



# JAGAT GURU NANAK DEV PUNJAB STATE OPEN UNIVERSITY, PATIALA

(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

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SKILL ENHANCEMENT

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## CERTIFICATE/DIPLOMA COURSE IN ACCOUNTING AND TAXATION

Address: c/28, The Lower Mall, Patiala-147001  
Website: [www.psou.ac.in](http://www.psou.ac.in)



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**Course Coordinator and Editor**

**Dr. Pooja Aggarwal**

**Assistant Professor**



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**PREFACE**

Jagat Guru Nanak Dev Punjab State Open University, Patiala, established in December 2019 by Act 19 of the Legislature of State of Punjab, is the first and only Open University of the State, entrusted with the responsibility of making higher education accessible to all especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

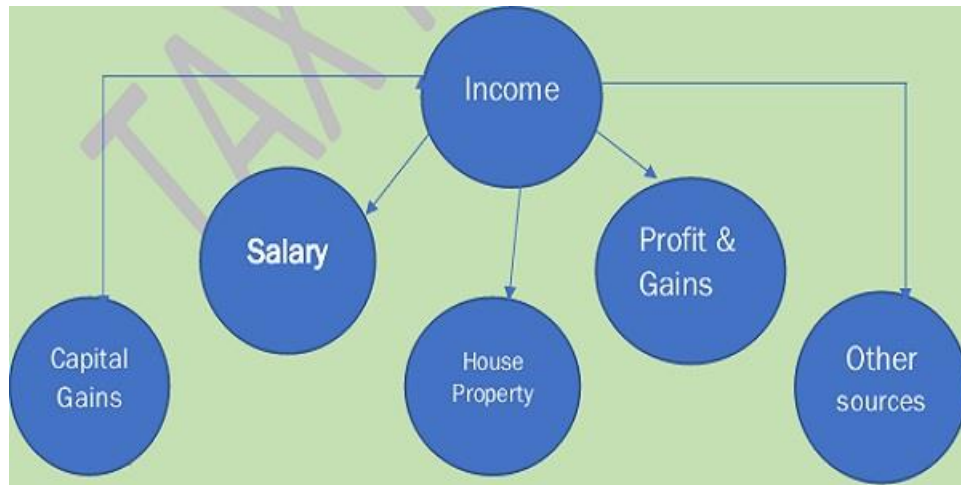
In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self-instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The Learner Support Centres/Study Centres are located in the Government and Government aided colleges of Punjab, to enable students to make use of reading facilities, and for curriculum-based counselling and practicals. We, at the University, welcome you to be a part of this institution of knowledge.

Prof. G. S. Batra,  
Dean Academic Affairs

# **CERTIFICATE COURSE IN ACCOUNTING AND TAXATION**



## **BASICS OF INCOME TAX OPERATION**



## COURSE II - BASICS OF INCOME TAXATION

**Learning Objectives:** The course aims to achieve following objectives-

1. The subject introduces Indian Taxation System
2. It focuses on Basis of Charge, Income from Salary and House Property
3. It provides in-depth understanding of Depreciation and Income from Business and Profession

### Course Content:

#### **Unit I - BRIEF HISTORY OF INCOME TAX AND BASIS OF CHARGE**

Legal framework, Canons of Taxation, different terms – meaning and definition  
Finance Bill, Scheme of Income tax. Overview of Direct taxes- Definitions and Basic  
Concepts of Income Tax: Assessee – Deemed Assessee – Assessee-in-default –  
Assessment Year – Previous Year – Person – Income – Gross Total Income – Total  
Income – Income Tax general rule and Exemptions to the Rule – Incomes Exempt  
from Tax – Agricultural income and its assessment – Tax Evasion Vs. Tax Avoidance.

#### **Unit II- INCOME FROM SALARY AND HOUSE PROPERTY**

**Salary**--Definition of 'Salary' – Characteristics of Salary – Computation of Salary  
Income: Salary u/s 17(1) – Annual Accretion – Allowances – Perquisites – Profits in lieu  
of Salary – Deductions u/s. 16 – Problems on computation of Income from Salary.

**House Property**- Exempted incomes from House Property – Annual Value –  
Determination of Annual Value for Let-out House and Self-occupied House – Deductions  
u/s.24 out of Annual Value of Let-out and Self-occupied House Properties – Problems  
on computation of Income from House Property.

**Unit III- DEPRECIATION & INCOME FROM BUSINESS AND PROFESSION ,  
INCOME FROM OTHER SOURCES AND CAPITAL GAIN**

**Depreciation-** Meaning – Conditions for charge of depreciation – Assets used for Business – Block of Assets – Rates of Depreciation – Miscellaneous Provisions about depreciation – Computation of Depreciation

**Business and Profession-** Provisions and deduction related to Income from Business and profession. Problems on computation of Income from Business and Profession

**Income from other sources and Capital gain**

**Unit IV**

Awareness in regards to the Income Tax e-filing portal and other basic terms related to income tax filing return

**Unit V**

Conceptual knowledge of Form No 49A and 49B and their relevant data fields. Knowledge of different income tax return forms like ITR 1, ITR2, ITR3, and ITR4 and the irrelevant data fields

**Suggested Readings**

1. income tax law & practice by Gaur & Narang, Kalyani publication edition 2017, 2018
2. Income tax by Dr.H.C.Mehrothra, Sahitya Bhawan publication edition 2017
3. Income tax by Dr Vinod, K Singhania & Monica Singhania, Taxman publication edition 2017
4. Income tax law & practice by Gaur & Narang, puja gaur Rajeev puri Kalyani publication edition 2017, 2018

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# **UNIT- 1 BRIEF HISTORY OF INCOME TAX AND BASIS OF CHARGE**

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## **STRUCUTRE**

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Legal frame work
- 1.3 Cannons of Taxation
- 1.4 Different terms
- 1.5 Meaning and definition
- 1.6 Finance Bill
- 1.7 Scheme of Income tax
- 1.8 Overview of Direct taxes
- 1.9 Definitions and Basic Concepts of Income Tax
- 1.10 Assessee
- 1.11 Deemed Assessee
- 1.12 Assessee-in-default
- 1.13 Assessment Year
- 1.14 Previous Year
- 1.15 Person
- 1.16 Income
- 1.17 Gross Total Income
- 1.18 Total Income
- 1.19 Income Tax general rule and Exemptions to the Rule
- 1.20 Incomes Exempt from Tax
- 1.21 Agricultural income and its assessment
- 1.22 Tax Evasion Vs. Tax Avoidance
- 1.23 Unit End Questions
- 1.24 References



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## 1.0 OBJECTIVES

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After completing this Students will be able to

- Define Gross total Income
- Understand finance Bill
- Discuss basic concepts of taxation
- Explain agricultural income

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## 1.1 INTRODUCTION

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What is Tax?

A tax is a compulsory payment levied on the persons or companies to meet the expenditure incurred on conferring common benefits upon the people of a country.

**Two aspects of taxes follow from this definition:**

- (1) A tax is a compulsory payment and no one can refuse to-pay it.
- (2) Proceeds from taxes are used for common benefits or general purposes of the State. In other words, there is no direct quid pro quo involved in the payment of a tax.

This implies that an individual cannot expect or demand that the Government should render him a specific service in return for the tax paid by him. However, this does not imply that Government does nothing for the people from whom it receives taxes.

In fact, Government spends the tax money for the general or common benefits of all the people rather than conferring any special benefit on a particular tax payer. To quote Taussig, “The essence of a tax, as distinguished from the other charges by Government is the absence of any direct quid pro quo between the tax payer and the public authority.”

Tax should be carefully distinguished from a fee. Fee is also compulsory payment made by a person who receives in return a particular benefit or service from the Government. For paying fee on a television or radio, a person gets the benefits of programmes relayed by the Government on television or radio. Likewise, students who pay the education fee in schools and colleges, obtain the benefits of teaching arranged by the Government.

The amount of fee is always less than the cost of service rendered by the Government in return and therefore covers only a part of the cost of service rendered. Thus, even in case of fee, there is a general public interest or common benefit of the service rendered by the Government. In this case, the Government undertakes a service for the common benefits of

the citizens and obtains a fee from those who avail of that service to cover a part of the cost of service rendered.

### **Classification of Taxes:**

The taxes have been variously classified. Taxes can be direct or indirect, they can be progressive, proportional or regressive, and indirect taxes can be specific or ad-valorem. We spell out below the meanings of these different types of taxes.

### **Direct and Indirect Taxes:**

The distinction between direct and indirect taxes is based on whether or not the burden of a tax can be shifted wholly or partly to others. If a tax is such that its burden cannot be shifted to others and the person who pays it to the Government has also to bear it, it is called a direct tax. Income tax, annual wealth tax, capital gains tax are examples of direct taxes. In case of a direct tax there is a direct contact between the tax payer and tax levying public authority.

On the other hand, indirect taxes are those whose burden can be shifted to others so that those who pay these taxes to the Government do not bear the whole burden but pass it on wholly or partly to others. For instance, excise duty on the production of sugar is an indirect tax because the manufactures of sugar include the excise duty in the price and pass it on to buyers. Ultimately, it is the consumers on whom the incidence of excise duty on sugar falls as they will pay higher price for sugar than before the imposition of the tax.

Thus, though excise duties are on the production of commodities but they can be shifted to the consumers. Likewise, sales tax on commodities can also be passed on to buyers or consumers in the form of higher prices charged for the commodities.

Therefore, excise duties and sales taxes on commodities are examples of indirect taxes. They are also known as commodity taxes. In the case of indirect taxes, there is an indirect relation, between the Government and those who ultimately bear the burden of the taxes.

### **Specific and Ad-Valorem Taxes:**

Indirect taxes can be either specific or ad-valorem. A specific tax on a commodity is a tax per unit of the commodity, whatever its price. Thus the amount of total specific tax will vary in accordance with the changes in total output or sales of the commodity and not with the total value of output or sales.

On the other hand, an ad-valorem type of an indirect tax is levied according to the value of the commodity. For instance, sales tax in India is an ad-valorem tax as the rate of sales tax in case of several commodities is 10 per cent of the value of sales of the commodities. Ad-valorem taxes are progressive in their burden on consumers whereas specific taxes are regressive.

### **Progressive, Proportional and Regressive Taxes:**

According to another classification, taxes can be progressive, proportional or regressive. In case of proportional tax, the same rate of the tax is charged, whatever be the magnitude of the base on which it is levied. For instance, if rate of income tax is 25 per cent whatever the size of income of a person, it will then be a proportional income tax. Likewise, if rate of wealth tax is 5 per cent, it will be proportional wealth tax.

Thus, in case of proportional tax it is the rate which is fixed and not the absolute amount of the tax. Thus with the rate of 25 per cent proportional income tax, a person with income of Rs. 25,000 will pay Rs. 6,250 as the tax, and a person with income of 50,000 will pay Rs. 12,500 as the tax. Thus, even under proportional income tax, a richer person has to pay greater amount of tax though rate of the tax is the same.

On the other hand, in case of a progressive tax, rate of the tax increases as the amount of the tax base (income, wealth or any other object) increases. The principle underlying a progressive tax is that greater the tax base, the higher the tax rate. In India income tax, an important direct tax levied by the Central Government, is progressive.

Its rate at present (1998-99) varies from 10 per cent in the slab of Rs. 40,000 to 60,000 to 30 per cent in the slab of income above Rs. 1,50,000. Under progressive income tax, the richer person pays not only absolutely more tax but also a higher rate of the tax. Thus, the burden of progressive tax falls more heavily on the richer persons as compared to proportional income tax.

A regressive tax is the opposite of a progressive tax. In case of a regressive income tax, the rate is lowered as the income rises. Thus, under regressive tax system, the burden of the tax is relatively more on the poor than on the rich. A regressive tax is therefore inequitable and no civilised Government in the world today will levy such a tax.

### **History & Evolution of Income Tax Act in India**

In India, the system of direct taxation as it is known today has been in force in one form or another even from ancient times. In this article, we are discussing how the Income Tax evolved over the time in India. 1860- The Tax was introduced for the first time by Sir James Wilson. India's First "Union Budget" Introduced by Pre-independence finance minister, James Wilson on 7 April, 1860. The Indian Income Tax Act of 1860 was enforced to meet the losses sustained by the government on account of the military mutiny of 1857.

Income was divided into four schedules taxed separately:

- (1) Income from landed property;
- (2) Income from professions and trades;
- (3) Income from Securities;
- (4) Income from Salaries and pensions.

Time to time this act was replaced by several license taxes. 1886- Separate Income tax act was passed. This act remained in force up to, with various amendments from time to time. Under the Indian Income Tax Act of 1886, income was divided into four schedules taxed separately:

- (1) Salaries, pensions or gratuities;
- (2) Net profits of companies;
- (3) Interests on the securities of the Government of India;
- (4) Other sources of income. 1918- A new income tax was passed.

The Indian Income Tax Act of 1918 repealed the Indian Income Tax Act of 1886 and introduced several important changes. 1922- Again it was replaced by another new act which was passed in 1922. The organizational history of the Income-tax Department starts in the year 1922. The Income-tax Act, 1922, gave, for the first time, a specific nomenclature to various Income-tax authorities. The Income Tax Act of 1922 remained in force until the year 1961. The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The Government of India therefore referred it to the law commission in 1956 with a view to simplify and prevent the evasion of tax.

1961– In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India (including Jammu and Kashmir). Since 1962 several amendments of far-reaching nature have been made in the Income Tax Act by the Union Budget every year which also contains Finance Bill. After it is passed by both the houses of Parliament and receives the assent of the President of India, it becomes the Finance act.

At present, there are five heads of Income:

- (1) Income from Salary;
- (2) Income from House Property;
- (3) Income from Profits and Gains of Business or Profession;
- (4) Income from Capital Gains;
- (5) Income from Other Sources.

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## 1.2 LEGAL FRAME WORK

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### Significance of Taxation

Taxes are used to pay for the public goods and services , that used by individuals in their daily life.

Taxes are used to provide basic facilities like primary education , affordable housing and subsidies

Taxation plays a significant role to built the economy without taxation it is not possible to run the country.

### Constitutional Provisions relating to tax

Constitutional provisions of taxation are referred under article 265 to article 289.

#### Article 265

No tax shall be levied or collected except by the authority of law, levy of taxes must be within the legislative power.

No presumption in levy of tax , for levy of tax fiscal statute must be read as whole.

#### Article 266

This article talks about consolidated funds and Public accounts of India and the states. Consolidated funds are those funds in which all the reciepts of government of India are credited like tax, loans taken , treasury bills , etc.

All expenditure of government of India is done from consolidated fund of India from which money is appropriated after the permission of parliament.

#### Public account funds

Funds which are not credited in consolidated funds are credited to public account funds.

This includes remmmittances , provident fund desoposits and so on. This account can be made without parliamentary authorisation , such payments are of executive in nature such as banking transaction.

#### Article 267

Contingency funds are maintained by president and held by finance secretary on behalf of president. Such funds are used at the time of emergency such as natural calamities and crises like floods, tsunamis and earthquake.

#### Article 268

Under this article it is explained that the duties levied by the Union but they are collected and appropriated by the states. For eg. Stamp duties, excise duties on medical and toilet preparations.

The proceeds in any financial year of any such duty leviable within any state shall not form part of the consolidated fund in India, but shall be assigned to that state.

Article 269

Taxes levied and collected by central government but assigned to the states.

According to clause (2) these taxes are namely:

Duties in respect of succession to property other than agriculture land

Estate duty in respect of property other than agricultural land.

Terminal taxes on goods or persons carried by railway , port or airlines.

Taxes on railway fares and freights.

Taxes other than stamp duties on transactions in stock exchanges and future markets.

Taxes on the sale or purchase of newspaper and on advertisements published therein.

Taxes on the sale or purchase of goods other than newspaper where such sale or purchase takes place in the course of interstate trade or commerce.

Taxes on consignment of goods.

Article 269(A)

101st amendment act in 2016

Levied and collection of goods and services tax in course of interstate trade or commerce

Goods and services tax is collected and levied by central government of India.

It is not the part of consolidated fund rather it is divided into union and state on the basis of the law made by parliament on the recommendation of GST Council.

Article 270

This article talks about those taxes which are levied and distributed between union and state except A- 268, 269 and 269 A.,

Surcharge on taxes and duties in article 271 and cess levied for specified purpose under any law made by parliament, these all are not part of CFI and they are divided on the basis of finance commission on recommendation of president.

Cess and Surcharge

Cess is a tax on tax. It is described under article 270 of constitution of India it is also called subtax. Cess is for a specific purpose and the amount of cess goes to consolidated fund of India.

For eg; Educational cess and Swachh Bharat cess etc.

Surcharge is also tax on tax , it is levied on specific limit usually higher income groups. Amount of surcharge is also going to CFI; surcharge is not levied for specific purpose but it is levied on specified people mainly higher income groups.

Article 273

Grants in lieu of export duty on jute and jute products in states Assam, Bihar, Orissa, and West bengal and this grant shall be charged on the consolidated fund of India (CFI)

Article 274

Talks about the taxes in which states are interested such as agricultural income, for that prior recommendation of president is required to bills affecting taxation in which states are interested.

Article 275

Talks about that grants from Union to State for schemes and developments , welfare of SC and ST and thirdly that administration development of autonomous district of Assam.

Article 276

The sixtieth amendment act of constitution of India amended article 276.

The article talks about that the extra taxes are levied on profession, trades and callings and employements and the limit of these taxes are Rs.2500.

Article 277

Talks about that any taxes, duties , cesses or fees immediately before the commencement of the constitution, were being lawfully levied by the government of any state or any municipality or any other local authority may notwithstanding that those taxes, duties and cesses or fees are mentioned in the Union list continue to be levied by the same purpose until the provision to the contrary has been made by Parliament by law.

Article 279

Talks about calculation of net proceeds and its partition here net proceeds are actual amount after deducting the cost incurred from the collection of Tax. And this amount apportioned between union and state.

Article 279A

The article defines GST council clause 1 of the article says that when the 101 amendment passes president constitutes a council namely GST council.

The chairperson of that council will be the union finance minister and the union ministers of state in charge of revenue of finance is the member, the minister in charge of finance or taxation or any other minister nominated by each state governments are the members.

The council can give the recommendation on cess, tax , surcharge levied by the union and state and other local bodies, the goods and services that may be exempted from the GST.

GST laws and on what basis it is decided and appointment principles and threshold limit of turnover, base rate, special rate for the special purposes like for natural calamity or special provisions on respect of hilly areas or northeast states. ( Arunachal Pradesh, Mizoram, Kashmir, Manipur, Meghalaya, Nagaland ,Uttarakhand and Himachal Pradesh)

GST council shall recommend the date on which the goods and services tax shall be levied on petroleum , crude oil, high speed diesel, natural gas, aviation turbine fuel.

#### Article 282

The Union or a state may make any grants for any public purpose , notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the state, as the case may be, may make laws.

#### Article 286

State cannot authorize the imposition of tax on supply of goods and services, where such supply takes place outside the state or where the export of the goods and services takes place out of territory of India.

Parliament by law formulate principles for determining when a supply of goods and services takes place in any way mentioned in clause (1)

#### Article 289

This article talks about exemption of property and income of state from union taxation.

The property and income of state are exempted from union taxation.

Nothing in Clause (1) shall prevent the Union from imposing or authorizing the imposition of, any tax to such extent, if any, as Parliament made by law provide in respect of a trade or business of any kind carried on by or on behalf of the government of a state, or any operations connected therewith, or any property used or occupied for the purpose of such trade or business or any income accruing or arising in connection therewith.

#### Seventh schedule to constitution

Seventh schedule deals with division of subjects for powers and responsibilities in Union, State and Concurrent list.



Seventh schedule has three types of list

Union list [Article 246 (1)]

Under this list Parliament authorised to make laws as per list 1 of seventh schedule

State list [ Article 246(3)]

Under this list state is authorised to make laws as per the list two of 7th schedule.

Concurrent list

Under this list both Union and State are authorised to make law.

Distribution of Taxation Power

Central government, State government, local government get power to impose tax from Indian Constitution.

Article 245 and Article 246 deals with distribution of Taxation power.

Article 245 of constitution is extent of law made by parliament and by legislature of state, both the government have right to make laws. These are provided by constitution itself, these subject matters provided in 7th schedule of Indian constitution.

According to article 245 subject to provision of this constitution, Parliament may make laws for whole or any part of the territory of India and legislature can make law for any part of the State.

Article 246

Article 246 is related to the distribution of subject matters on which central government or state government can make laws. It must be read with the 7th schedule of constitution.

Taxation system in India

Taxes plays contribution in total revenues. The Indian tax system is called three tier federal structure which includes, central government, state government and local municipal body.

Article 256

No one can levy or collect the tax without the permission of law.

Role of centre and state government in Indian Taxation system

Tax on custom duties, income tax service tax, central excise duty is collected by central government.

Income tax on agricultural products, professional tax, VAT, state excise duty, land revenue, stamp duties are collected by state government, octree, property tax, water and drainage are also collected by state government.

Types of taxes

Direct tax

It is paid by the person on whom it is legally imposed, the impact of money burden and incidence are on the same person, direct tax cannot be shifted to another person. For eg; Income tax, wealth tax, house tax, salaries, capital gains.

Indirect taxes

it is imposed on one person, but paid partly or wholly by another person.

The impact and the incidence of tax are on different person, indirect taxes can be shifted or passed on to another person eg GST, excise duty

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### 1.3 CANNONS OF TAXATION

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Meaning of Canons of Taxation:

By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact, canons of taxation are related to the administrative part of a tax. Adam Smith first devised the principles or canons of taxation in 1776.

Even in the 21st century, Smithies canons of taxation are applied by the modern governments while imposing and collecting taxes.

Types of Canons of Taxation:

**In this sense, his canons of taxation are, indeed, 'classic'. His four canons of taxation are:**

- (I) Canon of equality or equity
- (ii) Canon of certainty
- (iii) Canon of economy
- (iv) Canon of convenience.

Modern economists have added more in the list of canons of taxation.

**These are:**

- (v) Canon of productivity
- (vi) Canon of elasticity
- (vii) Canon of simplicity
- (viii) Canon of diversity.

**Now we explain all these canons of taxation:**

**I. Canon of Equality:**

Canon of equality states that the burden of taxation must be distributed equally or equitably among the taxpayers. However, this sort of equality robs of justice because not all taxpayers have the same ability to pay taxes. Rich people are capable of paying more taxes than poor people. Thus, justice demands that a person having greater ability to pay must pay large taxes.

If everyone is asked to pay taxes according to his ability, then sacrifices of all taxpayers become equal. This is the essence of canon of equality (of sacrifice). To establish equality in sacrifice, taxes are to be imposed in accordance with the principle of ability to pay. In view of this, canon of equality and canon of ability are the two sides of the same coin.

#### **ii. Canon of Certainty:**

The tax which an individual has to pay should be certain and not arbitrary. According to A. Smith, the time of payment, the manner of payment, the quantity to be paid, i.e., tax liability, ought all to be clear and plain to the contributor and to everyone. Thus, canon of certainty embraces a lot of things. It must be certain to the taxpayer as well as to the tax-levying authority.

Not only taxpayers should know when, where and how much taxes are to be paid. In other words, the certainty of liability must be known beforehand. Similarly, there must also be certainty of revenue that the government intends to collect over the given time period. Any amount of uncertainty in these respects may invite a lot of trouble.

#### **iii. Canon of Economy:**

This canon implies that the cost of collecting a tax should be as minimum as possible. Any tax that involves high administrative cost and unusual delay in assessment and high collection of taxes should be avoided altogether.

**According to A. Smith: “Every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State.”**

#### **iv. Canon of Convenience:**

Taxes should be levied and collected in such a manner that it provides the greatest convenience not only to the taxpayer but also to the government.

Thus, it should be painless and trouble-free as far as practicable. **“Every tax”**, stresses A. Smith: “ought to be levied at time or the manner in which it is most likely to be convenient for the contributor to pay it.” That is why, after the harvest, agricultural income tax is collected. Salaried people are taxed at source at the time of receiving salaries.

These canons of taxation are observed, of course, not always faithfully, by modern governments. Hence these are basic and classic canons of taxation.

**We now present other canons of taxation:**

**I. Canon of Productivity:**

According to a well-known classical economist in the field of public finance, Charles F. Bedtable, taxes must be productive or cost-effective. This implies that the revenue yield from any tax must be a sizable one. Further, this canon states that only those taxes should be imposed that do not hamper productive effort of the community. A tax is said to be a productive one only when it acts as an incentive to production.

**ii. Canon of Elasticity:**

Modern economists attach great importance to the canon of elasticity. This canon implies that a tax should be flexible or elastic in yield.

It should be levied in such a way that the rate of taxes can be changed according to exigencies of the situation. Whenever the government needs money, it must be able to extract as much income as possible without generating any harmful consequences through raising tax rates. Income tax satisfies this canon.

**iii. Canon of Simplicity:**

Every tax must be simple and intelligible to the people so that the taxpayer is able to calculate it without taking the help of tax consultants. A complex as well as a complicated tax is bound to yield undesirable side-effects. It may encourage taxpayers to evade taxes if the tax system is found to be complicated.

A complicated tax system is expensive in the sense that even the most honest educated taxpayers will have to seek advice of the tax consultants. Ultimately, such a tax system has the potentiality of breeding corruption in the society.

**iv. Canon of Diversity:**

Taxation must be dynamic. This means that a country's tax structure ought to be dynamic or diverse in nature rather than having a single or two taxes. Diversification in a tax structure will demand involvement of the majority of the sectors of the population.

If a single tax system is introduced, only a particular sector will be asked to pay to the national exchequer leaving a large number of population untouched. Obviously, incidence of such a tax system will be greatest on certain taxpayers. A dynamic or a diversified tax structure will result in the allocation of burden of taxes among the vast population resulting in a low degree of incidence of a tax in the aggregate.

The above canons of taxation are considered to be essential requirements of a good tax policy. Unfortunately, such an ideal tax system is rarely observed in the real world. But a tax authority must go on maintaining relentlessly the above canons of taxation so that a near-ideal tax structure can be built-up.

### **Characteristics of Canons of Taxation:**

**A good (may be a near-ideal) tax system has to fulfil the following characteristics:**

I. The distribution of tax burden should be equitable such that every person is made to pay his ‘fair share’.

**This is known as the ‘fairness’ criterion which focuses on two principles:**

Horizontal equity— equals should pay equal taxes; and vertical equity—un-equals should pay unequal taxes. That is to say, rich people should pay more taxes.

ii. But equity must not hamper productive efficiency such that burdens should be provided to correct inefficiencies. This ‘**efficiency**’ criterion says that it should raise revenue with the least costs to the taxpayers so that tax system can allocate resources without distortion.

iii. The two other criteria are: ‘flexibility’ and ‘transparency’.

A good tax system demands changes in tax rates whenever circumstances change the system. Further, a good tax must be transparent in the sense that taxpayers should know what they are paying for the services they are getting.

iv. A good tax system is expected to facilitate the use of fiscal policy to achieve the goals of

(a) stability

(b) economic growth.

For the attainment of these goals, there must be built-in-flexibility in the tax structure.

