanation added by **FA 2024** ★)
b. Commercial property let out like regular business activity will be PGBP Income. Eg. Builder renting a mall, It is like business activity. ∴ PGBP
4. The limit of 30,000/2,00,000 will apply to interest on borrowed capital in case of 2 self-occupied houses combined.
Maximum ceiling for interest is not applicable to let out & deemed to be let-out property.
5. a. Interest on loan is allowed on accrual basis
b. Interest on fresh loan taken to repay old loan is allowable u/s 24b.
c. Interest on unpaid interest is not allowable u/s 24b.
d. Loan can be taken from friends / relatives or banks / FI / NBFC.
6. MT/Local Tax /sewerage taxes are not allowed if paid by tenant. Also not allowed for SO property.
7. HP gifted / transferred for inadequate consideration to wife / Minor children then transferor will be deemed owner.
8. Go through GAV calculation (No amendment).
9. **Pre Construction Interest is allowed to be w/off over 5 year starting from year of completion of HP**
Date of taking loan → Date of repayment loan or
31st March preceding the date
of completion of HP ↓

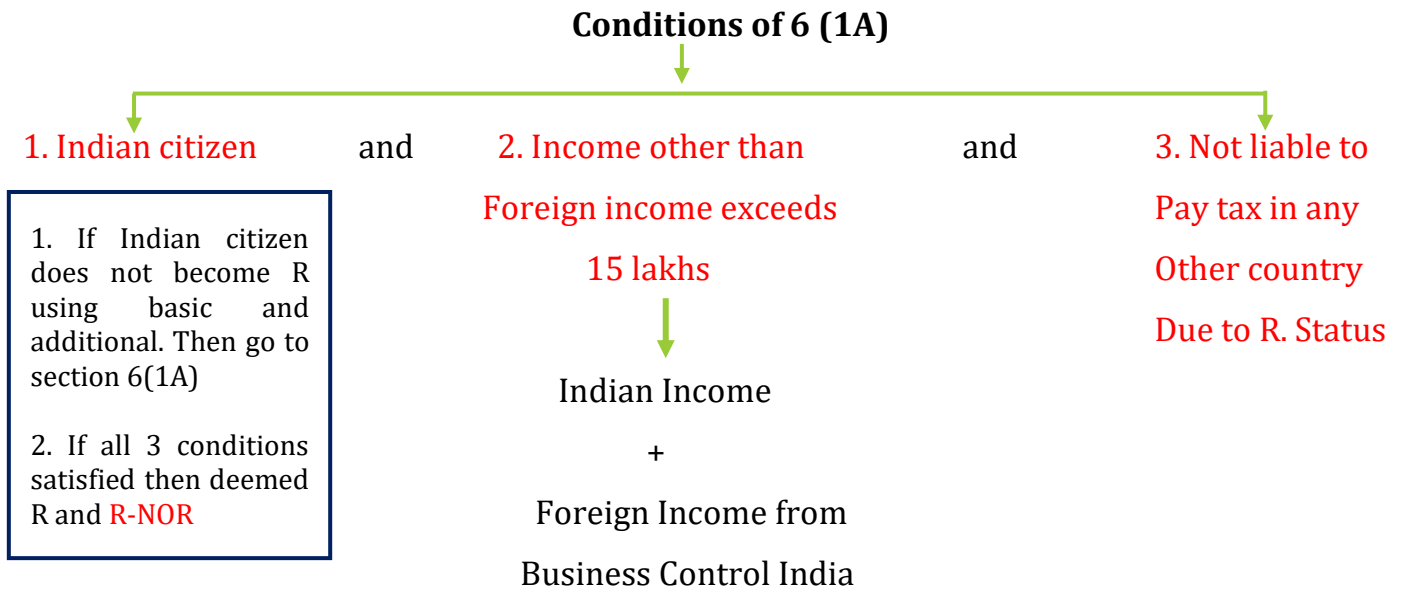
10. Under 115 BAC, 24b Int on borrowed capital for SO property not allowed. Allowed for LO/DLO property
11. Under 115 BAC, HP loss cannot be set off against other head. Also it cannot be c/f
12. In case co-owners, use the property for self occupancy, then split and then do HP working. The limit of 2 L / 30,000 is available for each co-owner.
13. In case co-owners let out the property, then first calculate the income and then split it amongst co-owners.
14. In case of HP, which is allow for some days and SO for some days, treated as yellow and do not treat the SO period as vacancy.
15. House properties divided into independent units, then for each unit do separate HP calculation. Then divide the data in proportion of area.
16. Unrealised rent allowed as deduction from step 2 of GAV if conditions of rule 4 satisfied. Tenant has vacated that property or any legal action taken against tenant.

II. Residential Status

17. Determination of Residential status for Ind.

Generally	Exception I	Exception II
Always applicable except 2 exceptions	1. Indian citizen or PIO visiting India (Whose income is upto 15 lakhs) 2. Indian citizen who is leaving India employment / business Indian ship.	1. Indian citizen who is outside India visiting India or PIO Whose income other than some foreign income exceeds 15 lakhs
i. 182 days or more ii. 60 days or more and 365 days or more in last 4 yrs. Eg. Mr. X In PY – 70 days Last 4 yrs. 400 days. ↓ R	i. 182 days or more ii. 60 days 182 day or more and 365 days or more in last 4 years. Mr. X Indian citizen leaving India for employment in PY. 70 days and last 4 yrs. 400 days. ↓ NR	i. 182 days or more ii. 60 days 120 days or more and 365 days or more in last 4 years
Additional conditions i. 730 days or more in last 7 yrs. ii. R in atleast 2 yrs out of last 10 yrs.	Additional conditions i. 730 days or more in last 7 yrs ii. R in atleast 2 yrs out of last 10 yrs.	Additional conditions If assessee becomes R. only due to 2 nd basic condition (120 days wala) Directly – R-NOR And in other cases check for additional conditions

18. 6(1A) Deemed Residential Status



19. Accrual of Income in India

1. Business or Profession / **source of Income in India**

2. Capital asset is in India



3. **Dividend** from **Indian co.**

4. For salary place of accrual = **Place where service is rendered**



5. For Interest / Royalty and Technical fees **accrual of Income depends upon payer**

a. **GOI** → Always accrues in India

b. **Resident** → Always accrues in India

except when loan used for business/source that is situated outside India.

c. **NR** → Always accrues outside India

except when loan used for business/source that is situated in India

6. **Business connection in India**

7. R gifting → NR, non corporate foreign co, R NOR. For Receiver – Income deemed to accrue in India

20. Taxability of Income

	R-OR	R-NOR	NR
1. Indian Income	✓	✓	✓
2. Foreign Income	✓	✓	×
→ 2a. Business/profession Control and setup is in India			
→ 2b. Business control/ profession & setup outside India	✓	×	×
3. Other Foreign Income	✓	×	×

★ **R – OR** – Tax on Indian income + Foreign income

R – NOR – Tax on Indian income + Foreign Income controlled/setup in India

NR – Tax only on Indian Income

III. PGBP

21. Following incomes are taxable under PGBP income from **business or profession**. Salary received from **partnership firm**, **interest on capital** received from **partnership firm**, **keyman**, **insurance policy**, **noncompete fees**, any **benefit or perquisite arising out of business**.

22. Rates of dep-building 10%, furniture 10%, plant and machinery 15%, books (annual or otherwise) 40%, computer printer and computer software 40%, intangible assets 25%, temporary wooden structures 40%, pollution control equipment's 40%, lifesaving medical equipment 40%, electric car 40%.

23. **Depreciation** → Learn all dep rates
 → Purchased and put to use for less than 180 days then 50% of normal dep.
 → If asset purchased in cash in excess of 10,000 then that amt not eligible for dep.

24. **Personal movable asset introduced in business** should be introduced **at original cost**.

25. But if **personal immovable asset is introduced** in business, then it should be **introduced at WDV** after deducting national depreciation.

26. No depreciation is calculated when block of assets is over.

a. It is physically empty ie. all **assets of the block are sold**.

b. Also no depreciation when **closing balance of block becomes negative**.

} We calculate capital Gains

27. Additional depreciation is available only

- For **manufacturing** and **electricity generating** companies.
- @ 20% of cost of P/M (10% if it is put to use for less than 180 days)

28. Additional depreciation **not allowable on building & Furniture**. No additional dep on **transport vehicles, machinery installed in offices**. Any second hand machinery not eligible for additional depreciation. Second hand imported machinery also not eligible for additional depreciation

29. Additional dep available on computer if installed in factory but not available if computer is installed in office.

30. **Scientific research** – carried out by assessee is allowable exp only if **research is related to business**. Also revenue and capital exp. are allowable except cost of land. This is allowed u/s 115 BAC also. If can exp allowed then no dep.

31. **Contribution or donation for scientific** research (May / May not be related to business) is allowed. But it is not allowed u/s 115 BAC.

32. Preliminary exp can be w/off over 5 yrs u/s 35D.

33. **Section 35 AD – 14 specified allowable exp = 100% cap exp.** (Cost of land, goodwill & financial instruments not allowed)

– Fixed asset should not be sold for 8 yrs. (If sold then it will become business income after deduction of depreciation)

– Cash exp above 10k – Not allowed.

– No depreciation allowed.

– **Not allowed u/s 115 BAC**

– **AMT** applicable

– Second hand imported machinery allowed

Cold storage, Warehousing of agri produce & sugar fertiliser, 2 star above hotel, 100 bed hospital. Etc. Slum rehab, affordable housing fertiliser.

34. Insurance of stock allowable exp.

35. Health insurance employees is allowed however if it is paid in cash then not allowed.

36. Any payments to settle legal disputes is not allowable exp. **FA 2024** ★

37.a. **Int on borrowed cap – allowed if used business purpose.**

b. **Int on own capital** – Not allowed.

c. **Int for direct tax** – Not allowable

d. **Int for indirect tax** – allowable

e. Interest on loan for purchase of FA not allowed till the date the asset is put to use. Int after that is allowable.

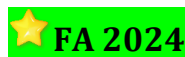
38. Bad debts allowable but RDD not allowable exp.