**From the above discussion, it follows that taxation serves the following purposes:**

(I) To raise revenue for the government

(ii) To redistribute income and wealth from the rich to the poor people

(iii) To protect domestic industries from foreign competition

(iv) To promote social welfare.

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## 1.4 DIFFERENT TERMS

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According to Adam Smith, there are four canons or maxims of taxation on the administrative side of public finance which are still recognised as classic.

**To him a good tax is one which contains:**

1. Canon of equality or equity.
2. Canon of certainty.
3. Canon of economy.
4. Canon of convenience.

**To these four canons, economists like Bastable have added a few more which are as under:**

5. Canon of elasticity.
6. Canon of productivity.
7. Canon of simplicity.
8. Canon of diversity.
- . Canon of expediency

Chart I represents the different canons of taxation.

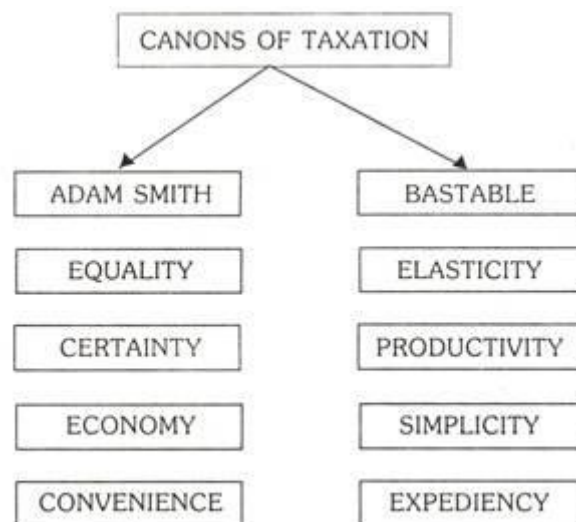


Chart I

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## 1.5 MEANING AND DEFINITION

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**Canon of Equality:**

Every fiscal economist, along with Adam Smith, stresses that taxation must ensure justice. The canon of equality or equity implies that the burden of taxation must be distributed equally or equitably in relation to the ability of the tax payers.

Equity or social justice demands that the rich people should bear a heavier burden of tax and the poor a lesser burden. Hence, a tax system should contain progressive tax rates based on the tax-payer's ability to pay and sacrifice.

### **Canon of Certainty:**

Taxation must have an element of certainty. According to Adam Smith, "the tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the amount to be paid ought to be clear and plain to the contributor and to every other person."

### **The certainty aspects of taxation are:**

1. Certainty of effective incidence i.e., who shall bear the tax burden.
2. Certainty of liability as to how much shall be the tax amount payable in a particular period. This the tax payers as well as the exchequer should unambiguously know.
3. Certainty of revenue i.e., the government should be certain about the estimated collection of revenue from a given tax levied.

### **Canon of Economy:**

This principle suggests that the cost of collecting a tax should not be exorbitant but be the minimum. Extravagant tax collection machinery is not justified. According to Adam Smith, "Every tax has to be contrived as both to take and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."

Owing to the complex and ever-changing nature of taxation laws in India, government has to maintain elaborate tax collection machinery with a large staff of highly trained personnel involving high administrative costs and inordinate delay in assessment and collection of tax.

### **Canon of Convenience:**

According to this canon, tax should be collected in a convenient manner from the tax payers. Adam Smith stresses: "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it." For example, it is convenient to pay a tax when it is deducted at source from the salaried classes at the time of paying salaries.

### **Canon of Elasticity:**

Taxation should be elastic in nature in the sense that more revenue is automatically fetched when income of the people rises. This means that taxation must have built-in flexibility.

**Canon of Productivity:**

This implies that a tax must yield sufficient revenue and not adversely affect production in the economy.

**Canon of Simplicity:**

This norm suggests that tax rates and tax systems ought to be simple and comprehensible and not to be complex and beyond the understanding of the layman. This is what is rarely found in the Indian tax structure.

**Canon of Diversity:**

Canon of diversity implies that there should be a multiple tax system of diverse nature rather than having a single tax system. In the former case, the tax payer will not be burdened with a high incidence of tax in the aggregate.

**Canon of Expediency:**

This suggests that a tax should be determined on the ground of its economic, social and political expediency. For instance, a tax on agricultural income lacks social, political or administrative expediency in India and that is why the government of India had to discontinue it.

**Equity in Taxation:**

Equity in taxation refers to fairness or justice in the distribution of the tax burden. Since taxation implies a burden or sacrifice on the part of the tax payer, modern economists put great emphasis on justice in taxation and state that taxation should be based on the principle of equity so that direct money burden as well as real burden should be distributed in a just manner.

**The concept of equity has two notions:**

(I) Horizontal equity and

(ii) Vertical equity.

Horizontal equity suggests that in the matter of taxation, equal treatment should be meted out to people in equal economic circumstances, which means that they should pay equal amount of taxes. Vertical equity means that unequally placed persons should be treated unequally, thus, economically better placed people should pay more taxes than others.

However, any attempt to achieve vertical and horizontal equity simultaneously is not at all an easy task and can lead to ludicrous results.



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## 1.6 FINANCE BILL

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The Finance Bill is a part of Budget of India, which specify all legal amendments required for the changes in taxation proposed by the Finance Minister. The lower house of the Parliament Look Sabha needs to be pass Finance Bill, as a Money Bill. After Look Sabha's approval Bill becomes Finance Act.

### **What is a Finance Bill?**

Finance Bill is a Money Bill, the government seeks to levy new taxes, make alterations in the current tax structure, or make proposals for the continuance of the present tax structure for a certain period beyond what was originally approved by the Parliament. The Parliament approves this bill for one fiscal year.

Post getting approved, the Finance Bill becomes the Finance Act.

### **Features of the Finance Bill**

- Finance Bills are divided into three classes - Finance Bill Category I, Finance Bill Category II, and the Money Bill.
- Money Bills contain provisions related to regulation or borrowing, amendments to tax laws at the Union or the state level, withdrawal of money from a contingency or consolidated fund, etc.
- Finance Bills, of both categories, contain provisions related to expenditure, taxation, or any other matter.
- A Money Bill will always be a Finance Bill. However, a Finance Bill need not necessarily be a Money Bill.
- The Finance Bill can only be introduced in the lower chamber of the Parliament or the Look Sabha.
- The Rajya Sabha can make recommendations to the bill. The bill will have to be returned by the Rajya Sabha within 14 days of receiving it, else it will be deemed as passed.
- If the bill is returned without any recommendations to the Look Sabha, the same will be presented to the President for his/her approval.
- Even if the bill is returned with recommendations, the Look Sabha has the power to accept or reject all of these recommendations. The Look Sabha will have to inform the Rajya Sabha about the status of the recommendations.
- Whether the Look Sabha accepts all the recommendations or not, the bill will be

deemed to have been passed by both the Houses.

- For all other bills, the final passing of the said bill will happen at the Rajya Sabha. However, for Money Bills, the final passing will happen at the Lok Sabha. This will then be sent to the President of India for his/her assent.
- The President cannot return a Money Bill with recommendations to the Lok Sabha, for any purpose.

### **Changes in the Tax Structure**

- A new tax regime was introduced by the Government which an individual could choose to pay tax at lower rates. However, very few deductions and exemptions were available. You have had to choose either the old tax regime or the new tax regime. You can change your regime every year if you are a salaried individual, but the same is not applicable if you own a business.
- Earlier, if you failed to file your income tax returns by 31 July, you could complete it within 31 March of the next year including any correction required. However, the new rule states that in case you miss the filing of your income tax returns by the due date, then the last date is 31 December of the same financial year.
- Until 31 March 2020, dividends received from Indian Companies as well as mutual fund schemes were exempted from being taxed. However, the new changes in tax structure completely remove the exemption on your dividend income and make it taxable. If the dividend income exceeds Rs. 5,000 then it will be taxable.
- The interest received on your provident fund account with respect to your own contribution was completely exempted from being taxed even for contributions made beyond the 12% of your basic salary. However, the change in tax structure means that you can no longer enjoy this exemption for the annual contributions made beyond Rs.2.50 lakhs every year after 1st April 2021.
- The 2021 Union Budget proposed to remove the exemption on any maturity proceeds received from any life insurance product including a ULIP (Unit Linked Insurance Plans).

### **Proposals made in the Finance Bill Union Budget 2021**

The Union Budget 2021 has been presented by Mrs. Nirmala Sitharaman, Minister of Finance, to the Parliament on 1 February 2021. Various amendments

were made under the Finance Bill 2021 by Mrs. Sitharaman. Some of the amendments under Finance Bill are mentioned below:

- Under Sections 10(11) and 10(12), the threshold for contributions made to the provident fund was increased from Rs.0.25m to Rs,0.5m, in case of the event of no contribution made by the employer to the fund. The amendment also appears to provide benefits to government employees in the event of no contribution from the government to the provident fund.
- Under Section 10(4D), the investment branch of the OBU under IFSC will now need to register as s a Category-I Foreign Portfolio Investor (FPI) in order to qualify as a specific fund.
- The Finance Minister during the Union Budget speech had proposed setting up of Developmental Financial Institutions (DFIs) to aid in the long-term debt financing of the infrastructure sector. Hence, a new provision has been inserted where any interest accruing or income arising to a DFI be exempted from being taxed. A similar provision has been inserted for any income arising or interest accruing to an institution set up under an Act of the Parliament for financing infrastructure and development for ten consecutive financial years.
- Under the Finance Bill, a new provision has been inserted where a transfer of an asset by a public sector company (PSC) to another PSC, or Central Government, or State Government, or by India Infrastructure Finance Company Limited to an institution set up under an Act of the Parliament for financing infrastructure and development, to exempt the capital gains from being taxed.
- Under Section 112A, ULIPs will be considered an 'equity-oriented fund' provided the investment criteria of 90% or 65% are fulfilled throughout the insurance policy term.
- There are various amendments made to the Finance Bill and were passed by both the houses, the details of which you will be able to find on the Government's official website.

The Union Budget of India, which is also known as the Annual Financial Statement, is a financial declaration made by the Government of India that lists out the estimated expenditures and receipts of the government for a particular financial year. As per Article 110 (a) under the Constitution of India, a finance bill is to be mandatorily presented with the budget.

## 1.7 SCHEME OF INCOME TAX

Income Tax Slab	New Regime Income Tax Slab Rates FY 2021-22 (Applicable for All Individuals & HUF)
Rs 0.0 – Rs 2.5 lakh	NIL
Rs 2.5 lakh – Rs 3.00 lakh	5% (tax rebate u/s 87a is available)
Rs 3.00 lakh – Rs 5.00 lakh	
Rs 5.00 lakh- Rs 7.5 lakh	10%
Rs 7.5 lakh – Rs 10.00 lakh	15%
Rs 10.00 lakhs – Rs 12.50 lakh	20%
Rs 12.5 lakhs – Rs 15.00 lakh	25%
> Rs 15 lakh	30%

Difference of tax slab rates between New tax regime vs Old Tax regime

### NOTE:

- Please note that the tax rates in the New tax regime is the same for all categories of Individuals, i.e. Individuals & HUF up to 60 years of age, Senior citizens above 60 years up to 80 years, and Super senior citizens above 80 years. Hence no increased basic exemption limit benefit will be available to senior and super senior citizens in the New Tax regime.
- Individuals with Net taxable income less than or equal to Rs 5 lakh will be eligible for tax rebate u/s 87A i.e. tax liability will be nil of such individual in both – New and old/existing tax regimes.
- Basic exemption limit for NRIs is of Rs 2.5 Lakh irrespective of age.
- Additional Health and Education cess at the rate of 4 % will be added to the income tax liability in all cases. (increased from 3% since FY 18-19)
- Surcharge applicable as per tax rates below in all categories mentioned above:
  1. 10% of Income tax if total income > Rs.50 lakh
  2. 15% of Income tax if total income > Rs.1 crore

3. 25% of Income tax if total income > Rs.2 crore
4. 37% of Income tax if total income > Rs.5 crore

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## 1.8 OVERVIEW OF DIRECT TAXES

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Direct taxes are levied on individuals and companies by the country's supreme tax body. Direct taxes are directly paid by those on whom it is imposed. For instance, taxpayers directly pay income tax, property tax, tax on assets and gifts to the government.

### **What is Direct Taxes?**

Direct taxes are imposed on the basis of individuals ability to pay principle, which says that those individuals or entities having access to more resources and earning a higher income need to pay higher taxes. The direct rules are framed such that taxes turn out to be a method to redistribute money in the country.

Direct taxes are transferable to another person or organisation. The companies and individuals on whom the direct taxes are applied are solely responsible for paying the taxes. Failure to pay taxes on time may result in fines and imprisonments.

Direct tax system, based on the brackets system, may turn out to be discouraging as it imposes higher taxes on those working hard to earn a higher income. Hence, people, with the view of needing to pay higher taxes, may settle and cap their productivity to reduce their outgo.

Indirect taxes are another form of taxes that are indirectly imposed on individuals when they make transactions on goods and services. Indirect taxes are collected from retail and wholesale dealers on a periodic basis.

### **Who is eligible to pay?**

- Income tax can be filed by filling applicable forms. Salaried individuals earning less than Rs 50 lakh a year through income from salary, residential property, other sources, and agriculture, should file their taxes by filing ITR-1 form.
- Individuals and Huffs with no income from gains and profits of profession and business must file their taxes by filing ITR-2 form.
- Individuals and HUFs with income from gains and profits of profession and business should file their taxes by filing ITR-3 form.
- Individuals, HUFs, firms (excluding LLP) having an overall income of less than Rs 50 lakh with income from profession and business computed as per Sections 44AD,

44ADA, and 44AE, should file their taxes by filing ITR-4.

- For entities and persons other than companies, individuals, and HUFs should file their taxes by filing ITR-5.
- Those companies that are not claiming exemptions under Section 11 should file their taxes by filing ITR-6.
- For individuals including firms needed to furnish their return under Section 139(4A) or 139(4B) or 139(4D) should file their taxes by filing ITR-7
- For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) only

### **A detailed breakdown of the procedure for filing the tax**

In India, possessing PAN card and Adjara card is mandatory to file income taxes. PAN (permanent account number) card is issued by the Income Tax Department while Adjara card is issued by the Unique Identification Authority of India (UIDAI).

Income tax can be filed by individuals when the window is open. If they fail to file within the deadline, they may file their taxes along with the penalty. Not filing income taxes may result in imprisonment and penalties. Corporate taxes are paid by companies and property taxes are paid by the property owners.

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## **1.9 DEFINITIONS AND BASIC CONCEPTS OF INCOME TAX**

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The term “income tax” refers to a type of tax that governments impose on income generated by businesses and individuals within their jurisdiction. By law, taxpayers must file an income tax return annually to determine their tax obligations.

Income taxes are a source of revenue for governments. They are used to fund public services, pay government obligations, and provide goods for citizens. In addition to the federal government, many states and local jurisdictions also require that income tax be paid.

Certain investments, like housing authority bonds, tend to be exempt from income taxes.

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## **1.10 ASSESSEE**

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Any person whose interest is being talked about is referred as assessee in simple words, if you are filing a return of any person, then that person will be called assessed by the Income Tax Department, not you.

**The various situations when you will be termed as “Assesse” by the Income Tax Department are -**

- You have tax, interest or penalty payable to the IT department.
- Any proceeding has been done or initiated by the department against your income or refund or loss or in respect of any person for whom you are assessable.
- You are a deemed assessee under IT Act.
- You are at default under any of the sections of the IT Act. For instance, you have not deposited TDS deducted of any person with the government.
- You are entitled to tax refund, if any.

**Types of Assesse:**

**Different types of assessee as per income tax act 1961 are: -**

- Individual - Ayahs, Taren
- Partnership Firm - M/s ABC and Company, M/s ABC and associates, ABC LLP
- A Hindu Undivided Family - Mr. A (HUF) or Mr. B (HUF).
- Company - Wining Tax Scope Private Ltd., Wining Tax Scope Ltd.
- An Association of persons or a body of Individuals - ABC Sangha or XYZ Dal
- A Local Authority - JDA or PCMC Municipal Corporation.
- Artificial Juridical person not covered under any of the above categories. (Residual Category).

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## **1.11 DEEMED ASSESSEE**

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An individual might be assigned the responsibility of paying taxes by the legal authorities and such individuals are called **deemed assesses**. Deemed assesses can be:

- The eldest son or a legal heir of a deceased person who has expired without writing a will.
- The executor or a legal heir of the property of a deceased person who has passed on his property to the executor in a writing.
- The guardian of a lunatic, an idiot, or a minor.
- The agent of a non-resident Indian receiving income from India.

For example, Mr. P owns a commercial building from which he earns rent income. He has prepared and signed a will stating the property should be handed over to his niece after his

death. Upon his death, his niece will be considered as the executor of the property, i.e. deemed assessee. She will be responsible for paying tax on the rental income thereon.

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## **1.12 ASSESSEE-IN-DEFAULT**

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Assessee-in-default is a person who has failed to fulfill his statutory obligations as per the income tax act such as not paying taxes to the government or not file his income tax return. For example, an employer is supposed to deduct taxes from the salary of his employees before disbursing the salary. He is, then, required to pay the deducted taxes to the government by the specified due date. If the employer fails to deposit the tax deducted, he will be considered as an assessed-in-default.

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## **1.13 ASSESSMENT YEAR**

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Assessment year means the year (from 1st April to 31st March) in which income earned by you in a particular financial year is taxed. You are required to file your income tax return in the relevant assessment year. Assessment year is the year just succeeding the Financial Year. For e.g.

- Income earned in the current Financial Year 2020-21 (i.e. from 1st April 2020 to 31st March 2021) will become taxable in Assessment Year 2021-22 (i.e. from 1st April 2021 to 31st March 2022).
- Income earned in Financial Year 2019-20 (i.e. from 1st April 2019 to 31st March 2020) will become taxable in Assessment Year 2020-21 (i.e. from 1st April 2020 to 31st March 2021).

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## **1.14 PREVIOUS YEAR**

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For the purpose of income tax or income tax return, terms financial year and previous year are used interchangeably. So, the financial year (FY) 2020-21 can also be termed as the preceding (previous) year (PY) 2020-21 & the income of such year will become taxable in assessment year (AY) 2021-22.



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## **1.15 PERSON**

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Normally a 'Person' refers to an 'Individual', however under Income Tax, the person has broader meaning and coverage. For the purpose of charging Income-tax, the term 'person' has been defined under Section 2(31) of the Income Tax Act, 1961 to include Individual, Hindu Undivided Families [HUFs], Association of Persons [AOPs], Body of individuals [BOIs], Firms, LLPs, Companies, Local authority and any artificial juridical person.

The term 'person' as defined under the Income-tax Act covers in its ambit natural as well as artificial persons, i.e. apart from a natural person/ individual, any sort of artificial entity will also be liable to pay Income-tax.

It may be noted that "assesse" under the Income Tax Act, 1961 is a person by whom any tax/ other dues are payable under that Act, i.e. income-tax is to be paid by a 'person'. Therefore, deciding the status of 'person' under the Income Tax Act is all the more important, as there are different set of tax rules/ rates which are applicable to different type of persons.

As per Section 2(31) of Income Tax Act, 1961, unless the context otherwise requires, the term "person" includes:

- (I) an individual,
- (ii) a Hindu undivided family,
- (iii) a company,
- (iv) a firm,
- (v) an association of persons or a body of individuals, whether incorporated or not,
- (vi) a local authority, and
- (vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

Explanation: For the purposes of this clause, an association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not such person or body or authority or juridical person was formed or established or incorporated with the object of deriving income, profits or gains.

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## **1.16 INCOME**

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The word Income has a very broad meaning. It generally means a monetary return whether received in cash or kind. The income tax department does not make any distinction between temporary and permanent income. The temporary income or one-time income is taxable.

For instance, if you are salaried person, then all that is received from an employer whether in cash, kind or as a facility is considered as income. For a businessman, his business profits will constitute income. Income may also flow from investments in the form of Interest, Dividend, and Commission etc. The Income Tax Act has classified all incomes earned by persons into 5 different heads. These are:

- **1- Income from Salary:** Income can be charged under this head only if there is an employer-employee relationship. Salary includes wages, basic, dearness allowance, annuity, gratuity, advance of salary, allowances, commission, perquisites in lieu of or in addition to salary and retirement benefits. The aggregate of the above incomes, after exemptions available, is known as Gross Salary and this is charged under the head income from salary.
- **2- Income from House property:** Any residential or commercial property that you own will be taxed as per the Income Tax Law. If you have home loan, then interest part of it would also be considered as negative income from House property i.e. tax benefit is there on home loan.
- **3- Income from Business or Profession:** Income earned through your profession or business is charged under the head ‘profits and gains of business or profession.’ Normally, the income chargeable to tax is the difference between the income received and expenses incurred.
- **4- Income from capital gains:** Any profit or gain arising from transfer of capital asset held as investments (such as house, Jewellery) are chargeable to tax under the head capital gains. The gain can be on account of short- and long-term gains. Our article Basics of Capital Gain talks about in detail.
- **5- Income from other sources:** Any income that does not fall under any of the above four heads of income is taxed under the head income from other sources. For egg. Dividend income, interest received from bank deposits etc.

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## 1.17 GROSS TOTAL INCOME

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As the name suggests Gross Total Income is the aggregate of all the income earned by you during a specified period. According to Section 14 of the Income Tax Act 1961, the income of a person or an assessed can be categorised under these five heads,

- Income from Salaries

- Income from House Property
- Profits and Gains of Business and Profession
- Capital Gains
- Income from Other Sources

And, Gross Total income is arrived at when your earnings from all these five heads of income is taken together.

### **Why Gross Total Income (GTI) needs to be calculated?**

The computation of gross total income is vital because

- It is the amount required to be disclosed while filing Income Tax Return
- Deductions under Chapter VI A are required to be deducted from GTI to arrive at the taxable or total income

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## **1.18 TOTAL INCOME**

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Total Income (TI) or Gross Total Income (GTI) are the terms used interchangeably but differ in substance. Where Gross Total Income is calculated by summing up earnings received as per all five heads of income. Total income is arrived at after deducting from Gross Total Income deductions under Section 80C to 80U (namely, Chapter VI A deductions) under the Income Tax Act 1961. Which means GTI is a large component out of which on subtracting certain specified amount we can arrive at the TI.

### **How to Calculate Total Income?**

Total Income can be calculated by-

- Adding up earnings from all five heads of income
- Reducing from it allowable deductions under Section 80C to Section 80U of the Income Tax

The resultant amount is Total Income.

For better understanding, find below the tabular presentation of how to compute total income.

Particulars	Amount		
	Rs	Rs	Rs

<b>1. Income from salaries</b>			
Income from salary	XX		
Income by way of allowances	XX		
Taxable value of perquisites	XX		
Gross salary		XXX	
Less: Deduction under Section 16		XXX	
Entertainment allowance		XXX	
Professional tax		XXX	
<b>INCOME TAXABLE UNDER THE HEAD SALARIES</b>			XXXX
<b>2. Income from House Property</b>			
Adjusted net annual value	XX		
Less: Deduction under section 24	XX		
<b>INCOME TAXABLE UNDER THE HEAD HOUSE PROPERTY</b>			XXXX
<b>3. Income from Business or Profession</b>			
Net profit as per profit and loss account	XX		
Add: Amounts which are debited to P&I a/c but are not allowed as a deduction under the act	XX		
Less: Expenditure which are not debited to P&L a/c but are allowed	XX		

as a deduction under the act		
Less: Income which are credited to P&L a/c but are exempt under section 10	xx	
Add: Income which are not credited to P&L a/c but are taxable under this head	xx	
<b>PROFIT &amp; GAINS TAXABLE UNDER THE HEAD BUSINESS &amp; PROFESSION</b>		XXXX
<b>4. Income from Capital Gains</b>		
Amount of capital gains	xx	
Less: Amount exempt under sections 54, 54B,54D,54EC,54F, 54G, 54GA, 54GB, and 54H	xx	
<b>INCOME TAXABLE UNDER THE HEAD CAPITAL GAINS</b>		XXXX
<b>5. Income from other sources</b>		
Gross income	xx	
Less: Deduction under section 57	xx	
<b>INCOME TAXABLE UNDER THE HEAD OTHER SOURCES</b>		XXXX
Total [i.e., (1) +(2) +(3) +(4) +(5)]	XXX	
Less: Adjustment on account of set-off and carry forward of losses	XXX	
Gross total income	XXXX	

Less: Deductions	XXXX
Total Income or Net income	XXXX

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## 1.19 INCOME TAX GENERAL RULE AND EXEMPTIONS TO THE RULE

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Income tax exemption essentially refers to the ways in which one can end up saving huge chunks of one's savings. The Income Tax Act has put these provisions in place to inculcate a habit of saving amongst taxpayers in India.

### **Income Tax in India**

Income tax is a crucial element of the economy of the nation. Paying the income tax allows one to contribute to the overall well-being of the nation by investing in its infrastructure and the way in which further development can be wrought. Plus, income tax also helps in generating more jobs by providing increased funding to budding industries.

Over the course of time, income tax laws and rules have been changed in order to accommodate more people with a certain income level, while allowing people in lower income groups to be protected from any unwanted financial overheads.

Such basic rules of income tax set the minimum qualifying income level for a person in order to be eligible for paying tax. Apart from that, there might be the need to secure the future of one's immediate family or kin, and that might require extra savings on the part of the individual. This is where tax exemptions actually come in.

### **Exemption Rules and Limits under the Income Tax Act**

Exemptions offered on income tax as per the tax rules are the ways in which one can try to save up more on the earnings made. These provisions are in place to allow people to cultivate a habit of saving, while aiding the financial institutions of India and also making a better financial future for themselves.

According to the Finance Act of 2014, taxable income eligible for complete tax exemption has been increased in its limits, from the earlier INR 200000 to INR 250000. People with an annual income less than or equal to INR 250000 will not be considered for paying income tax. This limit is for normal age citizens. In case of senior citizens, the maximum exempted

income will be INR 300000 annually and for very senior citizens, the exemption can include annual income of up to INR 500000. As of December 2015, the available changes to the partial exemptions mentioned under the Income Tax Act can be listed out as follows –

1. Additional Deduction as per Section 80C, 80CCC, CCD (1) – INR 50000
2. Interest paid on housing loan as per Section 24 INR 200000
3. Income Tax Rebate as per Section 87A – INR 2000 for income up to INR 500000
4. Allowance Exemptions – These exemptions take into account the allowances provided by the employer. These can also include Tour Travel Allowance, Tour Daily Allowance, Academic, Research or Training Allowance, Special Compensatory Allowance, High Altitude Allowance, Climate Allowance, allowances applicable to North East, Hilly areas of U.P., H.P. and J & K, border area allowance, Compensatory Field Area Allowance, Counter Insurgency Allowance, High Active Field Area Allowance, island duty allowance, tribal allowance and others as per Section 10 of the IT Act, but the most prominent ones are as follows
  1. House Rent Allowance
  2. Leave Travel Allowance or Leave Travel Concession
  3. Transport Allowance
  4. Children Education Allowance
  5. Hostel Subsidy

It should be kept in mind that these exemptions are allowed for salaried individuals only. Let's take a look at the above exemptions in a bit more detail before moving on to the Sections of the Income Tax Act that deal with further exemptions.

### **House Rent Allowance**

If rent is actually being paid, the individual can get an exemption as per the House Rent Allowance and that will be the least of the following –

1. Actual House Rent Allowance received
2. Actual Rent paid (minus 10% of salary)
3. 40% of salary (50% in case of Mumbai, Chennai, Kolkata, Delhi)

### **Leave Travel Allowance or Leave Travel Concession**

In case an employee furnishes valid proof in forms of bills that account for expenditure during travel and leave (for official or personal reasons), this allowance can be exempted.

### **Transport Allowance**

Tax exemption on this is allowed up to a maximum of INR 800 per month and the exemption will be valid only for the expenditure done by the employee in commuting from the residence to the place of work.

### **Children Education Allowance**

Allowed for a maximum of two children of the employee, the exemption is INR 100 per child per month.

### **Hostel Subsidy**

Allowed for a maximum of two children of the employee, the exemption is INR 300 per child per month.

### **Interest paid on Housing Loan (or Income/Loss from House Property)**

As per Section 24, the tax exemption for interest paid is already INR 200000. In addition to that, if a house has been procured for the first time and the total cost of property and amount of loan do not exceed INR 4000000 and INR 2500000 respectively, an extra deduction of interest up to another 1 lakh can be availed.

### **Sections of the IT Act for Income Tax Exemption**

Apart from the aforementioned overview of exemptions that hold good for most people, it is crucial to understand what different sections of the IT Act deal with the matter of income tax exemption and how one can effectively utilise them. The various sections and a related description about each of them is mentioned further.

#### **Section 80C:**

The total deduction allowed under this section is INR 150000 (including 80CCC and 80CCD (1)). This section deals with investments, savings and some expenditure that can avail deductions on income tax. Some of those are –

1. Payment of premium towards life insurance
2. Payment of premium or subscription for deferred annuity for self or immediate family
3. Payment of premium (deducted from salary paid to government employee, limited to 20% of salary) or subscription for deferred annuity for self or immediate family
4. Contribution towards Employee's Provident Fund Scheme
5. Contribution towards Public Provident Fund
6. Contribution towards any recognised provident fund
7. Investments done through deposits of 10 years or 15 years with Post Office Savings Bank
8. Investments done as subscription to recognised securities or deposits scheme (e.g. –



National Savings Scheme)

9. Investments done as subscription to any notified savings certificate, Unit Linked Savings Certificate (e.g. – NSC VIII)
10. Investments done as subscription to ULIPs (Unit Linked Insurance Plans) of any Mutual Fund
11. Contribution towards fund set up by the National Housing Scheme
12. Payments towards principal of any housing loan
13. Payments made towards the tuition fees of any two children's full time education in institutes based in India

**Section 80CCC:**

Also accounting for some miscellaneous investments and savings scheme, the details as per this section are as follows –

1. Payment of premium towards annuity plans of any insurance company
2. Payment of premium for annuity plan of LIC or any other insurer (maximum cap of INR 100000)

Premium thus paid must be kept deposited in order to avail a deduction.

**Section 80CCD (1):**

This section deals with the deduction applicable if the assessee or the employee is contributing towards a pension scheme notified by the Central Government. The applicable limits of deduction are as follows –

1. 10% of salary in the previous year in the case of an employee
2. 10% of gross total income in any other case

**Section 80CCD (2):**

This section deals with the deduction applicable if the employer of the assessee or the employee is contributing towards a pension scheme notified by the Central Government. The applicable limit of deduction is 10% of salary in the financial year in the case of an employee. It is worthwhile to note that this deduction is over and above the INR 150000 limit that includes deductions through Section 80C, 80CCC and 80CCD (1) (as per rules under Section 80CCE)

**Section 80CCG:**

Since the announcement done as per the budget of 2012, Rajiv Gandhi Equity Savings Scheme allows investors with annual income less than INR 12 lakhs to invest a maximum of

INR 50000 and avail a deduction of 50% of the investment amount. Thus, the maximum available deduction as per this would be INR 25000.

**Section 80D:**

A maximum deduction of INR 40000 is allowed on medical insurance as per the rules stated in this section of the Income Tax Act. The limits and division of deduction is illustrated below –

1. Deduction for self, spouse and dependent children – INR 15000 (INR 20000 for senior citizens)
2. Deduction for parents (individual or both) – INR 5000 (INR 20000 for senior citizens)
3. Deduction for preventive health check-up (within the INR 40000 limit) – INR 5000

**Section 80DD:**

This section deals with expenses related to the support of a handicapped dependent relative (s). The maximum applicable deduction will be INR 50000 subject to the expenses as follows –

Medical treatment, training and rehabilitation of handicapped dependent relative

Payment made towards a deposit or scheme that aids in the support of aforementioned relative

In case of severe disabilities (as regulated by the law), a maximum of INR 100000 can be claimed for deduction.

**Section 80DDB:**

As per the list of diseases mentioned in Rule 11DD, a form 10 I can be furnished from any registered doctor and a maximum of INR 40000 or the actual expense (lesser of either) can be claimed for deduction. The expenses are to be of a medical nature for treatment of self or dependent relative.

**Section 80E:**

A variable deduction can be claimed on loans taken for the cause of higher education for self or a relative.

**Section 80G:**

A list of donations specified under this section can allow a 50% or 100% deduction with or without restriction.

**Section 80GG:**

This section pertains to the house rent that is paid by the assessee. The limits are the least of the following –

1. Actual rent paid minus 10% of the total income
2. INR 2000 per month (till a maximum of INR 24000 annually)
3. 25% of the total income

The above limits will be viable only if the assessee, his/her spouse or minor child

1. Not own a residential accommodation at the place of employment
2. Not receive house rent allowance
3. Not have self-occupied residential accommodation in any other place

**Section 80GGA:**

A variable deduction with respect to payments made towards scientific research or rural development.

**Section 80GGC:**

A variable deduction with respect to contributions made towards political parties.

**Section 80QQB:**

A maximum deduction of INR 300000 on royalty income from patents.

**Section 80RRB:**

A maximum deduction of INR 300000 on royalty income to the author of certain books other than textbooks

**Section 80TTA:**

As of 2015, a maximum deduction of INR 10000 is allowed on the interest earned on deposits in savings accounts. This deduction will be made from the gross total income of the assessee.

**Section 80U:**

Similar to Section 80DD, this deals with the income of an individual with physical disability or extreme mental disability. In cases of severe disability (as defined by the law), a maximum deduction of INR 100000 can be availed. In all other cases, a deduction of INR 50000 will be allowed.

**Tax Exemption and Income Tax Filing**

Going through all the available tax exemption and deductions that are in the system, one can be fairly sure that in certain cases, when one is being constrained while considering payment of taxes, there is leeway available most of the time. However, it shouldn't be taken lightly that such exemptions are not cross verified and the details not checked. Filling up one's income tax return diligently allows such deductions and exemptions to work as they are intended.

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## **1.20 INCOMES EXEMPT FROM TAX**

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Income tax is the tax imposed by the government on the earnings that exceed a certain limit on various businesses and individuals within the respective jurisdictions. The government generates its revenue through these taxes. Every business or individual is liable to file the Income Tax Return (ITR) on a yearly basis to fulfill their tax obligations. But not every income earned by these entities is subjected to taxes. Section 10 of the Income Tax Act, 1961 mentions certain types of income that are exempted from income tax.

Before filing the ITR it may be a good idea to cross-check if one's income falls under the category of tax-free income. The following is the list of incomes that are exempted from taxes as per Section 10 of the Income Tax Act, 1961.

### **Incomes Exempted from Tax**

Section 10 of the Income Tax Act, 1961 states that salaried employees have the right to enjoy tax exemption in certain cases. The intention of the provision is to alleviate the burden of various taxes such as rent and travel allowances, gratuity, etc.

The following are the incomes that are subjected to an exemption under this respective section of the Income Tax Act, 1961.

#### **1. Agricultural Income**

Those individuals that derive their income from agriculture are entitled to a tax exemption. This includes the income from farmhouses as well. To know if an income would fall under the category of agricultural income, it is necessary to look into the definition put forward by Section 2(1A) of the Income Tax Act, 1961. Agricultural income is:

- Any revenue or rent derived from land which is situated in India and is used for agricultural purposes
- Income derived from agricultural operations including processing of agricultural produce to sell in the market
- Any income from the farmhouse subject to satisfaction of certain conditions mentioned in section 2(1A)
- Income from nursery saplings or seedlings.

#### **2. The Income of Hindu Undivided Family (HUF)**

Revenue received from family income or income from the impartible family estate or property by any member of the Hindu undivided family (HUF) is exempted from income tax return.

For instance, if ₹ 500,000 is the total income earned by a member of a HUF, the total amount is exempted from tax. Suppose, if 'A' is also a member of the HUF and has earned ₹ 20,000 individually, and has also received ₹30,000 from the HUF, then A is liable to pay taxes only for the amount that was earned in an individual capacity and not the amount that was received from the HUF income.

### **3. Tax Exemption on Profit Share from firm/LLP**

The profit share received by a partner from a firm is exempt from tax in the hands of the partner. Similarly, the profit share of a partner of LLP from the LLP will be exempt from tax in the hands of the partner. However, such exemption is limited only to the profit share and is not extended to interest on capital and remuneration received by the partner from the firm/LLP.

### **4. Income Earned by Non-Resident Indians (NRIs) by Way of Interest on Certain Bonds and Securities**

Income earned by NRIs by way of interest on security bonds or through bank accounts in India can avail the tax exemption. In case of an individual's income by way of interest on moneys standing to the credit in a Non-Resident (External) Account in any bank in India following FEMA, 1999 is exempt from income tax. However, the exemption is applicable only if a person is a resident outside India as defined under FEMA, 1999, or a person who has been permitted by the RBI to maintain the account mentioned above. This section bestows tax exemption on Indian citizens and persons of Indian origin, who are non-residents and earn income from interest on notified savings certificate.

Further, any income on interest received by a non-resident or a foreign company in respect of Rupee Denomination Bonds issued outside India from 17 September 2018 to 31 March 2019 by an Indian company/ business is exempt from tax. Also, Capital gains arising out of the transfer of capital assets, rupee denomination bonds, or Derivatives by Category-III are also exempted from tax.

### **5. Leave Travel Concession**

Section 10 (5) of the Act states that an employee, whether an Indian or foreign citizen, is eligible to avail of a tax exemption on leave travel to any place within India from the employer.

### **6. Remuneration Received by Diplomats and their Staff**

This is a special provision for Indian representatives such as high commissioners, trade commissioners, consulate representatives, etc working in other countries wherein they can avail of a tax exemption. Employees of foreign countries can also enjoy the benefits of this provision provided Indian employees enjoy a similar exemption in their countries.

### **7. Technical fees Received as Income by Foreign Company**

With respect to projects pertaining to the security of India, agreements are entered by the Government of India with foreign countries. Here, the income is mostly received by way of royalties or fees for the exchange of technical services as per the agreement between the countries, and the same is exempted from taxes.

### **8. Allowances Paid by the Indian Government**

The Indian government pays its employees various allowances and perquisites for rendering services outside India. Such remuneration is exempt from taxes. The Indian citizens who work for the government of India can avail of this exemption.

### **9. Voluntary Retirement Scheme**

The amount received by an individual after having opted for voluntary retirement is exempt from taxes, provided the individual is an employee of a public sector or any other company, an authority under a central, state, or provincial Act, or local authority.

### **10. Life Insurance Policies**

When an individual receives the amount after the maturation of a life insurance policy, the amount is exempted from taxes.

### **11. Exemption to Gratuity**

Gratuity received by the central and state government servants, and local authorities are exempted from tax as per Section 10(10)(i) of the Act. The exemption is also available to non-governmental employees, if the Payment of Gratuity Act, 1972 is applicable to them. The gratuity is exempt from taxes within a maximum ceiling of 10 lakh rupees.

### **12. Pension Received by Employees**

The monthly pension received by government employees is completely exempt from tax.

### **13. Leave Salary**

The en-cashment of leave by government employees at the time of their retirement is exempt from tax.

### **14. Retrenchment Compensation**

The compensation received by an employee at the time of retrenchment is exempt from tax to a certain limit.

### **15. Amount received from Provident Fund**

Under Section 10(11) of the Act, any amount of money received from a public or statutory provident fund or un-recognized provident fund earns a tax exemption. Also, payment made towards the scheme Sukanya Samridhi Yojan is also exempt from tax as stipulated under this section.

### **16. Awards and Scholarships**

Monetary assistance received in the form of awards or scholarships is exempted from income tax under Section 10 (16). There is no cap on the upper limit and the total money received as a scholarship is entitled to tax exemption.

### **17. House Rent Allowance (HRA)**

One of the most common allowances given by the employer to the employees is the House Rent Allowance, to cover the rental expenses. The portion of the salary that is allocated as HRA is exempt from taxes.

### **18. Allowances under Section 10 (14)**

Special allowances such as daily allowance, uniform allowance, helper allowance, etc are provided to employees during the course of their employment. Section 10(14)(i) covers these provisions and the allowances under the respective section are exempted from taxes. Section 10(14)(ii) enlists allowances that are offered to the employees that enable them to meet their day-to-day expenses. The allowances are subjected to taxes when they exceed the stipulated limit. Allowances such as children education allowance, tribal area allowance, border area allowance, special compensatory allowance, etc are covered under this section.

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## **1.21 AGRICULTURAL INCOME AND ITS ASSESSMENT**

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What is Agricultural Income?

In India, agricultural income refers to income earned or revenue derived from sources that include farming land, buildings on or identified with an agricultural land and commercial produce from a horticultural land. Agricultural income is defined under section 2(1A) of the Income Tax Act, 1961. According to this Section, agricultural income generally means: (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce. (c) Any income attributable to a farm house subject to satisfaction of certain conditions

specified in this regard in section 2(1A). (d) Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

#### Examples of Agricultural Income

The following are some of the examples of agricultural income:

- Income derived from sale of replanted trees.
- Income from sale of seeds.
- Rent received for agricultural land.
- Income from growing flowers and creepers.
- Profits received from a partner from a firm engaged in agricultural produce or activities.
- Interest on capital that a partner from a firm, engaged in agricultural operations, receives.

#### Examples of Non-Agricultural Income

The following are some of the examples of non-agricultural income:

- Income from poultry farming.
- Income from bee hiving.
- Any dividend that an organization pays from its agriculture income.
- Income from the sale of spontaneously grown trees.
- Income from dairy farming.
- Income from salt produced after the land has flooded with sea water.
- Purchase of standing crop.
- Royalty income from mines.
- Income from butter and cheese making.
- Receipts from TV serial shooting in farm house.

#### Is Agricultural Income Taxable?

As per Section 10(1) of the Income Tax Act, 1961, agricultural income is exempted from taxation. The central government cannot levy tax on the agricultural income received. However, agricultural income is considered for rate purposes while assessing the income tax liability if the following two conditions are met:

- Net agricultural income is greater than Rs. 5,000/- for previous year.
- Total income, excluding net agricultural income, surpasses the basic exemption limit (Rs. 2,50,000 for individuals below 60 years of age and Rs. 3,00,000 for individuals above 60 years of age).



If these two conditions are met, tax liability shall be computed in the following manner:

**Step 1:** Let us regard agricultural income as X and other income as Y Tax computed on X+Y is B1

**Step 2:** Let us regard basic exemption slab for income tax payment as A Tax computed on A+X is B2

**Step 3:** The actual income tax liability shall be B1-B2

*Note:* If the individual's aggregate agricultural income is up to Rs. 5,000, the individual will have to disclose the agricultural income in the income tax return (ITR). In case the agricultural income crosses Rs. 5,000, the individual will have to disclose the agricultural income in ITR 2. Section 54B of the Income Tax Act, 1961

Section 54B of the Income Tax Act, 1961, provides relief to taxpayers who sell their agricultural land and use the sale proceeds to acquire another agricultural land. To claim tax benefit under Section 54B of the Income Tax Act, the following conditions will have to be satisfied:

- This benefit can only be claimed by an individual or a HUF
- The agricultural land should be used by the individual or his or her parents for agricultural purpose for at least two years immediately preceding the date on which the exchange of land occurred. In case of HUF, the land should be used by any member of HUF.
- The taxpayer should purchase another agricultural land within two years from the date of selling the old land. In case it is an incident of compulsory acquisition, the period of acquiring new agricultural land will be assessed from the date of receipt of compensation. It must be noted that under Section 10(37), capital gain shall not be chargeable to tax if agricultural land is compulsorily acquired under any law, and the consideration of which is approved by the central government or banking regulator and received on or after 01-04-2004.

#### **Need for Assessment of Agricultural Income :**

Agriculture is the main part of the Indian economy. 70% of Indian population is based upon agriculture and derives its income from agricultural operations. But u/s 10(1) of the Act agricultural income is fully exempted from tax. As a result agricultural income does not form part of total income. The agricultural income is exempted from tax as under Article 270 of Indian Constitution. Central Government cannot levy any tax on such income because

agriculture is a State subject. In a case *J. Ragho Rama Reddy v. I.T.O.* (1988) 169 I.T.R. 174 (A.P.) it has been held that Parliament is not competent to tax agricultural income. The State governments are free to levy any tax on agricultural income.

Due to green revolution, the agricultural incomes increased and a demand was raised to levy tax on agricultural incomes. A committee on taxation of agricultural income and wealth was set up under the chairmanship of Dr. K.N. Raj. This committee also recommended that agricultural income must remain exempted from tax. On the other hand, it suggested a system of integration of agricultural income with non-agricultural income in certain cases. From assessment year 1974-75, this scheme of assessment of agricultural income was introduced and which is known as present treatment or its assessment.

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## 1.22 TAX EVASION VS. TAX AVOIDANCE

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Every assessee wants to escape from paying taxes, which encourages them to use various means to avoid such payment. And when it's about savings if taxes, the two most common practices that can be seen all around the world are tax avoidance and tax evasion. **Tax avoidance** is an exercise in which the assessee legally tries to defeat the basic intention of the law, by taking advantage of the shortcomings in the legislature.

On the contrary, **tax evasion** is a practice of reducing tax liability through illegal means, i.e. by suppressing income or inflating expenses or by showing lower income. In other words, Tax Avoidance is completely lawful because only those means are employed which are legal, while Tax Evasion is considered as a crime in the whole world, as it resorts to various kinds of deliberate manipulations.

### Definition of Tax Avoidance

An arrangement made to beat the intent of the law by taking unfair advantage of the shortcomings in the tax rules is known as Tax Avoidance. It refers to finding out new methods or tools to avoid the payment of taxes which are within the limits of the law.

This can be done by adjusting the accounts in a manner that it will not violate any tax rules, as well as the tax incurrence, will also be minimised. Formerly tax avoidance is considered as lawful, but now it comes to the category of crime in some special cases.

The only purpose of tax avoidance is to postpone or shift or eliminate the tax liability. This can be done investing in government schemes and offers like the tax credit, tax privileges,

deductions, exemptions, etc., which will result in the reduction in the tax liability without making any offence or breach of law.

#### Definition of Tax Evasion

An illegal act, made to escape from paying taxes is known as Tax Evasion. Such illegal practices can be deliberate concealment of income, manipulation in accounts, disclosure of unreal expenses for deductions, showing personal expenditure as business expenses, overstatement of tax credit or exemptions suppression of profits and capital gains, etc. This will result in the disclosure of income which is not the actual income earned by the entity.

Tax Evasion is a criminal activity for which the assessee is subject to punishment under the law. It involves acts like:

- Deliberate misrepresentation of material facts.
- Hiding relevant documents.
- Not maintaining complete records of all the transactions.
- Making false statements.

#### Comparison Chart

BASIS FOR COMPARISON	TAX AVOIDANCE	TAX EVASION
Meaning	Minimization of tax liability, by taking such means which do not violate the tax rules, is Tax Avoidance.	Reducing tax liability by using illegal ways is known as Tax Evasion.
What is it?	Hedging of tax	Concealment of tax
Attributes	Immoral in nature, which involves bending the law without breaking it.	Illegal and objectionable, both in script and moral.
Concept	Taking unfair advantage of the shortcomings in the tax laws.	Deliberate manipulations in accounts resulting in fraud.
Legal implication	Use of Justified means	Use of such means that are forbidden by law
Happened when	Before the occurrence of tax liability.	After tax liability arises.

<b>BASIS FOR COMPARISON</b>	<b>TAX AVOIDANCE</b>	<b>TAX EVASION</b>
Type of act	Legal	Criminal
Consequences	Deferment of tax liability	Penalty or imprisonment
Objective	To reduce tax liability by applying the script of law.	To reduce tax liability by exercising unfair means.

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## 1.23 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Long Questions

1. Evaluate the difference between Tax Evasion and Tax avoidance
2. Explain agricultural income and how to assess the same?
3. Explain different income exempted from tax?
4. How to calculate total income?
5. Explain finance bill and its features. Also explain the changes incorporated by finance bill in the tax structure

#### Short Questions

1. What is Tax?
2. Explain the significance of taxation?
3. Write a short note on Cannons of taxation
4. What is Equity in taxation
5. What id direct tax?

### B. Multiple Choice Questions

1. A person includes .
  - a. Unregistered Firm & Registered Firm
  - b. Registered Firm
  - c. Unregistered Firm
  - d. None of these

2. When the income earned in an year is taxed in the same year, it is called .....
- a. Advanced Assessment
  - b. Accelerated Assessment
  - c. Super Assessment
  - d. None of these
3. Assessment Year is the period of 12 month commencing on 1st day of .
- a. December every year
  - b. July every year
  - c. April every year
  - d. January every year
4. Capital assets include all assets except
- a. All personal effects except jewellery
  - b. Special bearer bonds
  - c. Stock in trade
  - d. All of these
5. Which of the following is not taxable income under the head income from other sources?
- a. Rent received from letting business building
  - b. Gift of shares received by firm or a closely held company
  - c. Gift received from unrelated persons
  - d. sum received under Keymen insurance policy

**Answers:**

1-a, 2-b, 3-c, 4-d, 5-a

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# UNIT- 2 INCOME FROM SALARY AND HOUSE PROPERTY

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## STRUCTURE

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Salary--Definition of 'Salary'
- 2.3 Characteristics of Salary
- 2.4 Computation of Salary Income: Salary u/s 17(1)
- 2.5 Annual Accretion
- 2.6 Allowances
- 2.7 Perquisites
- 2.8 Profits in lieu of Salary
- 2.9 Deductions u/s. 16
- 2.10 Problems on computation of Income from Salary.
- 2.11 House Property- Exempted incomes from House Property
- 2.12 Annual Value
- 2.13 Determination of Annual Value for Let-out House and Self-occupied House
- 2.14 Deductions u/s.24 out of Annual Value of Let-out and Self-occupied House Properties
- 2.15 Problems on computation of Income from House Property
- 2.16 Unit End Questions
- 2.17 Reference

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## 2.0 OBJECTIVES

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- Explain the definition of 'Salary'
- Discuss characteristics of salary
- Explain Income form House property
- Describe determination of Annual Value for Let-out House and Self-occupied House

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## 2.1 INTRODUCTION

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Income from salary is the income or remuneration received by an individual for services he is rendering or a contract undertaken by him. This clause essentially assimilates the remuneration received by a person for the services provided by him under the contract of employment.

This amount of remuneration will be considered as income for the purposes of Income Tax Act only if there is an Employer and employee relationship between the person who is making the payment and the person who is receiving the payment.

**Employer and Employee Relationship** – Any payment that is received by a person will be treated as Income under Income Tax Act if there exist an Employer and employee relationship between the payer and payee. For the purpose of qualifying income as income from salary, their relationship should be that of a master and servant. Where a master is a person who directs his employee that what is to be done and how it is to be done and servant is the person who is liable to conduct that work in the manner told by his employer.

Income tax on house property: on Owning a house one day – everybody dreams of this, saves towards this and hopes to achieve this one day. However, owning a house property is not without responsibilities. Paying house property taxes annually is one of them. If you want to learn how to save tax on home loan interest, this guide is for you. It also talks about how to report home ownership in your income tax return.

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## 2.2 SALARY--DEFINITION OF ‘SALARY’

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Salary income refers to the compensation received by an employee from a current or former employer for the execution of services in connection with employment. Thus, income is taxable as salary under Section 15 only if an employer-employee relationship exists between the payer and payee. Salary income could be in any form such as gift, pension, gratuity, usual remuneration and so on. In this article, we look at various aspects of **salary** income under the Income Tax Act.

### **Meaning of Salary under Income Tax Act**

Under the Income Tax Act, the term salary is defined to include the following:

- Wages;
- Annuity or pension;



- Gratuity;
- Fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- Advance of salary;
- Payment received by an employee in respect of any period of leave not availed by him/her;
- The portion of annual accretion in any previous year to the balance at the credit of an employee participating in a recognized provident fund to the extent it is taxable;
- Transferred balance in a recognized provident fund to the extent it is taxable;
- Contribution by the Central Government to the account of an employee under a pension scheme referred to in section 80CCD (i.e. NPS)

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## 2.3 CHARACTERISTICS OF SALARY

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The main characteristics of the salary are the following:

- It is a **direct consideration for** the service provided.
- It is the responsibility of the employer.
- It cannot be for free. If the employer makes a gift to the employee, it cannot be considered a salary.
- It is a personal income of the worker for his livelihood.
- **The minimum wage provided** for by law must be guaranteed.

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## 2.4 COMPUTATION OF SALARY INCOME: SALARY U/S 17(1)

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Sub-section (1) of Section 17 of the Income Tax Act provides an inclusive definition of “Salary”. It is a much broader term than it is usually understood. In a financial year, the amount received by the employee from his employer in any of the following forms will be considered “Salary” for income tax purposes:

- **Wages-** A sum of money paid under contract by the employer to the employees for services rendered is called wages. The employee may generally receive it under various names such as basic pay, salary, remuneration, etc. The payment may be for

paid leaves, actual work, or the actual amount received or due during the relevant previous year.

- **Annuity or Pension** – Annuity or pension is the payment received from the previous or present employer after attaining retirement. It may be a payout from the pension plans created by the employer.
- Annuity received from a present employer is taxed as ‘Salary’.
- Annuity received from a previous employer is taxed as ‘Profits in lieu of Salary’.
- **Profits in lieu of Salary or Wages-** These payments include:
  - Employment termination compensation or employment terms modification compensation.
  - Payment due or received from an unrecognized provident fund or an unrecognized superannuation fund to the extent of contribution by the employer and interest on the employer’s contribution.
  - Payments from the key man insurance policy and the sum allocated as a bonus on such policy.
  - Any amount received from any person before joining or after cessation of the employment is also termed as ‘profits in lieu of salary’.
- **Gratuity-** A lump-sum amount voluntarily paid by the employer to the employee as a token of appreciation for the services rendered to the organization is gratuity. The concept of gratuity is statutorily recognized under The Payment of Gratuity Act, 1972.
- **Fees-** An amount received as fees to the employee from the employer for the services rendered is included in the definition of salary.
- **Commission-** Any amount of commissions given to the employee for the services provided shall form part of the salary. If the employee receives a fixed commission as a percentage of the sales or profits, it shall be considered salary.
- **Perquisites-** Perquisites are additional benefits received over and above the salary due to the employee’s official position. It may be provided in cash or kind. For example, club fee payments, interest-free loans, educational expenses, rent-free accommodation or concession in accommodation rent, insurance premium paid for employees.