39. STT / CTT allowable exp. in PGBP. (STT not allowed while computing capital gains)

40. Opening stock is considered as Expenditure and closing stock is like income

41. Employer's contribution towards new pension scheme (80CCD).

cannot exceed 14% of Salary, Salary = B + DA (If forming part of salary for retirement benefits)



42. Penalty

Penalty for contravention of law	Disallowed X
Penalty in normal course of business	Allowed ✓
Compensatory in nature	Allowed ✓
Interest for delay of Direct tax	Disallowed X
Indirect tax	Allowed ✓

43. Advertisement expenses are – Allowable (However cap exp on advertisement – not allowable)

44. Advertisement Exp in brochure / souvenir issued by political party is not allowable. You can claim 80 GGB but only for corporate assessee for such advertisement expenses.

45. Family planning expenses are allowed only to a corporate assessee.

Cap exp. on family planning allowed to be w/off over 5 years only to corporates.

46. **Section 37**
- Business related, Rev exp. – Allowable
 - Personal exp – Not Allowable
 - Cap exp – Not Allowable
 - Exp should be legal in nature

Most business revenue related exp are allowable u/s 37 like salary, office exp, traveling exp, advertisement exp. etc.

47. 40(a)
- Advance Tax – Not allowable
 - Payments without TDS to R - 30% disallowable
NR - 100% disallowable.
 - Income Tax – Not allowable
 - Employer pays tax on employee non monetary perq. - Not allowable exp.
Deduct TDS and pay it within due date of ITR.

48. Exp. On CSR is disallowable expenses.

49. 40(b) Firm max 12% int on Cap (Working, non working partners both)

Max remuneration working partner (Firm not allowed to pay non working partner)

Book Profit = NP P/L	xx
Add rem if debit	xx
Add less 28 to 44	xx
	xx
Less unabsorbed dep	xx
Book profit	xx

★ FA 2024

On first 6,00,000 Book Profit	= 90% or 3L ↑
On Balance	= 60%

b/f business loss not to be deducted from book profit

50. Interest and salary received from partnership firm is partner's PGBP income

Share of profit is Exempt in hands

of partners. Int/ Salary allowable in hands of firm will be partners taxable Income.

51. 40A(2) Unreasonable payment to relative disallowable

(Relative Spouse, Brother, Sister, lineal ascendant, lineal descendant)

52. Payment is excess of 10,000 in cash/bearer cheque /crossed cheque disallowed u/s 40A (3).

Payment to transporter limit is 35,000. For Exception read Rule 6DD.

53. Provision for gratuity is not allowable. If Gratuity is actually paid or money deposited in appended fund then allowable.

54. Employee contri to PF should be paid within due date of PF fund else it will be disallowable exp.

55. Employer contri is allowable if fund is recognised and if it is paid within due date of ITR.

56. 43 B – Exp are allowed on payment basis and payment should be done within the PY or within due date of filling ITR

- a. Taxes b. Bonus/commission c. Leave salary
- d. Employer contri PF e. Int to Bank /FI / co. operative bank / NBFC f. Payment to Railways
- g. MSME
 - small } agreed time or 45 days from purchase
 - Micro } or
 - Medium Enterprises not covered u/s 43B. } No agreed time – 15 days from purchase

57. Presumptive basis for business section 44AD

- a. If turnover of business is up to 2 cr, then you can opt for presumptive basis.
Profit = 6% of TO rec in digital form till ITR due date + 8% of balance TO.
- b. This benefit can be extended if TO is up to 3 cr, provided the cash receipts are within 5% of total receipts
- c. One must remain in 44AD for 5 years. If not, then you will be covered under tax audit and cannot opt 44AD for next 5 yrs.
- d. u/s 44AD only 15th March, advance tax instalment applicable
- e. Applicable to individual, HUF or firm
- f. Not applicable to LLP and company

58. Presumptive basis for profession under section 44ADA

1. If TO is up to 50 lakhs then profit = 50% of Gross receipts
2. Benefit can be for TO up to 75 lakhs if the cash receipts are within 5% of total receipts
3. If lesser profit declared then maintain books and tax audit
4. Advance tax only last instalment of 15th March applicable
5. Professions like legal, medical engineering, architecture, Accounts, technical consultation, interior decorator, film, artist, Company secretary, covered
6. Applicable to individuals and firm
7. Not applicable to LLP and company

59. Presumptive basis for goods carriages

1. Owning not more than 10 trucks in a year
2. Heavy vehicle above 15,000 kg income = 1000 per tonne per month or part thereof per vehicle
3. Light vehicle below 15000 kg income = 7500 per month or part thereof per vehicle of
4. If lesser profit declared then maintain books and tax audit
5. Only expenditure allowed is partners salary and interest payable u/s 40b
6. All 4 advance tax instalments applicable
7. Ownership imp and not use. Ie. If you own income shall be calculated.

60. When you opt for presumptive basis ITR due date is 31st July, and if you do not opt for presumptive basis then tax audit is applicable then due date is 31st October

61. Tax audit under section 44AB

Applicable in following cases

1. **Business turnover** exceeding 1 cr. or 10 cr.

For 10 cr. there are two conditions

- a) cash receipts within 5% of total receipts and
- b) cash payments are within 5% of total payments

2. **For professions TO exceeds 50 lakhs**

3. If taxpayer does **not opt** for presumptive basis then tax audit.

Due date for ITR is 31st October and for audit report 30th September

62. Maintenance of books of accounts, u/s 44AA

If specified professions, there are **gross receipts in all the 3 preceding years exceeds 1,50,000**, then they have to **maintain books as per rule 6F**. They have to maintain cashbook, journal ledger, original bills for expenses in excess of ₹50 carbon copies of bills exceeding ₹25. Medical professionals have to maintain patient case register and inventory register.

63. **Deemed business income.**

- Exp. Earlier allowed & later on recovered eg. **Bad debts recovered.**
- Asset bought for **scientific** research and **sold after** the research over.

64. **Undisclosed income is unexplained income** / investment / expenditure taxable @ 78% u/s 115BBE

65. **Rate of TDS on casual income is 30%** ,10% for dividend and 10% for interest. So net amount is given gross it up and gross amount will be chargeable to tax.

66. **Contribution to political party is a disallowable** expenditure. You can claim deduction under section 80 GGB or 80 GGC.

IV. IOS – Income from other sources

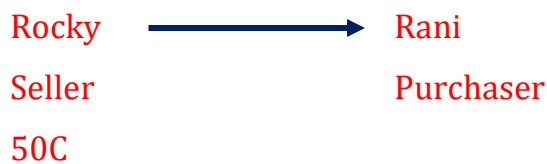
67. **Interest on income tax refund is taxable** under IOS, Income tax refund is not income.

68. Interest on savings → 80TTA for non senior R as well as NR.

Interest on FD + Int Savings → 80 TTB for senior citizens (Only R can be senior citizens).

69. Interest on PPF – Exempt
70. Interest on gold monetization bonds is exempt.
71. 10(15) Post office savings interest exempt upto 3500 pa for single person and 7000 pa for Joint Alc. It is also eligible for 80TTA / 80TTB deduction.
72. Interest on enhanced compensation is taxed under IOS (50% fixed exp. allowed.)
73. Dividend Income is always taxable under IOS. Dividend includes normal dividend and deemed dividend.
74. If shareholder having substantial interest in the company (10%) takes loan from the company, then to the extent of accumulated profit, It is deemed dividend u/s 2(22)(e).
75. No expenses are allowed from dividend income, except interest on loan taken for buying shares, subject to limit of 20% of dividend
76. If company purchases shares under buyback scheme from shareholder, the consideration paid to shareholder will be treated as deemed dividend. No expenses from such dividend will be allowed. (amendment of Finance Act 24. ★)
- While calculating capital gains, Sale cons = 0
- $$\text{COA} = \text{XX}$$
- $$\text{STCL/ LTCL} = \underline{\underline{(\text{XX})}}$$
77. Casual income winning from lottery, horse races card games are taxed at a flat rate of 30% u/s 115 BB plus surcharge as applicable plus HEC at 4%. No chapter VI A, a deduction, no expenses allowed. Rebate under section 87A is allowed from such income. Same is also applicable for online gaming under 115 BBJ.
78. Losses from casual income like horse, races, card games, gambling have to be totally ignored.
79. Rate of TDs on interest is at 10% and no TDS on government securities.
80. Advance forfeited with effect from AY 15-16 is taxable under IOS. Advance forfeited before that will be reduced from cost of acquisition while calculating capital gains.
81. Family pension is taxable under IOS and not salary. Standard deduction of 15,000 or one third of total pension. ↓ u/s 115 BAC it is 25,000 or 1/3rd of total pension. ↓ Finance Act 24. ★
82. Gift / inadequate purchase of immovable and movable properties taxable under section 56 (2)(x).

83. **Gift of movable property** like shares, securities, jewellery, bullion, work of art, archaeological collection, and sculptures is taxable. Gift of other movable assets like mobile, car etc will not be taxable.
84. Gifts received from **relatives** or on **the occasion of marriage**, or by way of **inheritance**/ will exempt from tax.
85. Also, gifts received from **local authorities, charitable trust** are also exempt.
86. **Refer relative definition** in detail, but it mostly covers blood relation like real brother, sister, lineal, ascendance, descendants, etc.
87. Gifts have exemption of 50,000 per annum, but if gift received is above 50,000, and it is fully taxable.
88. **Rocky sells HP to Rani for 30,00,000 and SDV is 38,00,000. Give tax implications.**



i. Act sale con = 30,00,000	For Rani this is inadequate purchase of immovable property
ii. 110% = 33,00,000	Benefit = 8,00,000
iii. SDV = 38,00,000	(38,00,000 - 30,00,000)
Sale consideration = 38,00,000	Exemption = 50,000 or 10 % 30,00,000
for I Tax	= 3,00,000
	Taxable
	IOS 56(2)(x) = 8,00,000

Note : Purchaser ie. Rani should deduct TDS @ 1% if the purchase value is 50,00,000

89. **Insurance maturity** proceeds are exempt under section 10(10)(D)
90. If **insurance policies before 1 April 2012**, and premium is **up to 20% of sum assured**, then the maturity proceeds the exempt from tax.
91. If insurance policy is **on or after 1 April 2012**, and premium is **up to 10% of sum assured** then the maturity proceeds are exempt from tax. u/s 10(10D)
92. If insurance policy is **after 1st April 2023**, and the premium is **up to 10% of sum assured** and the **premium does not exceed five lakhs**. Then the maturity proceeds are exempt from tax. u/s 10(10D)
93. In case premium is paid for more **than one policy**, then the **total premium of the policies up to 5 lakhs**, then exemption u/s 10(10D) will be available only for those policies. Others will be taxable.