- **The advance Salary-** Payments received in a financial year are advance salary payments before the year they are actually due. A loan taken by the employer is not an advance salary.
- **Leave encashment-** The government and some private employers compensate employees for the accumulated leaves. They can give the payment during the service or after retirement or resignation. The payment received for encashment of leaves unveiled during the service period will form part of the salary.
- **Employee Provident Fund-** Contributions by the employer exceeding 12 percent of salary or the annual interest exceeding the rate notified by the Central Government (FY 2021-22 EPF interest rate is 8.1%) on balance to the credit of an employee's recognized provident fund.
- **Transfer PF balance-** The taxable portion of the transferred balance from an unrecognized provident fund to a recognized provident fund will be considered salary.
- **National Pension Scheme (NPS)-** A contribution made by the Central Government or any other employer in a financial year in an employee's account under National Pension Scheme (NPS) will form part of the salary.

#### **What is the basis of the charge of salary income?**

Section 15 of the Income Tax Act deals with the basis of charge. Salary shall be chargeable to tax either on 'due basis' or 'receipt basis', whichever is earlier. For further clarification, income from salary during the year shall consist of the following:

- Any amount paid in advance to the employee before it became due or payable.
- Whether paid or not, any salary due to the employee during the year.
- Arrears of salary paid to the employee during the year and not charged to tax in any earlier years.

#### **Place of accrual of salary**

Salary accrues in India and is taxable under the head 'Salaries', if-

- The services are rendered in India even if the payment is made outside India,
- Salary paid by the Government of the foreign country to their employees serving in India,
- Leave salary paid to the employees outside India regarding leaves earned in India shall be deemed to accrue or arise in India and taxed under the head 'Salary'.

How to compute salary income?

Salary income is calculated as under—

	<i>Rs.</i>	<i>Rs.</i>
Income from salary [see para 3]	..... ...	
Income by way of allowances [see para 4]	..... ...	
Taxable value of perquisites [see para 5]	..... ...	
Gross salary		* * * * *
<i>Less:</i> Deduction under section 16		
Standard deduction under [Sec. 16 (IA)]		
Entertainment allowance deduction [Sec. 16 (ii)] [see para 4.3]	..... ...	
Professional tax [Sec. 16 (iii)]	..... ...	* * * * *
Income under the head “Salaries”		
<i>Notes-</i>		* * * * *
1. Standard deduction is Rs. 50,000 or gross salary, whichever is less.		* * * * *

ver is lower.		
2. Professional tax is deductible on “payment basis”. If it is paid by the employer on behalf of the employee, it is first included in gross salary as perquisite and then deduction is allowed under section 16(iii).		* * * * *

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## 2.5 ANNUAL ACCRETION

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**Annual Accretion:** means accretion to the balance on the previous year at the credit of the employee. Participating in a Recognized provident fund to the extent provided in Rule 6 of Part A which is as follows—

- Employer’s contribution to Recognized provident fund in excess of 12% of employee’s salary and
- Interest credited to employees on the accumulated balance of the Recognized Provident Fund so far as it exceeds the rate of 9.5%. The Annual accretion is income deemed to be received during the previous year.

**Transferred Balance:** When an unrecognized provident fund is recognized for the first time by the Commissioner of Income tax, the balance standing to the credit to employee’s provident fund account at the time of recognition is called ‘Transferred balance’ Now the balance in the Fund Account is deemed to be the balance of Recognized Provident Fund from the very beginning i.e., from the date of its institution. Thus, the balance of unrecognized P.F. when converted into Recognized Provident Fund becomes the balance of Recognized Provident Fund. The aggregate of all sums comprised in the Transferred balances which would have been liable had the fund been recognized from the very beginning (e.g. Annual accretion) is taxable in the year in which fund is recognized.

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## 2.6 ALLOWANCES

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**Fully Taxable allowances:**

- **Dearness Allowance:** The allowance is paid to the employees to cope with inflation.

- **Entertainment Allowance:** This is an allowance that is provided to the employees to reimburse the expenses which are incurred on the hospitality.
- **Overtime Allowance:** Overtime allowance is the allowance which is paid to the employees for working above the regular work hours.
- **City Compensatory Allowance:** This allowance is paid to those employees who move to urban cities.
- **Project Allowance:** When an employer provides an allowance to the employees to meet the project expenses.
- **Tiffin/Meals Allowance:** Employees may be provided with meal allowances in some cases.
- **Cash Allowance:** Employer may also provide cash allowance in some cases like for marriage or holiday purposes.

**Partly Taxable allowances:**

- **House Rent Allowance:** It is the allowance that an employer pays to his employee for accommodation.
- **Entertainment allowance**
- **Special allowances** like allowance for travel, uniform, research allowance etc.
- **Special allowance to meet personal expenses** like children's education allowance, children hostel allowance etc.

**Non Taxable allowances:**

- **Allowances that is paid to the Govt. servants abroad:** When the government employee of India are paid allowances when they are serving abroad.
- **Sumptuary allowances:** Sumptuary allowances which are paid to the judges of HC and SC are not taxed.
- **Allowance paid by UNO:** Allowances which is received by the employees of UNO are fully exempt from tax.
- **Compensatory allowance paid to judges:** When a judge receives a compensatory allowance, it is also not taxable.

It may be noted that a person can save tax on income from salary by getting the **Tax Saving Allowances**.

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## **2.7 PERQUISITES**

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**Perquisites** are those payments which are received by an employee from the employer over and above the salary.

**Perquisites that are taxable for all the employees:**

- Rent free accommodation
- Club fee payments
- Movable assets
- Concession in accommodation rent
- Interest-free loans
- Educational expenses
- Insurance premium paid on behalf of employees

**Perquisites that are taxable only to specified employees:**

- Free gas, electricity etc. for domestic purpose
- Concessional transport facility
- Concessional educational expenses
- Payment made to gardener, sweeper and attendant.

**Perquisites that are exempt from tax:**

- Medical benefits
- Health Insurance Premium
- Leave travel concession
- Staff Welfare Scheme
- Car, laptop etc. for personal use.

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## **2.8 PROFITS IN LIEU OF SALARY**

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Profit in lieu of salary are the payments received or due to the employee by the employer in addition to the wages or salary is known as “Profit in lieu of salary.” As the definition of salary includes profit in lieu of salary, it becomes taxable under the head “income from other sources”.

**What does profit in lieu of salary include?**

As per section 17(3) of the Income Tax Act, 1961, “Profits in lieu of salary” includes—

1. Any amount due or received as compensation in connection with
  - Termination of is employment, or
  - Modification of the terms and conditions of the employment
2. Payment received from the unrecognized provident fund, i.e., employer and employee contribution and interest accrued thereon, will be taxable.
3. Any amount received under the key man insurance policy taken by the employer for the life of the employee. It includes any sum provided by way of bonus on such policy.
4. Any amount due or received by the employee, whether lump sum or otherwise,
  - Before joining the employment, or
  - After cessation of the employment.
6. Any other amount received by the employee from the employer shall be treated as profit in lieu of salary unless that amount is specifically exempt under the Income-tax act.

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## **2.9 DEDUCTIONS U/S. 16**

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The income chargeable under the head “Salaries” is computed after making the following deductions under Section 16:

1. Standard Deduction;
2. Entertainment Allowance Deduction; and
3. Professional Tax.

1. Standard Deduction [Sec. 16(I)/(IA)] -

- Standard deduction is Rs. 40,000; or
- the Amount of Salary,

whichever is Lower.

2. Entertainment Allowance [Sec. 16(ii)]-

Entertainment allowance is first included in salary income under the head “Salaries” and thereafter a deduction is given on the basis enumerated in the following paragraphs:

(A). In the case of a Government employee (i.e., a Central Government or a State Government employee), the least of the following is Deductible:

- a. Rs. 5,000;
- b. 20 % of Basic Salary; or



c. Amount of Entertainment Allowance granted during the previous year.

In order to determine amount of entertainment allowance deductible from salary, the following points need consideration:

1. For this purpose, “salary” excludes any allowance, benefit or other perquisites.
2. Amount actually expended towards entertainment (out of entertainment allowance received) is not taken into consideration.

(B). In the case of a Non-Government Employee (including employees of Statutory Corporation and Local Authority),

Entertainment Allowance is **NOT** deductible.

3. Professional Tax or Tax on Employment [Sec. 16(iii)] -

Professional Tax or Tax on Employment, levied by a State under article 276 of the Constitution, is **Allowed as Deduction**.

The following points should be kept in view —

1. Deduction is available only in the year in which professional tax is paid.
2. If the professional tax is paid by the employer on behalf of an employee, it is first included in the salary of the employee as a “perquisite” and then the same amount is allowed as deduction on account of “professional tax” from gross salary.
3. There is no monetary ceiling under the Income-tax Act. Under article 276 of the Constitution, a State Government cannot impose more than Rs. 2,500 per annum as professional tax. Under the Income-tax Act, whatever professional tax is paid during the previous year, is deductible.

Example:

Suppose X, posted in Hyderabad, is required to pay Rs. 2,000 every year as professional tax. On May 31, 2019, he pays Rs. 4,000 on account of professional tax (i.e., Rs. 2,000 for the year 2018-19 and Rs. 2,000 for the year 2019-20). In this case, Rs. 4,000 is deductible for the previous year 2019-20 (it is incorrect to state that in such a case only Rs. 2,500 is deductible).

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## **2.10 PROBLEMS ON COMPUTATION OF INCOME FROM SALARY.**

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X joins a company on June 1, 2021 on monthly salary of Rs. 30,000 (he was not in employment prior to June 1, 2021). As per the terms of employment, salary becomes due on

the first day of the next month and is paid on the seventh day of the next month. Determine the amount of salary chargeable to tax for the assessment year 2022-23.

**Solution:** The period from June 1, 2021 to March 31, 2022 is the previous year for the assessment year 2022-23. Salary of the previous year shall be calculated as under—

<b>Different months of the previous year</b>	<b>Due date of salary</b>	<b>Date of payment</b>
June 2021	July 1, 2021	July 7, 2021
July 2021	August 1, 2021	August 7, 2021
August 2021	September 1, 2021	September 7, 2021
September 2021	October 1, 2021	October 7, 2021
October 2021	November 1, 2021	November 7, 2021
November 2021	December 1, 2021	December 7, 2021
December 2021	January 1, 2022	January 7, 2022
January 2022	February 1, 2022	February 7, 2022
February 2022	March 1, 2022	March 7, 2022
March 2022	April 1, 2022	April 7, 2022

Salary is taxable either on “due” basis or on “receipt” basis, whichever is earlier. As the earlier date is the “due” date of salary in the above case, salary will be taxable on due basis. The previous year ends on March 31, 2022. Consequently, salary of March 2022 (which becomes “due” after March 31, 2022) is not taxable as the income of the previous year ending March 31, 2022. Therefore, the salary taxable for the assessment year 2022-23 will be Rs. 2,70,000 (Rs. 30,000 per month for 9 months).

**2-P2** X joins a company on December 1, 2018 in the pay scale of Rs. 10,000 – Rs. 1,000 – Rs. 25,000 (salary at the time of joining is fixed at Rs. 12,000). As per the terms of employment salary becomes “due” on the first day of the next month, and it is generally paid

on the fifth day of the next month. Find out the salary (before standard deduction) taxable for the assessment year 2022-23.

**Solution:** In this case, X gets an annual increment of Rs. 1,000. The amount of salary for different years will be as follows —

	<i>Rs.</i>
December 2018 to November 2019	12,000
December 2019 to November 2020	13,000
December 2020 to November 2021	14,000
December 2021 to November 2022	15,000

Thus, Rs. 1,000 will be added to the salary every year till he reaches at the maximum point of Rs. 25,000. For the previous year 2021-22, salary will be taxable as follows—

<b>Different months</b>	<b>Due date of salary [due or receipt date whichever is earlier]</b>	<b>Amount</b>
March 2021	April 1, 2021	14,000
April 2021	May 1, 2021	14,000
May 2021	June 1, 2021	14,000
June 2021	July 1, 2021	14,000
July 2021	August 1, 2021	14,000
August 2021	September 1, 2021	14,000
September 2021	October 1, 2021	14,000

October 2021	November 1, 2021	14,000
November 2021	December 1, 2021	14,000
December 2021	January 1, 2022	15,000
January 2022	February 1, 2022	15,000
February 2022	March 1, 2022	15,000
March 2022	April 1, 2022	See Note
Total		1,71,000

*Note:* Salary of March 2022 is taxable on due basis on April 1, 2022. April 1, 2022 falls in the next previous year (*i.e.*, 2022-23), it will be taxable for the assessment year 2023-24. However, salary of March 2021 (which becomes “due” on April 1, 2021) is taxable for the previous year 2021-22 (*i.e.*, the assessment year 2022-23).

Up till June 30, 2021, X is in the employment of A Ltd. on the fixed salary of Rs. 25,000 per month which becomes “due” on the first day of the next month. On July 1, 2021, X joins B Ltd. (salary being Rs. 30,000 per month which becomes “due” on the last day of each month). Salary is actually paid on the seventh day of the next month in both cases. Find out the amount of salary (before standard deduction) chargeable to tax for the assessment year 2022-23.

**Solution:** Computation of salary for the previous year 2021-22:

	Different months	“Due” date or “receipt” date, whichever is earlier	Amount Rs.
1.	March 2021	April 1, 2021	25,000
2.	April 2021	May 1, 2021	25,000
3.	May 2021	June 1, 2021	25,000
4.	June 2021	July 1, 2021	25,000

5.	July 2021	July 31, 2021	30,000
6.	August 2021	August 31, 2021	30,000
7.	September 2021	September 30, 2021	30,000
8.	October 2021	October 31, 2021	30,000
9.	November 2021	November 30, 2021	30,000
10	December 2021	December 31, 2021	30,000
11	January 2022	January 31, 2022	30,000
12	February 2022	February 28, 2022	30,000
13	March 2022	March 31, 2022	30,000
	Total		3,70,000

X, an employee of the Himachal Pradesh Government, retires on January 3, 2022 and receives Rs. 11,60,000 as cash equivalent of earned leave to his credit. Is Rs. 11,60,000 fully exempt from tax?

**Solution:** Since X is a Government employee, leave salary of Rs. 11,60,000 is fully exempt from tax in view of section 10(10AA). Exemption under section 10(10AA) is available even if X opts for the alternative tax regime under section 115BAC.

X was employed by PQR Ltd. up to March 15, 1988. At the time of leaving PQR Ltd., he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax under section 10(10AA) (ii). Thereafter he joined ABC (P.) Ltd. and received Rs. 4,12,200 as leave salary at the time of his retirement on December 31, 2021. Determine the amount of taxable leave salary from the following information:

Salary at the time of retirement (per month)	Rs. 22,900
Average salary received during 10 months ending on December 31, 2021	
– From March 1, 2021 to July 31, 2021 (per month)	Rs. 22,600
– From August 1, 2021 to December 31, 2021 (per month)	Rs. 22,900
Duration of service (a)	14 <sup>3</sup> / <sub>4</sub> years
Leave entitlement for every year of service (b)	45 days
Leave availed while in service (c)	90 days
Leave at the credit of employee at the time of retirement $[(14 \times 45 - 90) \div 30]$	18 months
Leave salary paid at the time of retirement at the rate of Rs. 22,900 per month (i.e., Rs. 22,900 $\times$ 18)	Rs. 4,12,200

**Solution:** The amount of exemption under section 10(I0AA) will be computed as under:

Step (a) – Length of service [14.75 years, rounded off]	14 years
Step (b) – Rate of leave entitlement [actual rate is 45 days for each year of service, it cannot exceed 30 days leave for each year of service]	30 days for each year
Step (c) – Leave availed while in service	90 days
Leave to the credit of the employee at the time of retirement $[(14 \times 30 - 90) \div 30]$	11 months

	Rs.
Average monthly salary (for 10 months ending on December 31, 2021) [ <i>i.e.</i> , (Rs. 22,600 × 5 + Rs. 22,900 × 5) ÷ 10]	22,750
<i>a.</i> Period of earned leave to the credit of the employee at the time of retirement × Average monthly salary ( <i>i.e.</i> , Rs. 22,750 per month × 11 months)	2,50,250
<i>b.</i> 10 months × average monthly salary ( <i>i.e.</i> , Rs. 22,750 × 10)	2,27,500
<i>c.</i> Maximum amount not taxable [Rs. 3,00,000 less amount exempted earlier]	2,43,000
<i>d.</i> Amount received from the employer	4,12,200
Amount not taxable under section 10(10AA) [ <i>i.e.</i> , the least of ( <i>a</i> ), ( <i>b</i> ), ( <i>c</i> ) or ( <i>d</i> )]	2,27,500
Amount taxable for the assessment year 2022-23	1,84,700

**Notes:**

1. While computing completed years of service, any fraction of the year shall be ignored.
2. If a non-Government employee is entitled to receive leave salary at a rate higher than 30 days' salary for every completed year of service, the amount shown at (*a*) above has to be calculated with reference to 30 days' salary for every completed year of service.
3. X can claim relief under section 89 in respect of Rs. 1,84,700.
4. The aforesaid exemption of Rs. 2,27,500 is available, even if X opts for the alternative tax regime under section 115BAC.

X retires on March 16, 2022 from a private sector company. According to the service rule, he is entitled to 24 days leave for each year of completed service. The following information is available from the records of the employer-company —

Duration of service	32 yea
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	rs
Gross leave entitlement (32 yrs. × 24)	768 d ays
Less : Leave actually availed while in service	108 d ays
Balance	660 d ays
Less : Leave encashment taken during 2000-01	390 d ays
Balance	270 d ays
Less: Leave encashment paid on May 10, 2021 [@ Rs. 15,000 per month]	60 da ys
Leave standing to the credit of X at the time of retirement	210 d ays

Salary and dearness allowance paid to X prior to retirement are as follows—

	Basic sal ary per month R s.	Dearness allowance per mo nth [62 per cent is part of sa lary for determining retirem ent benefits] Rs.
January 1, 2021 to October 31, 2021	14,000	1,000
November 1, 2021 to March 16, 2022	15,000	1,250

Accordingly, he has been paid Rs. 1,13,750 (i.e., Rs. 16,250 × 210/30) at the time of retirement on March 16, 2022. Find out the amount of leave salary chargeable to tax for the assessment year 2022-23 taking into consideration the following points raised by X —



1. “Average salary” for the purpose of section 10(10AA) should be calculated on the basis of salary drawn during 10 months immediately preceding the retirement.
2. The word “month” has not been defined in the Act. As per section 3(35) of the General Clauses Act, 1897, “month” shall mean a month reckoned according to the British calendar. Consequently, in this case (according to X), average salary should be calculated on the basis of salary drawn during 10 months ending on February 28, 2022 (i.e., from May 1, 2021 to February 28, 2022).

**Solution:** The opinion of X, given in the problem, is not legally tenable because of the following reasons —

1. The General Clauses Act defines the word “month” as a month “reckoned” according to the British calendar.
2. The word “reckoned” according to the *Shorter Oxford English Dictionary* means “to count, to make calculation; to ascertain by counting”. For instance, the period commencing on April 24, 2021 and ending on May 23, 2021 is one month according to the British calendar. The definition of “month” as given in the General Clauses Act does not state that the word “month” always means a period commencing on the first day of the month and ending on the last day of the month.
3. Accordingly, if a person retires on March 16, 2022, “average salary” shall be determined on the basis of salary drawn during ten months ending on the date of retirement (i.e., May 17, 2021 to March 16, 2022).

#### Computation of exemption

	Basic salary	62% of dearness allowance
	Rs.	Rs.
Salary from May 17, 2021 to October 31, 2021 (5 months and 14 days)	76,534	3,389
Salary from November 1, 2021 to March 16, 2022 (4 months and 16 days)	68,000	3,513
Total of ten months (Rs. 1,51,436)	1,44,534	6,902

	Rs.
Average monthly salary (Rs. 1,51,436/10)	15,143.6 0
a. Leave to the credit of X on the date of retirement $\times$ Average monthly salary (i.e., Rs. 15,143.60 $\times$ 210/30)	1,06,005
b. 10 months $\times$ salary (i.e., Rs. 15,143.60 $\times$ 10)	1,51,436
c. Amount notified by the Government	3,00,000
d. Amount received	1,13,750

Rs. 1,06,005 is the amount exempt from tax under section 10(10AA) † and the amount taxable for the assessment year 2022-23 is Rs. 7,745. Besides, Rs. 30,000, being the leave encashment taken on May 10, 2021, is taxable for the assessment year 2022-23. Therefore, the amount taxable for the assessment year 2022-23 is Rs. 37,745 which is subject to relief under section 89.

X, an employee of PQ Co. Ltd., receives Rs. 78,000 as gratuity. He is covered by the Payment of Gratuity Act, 1972. He retires on December 12, 2021 after rendering service of 38 years and 8 months. At the time of retirement his monthly basic salary and dearness allowance was Rs. 2,400 and Rs. 800, respectively. Is the entire amount of gratuity exempt from tax?

**Solution:** In this case, 39 years will be taken as completed years of service. 15 days' salary is Rs. 1,846.15 (i.e., Rs. 3,200  $\times$  15  $\div$  26, being the number of working days in a month).

Out of Rs. 78,000 received as gratuity, the least of the following will be exempt from tax:

- (a) Rs. 72,000 (being 15 days' salary for each completed year of service, i.e. Rs. 1,846.15  $\times$  39) ;
- (b) Rs. 20,00,000 ; or
- (c) Rs. 78,000 (being gratuity actually received).

Hence Rs. 72,000 is exempt from tax under section 10(10) (ii) and the balance of Rs. 6,000 is taxable for the assessment year 2022-23 which is subject to relief under section 89. Exemption of Rs. 72,000 is available even if X opts for the alternative tax regime under section 115BAC.

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## **2.11 HOUSE PROPERTY- EXEMPTED INCOMES FROM HOUSE PROPERTY**

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Income is taxable under the head ‘house property’ if it arises from a property consisting of any building or lands appurtenant thereto. For computation of income under this head, a house property is classified into three categories – let-out, self-occupied and deemed let-out house property.

The income from a house property is computed on basis of its annual value. Various factors such as municipal valuation, fair rent, standard rent and actual rent are considered to arrive at annual value. Even if a property is not actually let-out during the year, annual value of a property is computed on notional basis and, accordingly, charged to tax. However, if property is self-occupied or cannot be occupied by the owner due to his employment, business or profession at any other place, then the annual value of any two of such properties is taken as ‘nil’.

**What Is Income from House Property?**

For the purpose of tax computation, the Income Tax Act has divided the income received by an individual into five different heads. One of them is 'Income from House Property', which is the income earned by the assessee from a property. If an individual owns a house property, the rent received becomes taxable. This actual rent received or the notional rent is referred to as ‘annual value’. However, if the taxpayer uses this property for operating or running a business or profession, it will not be taxed as income from home property.

**Income from House Property Becomes Taxable If the Following Conditions Are Met:**

- The house property comprises of the building and/or any land attached to it
- The taxpayer is the owner of the property
- The taxpayer should not use the house property to run any business or profession

### **Chargeability of income**

Any income is taxable under the head ‘Income from house property’ if following conditions are satisfied.

#### **1.1. Building and Land Appurtenant thereto**

Income is taxable under this head if it arises from a property which consists of any building or lands appurtenant thereto. Though the word ‘Property’ has a very wide meaning, but for the purposes of chargeability of income under this head, the property must consist of any

building or land appurtenant thereto. Income from all other types of properties (i.e., property other than building or land appurtenant thereto) are excluded from the chargeability under the head house property.

Example, if any income is derived from a vacant land then such income shall not be chargeable to tax under the head 'Income from house property' as the property does not consist of any building. Such rental income is chargeable to tax under the head 'profits and gains from business or profession' or 'Income from other sources'.

A land is called as land appurtenant to the building if it is indivisible part and parcel of a building for its use and enjoyment by the occupiers and it is not put to any other use and is not yielding any income assessable under this head. Generally, playgrounds, parking lots, garages, backyards, gardens, etc. are treated as land appurtenant to a building.

### **1.2. Ownership of Property**

Income from a building and land appurtenant thereto are chargeable to tax under the head 'house property' only in the hands of an owner. If a person, deriving rental income from a property, is not the owner of such property, then the income so derived shall be chargeable to tax either as business income or residual income but not as income from house property.

To become an owner of a property, a person must hold the legal title of the property in his name. He should be able to exercise the rights of the owner, not on behalf of the owner but in his own right. However, in certain situation, in spite of not holding the legal ownership of a property, a person is considered as deemed owner of the property, and, accordingly, income from such property is chargeable to tax in his hands even though he is not the legal owner of such property.

### **1.3. Use of property**

The annual value of a house property is not chargeable to tax under this head if following conditions are satisfied:

- (a) The owner of the property utilizes the property for the purpose of carrying on his business or profession; and
- (b) Income of such business or profession is chargeable to tax.

Even if an assessed is engaged in the business of letting out of property, the rental income earned from such business is taxable as house property income. However, in certain situations, the rental income earned by the business has been held taxable as business income. Here are a few judgments, where the High Courts had treated the rental income as business income:

- (a) Where assesses business is to commercially exploit the property by letting out;

- (b) Where factory building is given on rent to subsidiary to carry on business activities;
- (c) Where assessee reduced the production and rented out surplus portion of the factory premises to curtail the losses;
- (d) Where letting of property is incidental and subservient to the main business of the assessee;
- (e) Where the property is used for the residence of employees;
- (f) Where the property is let-out with an objective to carry on the business more efficiently and smoothly.

### **Exemption and relief for house property income**

Income-tax Act provides exemption and relief with respect to income derived from house property in following cases:

#### **4.1. Income from farm building [Section 2(1A) (c)]**

Any income derived from farm building shall be considered as agriculture income, and consequently exempt from tax, if it is situated on or in the immediate vicinity of the land, situated in India and used for agricultural purposes and used as a dwelling-house, or as a store-house, or as an out-building (out-house).

#### **4.2. Rent derived from agriculture land [Section 2(1A) (a)]**

Rent or revenue derived from land, situated in India and used for agricultural purposes is treated as agricultural income which is exempt from tax.

#### **4.3. Income from property held under trust [Section 11]**

Exemption under Section 11(1) is available against any income from property held under trust for charitable or religious purposes, provided such income has been applied for the charitable or religious purposes in India.

#### **4.4. Palace of an ex-ruler [Section 10(19A)]**

The annual value of any one palace of an ex-ruler is exempt from tax under Section 10(19A) of the Income-tax Act.

#### **4.5. Income of a local authority [Section 10(20)]**

Any income of a local authority, which is chargeable to tax under the head 'house property', is exempt from tax under Section 10(20) of the Income-tax Act.

#### **4.6. Income of certain institutes [Section 10(23C)]**

Income of a university (or other educational institution) or hospital (or other medical institution) is exempt from tax if such university or hospital is covered under Section 10(23C) of the Income-tax Act.

#### **4.7. Income of a registered trade union [Section 10(24)]**

Any income chargeable under the head ‘house property’ of a registered trade union is exempt from tax as per Section 10(24) of the Income-tax Act.

#### **4.8. Income of a political party [Section 13A]**

Any income of a political party which is chargeable under the head ‘house property’ is exempt from tax under Section 13A of the Income-tax Act.

#### **4.9. Self-occupied house property [Section 23(2)]**

If the property is self-occupied or it cannot be occupied by the owner of the property due to his employment, business or profession at any other place then the annual value of any two of such properties can be taken as ‘nil’.

#### **4.10. House property used for own business or profession**

If a person carries on business or profession in his own house property, then the notional rental value of such property is neither treated as income nor allowed as deduction. However, deduction on account of current repairs, municipal taxes, and insurance premium incurred in connection with such property is allowed under the head business or profession.

#### **4.11. Income of co-operative society**

Any income derived by the co-operative society from the letting out of go down or warehouse for storage, processing or facilitating the marketing of commodities, is eligible for deduction under Section 80P of the Income-tax Act.

Further, if gross total income of a co-operative society (not being a housing society or an urban consumers’ society or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power), does not exceed Rs. 20,000, the income from house property is fully deductible under Section 80P of the Income-tax Act.

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## **2.12 ANNUAL VALUE**

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<b>Negative NAV</b>	<b>In case of Let out House Property</b>	<b>Self-occupied house property</b>
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	<p><b>NAV = GAV – Municipal Taxes paid</b></p> <p>Thus, if the municipal tax paid in the previous year by the landlord is more than the gross annual value, then the <b>NAV can be negative</b>.</p> <p>It may happen where municipal taxes of earlier years are paid during the current year.</p>	<p>The NAV of self-occupied is always taken as zero. Therefore, in case of self-occupied, negative NAV is not possible.</p>
<p><b>Tax treatment of loss under the head “Income from house property”</b></p>	<p><b>1. Inter-source adjustment (section 70):</b></p> <p>Any loss from house property can be set-off from income of other house property.</p> <p>It is also called as intra-head adjustment.</p> <p><b>2. Inter head adjustment (section 71):</b></p> <p>The unadjusted loss can be set-off against income under any other head during the current year (no loss can be set-off against winning from lotteries, races, etc.).</p> <p>The assessee can set off such loss from house property up to a maximum of ₹ 2,00,000 only.</p> <p><b>3. Carry Forward and Set off (section 71B):</b></p> <p>If it is not possible to set-off the loss (fully or partly), then it can be carried forward to the next year for being set off against the incomes under the head “income from house property”.</p> <p>Loss from house property can be carried forward for a maximum period of 8 years for set-off against income from house property.</p>	

### **Computation of income from house property**

For computation of income from house property, a house property has to be classified into following categories:

- a. Let-out;
- b. Self-occupied; and
- c. Deemed let-out.

The income from such house property is computed in following manner:

		Amount (₹)
Gross Annual Value		XXX
<b>Less: Municipal Taxes</b> paid by assessee during the year		(XXX)
Net Annual Value (NAV)		XXX
<b>Less: Deduction under section 24</b>		
(a) Standard deduction @ 30% of NAV [Section 24(a)]	(XXX)	
(b) Interest on Borrowed Capital [Section 24(b)]	(XXX)	(XXX)
<b>Taxable Income from House property</b>		

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### **2.13 DETERMINATION OF ANNUAL VALUE FOR LET-OUT HOUSE AND SELF-OCCUPIED HOUSE**

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Annual Value for House Property which is Let throughout the Previous Year.

#### **Step-1: Determine Gross Annual Value**

Gross Annual Value of the House Property Let for the whole year shall be higher of the following two:

- (a) Expected rent;
- (b) Actual rent received or receivable.

#### **How to calculate Expected Rent:**

The higher of the following two is taken to be the expected rent:

- (I) Municipal Valuation;
- (ii) Fair Rental value.

*To conclude:* First step is to calculate the Gross Annual Value which will be higher of Municipal Value or Fair Rental Value, but it cannot exceed the standard rent. However, if the



actual rent received or receivable exceeds such amount then the actual rent so received/receivable shall be the Gross Annual Value.

Example:

Mr. Dust own 6 Houses in Mumbai, details of which are as under:

<b>Particulars</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>VI</b>
Municipal Value	2,00,000	2,40,000	3,60,000	4,20,000	4,80,000	4,50,000
Fair Rental Value	2,40,000	3,00,000	4,00,000	4,20,000	5,00,000	5,00,000
Standard Rent	N.A.	2,40,000	5,00,000	3,00,000	N.A.	4,80,000
Actual Rent / Annual Rent	1,80,000	3,60,000	4,80,000	3,60,000	5,40,000	4,20,000

Compute the Gross Annual Value of the above Houses.

**Solution:**

<b>Particulars</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>VI</b>
Gross Annual Value	2,40,000	3,60,000	4,80,000	3,60,000	5,40,000	4,80,000

*Note:*

In case of House-III, the Standard Rent will not be considered because it is more than the maximum of other Two factors.

**Step-2: Taxes levied by any local authority in respect of the property i.e. Municipal taxes to be Deducted:**

Municipal taxes, etc. levied by local authority are to be deducted from the gross annual value calculated as above, if the following conditions are fulfilled:

1. the municipal taxes have been borne by the owner, and
  2. these have been actually paid during the previous year.
- Municipal taxes, etc. due but not paid shall not be allowed as deduction.
  - However, municipal taxes, etc. paid during the previous year are allowable even if they relate to past years or future years.
  - The deduction of municipal taxes for future years shall be allowed if the assessee follows cash system of accounting.
  - Even where the property is situated outside the country, taxes levied by local authority in that country are deductible in deciding the annual value of the property.

The value arrived at after deducting the municipal taxes, if any, may be referred to as the *Net Annual Value* (Annual value as per Income-tax Act).

From such net annual value, deductions as permissible u/s 24(a) & (b) are allowed and the balance is the income under the head 'Income from house property'.

(B) Annual Value for House Property which is Let and was Vacant during the Whole or Part of the Previous Year:

According to section 23(1), the annual value of such house property shall be deemed to be:

- a. the sum for which the property might reasonably be expected to let from year to year i.e. the expected rent; or
- b. where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable i.e. the actual rent; or
- c. where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a) the amount so received or receivable i.e. the actual rent, if any:

From the perusal of the above, the following two situations may emerge:

**Situation-1: Where the property is let and was vacant for part of the year and the actual rent received or receivable is more than the sum determined under clause (a) in spite of vacancy period.**

In this case, clause (c) shall not be applicable as it will be applicable only when actual rent received or receivable is less than the sum referred under clause (a). Hence the Gross Annual Value in this case shall be:

1. the sum for which the property might reasonably be expected to let from year to year; or
2. actual rent received or receivable,

whichever is Higher.

**Situation 2: Where the property is let and was vacant for whole or part of the year and the actual rent received or receivable owing to such vacancy is less than the sum determined under clause (a).**

The annual value of the property shall be determined under this situation if all the following 3 conditions are satisfied:

1. The property is let;
2. It was vacant during the whole or part of the previous year;

3. Owing to such vacancy, the actual rent received or receivable is less than the value determined under section 23(1)(a)

In this case, both clause (a) and clause (b) shall not be applicable but clause (c) shall be applicable and the Gross Annual Value shall be the actual rent received or receivable.

(C) Annual Value for House Property which is Part of the Year Let and Part of the Year Occupied for Own Residence:

Where a house property is, part of the year let and part of the year occupied for own residence, its annual value shall be determined as per the provisions of section 23(1) relating to let out property.

In this case, the period of occupation of property for own residence shall be irrelevant and the annual value of such house property shall be determined as if it is let for part of the year.

Hence, the expected rent as per section 23(1)(a) shall be taken for full year but the actual rent received or receivable shall be taken only for the period let and the gross annual value shall be higher of these two.

(D) Annual Rental Value for Self-Occupied House Property

1. Only one House under own Occupation.

Annual value is taken as nil.

2. More than one house under own occupation.

Annual value of one house is taken as NIL and other house/houses are deemed to be let.

3. House Property consists of various independent units and one is under own occupation and others are let out.

Annual value of one unit is taken as NIL and other unit/units are treated as let out.

4. If house property is partly let out and partly self-occupied, it is to be treated as

- a. if units are inseparable and it is treated as one house then no benefit of self-occupation shall be allowed;
- b. if units are separable, each unit or part is to be treated as a separate house and it shall get respective treatment.

5. House property is let out for part of the year and under own occupation for part of the year.

Whole property is treated as let out house property and no benefit of self- occupancy shall be allowed. But actual rent is taken only for number of months' house, property is actually let out. As such it gets the same treatment as is for unrealized rent.

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## **2.14 DEDUCTIONS U/S.24 OUT OF ANNUAL VALUE OF LET-OUT AND SELF-OCCUPIED HOUSE PROPERTIES**

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### Deductions Under Section 24 Of Income Tax Act

#### Standard Deduction

A standard deduction of 30% is allowed to the taxpayers on the net annual value. This deduction is by default not applicable to self-occupied house property. Since the net annual value is nil for a self-occupied property the standard deduction is also nil.

#### Interest on Home Loan

Section 24 provides for deduction for interest on a home loan of up to Rs 2,00,000 in a financial year. The assessee can claim a deduction up to Rs 2 lakh while computing his/ her total taxable income under the head of house property. The loan must be taken to acquire, construct, repair, renew or reconstruct the property. However, the deduction is not available on any brokerage or commission an assessed pay to any middlemen or agents. An assessed must calculate the total interest paid payable under each EMI and then claim the tax benefit.

#### Conditions for Claiming Interest on Home Loan

The following conditions must be met to claim the deduction under section 24 of the income tax act:

#### Deduction up to Rs 2,00,000 Under Section 24 Of Income Tax Act

The taxpayer must acquire, construct, repair, renew or reconstruct the property with borrowed capital

The loan is taken on or after the 1st day of April 1999

Such acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed

The assessee needs to submit a certificate from the person to whom any interest is payable on the capital borrowed. Here this person can be a financial institution or a banking company. In any case, the certificate must specify the amount of interest payable by the assessee for the purpose of acquisition or construction of the house property. Obtaining this certificate is not a tough task. Usually, the financial institution or a banking company provides this certificate annually and at the start of the loan period.

The house property is either self-occupied or is vacant. In the case where the property is rented out, the entire amount of interest is allowed as a deduction without any limit

#### Deduction of Rs 30,000 Under Section 24 Of Income Tax Act

In case a taxpayer fails to satisfy any of the above conditions, he/ she can claim only Rs 30,000 as a deduction u/s 24

The loan is taken on or before the 1st day of April 1999 to acquire, construct, repair, renew or reconstruct the property with borrowed capital

Deduction for Pre Construction Interest u/s 24

Till now we have seen the income tax department allows deduction against an already constructed or purchased house property. This implies deduction for an interest post-construction or purchase of a house property. However, an assessee also incurs interest cost during the period of construction or purchase which is known as pre-construction interest.

Section 24 of the income tax act provides for deduction on pre-construction as well as post-construction interest.

The below conditions apply:

The total deduction against pre-construction interest is limited to Rs 2 lakh just like post-construction interest

If the loan is taken for repair or reconstruction, then the deduction is not available

The deduction is available in 5 equal instalments for each financial year. The first instalment is available in the year in which the house is purchased or construction is completed.

Example- Mr. Arum takes a loan to construct a new house. During the pre-construction period, he has paid a total interest of Rs 6 lakh. The construction is over on 5th May 2019. He can claim the total Rs 6 lakh interest in 5 instalments. Every year he can claim Rs 1,20,000. The first claim he can take in the financial year 2019-20 and then claim for the next 4 financial years.

Exceptions Under Section 24 Of Income Tax Act

No deduction against any commission or brokerage. However, to arrive at the net annual value of the property you can deduct municipal taxes from the gross value.

The assessee must possess a certificate of interest against the home loan

If the house is not occupied by the owner there is no upper limit on the amount of tax deduction.

Section 24 and Section 80EE of Income Tax Act

While calculating the total income an assessee can claim a tax deduction against interest payable on the loan.

However, the following conditions apply:

The home loan is taken to purchase a house property for residential purpose only

The loan is taken by him/ her from any financial institution for the purpose of acquisition of a residential property.

The loan must be sanctioned between the period beginning from 1st April 2016 and ending on 31st March 2017

As on the sanction date, the taxpayer must not own any other house property

The loan sanction amount is less than Rs 35 lakh to acquire a residential house property

The Total value of the house property is less than Rs 50 lakh

An assessed can claim tax deduction under both the section. All you need to do is satisfy the conditions under both the section. First claim tax benefit under section 24 up to Rs 2 lakh. Further, claim the next Rs 50,000 of interest on home loan under section 80EE. This way you can ensure you claim a total of Rs 2,50,000 against interest

Income from House Property

A taxpayer can earn income from house property in the following cases:

Income From	Scenario	Amount of Income
House Property		
Rental Income	The taxpayer receives rental income from the tenant against a let out property	Rental amount per month excluding any maintenance charges.
Deemed to be let out	The taxpayer owns more than 2 house properties	Gross Annual Value(deemed income)
Self-Occupied	Taxpayer is living in the house	NIL

The income from house property is calculated as follows:

Particulars	Amount
Gross annual Value	XXX
Less: Municipal Taxes or Taxes paid to local authorities	XXX
Net Annual Value (NAV)	XXX
Less: Standard Deduction (30% of NAV)	XXX
Less: Interest on Housing Loan	XXX
Less: Pre-construction interest	XXX
Income from House Property	XXX

What is Gross Annual Value?

The annual value of the property will be calculated as follows:

A sum of rental income that the assessee expect to receive year on year will be the gross annual value. This calculation is usually used for deemed let out property

The property may let out the property during the financial year. The assessee receives rental income less than the amount specified in point (1). In such a case the actual amount of rental income received will be the gross annual value of the property.

The property may let out the property during the financial year. The property was vacant for whole financial year or a part of the financial year. Owing to such vacancy the actual rent received or receivable by the owner is less than the amount specified in point (1). In such a case the actual amount of rental income received will be the gross annual value.

#### Illustration on Income Under the Head House Property

Mr. Arum has taken a loan from a financial institution. He pays an EMI of Rs 36000 per month.

Case-1 He lives in the house i.e. the property is self-occupied by him. The total EMI paid in the financial year is Rs Rs 4,32,000. Interest paid is Rs 264000 and the principal amount is Rs 1,68,000. The pre-construction interest is Rs 3,00,000. Hence, the pre-construction interest every financial year is Rs 60,000

Case-2 He has let out his property for Rs 40,000 per month.

Particulars	Self- Occupied	Let-Out
Gross Annual Value	NIL	4,80,000
Less: Municipal Taxes or Taxes paid to local authorities	NA	10,000
Net Annual Value (NAV)	NIL	4,70,000
Less: Standard Deduction (30% of NAV)	NA	1,41,000
Less: Interest on Housing Loan	2,00,000	2,64,000
Less: Pre-construction interest	60,000	60,000
Income from House Property	(2,60,000)	5,000
Loss	(2,00,000)	–

It is to be noted that an assessed can set-off a maximum loss in a financial year is limited to Rs 2,00,000. The remaining loss can be carried forward to future years – 8 years in total. However, in these 8 years, it can only be set off from income from house property.



## 2.15 PROBLEMS ON COMPUTATION OF INCOME FROM HOUSE PROPERTY

**Q1. Mr. X owns five houses at Cochin. Compute the Gross Annual Value of each house from the information given below:**

Particulars	House I	House II	House III	House IV	House V
Municipal Value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair Rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard Rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received/receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000

[May 2012, 5 Marks]

**Ans.:**

		House I	House I	House I	House I	House V
		I	I	II	V	V
(a)	Municipal Valuation	1,20,000	2,40,000	1,10,000	90,000	75,000
(b)	Fair Valuation	1,50,000	2,40,000	1,14,000	84,000	80,000
(c)	<b>Higher</b> of (a) and (b)	1,50,000	2,40,000	1,14,000	90,000	80,000
(d)	Standard Rent	1,08,000	N.A.	1,44,000	N.A.	78,000
(e)	Expected Rent [ <b>Lower</b> of (c)]	1,08,000	2,40,000	1,14,000	90,000	78,000

)	and (d)]					
(f)	Actual Rent	1,80,000	2,10,000	1,20,000	1,08,000	72,000
(g)	<b>Gross Annual value [Higher of (e) and (f)]</b>	<b>1,80,000</b>	<b>2,40,000</b>	<b>1,20,000</b>	<b>1,08,000</b>	<b>78,000</b>

**Q2. Mr. An owns a commercial building let out @ ` 40,000 per month. During the financial year 2021-22, he wants to claim expenses made towards insurance, water, etc. from the rent received. Comment in the light of section 24(a).**

**Ansa:** The section 24(a) allows deduction to an extent of 30% of Net Annual Value (NAV) as a standard deduction from the house property used as a let out property or deemed let out property. In the given case, Mr. A is entitled to standard deduction but no other expenditure shall be allowed as deduction towards insurance, repair, ground rent, collection charges, water charges, etc.

**Q3. Ms. Jota purchased a house property costing ` 49 Lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose she obtained loan from DHFL of ` 35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house.**

**State with brief reasons the deductions that can be claimed by Ms. Jota in respect of interest on loan for Assessment Year 2022-23. What would be the change in your answer if the loan has been taken over for repairs.**

*[Nov. 2017 Modified, 5 Marks]*

**Ansa:**

**Interest paid on housing loan** = 14% of ` 35,00,000 = ` 4,90,000

**Status of house property** = Self-occupied

(a) **Loan taken for construction or acquisition:** If the capital is borrowed on or after April 1, 1999 for acquiring or constructing a property which is self-occupied, the interest on such borrowed capital is deductible **up to ` 2,00,000.**

(b) **Loan taken for reconstruction, repairs or renewal:** In this case, the maximum amount of deduction on account of interest is ` 30,000.

**Q4. Mrs. Vial commenced construction of house meant for residential purpose on 01.11.**

**2019. She raised a loan of ` 10 lakhs @ 11% per annum from a bank. Finding that there was over run in the cost of construction, she raised a further loan of ` 5 lakhs from her friend at 15% rate of interest per annum on 1.10.2021. The construction was completed by February, 2022.**

**Compute the amount of interest allowable under section 24 of the income-tax Act, 1961 in the following cases:**

**(I) The house was meant for self-occupation from 01.03.2022**

**(ii) The house was to be let out from 01.03.2022.**

**Is there any deduction available u/s 80C towards principal repayment in respect of above loans?**

**[CMA June 2011, 6 Marks]**

**Ansa:**

**(I) When the house was meant for self-occupation:**

**Computation of the amount of interest**

**allowable under section 24**

<b>(a)</b>	<b>Interest for current previous year</b>		
	$\text{` } 10,00,000 \times 11/100$	1,10,000	
	$\text{` } 5,00,000 \times 15/100 \times 6/12$	37,500	1,47,500
<b>(b)</b>	<b>Interest for Pre Construction period (1-11-2019 to 31-3-2021)</b>		
	$\text{` } 10,00,000 \times 11/100 \times 17/12 \times 1/5$		31,167
	<b>Total Interest</b>		<b>1,78,667</b>

As per section 24(b), the amount eligible for deduction for interest on borrowed capital (of the current year and pre-construction period) is up to ` 2,00,000. The actual interest (` 1,78,667) is deductible as it is within limit.

**(ii) When the house is let out i.e. 1-3-2022:**

If capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property, then no maximum limit has been prescribed, if the house is let-out.

Therefore, the whole amount of ₹ 1,78,667 (calculated in first part) is deductible.

**Q5. Sanjay commenced construction of a residential house intended exclusively for his residence, on 1-12-2020. He raised a loan of ₹ 8,00,000 @ 15% interest for the purpose of construction on 1-11-2020. Finding that there was an over run in the cost of construction he raised a further loan of ₹ 9,00,000 at 14% p.a. on 1-9-2021. What is the interest allowable under section 24 in Assessment year 2022-23, assuming that the construction was completed on 31-3-2022?**

[May 2000 Modified, 5 Marks]

**Ans:**

**Computation of the amount of interest allowable exemption under section 24**

<b>(a)</b>	<b>Interest for current previous year</b>		
	$₹ 8,00,000 \times 15/100$	1,20,000	
	$₹ 9,00,000 \times 14/100 \times 7/12$	73,500	1,93,500
<b>(b)</b>	<b>Interest for Pre Construction period (1-11-2020 to 31-3-2021)</b>		
	$₹ 8,00,000 \times 15/100 \times 5/12 \times 1/5$		10,000
	<b>Total</b>		<b>2,03,500</b>
	<b>Interest</b>		

As per section 24(b), in case of self-occupied property, the amount eligible for deduction for interest on borrowed capital (of the current year and pre-construction period) is up to ₹ 2,00,000. Thus, the deduction under section 24 in respect of borrowed capital is ₹ 2,00,000.

**Q6. Mr. X owns a house property which is let out. During the previous year ending 31-3-**

**-2021, he receives the following:**

**(I) Arrears of Rent ` 30,000**

**(ii) Unrealized Rent ` 20,000**

**You are requested to**

**(a) State, how they should be dealt with as per the provisions of the Act.**

**(b) Compute the income chargeable under the head “Income from House Property”.**

**[May 2002, 4 Marks]**

**Ans.:**

**(a) State, how they should be dealt with as per the provisions of the Act.**

As per section 25A, the arrears of rent received are taxable in the year in which arrears have been received. However, deduction shall be allowed @ 30% of such arrears and only the balance amount is taxable. The taxability exists irrespective of the fact whether assessee remains the owner of the property in the year of receipt or not.

**(b) Computation of Income from House Property**

**(Assessment Year 2021-22)**

		<b>Amount ( ` )</b>
Arrear of Rent received	30,000	
<b>Less: Deduction @ 30% u/s 25 A</b>	<b>(9,000)</b>	<b>21,000</b>
Unrealized Rent received	20,000	
<b>Less: Deduction @ 30% u/s 25 A</b>	<b>(6,000)</b>	<b>14,000</b>
<b>Taxable Income from House property</b>		<b>35,000</b>

**Q7. [Elementary] Amalec owns a house property which is let-out for ` 6,500 per month. The fair rent of the property is ` 90,000. Municipal taxes paid during the year for each half year is ` 3,200. The tenant has spent ` 10,000 towards repairs of the property during the year. Compute the income from house property for the assessment year 2022-23.**

**Ans.: Computation of Income from House Property**

**(Assessment Year 2022-23)**

		<b>Amount ( ` )</b>
Gross Annual Value (Note 1)		90,000
<b>Less: Municipal Taxes paid (Note 2)</b>		6,400
Net Annual Value (NAV)		83,600
<b>Less: Deduction under section 24</b>		
Standard (30% of ` 83,600)		(25,080)
<b>Taxable Income from House property</b>		<b>58,520</b>

**Working Notes:**

- The GAV of the house property is determined as under:

**Step 1: Computation of Expected Rent**

<b>(a)</b>	Municipal Valuation	:	NA
<b>(b)</b>	Fair Valuation	:	` 90,000
<b>(c)</b>	Higher of (a) and (b)	:	` 90,000
<b>(d)</b>	Standard Rent	:	NA

Expected Rent = Lower of (c) and (d) = ` 90,000

**Step 2: Computation of Gross Annual value**

(i) Expected Rent (As per step 1) : ` 90,000

(ii) Actual Rent Received ( $6,500 \times 12$ ) : ` 78,000

**Gross Annual Value:** The expected rent is higher than the rent received. Thus, the expected rent i.e. ` 90,000 shall be GAV.

- The Municipal Taxes paid during the year for **each half year** is ` 3,200 i.e. ` 6,400 annual.

**Q8. Mr. Lal is the owner of a commercial property let out at ` 60,000 per month. The Corporation tax on the property is ` 30,000 annually, 60% of which is payable by the tenant. This tax was actually paid on 15.04.2021. He had borrowed a sum of ` 40 lakhs from his cousin, resident in Singapore (in dollars) for the construction of the property on which interest at 8% is payable. He has also received arrears of rent of ` 80,000 during the year, which was not charged to tax in the earlier years. What is the property income of Mr. Lal for the assessment year 2021-22?**

**Ans.: Computation of Income from House Property**

**(Assessment Year 2021-22)**

		Amount ( ` )
Gross Annual Value ( ` 60,000 × 12)		7,20,000
<b>Less: Municipal Taxes (Note 1)</b>		Nil
Net Annual Value (NAV)		7,20,000
<b>Less: Deduction under section 24</b>		
Standard (30% of ` 7,20,000)		(2,16,000)
Interest on Borrowed Capital (40,00,000 × 8%) (Note 2)		(3,20,000) (5,36,000)
<b>Income from House property (Let out portion)</b>		<b>1,84,000</b>
<b>Arrears of rent received</b>		
Arrear of Rent received		80,000
<b>Less: Deduction under section 25A</b>		
Standard (30% of ` 80,000) (Note 3)		(24,000)
Income from arrears of rent		56,200

<b>Taxable Income from House property</b>	<b>2,40,000</b>
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**Working Notes:**

1.

1. Municipal taxes paid by tenant (60%) are not deductible. The balance 40%, although paid by assessee, is not deducted because it was paid in FY 2021-22 and not in 2020-21.
2. It is presumed that the tax has been deducted at source on the amount of interest payable outside India.
3. As per section 25A, the arrears of rent received are taxable in the year in which arrears have been received. However, deduction shall be allowed @ 30% of such arrears and only the balance amount is taxable.

**Q9. Taren, employed in a private company, commenced construction of a commercial complex in July, 2020. He borrowed ` 50 lakhs from a bank @ 9% per annum. Interest up to 31.03.2021 was ` 2,20,000 and for the period from 01.04.2021 to 31.12.2021 ` 2,30,000; ` 1,40,000 towards interest for the balance three months remained unpaid.**

**The construction of the building was completed on 31st December, 2021. The building was let out i.e. 01.01.2022 for a monthly rent ` 90,000. Municipal tax of ` 1,20,000 was paid by cash on 10.01.2022. He repaid ` 1,90,000 towards principal during the previous year 2021-22, of which he paid ` 1,20,000 up to 31.12.2021. The municipal value of the property is ` 9,00,000.**

**Compute the income from house property of Taren for the assessment year 2022-23.**

**Ansa: Computation of Income from House Property**

**(Assessment Year 2022-23)**

		<b>Amount ( ` )</b>
Gross Annual Value (Note 1)		2,70,000
<b>Less: Municipal Taxes paid</b>		(1,20,000)
Net Annual Value (NAV)		1,50,000
<b>Less: Deduction under section 24</b>		



Standard (30% of ` 1,50,000)	(45,000)	
Interest on Borrowed Capital		
Current Year	(3,70,000)	
Pre-construction Period (2,20,000 × 1/5)	(44,000)	(4,59,000)
<b>Taxable Income from House property</b>		<b>(3,09,000)</b>

**Q10. Mr. Ganesh owns a commercial building whose construction got completed in June 2020. He took a loan of ` 15 lakhs from his friend on 1-8-2019 and had been paying interest calculated at 15% per annum. He is eligible for pre-construction interest as deduction as per the provisions of the Income Tax Act.**

**Mr. Ganesh has let out the commercial building at a monthly rent of ` 40,000 during the financial year 2021-22. He paid municipal tax of ` 18,000 each for the financial years 2020-21 and 2021-22 on 1-5-2021 and 5-4-2022 respectively.**

**Compute income under the head ‘House Property’ of Mr. Ganesh for the Assessment Year 2022-23.**

**[May 2017, 4 Marks]**

**Ansa: Computation of Income from House Property**

**(Assessment Year 2022-23)**

		<b>Amount (₹)</b>
Gross Annual Value (Actual Rent: ` 40,000 × 12)		4,80,000
<b>Less: Municipal Taxes paid (Note 1)</b>		(18,000)
Net Annual Value (NAV)		4,62,000
<b>Less: Deduction under section 24</b>		
Standard (30% of ` 4,62,000)	(1,38,600)	
Interest on Loan for current Previous year (₹ 15,00,000 × 15)	(2,25,000)	

%)		
Interest on Loan for pre-construction period (Note 2)	(30,000)	(3,93,600)
<b>Taxable Income from House property</b>		<b>68,400</b>

**Working Notes:**

1.