94. If insurance proceeds are **received on death** of a person, then **it is never taxable**.
95. Money received from keyman insurance policies always taxable.
96. If the policy proceeds are taxable when it gets taxed under IOS.
97. Other income like royalty, agricultural income outside India, rent received for plant and machinery and composite rent for HP and amenities is taxable under IOS.
98. Agricultural income in India is exempt from tax. Agricultural income outside India is taxable under IOS in case of agricultural income.
99. Manufacturing of tea, 40% is business income, 60% is agricultural income.
100. Coffee manufacturing is 40% business and 60% agricultural income.
101. Coffee restricted to growing and curing is 25% business and 75% agricultural.
102. Rubber business is 35% business and 65% agricultural.
103. In IOS or PGBP assessee can follow mercantile system or cash system of accounting.
104. In case of agricultural income there is partial integration.

V. Set Off

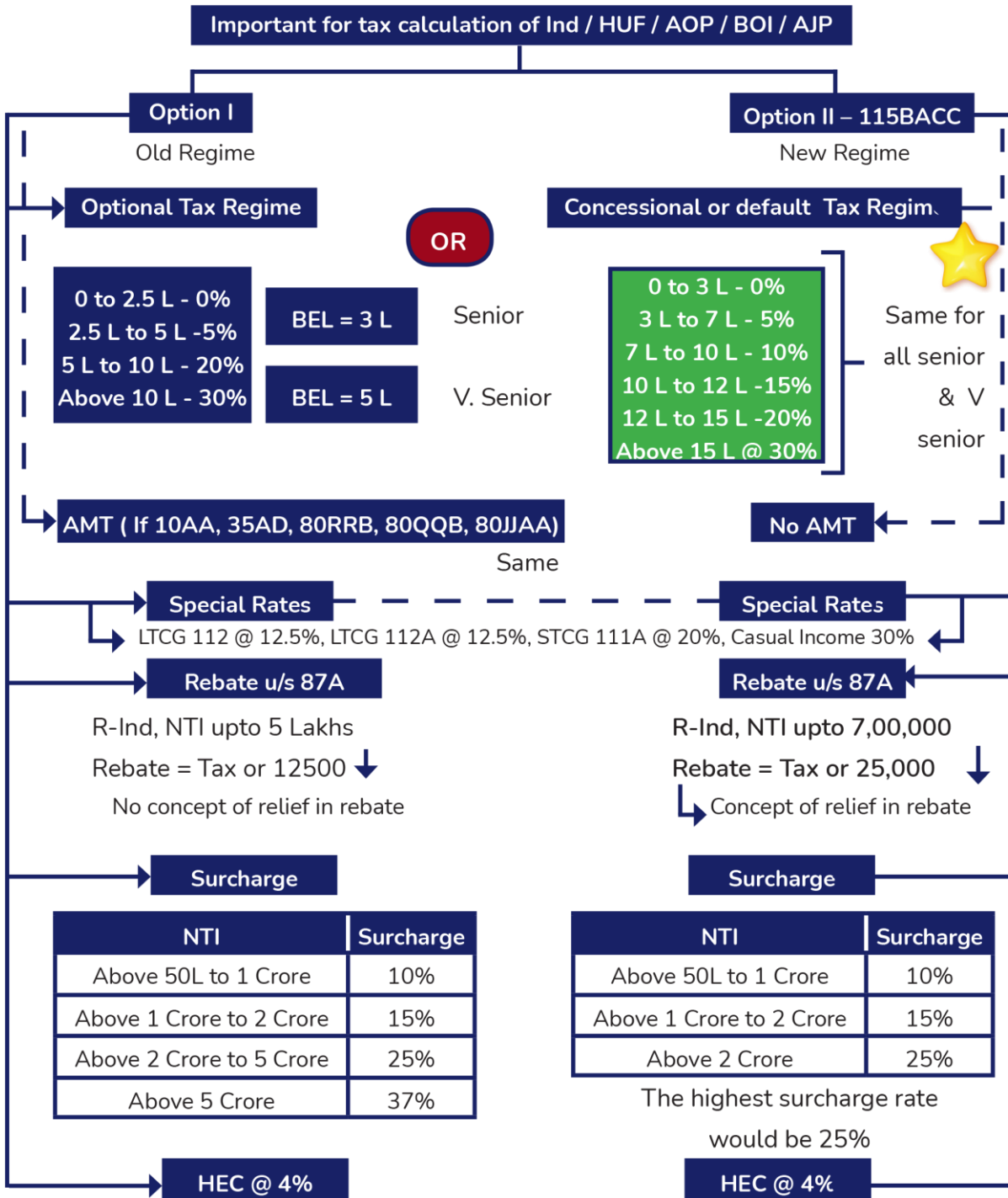
105. **Speculation business loss** can be set off only **against speculation, business profit**.
106. **Specified business loss** can be set up against **specified business profit**
107. **Long-term capital loss** can be set off only against LTCG.
108. **Short-term capital loss** can be set off against STCG or LTCG
109. Any business loss cannot be set off against salary
110. No loss can be set off against casual income
111. **Inter head HP loss** can be done maximum up to **2 lakhs when out of 115 BAC**
112. **Inter head HP loss cannot be done u/s 115 BAC**
113. From the activity of owning and maintaining race horses can be set off only against income from such activity
114. If there are **brought forward losses**, then they can be set off only against the **respective head of income**
115. Generally, losses can be **c/f** for a period of **eight years**. However, **speculation business loss** and loss **from the activity of owning and maintaining race** horses can be carried forward for 4 years.

116. **Unabsorbed depreciation** can be carried forward for any **number of years**, and it can be set off against any income, but it cannot be set off against salary and casual income. Same as for unabsorbed capital expenditure on family planning, and scientific research.
117. Return filing is mandatory for **business losses, capital gain, losses, and loss from the activity of owning and maintaining race horses** to be c/f.
118. **Unabsorbed depreciation and HP loss** can be carried forward, even if the **ITR is not filed within the due date**
119. **Continuity of business** is not necessary for set off of losses however, continuity of the activities necessary for loss from the activity of phoning and maintaining race horses
120. Winning from horses races is a casual income where you go on a race course and bet on horses. This is an IOS and it's taxed at 30% but activity of owning and maintaining race horses, is a normal income, which is taxed under IOS. Loss from such activity cannot be set off against winning from races. Loss from the activity of owning and maintaining race, horses can be set up only against income from such activity.
121. **Intra day share trading** is a **speculation business**, but **trading in futures and options and derivatives is a non-speculation business**

VI. 115 BAC

122.

III. Let's Summarise



Note : 1. Under option I and option II enhanced rate of surcharge of 25% or 37% would not apply to STCG u/s111A, LTCG u/s112A, LTCG u/s 112, dividend.
2. Partial Integration in both options.