1. Municipal taxes paid on 5-4-2022 are not considered because these are not paid in financial year 2021-22.
2. The interest for pre-construction period deductible in previous year is determined as under:

(a)	Pre-construction period (PCP)	:	1-8-2019 to 31-3-2020 i.e. 8 Months
(b)	Loan amount	:	₹ 15,00,000
(c)	Rate of Interest	:	15%
(d)	Total Pre-construction Interest	:	$15,00,000 \times 15\% \times 8/12 = ₹ 1,50,000$
(e)	PCP Interest deductible in current Pr. Yr.	:	$₹ 1,50,000 \times 1/5 = ₹ 30,000$

**Q11. Mr. Ashok owns two buildings which are let out during the financial year 2021-22.**

**The relevant details are as under:**

Particulars	House 1 Residential (₹)	House 2 Commercial (₹)
<b>Municipal Value</b>	<b>1,80,000</b>	<b>3,60,000</b>
<b>Standard Rent</b>	<b>1,50,000</b>	<b>3,00,000</b>
<b>Actual Rent</b>	<b>2,40,000</b>	<b>6,00,000</b>

<b>Municipal Tax paid</b>	<b>20,000</b>	<b>30,000</b>
<b>Municipal Tax unpaid</b>	<b>10,000</b>	<b>15,000</b>
<b>Interest on money borrowed paid</b>	<b>60,000</b>	<b>20,000</b>
<b>Interest on money borrowed outstanding</b>	<b>1,00,000</b>	<b>1,60,000</b>
<b>Housing loan principal repaid to bank</b>	<b>50,000</b>	<b>30,000</b>

**You are requested to compute income of Mr. Ashok under the head income from house property for the assessment year 2022-23.**

**Ansa: Computation of Income from House Property**

**(Assessment Year 2022-23)**

	<b>House 1</b>	<b>House 2</b>
	<b>Residential</b>	<b>Commercial</b>
Gross Annual Value (Note 1)	2,40,000	6,00,000
<b>Less: Municipal Taxes paid</b>	(20,000)	(30,000)
Net Annual Value (NAV)	2,20,000	5,70,000
<b>Less: Deduction under section 24</b>		
Standard (30% of NAV)	(66,000)	(1,71,000)
Interest on Loan	(1,60,000)	(1,80,000)
<b>Taxable Income from House property</b>	<b>(6,000)</b>	<b>2,19,000</b>

**Note:** Repayment of principal amount of housing loan to bank is deductible from Gross Total Income under section 80C.

**Working Notes:**

1. The GAV of both the houses are determined as under:

2			<b>House 1</b>	<b>House 2</b>
(a)	Municipal Valuation	:	₹ 1,80,000	₹ 3,60,000
(b)	Fair Valuation	:	NA	NA
(c)	Higher of (a) and (b)	:	₹ 1,80,000	₹ 3,60,000
(d)	Standard Rent	:	₹ 1,50,000	₹ 3,00,000
(e)	Expected Rent Lower of (c) and (d)	:	₹ 1,50,000	₹ 3,00,000
(f)	Actual Rent	:	₹ 2,40,000	₹ 6,00,000
(g)	Gross Annual value Higher of (e) and (f)	:	₹ 2,40,000	₹ 6,00,000

**Q12. Mr. Chaturvedi, Delhi has 3 house properties in various parts of India. The details are given below:**

<b>Location of Property</b>	<b>Delhi</b>	<b>Chandigarh</b>	<b>Kolkata</b>
<b>Usage</b>	<b>Self-Occupied</b>	<b>Let out</b>	<b>Let Out</b>
	<b>Amount (₹)</b>	<b>Amount (₹)</b>	<b>Amount (₹)</b>
<b>Rent Received</b>	<b>NIL</b>	<b>360,000</b>	<b>1,80,000</b>
<b>Fair Rent</b>	<b>2,40,000</b>	<b>30,000</b>	<b>1,50,000</b>
<b>Municipal Value</b>	<b>2,10,000</b>	<b>240,000</b>	<b>1,20,000</b>
<b>Standard Rent</b>	<b>1,80,000</b>	<b>210,000</b>	<b>90,000</b>
<b>Municipal Tax Due</b>	<b>20,000</b>	<b>40,000</b>	<b>30,000</b>

<b>Municipal Tax paid by the assessee</b>	<b>NIL</b>	<b>NIL</b>	<b>20,000</b>
<b>Interest on money borrowed</b>	<b>2,80,000</b>	<b>1,40,000</b>	<b>1,50,000</b>

**Note: All the properties were acquired/constructed after 01.04.2013.**

**You are required to compute the income of Mr. Chaturvedi chargeable under the head Income from house property for the assessment year 2022-23.**

**Ansa: Computation of Income from House Property**

**(Assessment Year 2022-23)**

	<b>Delhi</b>	<b>Chandigarh</b>	<b>Kolkata</b>
	<b>Self-Occupied</b>	<b>Let out</b>	<b>Let Out</b>
Gross Annual Value (Notes 1 and 2)	NA	3,60,000	1,80,000
<b>Less: Municipal Taxes paid</b>	NA	Nil	(20,000)
Net Annual Value (NAV)	Nil	3,60,000	1,60,000
<b>Less: Deduction under section 24</b>			
Standard (30% of NAV)	Nil	(1,08,000)	(48,000)
Interest on Loan	(2,00,000)	(1,40,000)	(1,50,000)
<b>Taxable Income from House property</b>	<b>(2,00,000)</b>	<b>1,12,000</b>	<b>(38,000)</b>

**Total taxable Income from House Property = (2,00,000) + 1,12,000 + (38,000) = – 1,26,000**

**Working Notes:**

1.

1. The NAV of self-occupied property (Delhi) is always taken as nil.
2. The GAV of both the houses are determined as under:

			<b>Chandigarh</b>	<b>Kolkata</b>
<b>(h)</b>	Municipal Valuation	:	` 2,40,000	` 1,20,000
<b>(I)</b>	Fair Valuation	:	` 3,00,000	` 1,50,000
<b>(j)</b>	Higher of (a) and (b)	:	` 3,00,000	` 1,50,000
<b>(k)</b>	Standard Rent	:	` 2,10,000	` 90,000
<b>(l)</b>	Expected Rent Lower of (c) and (d)	:	` 2,10,000	` 90,000
<b>(m)</b>	Actual Rent	:	` 3,60,000	` 1,80,000
<b>(n)</b>	Gross Annual value Higher of (a) and (b)	:	` 3,60,000	` 1,80,000

**Q13. X (44 years) owns a residential property in Ranchi. Municipal valuation of the property is Rs. 8,00,000. Rent of similar property in the same locality of Ranchi is Rs. 12,00,000. Standard rent of the property under the relevant Rent Control Act is Rs. 10,00,000. It is let out to A Inc. (a foreign company) on monthly rent of US \$ 3,100 (amount is deposited in New York branch of Citibank, with prior permission of RBI). There is no unrealized rent. However, property remains vacant for one month commencing from March 16, 2022 when A Inc. has vacated the property. With effect from April 15, 2022, the same property is let out to B Ltd., an Indian company.**

**The following expenses are incurred by X during the previous year 2021-22 –**

**Municipal tax: Rs. 1,70,000 (actually paid).**

**Collection charges: Rs. 10,000**

**Interest on borrowed capital: Rs. 3,00,000 (actual amount paid is Rs. 2,30,000).**

**Fire insurance premium: Rs. 30,000.**

**Income of X from other sources is Rs. 12,45,000. Amount deposited in New York branch of Citibank is yet to be remitted to India. X has repaid Rs. 90,000 to the bank from whom loan was taken for purchasing the aforesaid property. Besides, he deposits Rs. 40,000 in the provident fund account of Mrs. X.**

**Find out the net income and tax liability of X for the assessment year 2022-23. Ignore section 115BAC pertaining to alternative tax regime‡. For conversion of rent into**

**Indian currency, the following telegraphic transfer buying/selling rates of US \$ adopted by SBI are given –**

	<b>Buying (1 US \$)</b>	<b>Selling (1 US \$)</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>On April 1, 2021</b>	<b>47</b>	<b>49</b>
<b>On March 31, 2022</b>	<b>45</b>	<b>46</b>

**Solution:** For converting rental income received in foreign currency into Indian currency, the telegraphic transfer buying rate offered by SBI on the last date of the previous year shall be adopted. This rule is applicable if rent is not remitted up to March 31 of the previous year.

	<i>Rs.</i>
Computation of gross annual value	
Municipal value (MV)	8,00,000
Fair rent (FR)	12,00,000
Standard rent (SR)	10,00,000
Annual rent (US \$ 3,100 × 12 × Rs. 45)	16,74,000
Unrealized rent	<i>Nil</i>
Loss due to vacancy (US \$ 3,100 × Rs. 45 × ½)	69,750
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	10,00,000
Step II – Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	16,74,000

Step III – Amount computed in Step I or Step II, whichever is higher	16,74,000
Step IV – Loss due to vacancy	69,750
Step V – Gross annual value is Step III minus Step IV	16,04,250
Less: Municipal tax	1,70,000
Net annual value	14,34,250
Less: Deductions under section 24 –	
Standard deduction @ 30%	4,30,275
Interest on borrowed capital	3,00,000
Income	7,03,975
Computation of income and tax liability	
Income from house property	7,03,975
Income from other sources	12,45,000
Gross total income	19,48,975
<i>Less:</i> Deduction under section 80C (Rs. 90,000 + Rs. 40,000, subject to a maximum of Rs. 1,50,000)	1,30,000
Net income (rounded off)	18,18,980
Tax on net income	
Income-tax†	3,58,194
Add: Health and education cess	14,328



Tax liability (rounded off)		3,72,520
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**Q14. Mrs. X (57 years) owns a commercial property in Chennai. Municipal value of the property is Rs. 9,00,000. Market rent of a similar property in the same locality is Rs. 10,00,000. However, market rent of a similar property in a different locality in Chennai is Rs. 12,00,000. Standard rent of the property owned by Mrs. X is Rs. 12,50,000. This property is let out to a departmental store with effect from May 15, 2021 on monthly rent of Rs. 70,000. During March 10, 2021 and May 14, 2021, the property remains vacant as suitable tenant is not available. Mrs. X could not realize 3 months' rent from the tenant during the previous year 2021-22. Most probably the tenant will pay rent before September 2022.**

**Mrs. X makes the following expenditures in respect of the house property –**

**Municipal tax at the rate of 15 per cent (amount actually paid by the tenant during the previous year 2021-22 is Rs. 80,000); repairs (incurred by the tenant): Rs. 75,000; fire insurance premium (paid by Mrs. X): Rs. 30,000. A loan of Rs. 40,00,000 was taken on April 1, 2013 at the rate of 9 per cent per annum from PNB for construction of the commercial property which was completed on March 1, 2017. Nothing is repaid up to March 31, 2020. During the previous year 2020-21, Mrs. X has repaid Rs. 10,00,000. Further, on March 31, 2022, she pays a sum of Rs. 5,00,000 to PNB on account of housing loan (this repayment of loan according to Mrs. X is qualified for deduction under section 80C). Income of Mrs. X from other sources is Rs. 9,14,000. She deposits Rs. 1,50,000 in public provident fund in November 2021. She has taken media-claim insurance premium on the life of her mother for which she pays Rs. 34,000 every year.**

**Find out net income and tax liability of Mrs. X for the assessment year 2022-23. Ignore section 115BAC pertaining to alternative tax regime‡.**

**Solution:**

		Rs.
Computation of gross annual value		
Municipal value (MV)		9,00,000
Fair rent (FR)		10,00,00

		0
Standard rent (SR)		12,50,000
Annual rent (Rs.70,000 × 12)		8,40,000
Unrealized rent (unrealized rent is not deductible, as there is a possibility of recovering the amount)		<i>Nil</i>
Loss due to vacancy (Rs. 70,000 × 1.5)		1,05,000
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]		10,00,000
Step II – Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy		8,40,000
Step III – Amount computed in Step I or Step II, whichever is higher		10,00,000
Step IV – Loss due to vacancy		1,05,000
Step V – Gross annual value is Step III minus Step IV		8,95,000
Less: Municipal tax		<i>Nil</i>
Net annual value		8,95,000
Less: Deductions under section 24 –		
Standard deduction @ 30%		2,68,500
Interest from borrowed capital (9% of Rs. 30,00,000)		2,70,000
Income		3,56,500

Computation of income and tax liability		
Income from house property		3,56,500
Income from other sources		9,14,000
Gross total income		12,70,500
Less: Deductions		
Under section 80C (repayment of loan taken for acquiring a commercial property is not eligible for deduction under section 80C)		1,50,000
Under section 80D (mother of Mrs. X is a senior citizen)		34,000
Net income (rounded off)		10,86,500
Tax on net income		
Income-tax†		1,38,450
Add: Health and education cess		5,538
Tax liability (rounded off)		1,43,990

Note – Interest of pre-construction period is deductible in 5 years in 5 equal instalments. First instalment is deductible in the year in which construction is completed. In this case, first instalment is deductible in the previous year 2016-17. The fifth instalment is deductible in the previous year 2020-21. Nothing is, therefore, deductible on account of pre-construction period's interest of the previous year 2021-22.

**Q15. X is a doctor. He owns a property in a posh colony in Cochin. The property has four units of equal size. Unit 1 on the ground floor is used by X for his medical profession. Unit 2 on the first floor is let out to a non-resident on monthly rent of Rs. 80,000 with effect from July 1, 2021. This unit remains vacant during May and June**

2021 as suitable tenant is not available. The old tenant has occupied Unit 2 since 1986 and after a Court verdict he vacates it on April 30, 2021 without paying rent of 6 months (monthly rent being Rs. 10,000).

Unit 3 on the second floor and Unit 4 on the third floor are converted into one residential unit and is occupied by X for his residential purposes.

Municipal valuation of the entire property is Rs. 3,00,000. Market rent of a similar property is Rs. 7,00,000. Standard rent is Rs. 6,50,000. Municipal tax is levied at the rate of 15 per cent. Entire municipal tax is payable by X. Municipal tax of previous year 2021-22 is paid in two instalments – Rs. 28,000 on March 31, 2022 and Rs. 17,000 on June 1, 2022.

X has taken a loan of Rs. 20 lakhs from SBI at the rate of 9 per cent per annum for renovation of second and third floor. This loan was taken in 2020 and nothing is repaid up to March 31, 2022. On March 31, 2022, he repays Rs. 15,00,000. Interest on loan is not paid although it has become due for payment.

Income of X from medical profession is Rs. 33,10,000 (without deducting depreciation of Unit 1 which comes to Rs. 32,000 and municipal tax). X annually pays life insurance premium of Rs. 50,000 on the life of his dependent mother (64 years) and Rs. 1,20,000 in public provident fund. He wants to claim deduction under section 80C in respect of repayment of loan taken from SBI.

Determine the amount of net income and tax liability of X for the assessment year 2022-23. Ignore section 115BAC pertaining to alternative tax regime‡.

**Solution:** Computation of income of Unit 2 which is let out

	<i>Rs.</i>
Computation of gross annual value	
Municipal value of Unit 2 (Rs. 3,00,000 ÷ 4) (MV)	75,000
Fair rent Unit 2 (Rs. 7,00,000 ÷ 4) (FR)	1,75,000
Standard rent Unit 2 (Rs. 6,50,000 ÷ 4) (SR)	1,62,500
Annual rent Unit 2 (Rs. 10,000 × 1 + Rs. 80,000 × 11)	8,90,000

Unrealized rent Unit 2		10,000
Loss due to vacancy (Rs. 80,000 × 2)		1,60,000
Step I – Reasonable expected rent of Unit 2 [MV or FR, whichever is higher, but subject to maximum of SR]		1,62,500
Step II – Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy (Rs. 8,90,000 – Rs. 10,000)		8,80,000
Step III – Amount computed in Step I or Step II, whichever is higher		8,80,000
Step IV – Loss due to vacancy		1,60,000
Step V – Gross annual value is Step III minus Step IV		7,20,000
Less: Municipal tax of Unit 2 (Rs. 28,000 ÷ 4)		7,000
Net annual value		7,13,000
Less: Deductions under section 24 –		
Standard deduction @ 30%		2,13,900
Interest on borrowed capital		<i>Nil</i>
Income from Unit 2		4,99,100

Computation of income of Units 3 and 4 – These two units are used as one residential unit. Gross annual value is *nil*. Municipal tax is not deductible. Interest on borrowed capital is deductible up to Rs. 30,000. Higher deduction up to Rs. 2,00,000 is applicable only in the case when loan is taken for purchase or construction of a residential purposes. Since loan is taken for renovation of Units 3 and 4, the higher amount of Rs. 2,00,000 is not deductible. Interest of the previous year 2021-22 comes to Rs. 1,80,000. However, amount deductible is only Rs. 30,000. Interest on borrowed capital is deductible on accrual basis. In other words, Rs. 30,000 is deductible even if interest is not actually paid. Income from Units 3 and 4 will be (–) Rs. 30,000.

Computation of income from medical profession –

	Rs.
Income	33,10,000
Less: Depreciation	32,000
Less: Municipal tax [(Rs. 28,000 + Rs. 17,000) ÷ 4, municipal tax paid up to due date of submission of return of income is deductible for the previous year 2021-22 under section 43B]	11,250
Income from profession	32,66,750
Computation of income and tax liability –	
Income from house property [Unit 1: Nil, as it is occupied for own business/profession + Unit 2: Rs. 4,99,100 + Units 3 and 4: (-) Rs. 30,000]	4,69,100
Income from profession	32,66,750
Gross total income	37,35,850
Less: Deductions under section 80C (deposit of Rs. 1,20,000 in public provident fund, insurance premium on mother's life is not eligible, repayment of loan is deductible only when it is taken for acquiring or purchasing a property)	1,20,000
Net income (rounded off)	36,15,850
Tax on net income	

Income-tax†		8,97,255
Add: Health and education cess		35,890
Tax liability (rounded off)		9,33,150

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## 2.16 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Long Questions

1. How to compute Salary income under Salary U/S 17 (1)?
2. How to compute income from House Property?
3. Explain the Deductions u/s.24 out of Annual Value of Let-out and Self-occupied House Properties
4. Mr Rajesh owns a residential house, let out for a monthly rent of ` 15,000. The fair rental value of the property for the let out period is ` 1,50,000. The house was self-occupied by him from 1st January, 2020 to 31st March, 2020. He has taken a loan from bank of ` 20 lacs for the construction of the property, and has repaid ` 1,05,000 (including interest ` 40,000) during the year. Compute Rajesh's income from house property for the Assessment Year 2020-21.
5. The Following are the particulars of income of Mr. Ramesh (an employee of an Individual) std for the previous year ended on 31 March2020.
  - i. Salary Rs. 4500p.m
  - ii. Bonus equal to two month spay
  - iii. Dog allowance – Rs. 75p.m
  - iv. Special Allowance – Rs.60 p.m.
  - v. Employee's contribution to a recognized provident fund @ 15% of salary
  - vi. Employer's contribution to the fund @ 15% of the salary
  - vii. Interest credited to the provident fund @ 9.5% p.a. is Rs. 2,800
  - viii. He is provided with free lunch in office. The cost per meals Rs.30
  - ix. The employer has given him the use of small car which he uses for personal and official purpose. He meets the expenses for personal purpose from out of his pocket. Compute the income of Mr. Ramesh from salaries for the A.Y. 2020-2021.

#### Short Questions

1. Explain the meaning of salary under Income Tax act
2. Write a short note on Annual Accretion
3. What does profit in lieu of salary include?
4. What Is Income from House Property?
5. What is Gross Annual Value?

### **B. Multiple Choice Questions**

1. Ms. Janie is provided with an interest loan by her employer for the purchase of a house. The value of the perquisite shall be:

- a. Simple interest computed at the rate charged by State Bank of India on 1st April of the previous year
- b. Simple interest computed at the rate charged by the Central Government to its employees on 1st April of the previous year
- c. Simple interest computed at the rate charged by National Housing Bank on 1st April of the previous year
- d. Simple interest computed at the rate determined by the employer on 1 std April of the previous year

2. Mr. Ram owns a house property. He lent it to Layman at ` 10,000 p.m.

Layman sublet it to Mr. Marti on monthly rent of ` 20,000 p.m. Rental

income of Layman is taxable under the head .

- a. income from salary
- b. income from other sources
- c. income from house property
- d. income from business

3. When interest on employee's own contribution from the unrecognized provident fund is received, it is:

- a. taxable as income from salary
- b. exempt from tax
- c. taxable as income from other sources
- d. taxable if the interest exceeds 10,000



4. Bimal is employed in a factory at a salary of 2,400 per month. He also gets a dearness allowance @ 600 per month and a bonus of @ 200 per month. He retired on 31 std December 2020 and received 75,000 as gratuity under the Payment of Gratuity Act, 1972 after serving 31 years and 4 months in that factory. The amount of gratuity exempt under the Income-tax Act, 1961 will be

- a. ₹ 75,000
- b. ₹ 21,346
- c. ₹ 20,00,000
- d. ₹ 53,654

5. Allowances and perquisites allowed to an employee for services rendered outside India are tax-free in case of –

- a. Government employees only
- b. All types of employees
- c. Non-government employees only
- d. None of these

**Answers: 1-a, 2-b, 3-c, 4-d, 5-a**

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## 2.17 REFERENCE

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# **UNIT – 3 DEPRECIATION & INCOME FROM BUSINESS AND PROFESSION, INCOME FROM OTHER SOURCES AND CAPITAL GAIN**

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## **STRUCUTRE**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Depreciation- Meaning
- 3.3 Conditions for charge of depreciation
- 3.4 Assets used for Business
- 3.5 Block of Assets
- 3.6 Rates of Depreciation
- 3.7 Miscellaneous Provisions about depreciation
- 3.8 Computation of Depreciation
- 3.9 Business and Profession- Provisions and deduction related to Income from Business and profession
- 3.10 Problems on computation of Income from Business and Profession
- 3.11 Income from other sources and Capital gain
- 3.12 Unit End Questions
- 3.13 References

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## **3.0 OBJECTIVES**

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- Describe the meaning of depreciation
- Explain different rates of depreciation
- Discuss income from other sources and capital gain
- Explain the computation of depreciation

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## 3.1 INTRODUCTION

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Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by the entity.

Income from Other Sources is one of the five heads of income subject to taxation under the Income Tax Act, 1961. Any income that is not covered in the other remaining four heads of income is taxed under income from other sources. It is referred to as residuary head of income. Incomes excluded from salary, house property, business & profession (PGBP) or capital gains are covered in Income from Other Sources, barring incomes that are exempt under the Income Tax Act.

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## 3.2 DEPRECIATION- MEANING

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In accounting terms, depreciation is defined as the reduction of the recorded cost of a fixed asset in a systematic manner until the value of the asset becomes zero or negligible.

An example of fixed assets are buildings, furniture, office equipment, machinery etc. The land is the only exception that cannot be depreciated as the value of land appreciates with time.

Depreciation allows a portion of the cost of a fixed asset to the revenue generated by the fixed asset. This is mandatory under the matching principle as revenues are recorded with their associated expenses in the accounting period when the asset is in use. This helps in getting a complete picture of the revenue generation transaction.

**An example of Depreciation** – If a delivery truck is purchased by a company with a cost of Rs. 100,000 and the expected usage of the truck are 5 years, the business might depreciate the asset under depreciation expense as Rs. 20,000 every year for a period of 5 years.

Depreciation is an accounting method that spreads the cost of an asset over its expected useful life. Businesses record depreciation as a periodic expense on the income statement. Assets lose value as they depreciate over time. There are four main methods used to calculate depreciation: straight-line, units of production, double declining balance and sum of the years' digits.

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### **3.3 CONDITIONS FOR CHARGE OF DEPRECIATION**

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The following are four basic conditions for claiming the depreciation:

1. The asset must be owned, wholly or partly, by the assessee. (not necessary to be a registered owner)
2. The asset should be actually used for the purpose of business or profession of the assessee.
3. The asset should have been used during the relevant year in which depreciation allowance is claimed
4. The assets must fall under eligible block of assets

Further, the following points can be noted in respect of depreciation:

- Co-owners are entitled to claim depreciation to the extent of the value of the asset owned by each co-owner.
- Depreciation is not allowable on the cost of land.
- Depreciation is mandatory from A.Y. 2002-03 and shall be allowed or deemed to have been allowed irrespective of claim made in the profit & loss account or not [Explanation 5 to section 32(1)(ii)].
- Where the asset is not exclusively used for the purpose of business or profession, the depreciation shall be allowed proportionately with regards to such usage of assets [section 38(2)].

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### **3.4 ASSETS USED FOR BUSINESS**

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Businesses don't depreciate all its assets. Low-cost items with a short lifespan are recorded as business expenses. You can write off these expenses in the year they were incurred.

For example, office supplies are expense items while a printer, that you would use for a longer period, is a fixed asset that depreciates every year.

Which Asset Does Not Depreciate?

All depreciable assets are fixed assets but not all fixed assets are depreciable. For an asset to be depreciated, it must lose its value over time. For example, land is a non-depreciable fixed asset since its intrinsic value does not change.

You cannot depreciate property for personal use and assets held for investment.

Examples of non-depreciable assets are:

- Land
- Current assets such as cash in hand, receivables
- Investments such as stocks and bonds
- Personal property (Not used for business)
- Leased property
- Collectibles such as memorabilia, art and coins

Examples of Depreciating Assets

Tangible assets such as:

- Manufacturing machinery
- Vehicles
- Office buildings
- Buildings you rent out for income (both residential and commercial property)
- Equipment, including computers

If you've made improvements to your rented property, you're eligible to depreciate them.

Intangible property such as patents, copyrights, computer software can be depreciated.

### **What Qualifies as a Depreciable Asset?**

Depreciable assets are business assets eligible for depreciation (based on the IRS rules). According to the IRS Publication 946, to qualify as a depreciable asset, the property must meet the following requirements:

- You must be the owner
- You must use it in your business or income-producing activity
- It must have a useful life of at least a year

### **Why Do Assets Depreciate?**

Fixed assets, such as equipment and vehicles, are major expenses for any business. After a certain period of time, these assets become obsolete and need to be replaced. Assets are depreciated to calculate the recovery cost that is incurred on fixed assets over their useful life. This is used as a sinking fund to replace the asset when it is at the end of its working life or when you need to sell it.