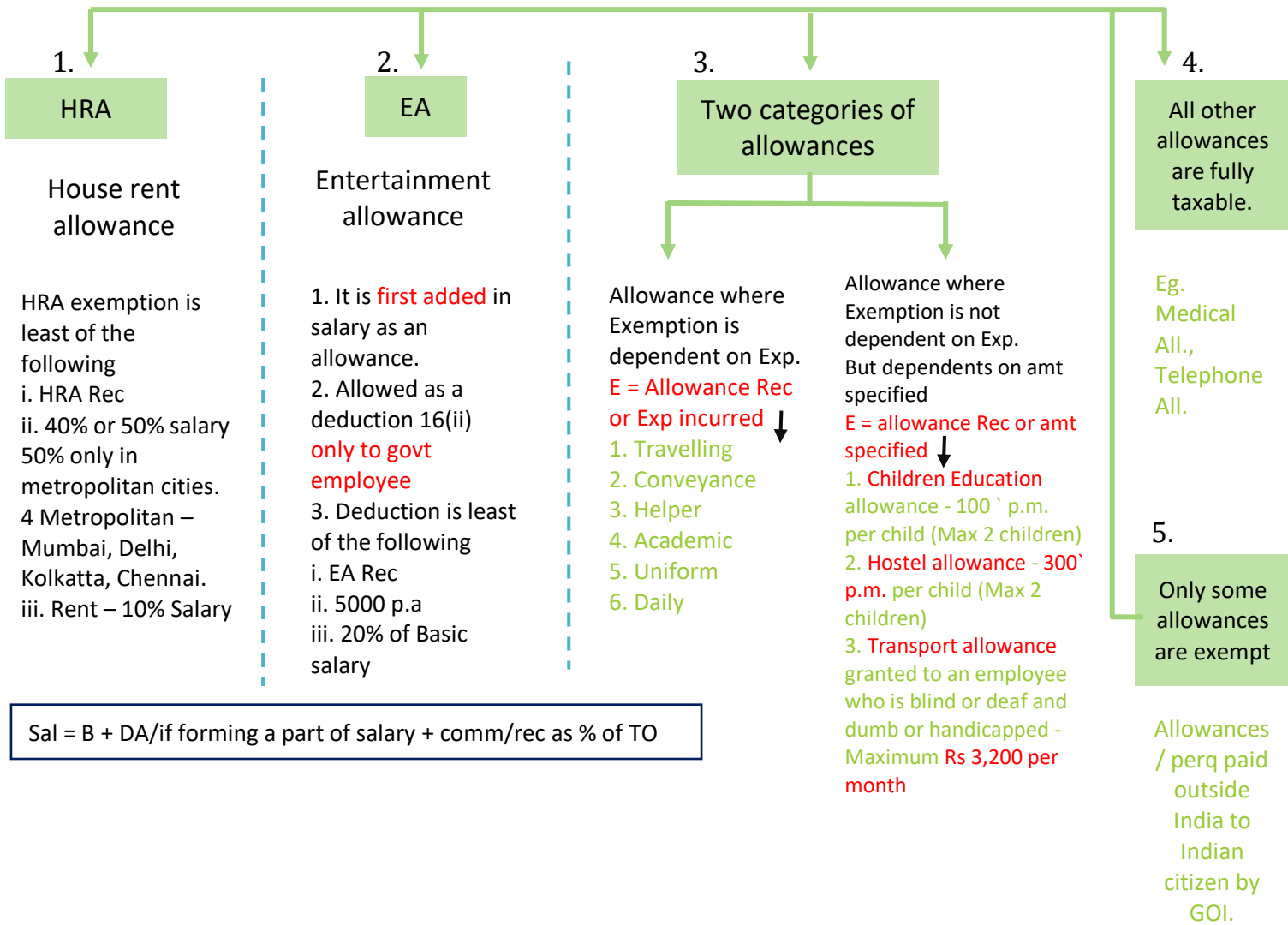
123. 115 BAC

Exemptions	115 BAC	Old Regime
Salary		
1. Constituency Allowance (MLA)	x	✓
2. HRA	x	✓
3. LTC	x	✓
4. Exemptions for Allowances	x	✓
a. Travelling Allowance T	✓	✓
b. Transport Allowance T	✓	✓
c. Daily Allowance D	✓	✓
d. Conveyance allowance for office C	✓	✓
} (TTDC) allowed		
5. Deductions u/s 16		
Std Deduction	75,000	75,000
PT	x	✓
EA	x	✓
6. Exemption of ` 50 Per meal for lunch facility	x	✓
PGBP		
1. 35 AD	x	✓
2. Additional Depreciation	x	✓
3. Donation contribution for Scientific Research	x	✓
4. Employers contri to NPS allowable exp	14% of salary	14% of salary
Note : If 35 AD not taken then we can claim depreciation		
House Property		
1. Int on borrowed capital for SO property (24b)	x	✓
2. Int on borrowed capital is allowed in both regime for LO/DLO properties. (24b)	✓	✓
IOS		
Std deduction for family pension	25,000 or 1/3 rd of pension	15,000 or 1/3 rd of pension
Clubbing		
Exemption of 1500 u/s 10 (32) for minor clubbing	x	✓
Set off		
Interhead adj of HP loss	x	Allowed only upto 2 lakhs
Loss under head HP	Cannot be c/f	Can be c/f
Deductions		
1. 10 AA	x	✓
2. 80CCD(2) employers contri to NPS	14% of salary	10% of salary
3. 80CCH(2) employers contri to Agniveer Corpus	✓	✓
4. 80JJAA	✓	✓
5. All other deductions under chapter VI A	x	✓

VII. Salary

124.

Allowances



$$\text{Sal} = B + \text{DA/if forming a part of salary} + \text{comm/rec as \% of TO}$$

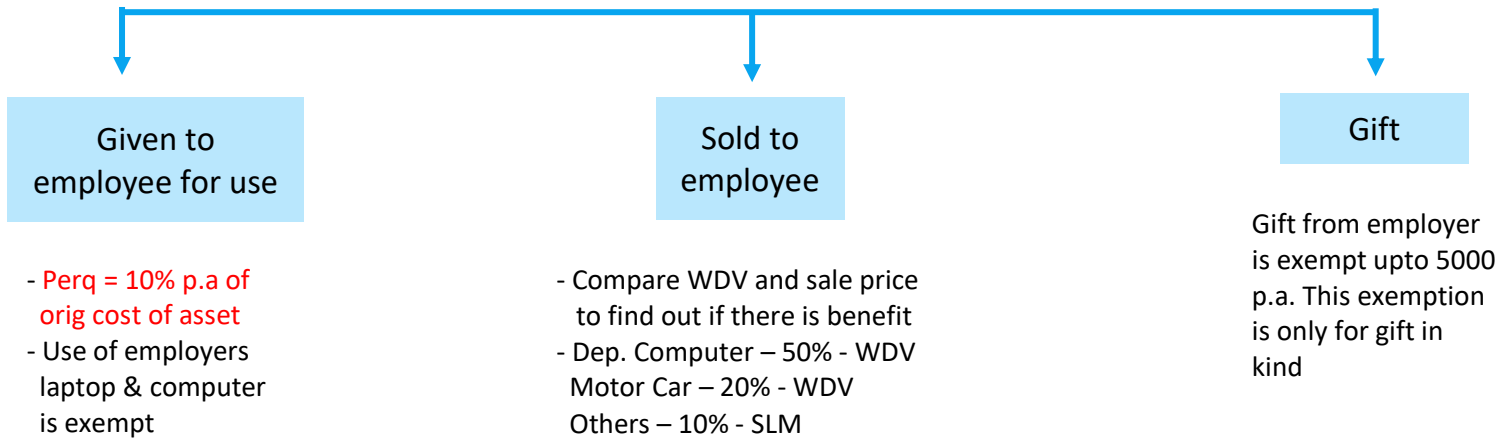
125. **Perquisite taxable in hands of all**

Lunch Facility – If no of days of lunch facility is not given then ICAI assumes 300 days

- Perq = Cost of meal – 50 ₹ per meal (I. Tax) – Amt recovered from employee
- Tea/coffee /snacks provide in office is exempt perquisite

126.

Employer's asset



127. Int free loan / Loan at concessional rate

- Compare employer lending rate with SBI lending as on 1st day of PY
- And if there is a benefit for employee then it a perq.
- And if there is no benefit then there is no perq.
- Int is calculated on monthly o/s balance if details of loan repayment by employee are given
- No perq if loan limit is upto 20,000 or if loan is for medical purpose

128. ESOP's employee stock option plan

Perq. = FMV as on date of exercising the option – cost to employee

Consider FMV of the stock exchange with highest volume of trading.

129. Traveling / Touring / Accommodation

130. Club Facility

131. Credit card Facility

Perq = Exp incurred by employer
 – Exp for official purpose – Amt recovered from employee

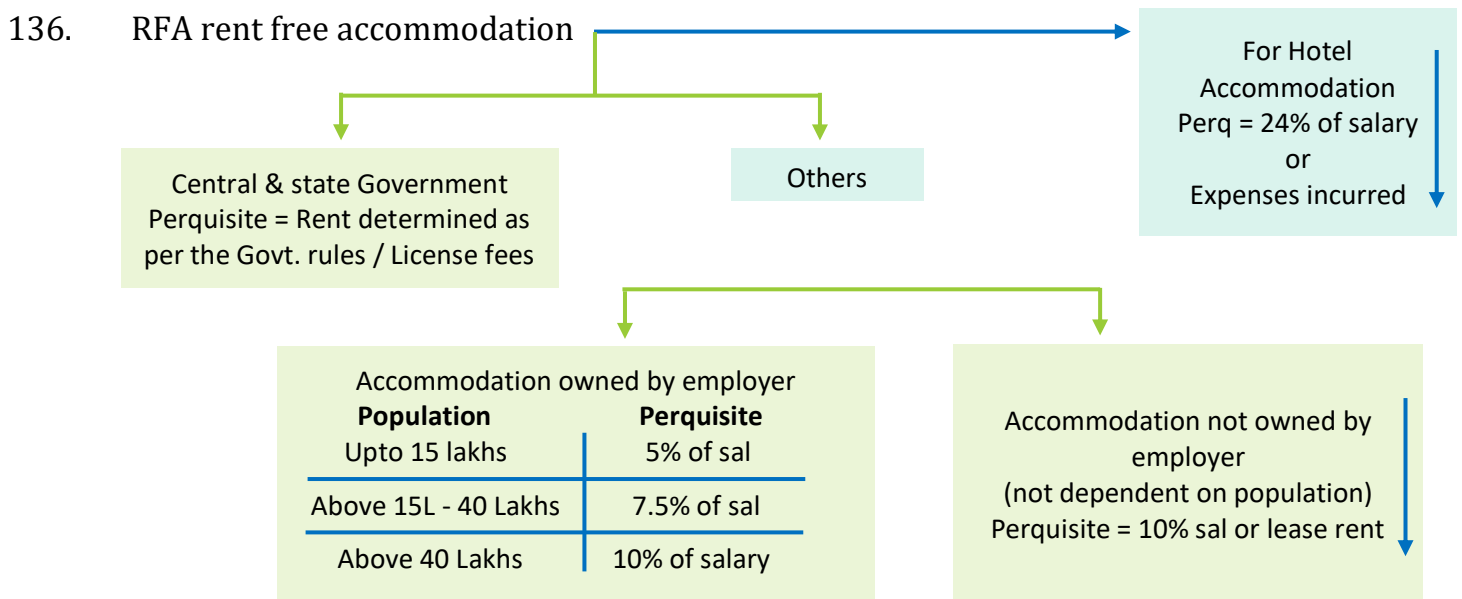
132. PF

	SPF	RPF	URPF	PPF
Employer's contri (perq.)	Exempt perq	Exempt up to 12% of Salary	Exempt	×
Interest (perq) credited to PF	Exempt perq	Exempt 9.5 p.a.	Exempt	Exempt
Employee's contri Invest	80C ✓	80C ✓	80C ×	80C
Accumulated Balance	Exempt	Exempt worked continuously for 5 yrs. (Exception health reason)	Taxable ↓	Exempt
<div style="border: 2px solid black; padding: 5px;"> Employer contri + Int - Salary Employee contri - Not income Int on employee contri - IOS </div>				