Since it is used to lower the taxable income, depreciation reduces the tax burden. However, depreciation is a non-cash expense and has no effect on your cash flow or actual cash balance.

How Do You Calculate Depreciable Assets?

There are several ways to depreciate an asset. Using the straight line depreciation method, the business charges the same depreciation expense every accounting period. This is the asset cost minus the residual value, divided by the number of functioning years.

According to the IRS, “The Modified Accelerated Cost Recovery System (MACRS) is the proper depreciation method for most property”. This method of depreciation allows a larger tax deduction in the early years of an asset and less in later years.

The formula to calculate MACRS Depreciation is as follows:

The cost basis of the asset X Depreciation rate

The other methods of calculating depreciation are the unit of production method and double declining balance method.

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### **3.5 BLOCK OF ASSETS**

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Prior to the 1986, the Income-tax Act allowed the calculation of depreciation in respect of each capital asset separately. The computation of depreciation allowance was a detailed and time-consuming exercise on part of taxpayer and the tax department due to difference in rate of depreciation depending on the date of purchase, the type of asset, the intensity of use etc. Moreover, the system of granting the terminal allowance or taxing the balancing charge at the time an asset was sold, demolished, discarded, etc., necessitated the maintenance of records of depreciation already allowed in respect of each asset.

To simplify the cumbersome process of calculating depreciation and maintenance of records, the Finance Minister in his budget speech for the year 1986-87 announced new provisions for allowing depreciation in respect of blocks of asset. The concept of ‘block of assets’ was introduced by the Taxation Laws (Amendment and Miscellaneous Provisions) Act, 1986 with effect from 1-4-1988 and subsequently amended by the Finance (No.2) Act, 1998 with effect from 1-4-199 to include intangible assets as well.

“block of assets means a group of assets falling within a class of assets comprising –

- a. tangible assets, being building, machinery, plant or furniture;
- b. intangible assets, being knowhow, patents, copyrights, trade-marks, licenses, franchises or any other business or commercial rights of similar nature “not being goodwill of a business or profession,”,

in respect of which the same percentage of depreciation is prescribed.”

It is always easier to create a class of assets to apply a rate of tax on assets and that is where the concept of *block of assets* comes in handy. The idea of a block of assets under the Indian Income Tax Act comes from that idea. In a ‘block of assets, the assets of similar category are considered in a block or class that comprises of similar other assets. In other words, the ‘block of assets is a group of a company’s assets falling within a class of assets comprising of

- Tangible assets such as building, plant, furniture, and machinery; or,
- Intangible assets such as copyright, license, know-how, patents, trademarks, or any other business or commercial rights that are owned by a company.

The idea of a block of assets is to make things simpler for accounting and calculation of depreciation and other required calculations in finance. By referring to block of assets, tax consultants and accountants can find the tax rate and other provisions of a depreciating asset quickly and without any hassle. Block of assets is, therefore, a rule to be followed as well as a way to make things simpler.

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### 3.6 RATES OF DEPRECIATION

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Sloe	Asset Class	Asset Type	Rate of Depreciation
1	Building	Residential buildings not including boarding houses and hotels	5%
2	Building	Boarding houses and hotels	10%
3	Building	Purely temporary constructions like wooden structures	40%
4	Furniture	Any fittings / furniture including electrical fittings	10%
5	Plant and machinery	Motor cars excluding those used in a business of running them on hire	15%
6	Plant and machinery	Motor cars excluding those used in a business of running them on hire purchased on or after 23 August 2019 but before the 1 April 2020 and is put to use before 1 April	30%



		2020	
7	Plant and machinery	Lorries/taxis/motor buses used in a business of running them on hire	30%
8	Plant and machinery	Lorries/taxis/motor buses used in a business of running them on hire purchased on or after 23 August 2019 but before the 1 April 2020 and is put to use before 1 April 2020	45%
9	Plant and machinery	Computers and computer software	40%
10	Plant and machinery	Books owned by assessee carrying on a profession being annual publications	100%
11	Plant and machinery	Books owned by assessee carrying on profession not being annual publications	60%
12	Plant and machinery	Books owned by assessee carrying on business in running lending libraries	100%
13	Intangible assets	Franchise, trademark, patents, license, copyright, know-how or other commercial or business rights of similar nature	25%

The below depreciation rate chart is divided into two parts

- **Part A Tangible Assets**
- **Part B Intangible Assets**

Asset Class	Sr. No.	Asset Type	Rate of Depreciation
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Part A Tangible Assets

Building	1	Buildings used primarily for residential reasons	5%
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<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		(excluding boarding houses and hotels)	
	2	Buildings apart from those used primarily for residential reasons and not covered by sub items 1 (above) and 3 (below)	10%
	3	Buildings procured on or after September 1, 2002, for installing plant and machinery forming part of water treatment system or water supply project and which is used for the purpose of business of providing infrastructure facilities under clause (I) of subsection (4) of section 80-IA	40%
	4	Purely temporary erections like wooden structures	40%
Furniture and fittings		Furniture and fittings including electrical fittings	10%
Plant and machinery	1	Plant and machinery excluding those covered by sub-items (2), (3) and (8) below	15%
	2	Motor cars, excluding those used in a business of running them on hire, procured or put to use on or after April 1, 1990	15%
	3	Motor cars, other than those used in a business of running them on hire, acquired on or after the 23rd day of August, 2019 but before the 1st day of April, 2020 and is put to use before the 1st day of April, 2020.	30%
	3(I)	Aeroplanes, Aero Engines	40%

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
	3(ii)	(a) Motor taxis, motor buses and motor lorries used in a business of running them on hire	30%
		(b) Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired on or after the 23rd day of August, 2019 but before the 1st day of April, 2020 and is put to use before the 1st day of April, 2020.	45%
	3(iii)	Commercial vehicle which is procured by the assessed on or after October 1, 1998, but before April 1, 1999, and is used for any period of time prior to April 1, 1999, for the purpose of profession or business in agreement with the third proviso to clause (ii) of sub-section (1) of section 32	40%
	3(iv)	New commercial vehicle procured on or after October 1, 1998, but prior to April 1, 1999, in replacement of condemned vehicle of more than 15 years of age and is used for any period of time prior to April 1, 1999, for the purpose of business or profession in agreement with the third proviso to clause (ii) of sub-section (1) of section 32	40%
	3(v)	New commercial vehicle procured on or after April 1, 1999, but before April 1, 2000, in replacement of condemned vehicle of more than 15 years of age and is put to use prior to April 1, 2000, for the purposes of profession or business in agreement with the second proviso to clause (ii) of sub-section (1) of section 32	40%
	3(vi)	New commercial vehicle procured on or after April 1,	40%

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		2001, but before April 1, 2002, and is put to use before April 1, 2002, for the purpose of profession or business	
		New commercial vehicle which is acquired on or after the 1st day of January, 2009 but before the 1st day of October, 2009 and is put to use before the 1st day of October, 2009 for the purposes of business or profession [See paragraph 6 of the Notes below this Table]	40%
	3(vii)	Moulds used in plastic and rubber goods factories	30%
	3(viii)	Air pollution control equipment	40%
		Felt-filer system	
		Electrostatic precipitation systems	
		Scrubber	
		Counter current / packed bed / venture / cyclonic scrubbers	
		Dust collector systems	
		Evacuation system and ash handling system	
	3(ix)	Water pollution control equipment	40%
		Aerated detritus chambers (including air compressor)	
		Mechanical screen systems	
		Mechanically skimmed grease and oil removal systems	

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		Flash mixing equipment and chemical feed systems	
		Mechanical reactors and mechanical flocculates	
		Mechanically aerated activated sludge / diffused air systems	
		Bio filters	
		Aerated lagoon systems	
		Air floatation systems	
		Methane	
		recovery anaerobic digester systems	
		Steam/air stripping systems	
		Marine outfall systems	
		Urea Hydrolysis systems	
		Activated carbon column	
		Bio	
		Disc or rotating biological contractor	
		Marine outfall systems	
		Ion exchange resin column	
		Centrifuge for dewatering sludge	
	3(x)	(a) Solid waste, control equipment Rhyolite / mineral / lime / caustic / chrome recovery system (b) Resource	40%

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		recovery and solid waste recycling systems	
	3(xi)	Plant and machinery used in semiconductor industry covering all integrated circuits (ICs) (not including hybrid integrated circuits) ranging from small scale integration (SSI) to large scale integration / very large scale integration (LSI/VLSI) as also discrete semiconductor devices like diodes, triodes, thermistors, transistors, etc., except those covered by entries (viii), (ix), (x) of this sub-item and sub-item (8) below	30%
	3(xi)a	Life Saving medical equipment	40%
		D.C Defibrillators for pacemakers and internal use	
		Colour Doppler	
		Haemodialysis	
		Cobalt therapy unit	
		Vascular Angiography System including Digital subtraction Angiography	
		Heart lung machine	
		Sect Gamma Camera	
		Magnetic Resonance Imaging System	
		Ventilator used with anaesthesia apparatus	
		Ventilator except those used with anaesthesia	
		Surgical laser	

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		Gamma knife	
		Fibre optic endoscopes including audit resect scope/paediatric resect scope, arthroscopy, peritoneoscopes, fibre optic flexible nasal pharynges, microaryngoscope, video larynges, fibrotic flexible larynges bronchoscope.	
		Bronchoscope, video oesophago gastroscopy, video oesopghago bronchoscope, fibre optic flexible oesophagi gastroscopy	
	4	Containers made of plastic or glass used as refills	40%
	5	Computers including computer software	40%
	6	Plant and machinery, used in processing, weaving and garment sector of textile industry, which is bought under TUFS on or after April 1, 2001, but prior to April 1, 2004, and is put to use prior to April 1, 2004	40%
	7	Plant and machinery procured and installed on or after September 1, 2002, in a water treatment system or a water supply project and put to use for the purpose of business of providing infrastructure facility under clause (I) of sub-section (4) of section 80-IA	40%
	8	1. Wooden parts used in artificial silk manufacturing machinery	40%
		2. Match factories, wooden match frames	40%
		3. Cinematograph films, bulbs of studio lights	40%

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		4. Salt works, condensers, reservoirs, salt pans, etc., made of clayey, sandy or earthy material or any other similar material	40%
		5. Quarries and mines	
		Sand stowing pipes, winding ropes, tubs and haulage ropes	40%
		Safety lamps	40%
		6. Flour mills, rollers	40%
		7. Sugar works, rollers	40%
		8. Steel and iron industry, rolling mill rolls	40%
		9. Energy saving devices	
		(A) Furnaces and specialised boilers	
		(I) Fluidized bed boilers / ignifluid	
		(ii) Continuous pusher type furnaces and flameless furnaces	
		(iii) High efficiency boilers	
		(iv) Fluidized bed type heat treatment	40%
		(B) Instrumentation and monitoring system for monitoring energy flows	
		(I) Digital heat loss meters	
		(ii) Automatic electrical load monitoring systems	



<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		(iii) Infrared thermography	40%
		(iv) Microprocessor based control systems	
		(v) Meters for measuring heat losses, steam flow, furnace oil flow, power factor and electric energy meters	
		(vi) Exhaust gas analysers	
		(vii) Maximum demand indicator and clamp on power meters	
		(viii) Fuel oil pump test bench	
		(C) Waste heat recovery equipment	
		(I) Air pre-heaters and recuperates	40%
		(ii) Feed water heaters and economisers	
		(iii) Thermal energy wheel for low and high temperature heat recovery	
		(iv) Heat pumps	
		(D) Co-generation systems	
		(I) Controlled extraction, back pressure pass out, extraction cum condensing turbines for cogeneration along with pressure boilers	40%
		(ii) Organic Rankine cycle power systems	
		(iii) Vapour absorption refrigeration systems	

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		(iv) Low inlet pressure small steam turbines	
		(E) Electrical equipment	
		(I) Synchronous condenser systems and shunt capacitors	
		(ii) Relays (automatic power cut off devices)	
		(iii) Power factor controller for AC motors	
		(iv) Automatic voltage controller	
		(v) Solid state devices for controlling motor speeds	
		(vi) FACT (Flexible AC Transmission) devices, Thermistor controlled series compensation equipment	40%
		(vii) Thermally energy-efficient setlers	
		(viii) Series compensation equipment	
		(ix) TOD (Time of Day) energy meters	
		(x) Intelligent electronic devices/remote terminal units, computer software/hardware, bridges/router, other required equipment and associated communication systems for data acquisition systems and supervisory control, distribution management systems and energy management systems for power transmission systems	
		(xi) Special energy meters for ABT (Availability Based Tariff)	
		(F) Burners	

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		(I) Zero to ten per cent excess air burners	
		(ii) Burners using air with high preheat temperature (above 300 degrees Celsius)	
		(iii) Emulsion burners	40%
		(G) Other equipment	
		(I) Mechanical vapour decompressors	
		(ii) Wet air oxidation equipment for recovery of heat and chemicals	
		(iii) Automatic microprocessor based load demand controllers	40%
		(iv) Thin film evaporators	
		(v) Fluid couplings and fluid drives	
		(vi) Coal based producer gas plants	
		(vii) Super-charges/turbo charges	
		(viii) Sealed radiation sources for radiation processing plants	
		10. Gas cylinders including regulators and valves	40%
		11. Glass manufacturing concerns, Direct fire glass melting furnaces	40%
		12. Mineral oil concerns	40%
		(I) Plant used in field operations (above ground)	

<b>Asset Class</b>	<b>Sr. No.</b>	<b>Asset Type</b>	<b>Rate of Depreciation</b>
		distribution, returnable packages	
		(ii) Plant used in field operations (below ground), but not including kerbside pumps including fittings and tanks used in field operations (distribution) by mineral oil concerns	
		(iii) Oil wells not covered in (I) and (ii) above	15%
		13. Renewable energy devices	
		(I) Pipe type and concentrating solar collectors	
		(ii) Flat plate solar collectors	
		(iii) Solar cookers	
		(iv) Air/fluid/gas heating systems	
		(v) Solar water heaters and systems	
		(vi) Solar crop drivers and systems	
		(vii) Solar steels and desalination systems	
		(viii) Solar refrigeration, air conditioning systems and cold storages	
		(ix) Solar pumps based on solar-photovoltaic and solar-thermal conversion	40%
		(x) Solar power generating systems	
		(xi) Solar-photovoltaic panels and modules for water pumping and other applications	

Asset Class	Sr. No.	Asset Type	Rate of Depreciation
		14. Wind mills and any other specially designed devices that operate on wind mills (installed on or after April 1, 2014)	
		15. Any special devices including electric pumps and generators operating on wind energy (installed on or after April 1, 2014)	
		16. Books owned by assesses carrying on a profession	
		(I) Books, being annual publications	40%
		(ii) Books, excluding those covered by entry (I) above	40%
		(iii) Books owned by assesses carrying on business in running lending libraries	40%
Ships	4(I)	Ocean-going ships including tugs, survey launches, dredgers, barges and other similar ships used primarily for dredging purposes and sighing vessels with wooden hull	20%
	4(ii)	Vessels ordinarily operating on inland waters, not covered by sub-item (iii) below	20%
	4 (iii)	Vessels ordinarily operating on inland waters being speed boats	20%
<b>Part B Intangible Assets</b>			
		Franchise, trademark, patents, license, copyright, know-how or other commercial or business rights of similar nature	25%

**For example, the depreciation will be computed as follows:**

Name of asset	Block 1	Block 2	Block 3
	Machine – 15%	Furniture – 10%	Car – 15%
Opening Value	0	0	0
<b>Add</b> – Purchases (>or = 180 days) Purchase (<180 days)	5,00,000 40,000	20,000	3,00,000
<b>Less</b> – Sold during the year	0	0	0
Closing value of block before depreciation	5,40,000	20,000	3,00,000
Depreciation	78,000	2,000	22,500
	$(5,00,000 \times 15\%) +$ $(40,000 \times 15\% \times 1/2)$	$20000 \times 10\%$	$300000$ $\times 15\% \times$ $1/2$
Closing WDV after depreciation	4,62,000	18,000	2,77,500

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### 3.7 MISCELLANEOUS PROVISIONS ABOUT DEPRECIATION

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A **provision for depreciation account** is an improvement over the **accounting treatment of depreciation**. This **account** is used to accumulate **depreciation** that is provided against a fixed asset.

#### Entries in Provision for Depreciation Account

If a provision for depreciation account is used, the accounting entries are made as follows:

##### Entry 1

One provision for depreciation account is opened for every fixed asset account. For example, for a motor vehicle account, a “provision for depreciation on motor vehicle account” will also be opened.

Similarly, for plant and machinery, there will be a “plant and machinery account” and also one “provision for depreciation on plant and machinery account”.

### **Entry 2**

At the end of each financial year, **debit** the depreciation **expense** account and credit the provision for depreciation (on relevant fixed asset account) with the amount of depreciation calculated for the year.

Debit the depreciation expense account

Credit the provision for depreciation on the relevant fixed asset

### **Entry 3**

The balance in depreciation expense account is transferred to the **profit and loss account** at the end of the year.

### **Entry 4**

The balance of the provision for depreciation account is carried forward to the next year.

Note that the provision on depreciation account is not a nominal account, it is a part of the asset account. Also note that it will always show a **credit** balance that will increase each year.

At any given time, the balance on a provision for depreciation account represents the total accumulated depreciation that has been provided against a particular asset.

### **Entry 5**

No entry relating to depreciation is made in a fixed asset account. This account will continue to show a debit equal to the cost of the fixed asset concerned.

The only entries that will be made in the fixed asset account will be in respect of fresh purchases or sales of the asset concerned.

### **Entry 6**

The formula for the **book value** of a fixed asset is the following:

Book value = Cost (per fixed asset account) – Accumulated depreciation (per provision for depreciation account)

### **Entry 7**

Although one depreciation account is enough to accommodate the depreciation expense on all fixed assets for the year, a separate provision for the depreciation account must be maintained for each fixed asset account.

### **Entry 8**

If a fixed asset is recorded using the revaluation approach for calculating depreciation, it is usually not necessary (or beneficial) to maintain a separate provision for depreciation account for it.

For such assets, the treatment shown on the **revaluation method** is sufficient (i.e., depreciation may be directly credited to the fixed asset account).

**Example**

PQR company bought a machine for \$20,000 on 1 January 2005. The company uses the **fixed instalment method** of depreciation and estimates that the machine will have a useful life of 6 years, leaving a scrap value of \$2,000.

**Required:** Show the relevant **ledger accounts** for the years 2016, 2017, and 2018.

Solution

**Step 1: Compute depreciation for each year**

$$\begin{aligned} \text{Depreciation per year} &= (\text{Cost} - \text{Scrap value}) / \text{Useful life of the asset} \\ &= (\$20,000 - \$2,000) / 6 \\ &= \$3,000 \end{aligned}$$

The depreciation charge for each of the six years of the machine's useful life is \$3,000.

**Step 2: Preparation of ledger accounts**



Dr. MACHINERY ACCOUNT			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
1.1.2016	Cash	20,000	31.12.2016	Balance c/d	20,000
		<u>          </u>			<u>          </u>
1.1.2017	Balance b/f	20,000	31.12.2017	Balance c/d	20,000
		<u>          </u>			<u>          </u>
1.1.2018	Balance b/f	20,000	31.12.2018	Balance c/d	20,000
		<u>          </u>			<u>          </u>

Dr. PROVISION FOR DEPRECIATION ON MACHINERY ACCOUNT			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
31.12.2016	Balance c/d	3,000	31.12.2016	Depreciation expense	3,000
		<u>          </u>			<u>          </u>
				Balance b/f	3,000
31.12.2017	Balance c/d	6,000	31.12.2017	Depreciation expense	3,000
		<u>          </u>			<u>          </u>
		6,000			6,000
		<u>          </u>			<u>          </u>
31.12.2018	Balance c/d	9,000	31.12.2018	Balance b/f	6,000
				Depreciation expense	3,000
		<u>          </u>			<u>          </u>
		9,000			9,000
		<u>          </u>			<u>          </u>

Dr. DEPRECIATION EXPENSE ACCOUNT			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
31.12.2016	Prov. for dep. on mach.	3,000	31.12.2016	Profit and loss account	3,000
		<u>          </u>			<u>          </u>
31.12.2017	Prov. for dep. on mach.	3,000	31.12.2017	Profit and loss account	3,000
		<u>          </u>			<u>          </u>
31.12.2018	Prov. for dep. on mach.	3,000	31.12.2018	Profit and loss account	3,000
		<u>          </u>			<u>          </u>

Dr.		PROFIT AND LOSS ACCOUNT (excerpt)		Cr.
31.12.2016	Dep. on machinery	3,000		
31.12.2017	Dep. on machinery	3,000		
31.12.2018	Dep. on machinery	3,000		

#### BALANCE SHEET (excerpt)

<i>On 31.12.2016</i>			
Machine, at cost		20,000	
Less prov. for depreciation		3,000	17,000
		<hr/>	
<i>On 31.12.2017</i>			
Machine, at cost		20,000	
Less prov. for depreciation		6,000	14,000
		<hr/>	
<i>On 31.12.2018</i>			
Machine, at cost		20,000	
Less prov. for depreciation		9,000	11,000
		<hr/>	

### Advantages of Using a Separate Provision for Depreciation Account

Keeping a separate provision for depreciation account for each fixed asset offers the following advantages:

**1. As no entry is made in the fixed asset account, it continues to show the historical cost of the asset.**

The historical cost of a fixed asset is needed for a number of reasons, such as computing depreciation using the fixed instalment method (also known as the straight line method) or the payment of rates and taxes.

If depreciation is credited directly to the fixed asset account, it may be difficult to determine the asset's historical cost after a few years.

**2. A separate provision for depreciation account ensures that the total accumulated depreciation is always known for each fixed asset.**

This helps to determine the fixed asset's book value. It also provides an idea about the age of the fixed assets that are held.

Therefore, if the total cost of the fixed assets is, for example, \$4,000 and the total provision for depreciation stands at \$3,200, it can be seen that the fixed assets are nearing their useful life.

Significantly, knowing only the book value of \$800 (\$4,000 – \$3,200) cannot provide this level of insight.

**3. When fixed assets are revalued (for whatever reason), it is always helpful to know both the original cost and accumulated depreciation of each fixed asset.**

Maintaining a separate provision for depreciation account also makes this possible.

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## 3.8 COMPUTATION OF DEPRECIATION

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### Written Down Value (WDV) Method

WDV method is the most common used method of depreciation. Also in income tax act, depreciation is allowed as per WDV method only.

In this method depreciation is charged on the book value of asset and book value is decreased each year by the depreciation. For egg- Asset is purchased at Rs. 1,00,000 and depreciation rate is 10% then first year depreciation is Rs. 10,000(10% of Rs. 1,00,000), second year depreciation is Rs. 9,000 (10% of 90,000 [1,00,000 – 10,000]) and third year depreciation is Rs. 8,100 (10% of Rs. 81,000 [90,000 – 9,000]).

This method is also called reducing balance method. In the WDV method, the amount of depreciation goes on decreasing with time. An asset gives more value to a business in initial years then later year, therefore, this method is considered as the most logical method of depreciation.

Formula for calculating depreciation rate (WDV) =  $\{ 1 - (s/c)^{1/n} \} \times 100$

n = Remaining useful life of the asset (in years)

s = Scrap value at the end of useful life of the asset

c = Cost of the asset/Written down value of the asset

### Straight Line Method (SLM)

In this method, equal amount of depreciation is charged on the asset over its useful life. For Example – asset is purchased for Rs. 1,00,000 and useful life is 10 years with salvage value of Rs. 10,000 then depreciation is charged at Rs. 9,000 for each of the 10 years.  $(1,00,000 - 10,000)/10$ .

Formula for calculating depreciation rate (SLM) =  $(100 - \% \text{ of resale value of purchase price})/\text{Useful life in years}$

Depreciation = Purchase Price \* Depreciation Rate or  $(\text{Purchase price} - \text{Salvage Value})/\text{Useful Life}$

There are also other methods of depreciation but they are not often used such as depreciation on the basis of units of production.

In companies act the depreciation rate is also based on the number of shifts. Logically an asset is expected to have a shorter life if it used extensively.

Example –

Cost of asset = 2,00,000

Salvage value = 30,000

Useful Life = 10 Years

And thus Depreciation rate as per SLM =  $(100-15)/10 = 8.5\%$

Depreciation rate as per WDV = 17.28

Year	Depreciation as per SLM	Depreciation as per WDV
1	17,000	34,560.53
2	17,000	28,588.38
3	17,000	23,648.23
4	17,000	19,561.75
5	17,000	16,181.43
6	17,000	13,385.24
7	17,000	11,072.23
8	17,000	9,158.92
9	17,000	7,576.24

10	17,000	6,267.04
Total Depreciation	1,70,000	1,70,000

### **Accounting For Depreciation**

Depreciation is an expense and reduces the book value of an asset. Therefore, a simple journal entry is to be passed at the end of the year. For example

Depreciation A/c Dr 10,000

To Computer A/c 10,000

Thus depreciation is shown as an Indirect expense in the debit side of profit and loss account and asset's value is to be shown after the reduction of depreciation in the balance sheet.

There is also another method of accounting for depreciation, although it is rarely used. In this method rather than reducing the value of asset another account is credited named as Accumulated depreciation and depreciation for all assets are transferred into it. It is then shown as a negative item in Fixed asset is balance sheet.

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## **3.9 BUSINESS AND PROFESSION- PROVISIONS AND DEDUCTION RELATED TO INCOME FROM BUSINESS AND PROFESSION**

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### **Business:**

“Business” simply means any economic activity carried on for earning profits. Sec. 2(3) has defined the term as “any trade, commerce, manufacturing activity or any adventure or concern in the nature of trade, commerce and manufacture”.

In this connection it is not necessary that there should be a series of transactions in a business and also it should be carried on permanently. Neither repetition nor continuity of similar transactions is necessary.

### **Profession:**

“Profession” may be defined as a vocation, or a job requiring some thought, skill and special knowledge like that of C.A., Lawyer, Doctor, Engineer, Architect etc. So profession refers to those activities where the livelihood is earned by the persons through their intellectual or manual skill.