133. Employer's contri to RPF is exempt upto 12% of salary . It means excess contri is taxable salary same like HRA.

134. Int credited to RPF is exempt from tax upto 9.5% i.e. excess int will be taxable as perq.

135. Employer's contri to superannuation fund is exempt upto 1,50,000 p.a.



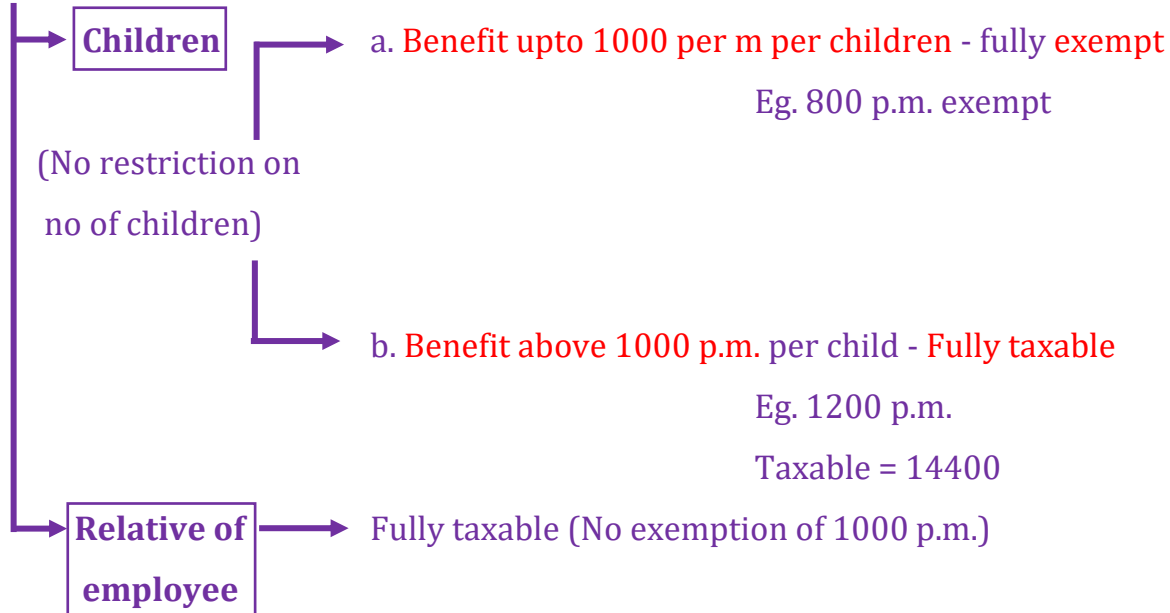
Salary = Everything except perquisite + DA (retirement benefit)

137. Fulfilment of obligation by employer

Perq. For specified employees

1. Education Facility

Employee's children / relative are going to **employee's school**



2. Training / Seminar exp incurred by employer for employee it is exempt perq.

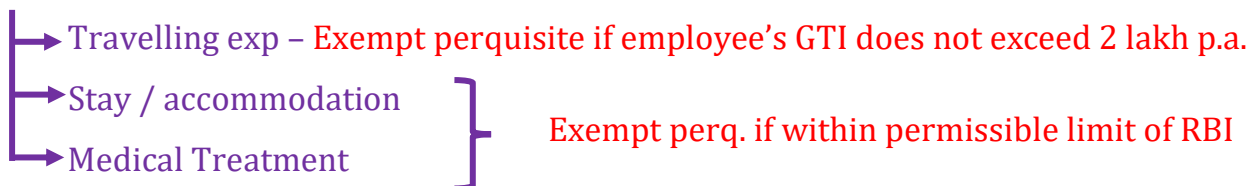
3. Medical Facility

i. Medical allowance Fully taxable (It is an allowance)

ii. Medical facility / Reimbursement of medical bills (Perquisite)

a. Govt / Employer	Exempt
b. Employer hospital	
c. Hospital approved by I. tax	
d. Others / private hospital	Fully taxable

iii. Medical treatment outside India



4. LTC

LTC exempt = LTC rec or exp on travel ↓

Travel exp for family allowed. Family is spouse & max 2 children, parents, brother and sister if dependent on assessee.

Multiple births after first birth is allowed.

5. Servant facility is taxable.

6. Motor car owned by employer and used by employee for office + personal use.

Upto 1600 CC = Perq = 1800 p.m. + 900 p.m. (for driver)

Above 1600 CC = Perq = 2400 p.m. + 900 p.m. (for driver)

Other Points

1. 16(ia) std deduction is 50,000 and 75,000 if opted for 115 BAC

2. PT is allowed u/s 16(iii) on payment basis

If employer pays PT then first add as perquisite and then claim deduction.

3. Partners salary and member of parliament salary not taxed under salary.

4. Scale of salary – 20,000 – 1000 – 30,000

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

✦ **There are six exceptions for Capital Asset**

1. **Stock in trade is not Capital asset**
2. **Personal moveable effects are not Capital assets.** However jewellery, shares, securities, paintings, drawings, works of art, archeological collections, sculpture, and bullion are capital assets. (Jewellery includes gold, silver, platinum or any other precious metal, precious and semi-precious stone whether or not sewn into any wearing apparel) It also means that personal immovable effects will be capital asset.
3. **Agricultural land in rural area is not a capital asset.** Rural area means any land situated outside the jurisdiction of Municipal Corporation or Cantonment Board. Having population of 10,000 or more also any land situated outside 2km, 6km, and 8km outside the Jurisdiction of Municipal Corporation (depending on the criteria of population)

The following table will clear the understanding of the concept.

Population of Place	What is urban land	What is rural land
0 to 10,000	--	Full area is rural
10,001 to 1,00,000	Within local limits + within 2 Km from local limits	Outside 2 km
1,00,000 to 10,00,000	Within local limits + within 6 Km from local limit	Outside 6 km
Above 10,00,000	Within local limits + within 8 km From local limits	Outside 8 km

4. 6 ½ % Gold bonds, National Defence Gold Bonds issued by CG
5. Special bearer bonds 1991.
6. Gold deposit bonds issued under Gold deposit scheme 1999. Deposit certificates issued under Gold Monetization Scheme, 2015 notified by the CG w.e.f A.Y 17-18

	Particulars	Before 23/7/2024	On or after 23/7/2024
1.	Listed shares zero coupon bonds units of UTI equity oriented MF Listed securities eg. Deb.	12 m	12 m
2.	Unlisted shares immovable property	24 m	24 m
3.	Other assets (Gold)	36 m	24 m
4.	Unlisted bonds unlisted debentures	36 m	Always treated as irrespective of POHA
5.	Specified MF market linked debentures	Always ST	Always ST

Note : Unlisted deb and unlisted bonds after 23rd July will get covered u/s 50 AA always ST.
Before 23rd July - POHA - 36 m

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

✦ Important Points

1. Remember if long-term capital asset is sold before 23rd July 24, take indexation.
2. If long-term capital asset is sold after 23rd July 24, then no indexation. FA24
3. Some long-term capital assets will never get indexation, irrespective of date of transfer like long-term capital gain under 112A depreciable assets, slump sale and market linked debentures and units of specified mutual funds.
4. For immovable property sold after 23/7/24 only for tax calculations these will be 2 options (for R-Ind / HUF)

1. **If a capital asset is acquired before 01/04/2001**

a) Remember the following rules:

a. COA = Actual cost or FMV as on 01/04/2001 whichever is higher

However in case of capital asset, being land or building or both the FMV of such asset as on 1-4-2001 shall not exceed the stamp duty value as on 1-4-2001

Immovable Property

COA = FMV 1/4/2001 or SDV 1/4/2001 ↓

Lower amt or Actual Cost ↑

b. ICOA = $\frac{\text{COA}}{100} \times$ Index of the year in which asset is transferred.

c. Any cost of improvement incurred before 01/04/2001 should be ignored.

2. **Capital asset acquired in modes specified under section 49(1)**

a) Partition of HUF

b) Gift, will or inheritance. (Refer Note)

c) Transfer of asset by wholly own holding company to subsidiary company & vis-à-vis

are not treated as transfer

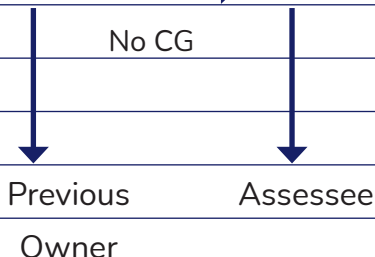
Note :

Gift / will / Irrevocable trust by Ind / HUF → No Transfer

Gift / will / Irrevocable trust by other → Treated as transfer



FA 2024

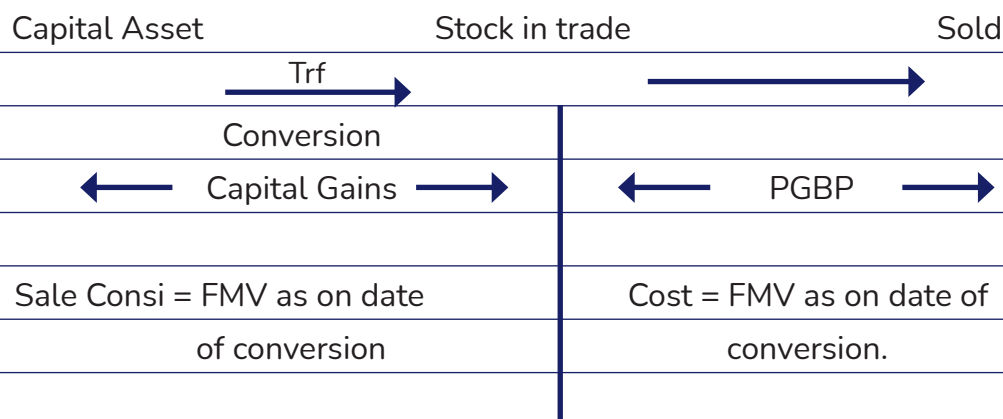


- Cost of Previous owner
- POHA of previous owner + assessee
- Index of previous owner
- COI of previous owner + assessee

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

Following are some of the special cases where COA or sometimes sale consideration is determined in a special way

1. Conversion of capital asset into stock in trade:



CG will be taxable in the year in which stock in trade is sold.

$$\text{ICOA} = \frac{\text{COA} \times \text{Index of year in which asset transferred (converted)}}{\text{Index of the year in which asset is acquired}}$$

$$\text{ICOI} = \frac{\text{COI} \times \text{Index of the year in which asset is transferred (converted)}}{\text{Index of year in which improvement takes place}}$$

2. Conversion of stock into capital asset (wef AY 19-20):

There will be Business income arising on conversion u/s 28 of PGBP

Business income

Sale Price = FMV as on date of conversion

Cost = Act cost of stock in trade

Capital Gain

When Capital Asset is sold there shall be capital gains

COA = FMV as on date of conversion

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

3. Bonus Shares:

Date of issue of Bonus Shares	COA
Issued before 01/04/2001	FMV as 1/4/2001
Issued after 01/04/2001	NIL

The period of holding of Bonus share is counted from date of issue of bonus share.

It has nothing to do with original share

Logic If Capital Asset is acquired before 1/4/2001 COA = Actual cost or FMV as 1/4/2001 ↑

= NIL or FMV ↑

= FMV

4. Right Shares

Bonus - to exiting shareholder / cost = 0

Right shares to exiting shareholder / cost = XX

(There is some cost)



POV - Person buys the Right Entitlement

$$\text{COA of Right shares} = \text{Cost of Rt Entitlement} + \text{Cost paid for Rt shares}$$

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

5. Self Generated Assets

1. COA for self generated assets = NIL

2. Self generated assets like-

- a. goodwill of business or profession or (wef AY 22-23)
- b. a right to manufacture, produce or process any article or thing or
- c. right to carry on any business or profession
- d. tenancy rights
- e. stage carriage permits and
- f. loom hours

6. Compulsory Acquisition:-

Compulsory Acquisition is treated as transfer. Capital Gain is charged to tax in the year in which the compensation is first received. Capital Gain is calculated as follows:

Particulars	Asset ST/LT
Sale Consideration	Total Initial Compensation
Less: ICOA/COA	XX
Less: ICOI	XX
Less: Expenses of Transfer	XX
STCG/LTCG	XX

i)
$$\text{ICOA} = \frac{\text{COA}}{\text{Index yr asset acquired}} \times \text{Index yr asset is transferred}$$
 (Compulsory acquisition)

ii)
$$\text{ICOI} = \frac{\text{COI}}{\text{Index yr in which improvement takes place}} \times \text{Index yr asset is transferred}$$
 (Compulsory acquisition)

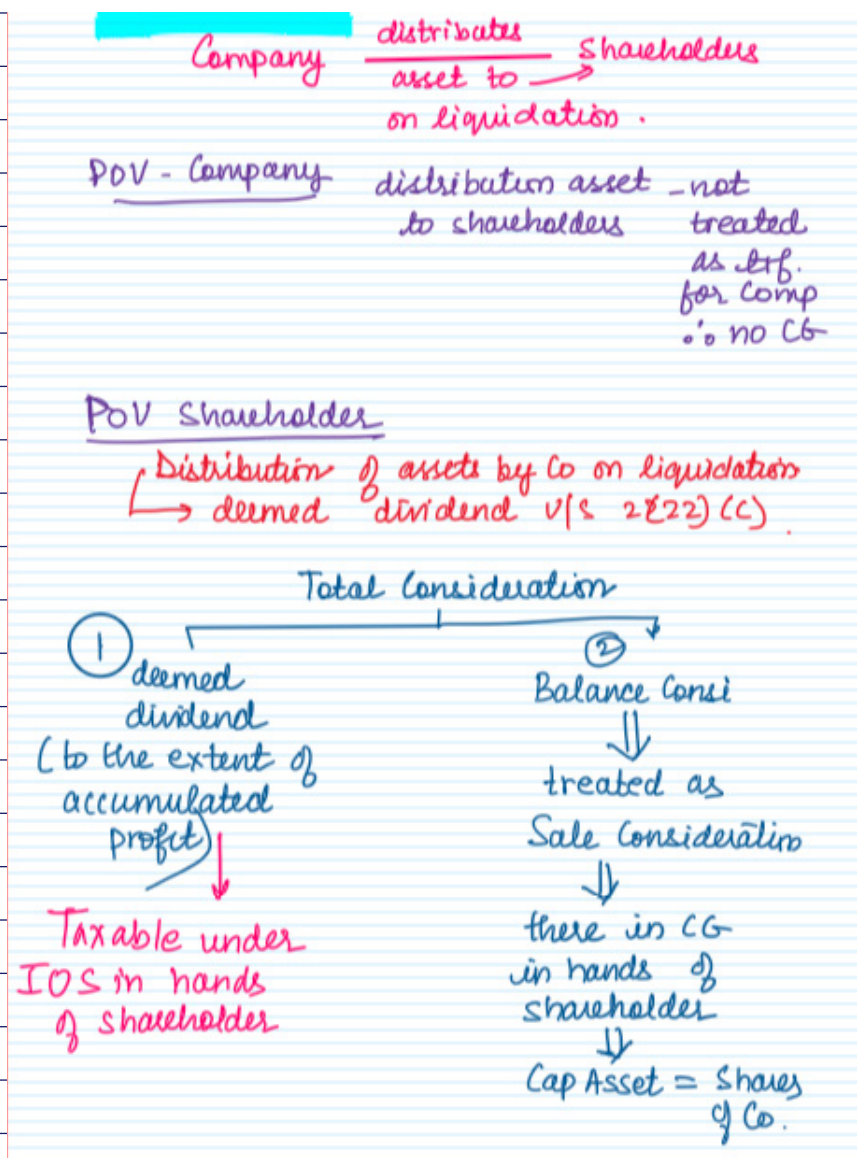
Capital gain will be calculated as follows:

Particulars	Amount ST/LT
Sale consideration →	Additional / Enhanced compensation
Less: ICOA/COA } Less: ICOI/COI }	NIL
Less: expenses on transfer	Litigation expenses
∴ STCG/LTCG	XX

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

- i) In case of additional or enhanced compensation,
- ii) CG will be charged to tax in the year in which the order of the Court/tribunal is received.
- iii) Nature of gain will be same as the original gain.
- iv) In case compensation is reduced the original gain shall be recomputed by way of rectification.
Also the transferor may die before he receives additional compensation then CG shall be taxable in the hands of persons who receives it.

7. Capital Gains in case of assets distributed to shareholders on liquidation:



CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

8. Section 50 AA - CG in case of market linked debentures (w.e.f. FA 2023)

1) Section 50 AA is an over riding section

2) It is applicable for

a. a specified mutual fund acquired on or after 1/4/2023

b. market linked debentures

FA 2024

c. Unlisted bonds and unlisted debentures transferred on or after 23rd July 2024

Note : Before 23rd July for unlisted bonds and unlisted debentures POHA criteria will be 24 months.

3) Irrespective of POHA these assets would be **deemed to be STCA**

4) The STCG will be taxable at **normal rate of tax.**

5) Computation of capital Gain.

9. Slump sale -50B:

Section 2(42C) Slump Sale means: transfer of one or more undertakings by any means for a lump sum consideration without values being assigned to individual assets and liabilities in such sales .

a. Entire unit/ undertaking is transferred by any means . (FA 2021)

Transfer meaning is same like Section 2(47).

b. No value is allocated to individual Asset/Liabilities.

c. Sale consideration = FMV of the capital asset or market value of the consideration (monetary & non monetary) whichever is higher

d. The gain can be short term/ long term.

e. Even if it is long term, **benefit of indexation is not available.** (Not even before 23/7/2024)

COA/COI = Net worth

f. **While calculating Net worth, remember the following points:**

i) For depreciable asset consider WDV.

ii) Ignore revaluation

iii) Net worth=Assets-Liabilities.

iv) Cost of self generated goodwill will be Nil.

v) For capital assets where 35AD claimed, cost = Nil

vi) Chartered Accountant has to submit a report certifying that net worth has been correctly calculated. Same should be submitted within the dates specified u/s 44AB ie., 30th September.

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

10. Capital Gain in case of NR-shares/securities in Indian Company;

Capital gain is calculated in foreign currency:

The shares may be short term/long term in nature

Even if long term benefit of indexation is not available.

Particulars	Rate	Date
Sale consideration	Average rate	Date of transfer
Less: COA	Average rate	Date of acquisition
Less: Exp on transfer	Average rate	Date of transfer
Capital gain in foreign currency		XXX
Capital gain in Indian currency(Buying rate as on the date of transfer)		XXX

Average Rate = $\frac{\text{Buying Rate} + \text{Selling Rate}}{2}$

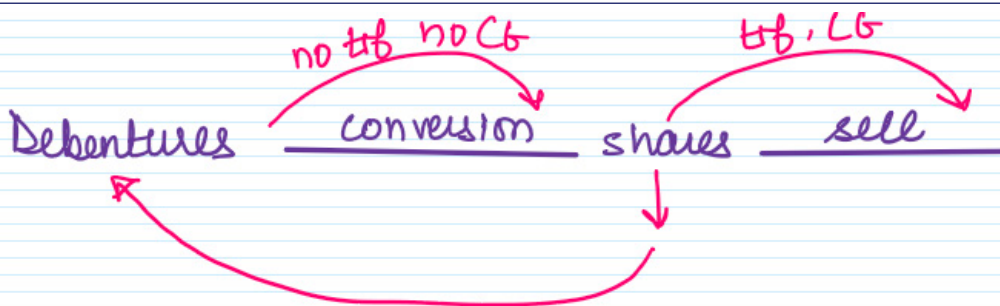
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11. ESOPS: Employee Stock Option Scheme:

On sale of ESOPS there is Cap Gain

COA = FMV as on date of exercising the option (FMV considered for calculation of perquisite)

12. Conversion of debentures into shares:



Cost of shares = Cost of debentures.

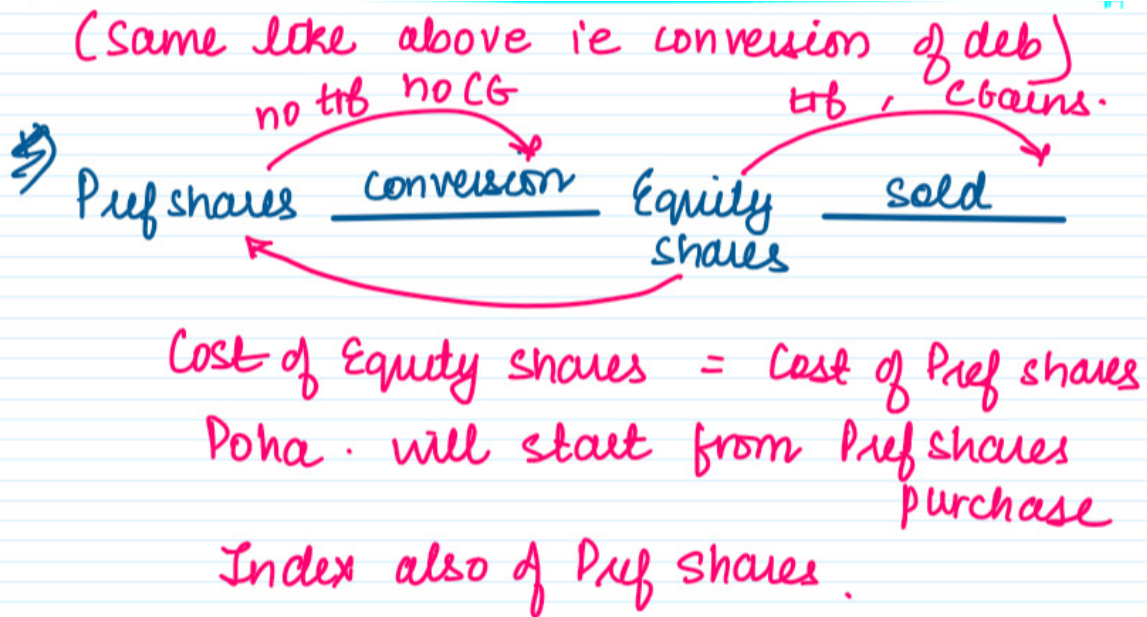
Shares (POHA) = $\frac{\text{Deb} + \text{Shares}}{\text{Poha}}$

Indexation = date of debentures

→ Poha for shares = Counted from date of allotment of debentures

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

13. Conversion of preference shares into equity shares:



14. Capital gain in case of transfer of immovable property: Sec 50 C

(Refer Rocky and Rani case)



Sale of Immovable Property

ICAI's fav adj

POV of seller

Immovable Asset prop

Immovable Prop stock in trade

Capital Gains

On selling - PGBP

43 CA

Sale Cons XX

Sale Cons XX

110% Sale Con XX

110% Sale Con XX

Compare with SDV

If SDV is higher then

SDV will become sale consideration

Compare with SDV

If SDV is higher then

SDV will become sale consideration

Otherwise sale consideration =

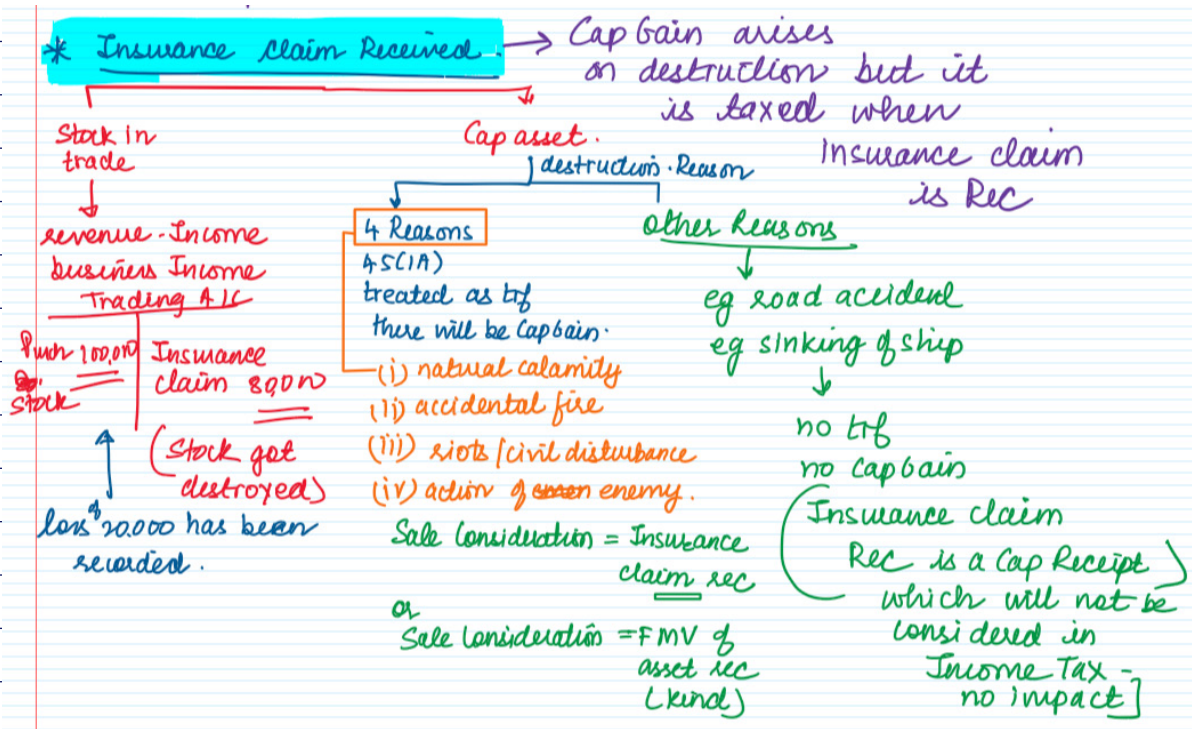
Actual sale consideration

Otherwise sale consideration =

Actual sale consideration

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

15. Insurance claim received:



16. Advance forfeited:

① upto AY 14-15 - CG
wef AY 15-16 - IOS ✓

→ Advance forfeited by assessee is reduced from COA

— However advance forfeited by previous owner is not reduced from COA.

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

17. Buyback of shares :

This is allowed as per Section 68 of Companies Act 2013.

(1)	(2)	(3)
Taxability in the hands of the -	Buyback of shares by domestic companies	Buyback of shares other than shares referred to in column(2) or other
Company	Subject to additional income tax @ 20% + (surcharge 12% and education cess @ 4 %).	Not subject to tax in the hands of the Company.
Shareholders	Income arising to shareholders exempt under section 10(34A).	Income arising to shareholders taxable as capital gains under section 46A.

Now consideration received on buy back of shares by the shareholder will be treated as deemed u/s 2(22) (f). This amendment will take be effective from 1/10/2024.

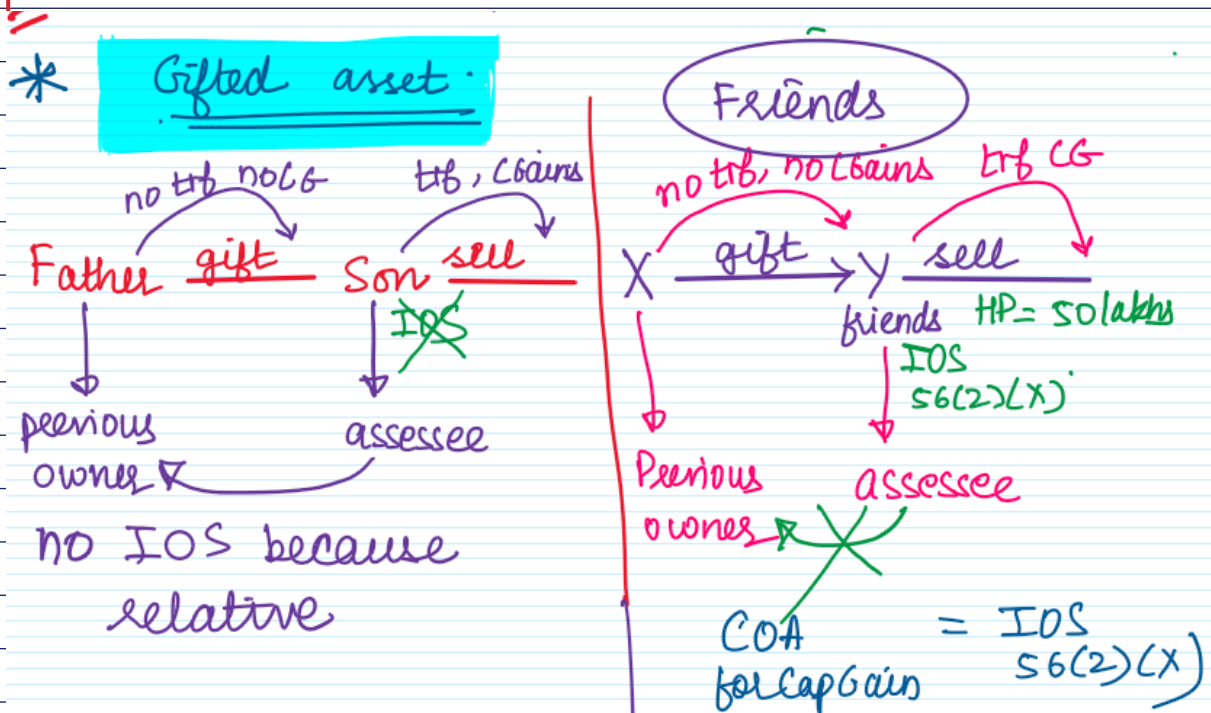
: On buy back on or after 1/10/24 there will be capital loss in hands of shareholders.

Sale consideration	NIL
Less COA	Purchase price
ST/LT capital less	(XX)



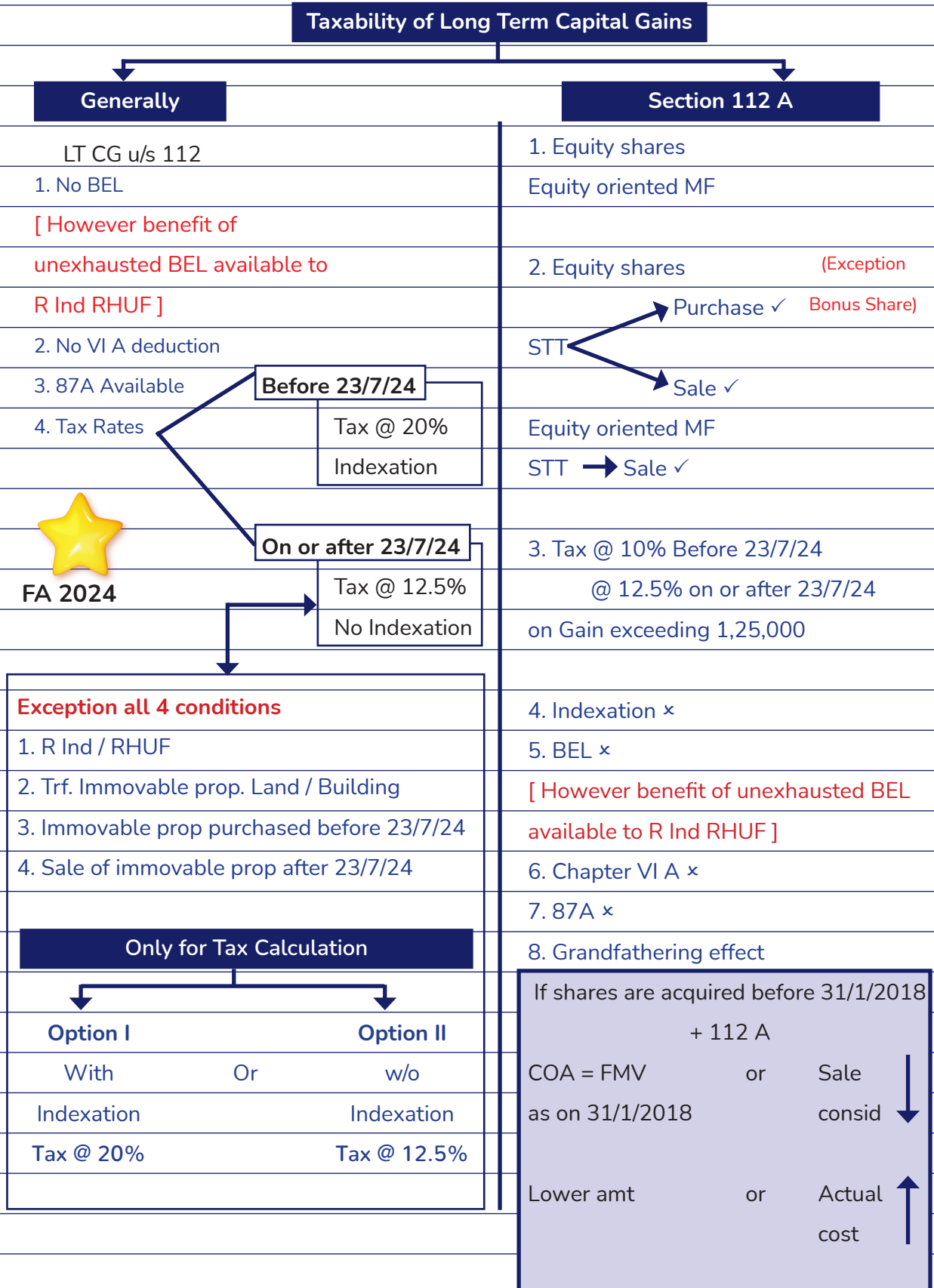
FA 2024

18. Gifted Asset :



CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

Concept 3: Taxation of Capital Gain:



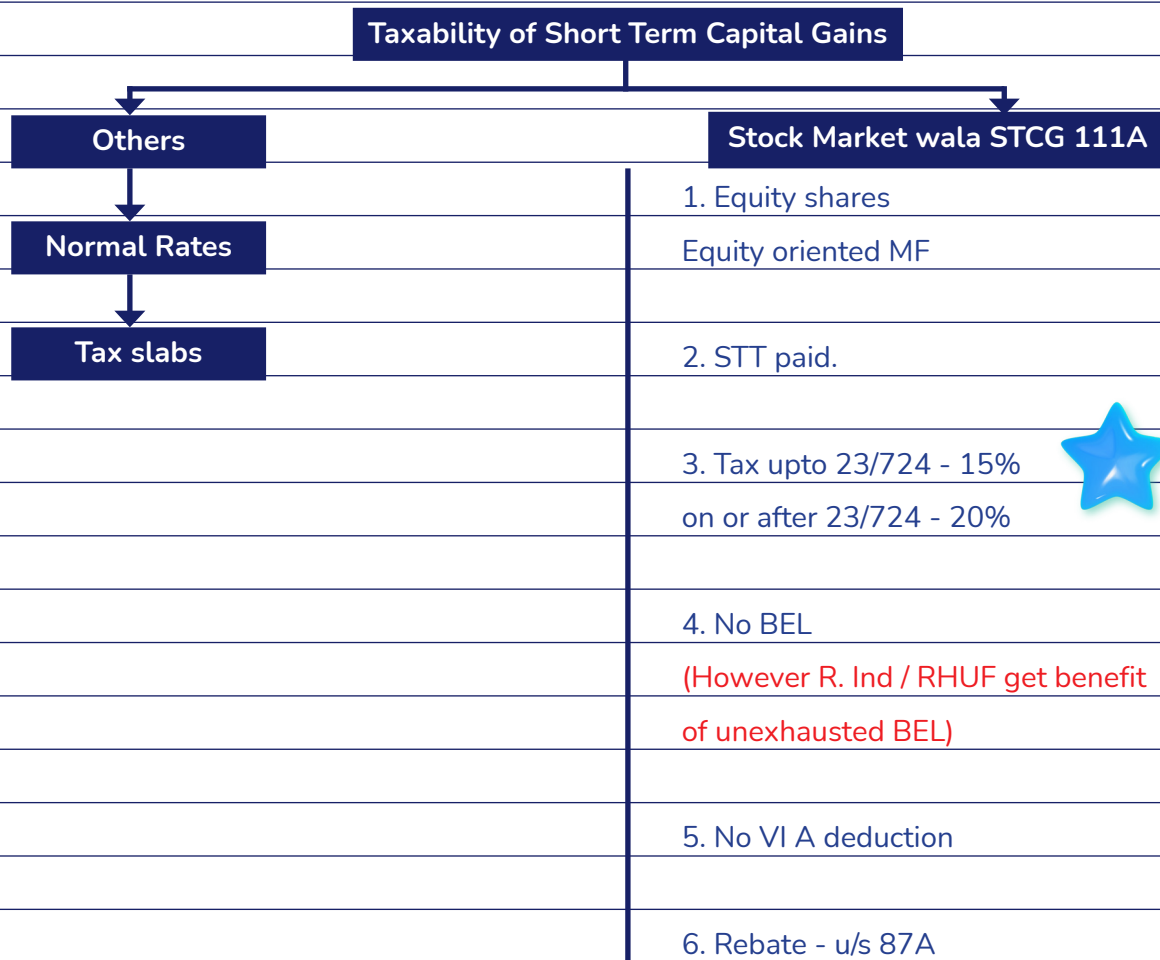
BEL : - Basic Exemption Limit

CAPITAL GAINS ADJUSTMENTS - SEP 25 / JAN 26

FMV as on 31/1/2018

1. Take highest price quoted on 31/1/2018.
2. If no trading on 31/1/2018 then consider FMV of latest date of trading
3. If on 31/1/2018 share are not listed then its

$$\text{FMV} = \frac{\text{COA}}{\text{Index of acquisition}} \times \text{Index of 17-18. 272}$$



BEL : - Basic Exemption Limit

II. Exemptions under section 54, 54B, 54D, 54EC, 54EE, 54F

Section	Original CA	Re-invested in	Time for Re-investment	Conditions on new assets	Exemption	Deposit Scheme
54 Individual & HUF	Long term Residential House Property	RHP (Only one in India) or 2 residential house in India at the option of assessee where capital gains does not exceed 2 crore.	Purchase 1 year before or within 2 years or construct within 3 years from transfer date of original asset	The R.H.P. i.e. the re-investment should not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable
54B Individual & HUF	Agricultural land situated in urban area (ST/LT). It should be used for agriculture purpose at least for 2 years prior to its sale	Agriculture land in urban area / rural area	Purchase within 2 years from date of transfer	Not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable
54D Any Assessee	Land & Building forming part of industrial undertaking (ST/LT). It has been compulsorily acquired	Land & Building forming part of new industrial undertaking	Purchase within 3 years from date of receipt of compensation	Land & Building should not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable

Deposit scheme means open an account under Cap Gains deposit scheme. Whatever money is deposited on or before ITR due date is treated as reinvestment and eligible for exemption.

If amt is deposited after the due date it will not be eligible for exemption.

54EC Any Assessee	Long term capital asset being land or building or both	In Bonds of 1) NHAI 2) REC 3) Power Finance Corp. Ltd. 4) Indian Railways Finance	6 months from the date of transfer of original asset	Not to be sold for 5 years from its purchase. No loan should be taken for 5 years against security of these bonds. An assessee is allowed to purchase bonds max. of 50,00,000	Capital Gains or Re-investment whichever is lower	Not Applicable
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Note :

1. Investing in 2 RHP for Section 54 is once in a lifetime option

2. W.e.f. FA 2023 - The maximum exemption that can be claimed u/s 54 is ₹ 10 Crore

3. Deposit in CGAS cannot exceed ₹ 10 crore

Meaning point 2 and 3 is that reinvestment for 54 cannot exceed 10 Cr.

Section	Original CA	Re-invested in	Time for Re-investment	Conditions on new assets	Exemption	Deposit Scheme
54EE Any Assessee	Any Long term Capital asset	Unit or units, issued before 01.04.2019, of such fund as may be notified by the central government.	6 months from the date of transfer of original asset	Not be sold 3 years from its purchase. No loan should be obtained for 3 years against security of these bonds An assessee is allowed to purchase bonds maximum of Rs. 50 lakhs	Capital Gains or Re-investment whichever is lower	Not applicable
54F Individual & HUF	Any long term capital asset other than R.H.P. assessee should own not more than 1 R.H.P as on date of transfer of the original capital asset.	R.H.P. (ONLY ONE IN INDIA)	Purchase 1 year before or within 2 years or construct within 3 years from transfer date of original asset	Not be sold for 3 years from its purchase. Assessee should not buy another house for 2 years or construct another for 3 years from date of transfer of original capital asset.	If entire net consideration is invested then exemption is equal to capital gain. If part of the consideration is invested then proportionate capital gain is exempted	Applicable

1. For 54F Proportionate Exemption is calculated by using formula →

When investment is less than net sale consideration $\text{Exempt} = \text{Invest} \times \frac{\text{CG}}{\text{Net sale consideration}}$

2. Assessee can purchase only 1RHP for 2 years or construct only one RHP for 3 years.

3. The deemed cost of new asset i.e. investment would be restricted to w.e.f. FA 2023 ₹ 10 crores for the purpose of exemption u/s 54F

4. Deposit in CGAS cannot exceed 10 crore.