### **What is the Basis of Charge [ Section 28]?**

The following income shall be chargeable to income-tax under the head “Profits and gains of business or profession”, —

1. the profits and gains of any business or profession which was carried on by the assessed at any time during the previous year;
2. any compensation or other payment due to or received by, —any person, by whatever name called, managing the whole or substantially the whole of the affairs of an Indian company, at or in connection with the termination of his management or the modification of the terms and conditions relating thereto;
3. income derived by a trade, professional or similar association from specific services performed for its members;
4. the value of any perquisite or benefit arising from business or profession, whether convertible into money or not,
5. any interest, commission, salary, remuneration, or bonus due to, or received by, a partner of a firm from such firm:
6. any sum received under a Key man insurance policy including the sum allocated by way of bonus on such policy.
7. income from speculative transactions.
8. any sum, whether received or receivable, in cash or kind, under an agreement for—
  - i. not carrying out any activity in relation to any business; or
  - ii. not sharing any know-how, patent, copyright, trade-mark, licence, franchise or any other business or commercial right of similar nature
9. any profit on the transfer of the Duty Free Replenishment Certificate
10. any profit on the transfer of the Duty Entitlement Pass Book Scheme
11. profits on sale of a license granted under the Imports (Control) Order, 1955, made under the Imports and Exports (Control) Act, 1947 (18 of 1947)

**Business Income Not Taxable under the head “Profits and Gains of Business or Profession”:**

In the following cases, income from trading or business is not taxable under Sec. 28, under the head “Profits and Gains of Business or Professions”:

Nature of Income	Head under which it is chargeable to Tax
Rental income in the case of dealer in property	Rent of house property is taxable under Sec. 22 under the head “ Income from House Property” even if

	property constitutes Stock-in-trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.
Dividend on shares in the case of a dealer-in-shares.	Dividend on shares are taxable under section 56(2)(I), under the head “Income from other sources”, even if they are derived from shares held as stock in trade or the recipient of dividends is a dealer-in-shares. However, dividend received from an Indian company is not chargeable to tax in the hands of shareholders.
Winning from Lotteries etc.	Winning form Lotteries, races, etc. are taxable under the head “Income from Other Sources” ( even if derived as a regular business activity)

### **Deductions u/s 36 – An Overview**

Section 36 of the Income Tax Act illustrates various expenses that are allowed as a deduction from the income earned from business and profession. Let us look at what expenses are covered under this section.

#### **Expenses allowable as deduction**

- **Insurance**– This includes insurance premium paid on the following:
  - **Stock**– this can be claimed as a deduction for businessmen for whom stock-in-trade is of high value and the risk related to stock is high. For example, traders, jewellers etc.
  - **Cattle**– this insurance premium is paid by a federal milk society on the life of cattle.
  - **Health of employees**– labour forms a significant part of business and many employees take insurance on the health of their employees. This is allowed as a deduction if it is paid in any mode other than cash. The premium paid can be claimed as a deduction if it is paid to General Insurance Company or any other insurer approved by IRDA
  - Payment of key man insurance policy premium for a partner of a Firm, Directors of a company and other key personnel.
- **Bonus and commission paid to employees**– This sum is allowed as a deduction if it would not have been paid as dividend or profits. This bonus need not be within the

statutory limits specified under Payment of Bonus Acts. It is sufficient if it paid within the time limits. Incentives paid to employees are not covered in this section. However, since it is used for the purpose of Business or Profession, it can be claimed under general deductions section u/s 37.

- **Interest on borrowed capital**– Interest on the amount borrowed for business and profession is allowed as a deduction on payment basis.
  - If the interest is borrowed for acquisition of an asset, the following rule applies:

The interest paid in the above period will not be allowed as a deduction.

- Discount on Zero Coupon Bonds (ZCB)- where the discount will be amortized over the life of the ZCB.
- **Employer's contribution to a Recognised Provident Fund or a Superannuation Fund** is allowed as a deduction on payment basis i.e. only in the year in which it is actually paid. This deduction is not on the accrual basis and is on payment basis.
- **Employer's contribution to pension fund** specified u/s 80CCD on behalf of his employees – This amount shall be available as a deduction to the extent of 10% of the salary of the employees. Salary includes Dearness Allowance but excludes other perquisites and allowances.
- **Employer's contribution to an approved gratuity fund** for benefit of his employees is deductible on payment basis. Likewise, when employees contribute to the gratuity fund and this contribution is deposited by the employer within the stipulated due date it can be claimed as a deduction.
- **Animals** used in business when they are not used as stock in trade and they die or become useless, the following amount can be claimed: **Cost of buying the animal – amount realized on sale.**
- **Bad debts written off**– This amount can be claimed if the bad debt is incidental to the business and should have been taken into account while computing income. But this shall not include provision created for the same.

Provision for bad debts in case of banks and certain financial institutions- in case of the following banks (scheduled banks, primary agriculture credit society, primary cooperative agriculture bank, rural development bank)

**Amount = 8.5% of gross total income + 10% of aggregate average advances by rural branches shall be allowed as a deduction.**

For banks incorporated outside India and other financial institutions, 5% of the gross total



income shall be allowed as a deduction. The above amount shall be calculated before taking into account any deductions under Chapter VI-A

- **Special reserve** created by certain entities being, IDFC, Housing Finance Co. etc. and when any profit from an eligible business is transferred to the reserve, it can be claimed as a deduction. This amount of deduction is capped at a maximum of the following:
  - 20% of profits from eligible business
  - Amount transferred < 2 (paid-up capital + general reserves)
  - Eligible business for this purpose includes providing long-term finance for industrial, agricultural, infrastructure and housing development companies.

Further, if the amount transferred to this reserve is withdrawn, it shall be treated as business income in the year of withdrawal.

- Expenses incurred by a company for purpose of **promoting family planning** among employees is allowed as a deduction in the following manner:
  - 1/5th of the amount which is of capital nature is allowed in the year of deduction and the remaining over the succeeding 4 years.
- Any **expenses which are not capital in nature** and is incurred by a corporation or a body corporate (which is established by a Central or a State Act or notified in a Gazette)
- Amount of **banking cash transaction tax** paid by the assessee on taxable banking transaction.
- Contribution to **credit guarantee fund trust** of small-scale industries by a public financial institution.
- Amount paid as **Securities Transaction Tax (STT)** on taxable security transactions and the income relating to this tax should have been included as business income. These transactions must be entered into in the course of business. This means that dealers in stock markets and businesses who undertake trading are eligible for this deduction.
- Amount paid as **Commodities Transaction Tax (CTT)** on taxable commodity transactions and the income relating to this tax should have been included as business income. These transactions must be entered into in the course of business. This deduction is for commodity brokers and dealers.

- Amount of **expenditure incurred by a co-operative society manufacturing sugar, in purchasing sugarcane** when the price paid is less than or equal to the price fixed by the Government.

**Marked to market loss or other loss** computed in accordance with Income Computation & Disclosure Standards (Ex. mutual funds is an investment which is marked to market).

**Let us summarize the above provisions into the deductions that are available and the type of assessee who could avail those deductions.**

<b>Deduction u/s 36 of the Income Tax Act, 1961</b>	<b>Type of assessee (having income from business or profession) eligible for this deduction</b>
Insurance premium on stock	Any assessee
Insurance premium on life of cattle	Federal milk co-operative society
Insurance premium on health of employees	Any assessee
Bonus or commission paid to employees	Any assessee
Interest on borrowed capital	Any assessee
Discount on ZCB	Any assessee
Contribution to a recognized provident fund or superannuation fund	Any assessee
Contribution to pension fund specified u/s 80CCD	Any assessee
Contribution to approved gratuity fund	Any assessee
Employees contribution to any welfare funds	Any assessee

Animals used in business which have died or become useless	Any assessee
Bad debts written off	Any assessee
Special bad debts provisions as per limits mentioned in clause (7)	Scheduled banks, non-scheduled banks, banks incorporated outside India, public financial institutions etc.
Special reserve created by specified entities	Financial corporation, banking company, housing finance company, public sector companies etc.
Expenses for promoting family planning	Assessee being a company
Expenditure referred to in clause (10)	Corporation or body corporate
Payment to credit guarantee fund trust	Public financial institutions
STT paid	Any assessee undertaking business of securities transactions
CTT paid	Any assessee undertaking business of commodity transactions
Expenses incurred for buying sugarcane	Co-operative society being a sugar manufacturer
Marked to market loss	Any assessee

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### **3.10 PROBLEMS ON COMPUTATION OF INCOME FROM BUSINESS AND PROFESSION**

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#### **Illustration 1:**

Alit Traders have gross receipts of Rs 1.5 Crore for FY 2017-18 and do not maintain books of accounts. Alit traders have opted for presumptive taxation. During the year Alit Traders received Rs. 70 Lakhs through non-digital transactions (cash payments) and Rs. 80 Lakhs through digital transactions.

What will be the income under the head business and profession?

**Solution:**

Income under the business and profession:

For non-digital transactions:  $70,00,000 * 8\% = \text{Rs. } 5,60,000$

For digital transactions:  $80,00,000 * 6\% = \text{Rs. } 4,80,000$

Income under the head “Business or Profession” will be = Rs 10,40,000

**Illustration 2:**

(a) PQR Co. Ltd. engaged in manufacturing activity reports a Net Profit of ` 15 lakhs for the year ended 31.03.2018. The below said items are debited/credited to statement of profit and loss.

(I) CSR expenditure incurred during the year ` 5 lakhs.

(ii) Non-compete fee paid to DEF Ltd for not marketing their products in Northeastern States ` 10 lakhs. The non-complete agreement bars DEF Ltd for a period of 5 years ending 31.03.2022. No tax was deducted at source on the said payment.

(iii) A building was constructed on the leasehold land for ` 30 lakhs and it was completed on 30.11.2017. The lease agreement is for 3 years and after the lease period, the building must be handed over to the lessor.

(iv) The company during the year paid donation of ` 1 lakh to Dalia Research Centre Ltd. which is engaged in approved scientific research.

(v) The company introduced VRS scheme during the financial year 2014-15 and paid ` 60 lakhs as VRS compensation. The company transferred the entire unamortized amount of ` 24 lakhs to statement of profit and loss.

(vi) Paid ` 2 lakhs to Registrar of Companies as fee for issue of bonus shares.

(vii) It incurred ` 25 lakhs towards feasibility study for new product manufacture which eventually was aborted.

(viii) Cost of EPABX and mobile phones acquired on 01.06.2017 for use by executives ` 10 lakhs. Depreciation @ 60% was charged in the books.

(ix) Compounding fee paid for violation of municipal laws in construction of buildings ` 1,20,000.

(x) Depreciation debited ` 24,60,000.

(xi) Royalty from patent developed by the company credited to Statement of profit and loss ` 22 lakhs.

(xii) Dividend received from foreign company in which the assessee company holds 26% shares ` 8 lakhs.

Additional Information:

Eligible depreciation ` 32,30,000 under section 32 without considering item (iii) and (viii) given above.

You are required to compute the total income and income tax liability of PQR Ltd for the assessment year 2018-19.

Note: Your answer must be supported by reasons for treatment of each item. Ignore MAT provisions.

(b) A partnership firm with three equal partners authorized payment of monthly salary of ` 1 lakh each to all the partners i.e. 01.04.2017. Earlier, the partnership deed authorized payment of monthly salary of ` 50,000 each to all the partners. The business of the firm has more than doubled during the financial year 2017-18 and the partners anticipating such increase in business/profit have changed accordingly the condition for working partner salary.

The profit of the firm was ` 50 lakhs for the year ended 31.03.2018 and the corresponding profit was ` 20 lakhs for the year ended 31.03.2017. The partners of the firm want to know whether increase in payment of salary to working partners would be subjected to disallowance under section 40A(2)(a).

Solution:

(a)

PQR Co Ltd

Computation of Total Income for the Asst. Year 2018-19

	Rs.
Net Profit as per statement of profit and loss	15,00,000
Add:	
CSR expenditure debited, not deductible in view of Explanation 2 to section 37	5,00,000
Non-compete fee on which tax was not deducted at source as per section 194J and hence @ 30% to be disallowed as per section	3,00,000

40(a)(IA)	
Building on leasehold land debited to Statement of profit and loss is eligible for depreciation only. Hence disallowed	30,00,000
VRS Compensation to be amortized in 5 annual instalments as per section 35DDA. The unamortized amount is Rs.24 lakhs of which Rs.12 lakhs is deductible in assessment year 2018-19 and balance Rs.12 lakhs in assessment year 2019-20. As the full amount has been debited to Statement and profit and loss, the excess Rs.12 lakh is added back.	12,00,000
Expenditure towards feasibility study for examining new line of activity has no connection to the present business and hence it is a capital expenditure to be disallowed	25,00,000
Depreciation on the cost of EPABX and mobile phones debited to Statement of profit and loss @ 60% disallowed	6,00,000
Compounding fee paid for violation of local laws in construction is an expenditure for violation of law hence not deductible (Millennia Developers v. DCIT (2010) 322 ITR 401(Ker).	1,20,000
Depreciation debited in the books	24,60,000
	1,21,80,000

Less: Depreciation on leasehold building on Rs.30 lakhs @5% (since the building was put to use for less than 180 days)	1,50,000	
Donation to scientific research company eligible for deduction @ 100% only. As the amount is already debited no adjustment is required. [Section 35(1)(ilia)]	Nil	
Amount paid to ROC as fee for issue of bonus shares is deductible expenditure as the payment does not create any asset or increase in capital base	Nil	
Depreciation on EPABX and mobile phones @ 15% on Rs.10 lakhs	1,50,000	
Royalty from patent credited to P&L – considered separately	22,00,000	

Dividend from foreign companies – considered separately	8,00,000	
Depreciation eligible under section 32	32,30,000	
		65,30,000
Income from Business or Profession		56,50,000
Royalty from patent developed by the company		22,00,000
Dividend from foreign companies		8,00,000
Total Income		86,50,000
Computation of Tax liability		
On Rs.56,50,000 @ 30%		16,95,000
Royalty from patent Rs.22 lakhs @ 10%		2,20,000
Dividend from foreign companies Rs.8 lakhs @ 15%		1,20,000
		20,35,000
Add: Cess @ 3%		61,050
Total tax liability		20,96,050

(b) The facts of the case given above are similar to that of CIT v: Great City Manufacturing Co (2013) 351ITR 156 (All).

Section 40(b) provides for disallowance of remuneration to working partners subject to the limits prescribed therein.

Section 40A(2)(a) provides for disallowance of expenditure when it is excessive in the opinion of the Assessing Officer considering the fair market value of the goods or services.

Remuneration allowable subject to section 40(b) or disallowable as the case may be is subject to the limits specified therein.

The Assessing Officer must ensure that the remuneration to working partner is authorized by the deed of partnership and the allowance is subject to the limits prescribed in section 40(b)(v).

If the above conditions are satisfied, the Assessing Officer cannot disallow a salary under section 40A(2)(a) when it is allowable under section 40(b).

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## **3.11 INCOME FROM OTHER SOURCES AND CAPITAL GAIN**

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Income from Other Sources is one of the five heads of income subject to taxation under the Income Tax Act, 1961. Any income that is not covered in the other remaining four heads of income is taxed under income from other sources. It is referred to as residuary head of income. Incomes excluded from salary, house property, business & profession (PGBP) or capital gains are covered in Income from Other Sources, barring incomes that are exempt under the Income Tax Act.

### **Section 56: Incomes Taxable Only in Income from Other Sources – Criteria**

Under Section 56 of the Act, the following three conditions must be satisfied for a receipt of earning to come under the ‘income from other sources’ head –

1. You have an income
2. Such income is not tax-exempt under any other Sections of the Income Tax Act 1961
3. Such income cannot be categorized as salary, profits, and gains from business or profession, income from house property, or capital gains.

### **What does ‘Income from Other Sources’ Include?**

The following types of receipts of income fall under the Income from Other Sources’ category –

#### **1. Dividends**

Dividends are taxable under ‘income from other sources,’ based on the residential status of the source company that paid out the dividend.

#### **2. Dividend from an Indian Company**

If any company has paid Dividend Distribution Tax (or DDT) on this receipt of income, the dividend is exempted from tax. Under Section 115BBDA of the Act, however, if a resident individual, firm, or HUF receives dividends over Rs 10 lakhs from an Indian company, then the excess amount over Rs 10 lakhs is subject to taxation at 10%.

#### **3. Dividend from a Foreign Company**

Dividends received from any foreign company are subject to taxation under ‘Income from Other Sources.’

#### **4. One-time Income**

One-time incomes such as winnings from lotteries, horse races, crossword puzzles, card games, gambling or betting of any form are categorized under ‘Income from Other Sources.’



## **5. Interest on Compensation**

Interest received by you (as assessee) on the amount of reimbursement or compensation paid out in situations such as compulsory acquisition is subject to taxation under 'Income from Other Sources' head.

## **6. Gifts**

Gifts received in the form of any sum of money, movable or immovable property, are also taxable.

Then, there are the following receipts of income, which can only be classified under 'Income from Other Sources' if they are not chargeable as 'Profits and Gains of Profession or Business' –

- a) Employees' contribution to any welfare scheme
- b) Interest on securities such as debentures or government bonds
- c) Rental income received from letting out the plant, furniture, or machinery owned by the assessee
- d) Rental income received from letting out the plant, furniture, or machinery along with a building (here, these two cases of letting out are inseparable)
- e) Receipts of income under a Key man Insurance Policy

### **Examples of Receipts that are Chargeable Under 'Income from Other Sources'**

The following are some of the examples of other receipts of income that automatically fall under the 'Income from Other Sources' category –

- a) Income received from subletting a house property by a tenant
- b) Insurance commissions received by you (i.e., assessee)
- c) Casual income
- d) Family pension payments received by the lawful heirs of dead employees
- e) Interest earned on deposits with companies and bank deposits
- f) Interest on loans
- g) Remuneration received by the Members of Parliament (MP)
- h) Rental income earned from a vacant plot of land
- I) Agricultural income received from an agricultural land situated outside of India
- j) Interest paid out by the Government on excess payment of advance tax

## **Section 57- Expenditures Allowed as Deductions**

The following expenditures are subject to tax deductions under the 'Income from Other Sources' category:

<b>Section</b>	<b>Nature of Income</b>	<b>Deductions allowed</b>
57(I)	Dividend or interest earned on securities	Any reasonable sum paid as commission or remuneration to a banker or any other person to realize interest or dividend on securities
57(IA)	Employee's contribution towards Provident Fund (PF), Superannuation Fund (SF), or ESI Fund setup for employees' welfare	In case the employees' contribution is credited to their respective accounts in relevant fund before or on the due date
57(ii)	Rental income received from letting of plant, furniture, machinery or building	Rent, taxes, rates, repairs, depreciation and insurance, etc
57(ilia)	Family Pension	One-third of the family pension, subject to a maximum of Rs. 15,000
57(iii)	Any other income	Any other expenditure (apart from capital expenditure) expended exclusively and wholly for earning such income
57 (iv)	Interest on the compensation or enhanced compensation	50% of such interest received (subject to specific conditions)
58(4) Proviso	Income from any activity of maintaining or owning race horses	All expenditures relating to such activity

## Section 58- Expenses not Deductible while Calculating Income Tax

Section	Nature of Income
58(1)(a)(I)	Personal expenses
58(1)(a)(ii)	Interest subject to tax, which is payable outside India (there has been no previous tax deduction on this interest)
58(1)(a)(iii)	'Salary' payable outside India on which no tax is deducted at source or paid
58(1A)	Wealth-tax
58(2)	Expenditures specified in section 40A
58(4)	Expenditure associated with winnings from lotteries, races, crossword puzzles, games, gambling, or betting

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### 3.12 UNIT END QUESTIONS

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#### A. Descriptive Questions

##### Long Questions

1. Assess block of assets
2. What are the different methods of computing depreciation?
3. Miss. Vishnu Praia gives you the following information from her accounts for the year ending 31.3.2019:  
Net profit as per the Profit and Loss Account (Before charging the following) Rs.  
5,40,000  
Expenditure on staff welfare Rs. 30,000  
Revenue expenditure on family planning among employees Rs. 32,000  
Capital expenditure on the above Rs. 8,00,000  
Lump sum consideration for purchase of technical know-how on 1.7.2013 Rs. 1,00,000  
Entertainment expenditure Rs. 15,000

Expenditure on acquisition of patent right on 1.11.2012 Rs. 1,25,000

Expenditure on advertisement paid in cash Rs. 90,000

Amount paid to Anna University for an approved research programme in the field of social science not

connected with the Business Rs. 40,000

Compute business income of Vishnu Praia for the assessment year 2015-16.

4. How is income from business or profession computed?
5. Explain clearly the meaning of the term 'Dividend' as defined in the Indian Income-Tax Act, and point out the law relating to taxation of dividends.

### **Short Questions**

1. What is depreciation?
2. What are the conditions for charge of depreciation?
3. What Qualifies as a Depreciable Asset?
4. Why Do Assets Depreciate?
5. What is the Basis of Charge?

### **B. Multiple Choice Questions**

1. Which of the following is not a case of deemed ownership of house property?
  - a. co-owner of a property
  - b. holder of an importable estate
  - c. transfer to a minor child for inadequate consideration
  - d. transfer to a spouse for inadequate consideration
2. The rates of depreciation given under section 32 and rule 5 are:
  - a. Maximum rates for depreciation
  - b. Minimum rates for depreciation
  - c. Only rates of depreciation
  - d. Can't say
3. In case of electricity companies charging depreciation on SLM basis on a single asset if such assets are sold for a price more than its value but less than its historical cost then the assessee shall be chargeable for:

- a. short-term capital gain
  - b. short-term or long-term capital gain depending upon the period after which the block is transferred
  - c. balancing charge
  - d. balancing charge or capital gains at the choice of the assessee
4. Unabsorbed depreciation brought forward from an earlier year of a particular business can be set off from:
- a. any business income
  - b. any head of income
  - c. the same business
  - d. any head of income except income from salary
5. Anju owns 6 goods carriage vehicles {other than heavy goods vehicle) out of which 2 goods vehicles are acquired by him on 15th January 2021. His taxable income u/s 44AE will be
- a. ₹ 4,05,000
  - b. ₹ 3,24,000
  - c. ₹ 2,46,000
  - d. ₹ 3,60,000

**Answers:** 1-a, 2-b, 3- , 4-d, 5-a

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### 3.13 REFERENCES

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# UNIT – 4 AWARENESS IN REGARDS TO THE INCOME TAX

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## STRUCTURE

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Awareness in regards to the Income Tax
- 4.3 E-filing portal
- 4.4 Other basic terms related to income tax filing return
- 4.5 Unit End Questions
- 4.6 Reference

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## 4.0 OBJECTIVES

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- Describe awareness in regards to the Income tax
- Explain the process of E-filling Portal
- Discuss basic terms related to income tax

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## 4.1 INTRODUCTION

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Income tax department is one of the important parts of Ministry of Finance, Government of India. In 1860, it started working with the implementation of first Income Tax Act. After implementation of this Act, people became aware of the actual meaning and motto of Income Tax Department. The Department followed this act for five years after which, in 1865, the second act came into force. There was a major change in this act relative to the first Act. With this Act, the department started working with a new concept of agriculture income. Income tax department is one of the important parts of Ministry of Finance, Government of India. In 1860, it started working with the implementation of first Income Tax Act. After implementation of this Act, people became aware of the actual meaning and motto of Income Tax Department. The Department followed this act for five years after which, in 1865, the second act came into force. There was a major change in this act relative to the first Act. With this Act, the department started working with a new concept of agriculture income.

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### **Introduction**

Income tax department is one of the important parts of Ministry of Finance, Government of India. In 1860, it started working with the implementation of first Income Tax Act. After implementation of this Act, people became aware of the actual meaning and motto of Income Tax Department. The Department followed this act for five years after which, in 1865, the second act came into force. There was a major change in this act relative to the first Act. With this Act, the department started working with a new concept of agriculture income. However, the original story of income tax came into being in 1922 with the implementation of Income Tax Act -1922. It showed a major change from the last act by imposing the charge in the year of assessment on the income of last year. It

also declared that tax rates would be announced by finance Acts. After this, in 1956 the Government revised this act with few changes keeping the original in its format. For its review a committee was formed. This committee made few changes and submitted the Income Tax Bill in Lok Sabha during April 1961. The President, accepted this bill on 13th Sep, 1961. Since 1961, our government has been using this Act for running our system.

As per Indian income tax act, 1961 an assessed can claim various deductions, reliefs, and rebates from their income for computation of tax liability. These deductions, reliefs, and rebates are the tools available in the hands of taxpayers to reduce their tax liability. These are allowed legally to take benefits of the above deductions. Currently, as per the income tax act, an individual can claim deduction up to Rs. 1,50,000 under section 80C on certain investments and expenditures such as PPF, NSC, Tax saving FD, Life insurance premium, Tuition Fees of children, principal repayment of Home Loan, Sukanya Samriddhi Account, NPS, etc. Further, under section 80D, an assessed can claim up to Rs. 25,000 for health insurance premiums. The present study is an attempt to know the awareness level of higher education teachers regarding the various tax saving instruments and their preference for tax saving instruments. A person invests whatever he saves after all the expenditures (consumption) with a view in mind to earn handsome returns in the future as a reward for their invested money. Every person is having their preference to invest. Tax saving, return on



investment, capital investment and safety for future are the factors found most important for the investment (Apparat & Babe 2015) researchers also mentioned that still more studies on the perception of consumers about investment methods need to be studied. So, the present study is an attempt to know the factors which are considered as the most important factors before investing in a particular investment option. Further, the study also attempted to know the preference of teachers of higher education for their tax-saving investment instruments.

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## **4.2 AWARENESS IN REGARDS TO THE INCOME TAX**

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Implementation of Self-Assessment System (SAS) requires taxpayers to have full understanding of taxation. It is imposed since 1984 in Indonesia whereas tax reform was initialized. The system insists taxpayers to calculate, pay, and report their tax liability with their own responsibility. They may actually ask for tax consultant's assistance to execute the obligation, but they still hand the responsibility of the validity and reliability of the reported data. If there is penalty of any mistaken report, the tax payer consequently has to bear it. Years before tax reform was firstly taken, taxpayers were officially assessed by the government (official assessment system). The government (discus) calculated tax liabilities based on taxpayer's audited financial report accordingly. Tax scandals were emerged massively abusing loopholes of the rules. The government has ever since imposed tax reforms to optimize government revenue from tax; furthermore, the country just cannot depend on any other revenues such as revenue from oil and gas. As it is naturally non-renewable and limited resources; tax revenue consequently becomes the main government revenue. It has been four times of tax reforms in Indonesia, there are in 1984, 1994, 2000, and 2005. The reforms were taken into actions to secure targeted government revenue from tax sectors. Data shows us that the country truly relies on tax revenue to cash its expenditures. Taken from Indonesia Directorate General on Tax of Finance Ministry official web ([www.pajak.go.id](http://www.pajak.go.id)); statistic shows that during 2005 – 2012 tax revenue are 64% and above. For the years observed, tax contributes most of the government revenue; and 2012 is the biggest portion (79%).

The government takes many actions to obtain that portion; it is known as positive incentive and negative incentive. The incentives are aimed to set a tax compliance of all taxpayers. The positive incentives are enforced by setting simply and systematic procedure, tax holiday season, sunset policy, etc. While the negative incentives are imposed by implementing

penalties and punishments to whom who do not meet the tax rules as it is required. SAS requires taxpayers to calculate, pay, and report their own tax payable. Having full understanding of this kind of obligation helps the government indeed to have complied taxpayers. The complied taxpayers pay tax with the right amount with the right procedure. This is good since government revenue will be earned. For the potential taxpayers, it is also good to be informed with his kind of obligation. Tax is something undeniable for every citizen, their awareness of taxation will be important in pursuing tax compliance. Tax implementation is accompanied by the laws, for the reason of compliance most people are afraid of breaking the rules or they will finish with the penalties or in jail. Regardless of the laws, people also have self-moral to consider whether their motives and actions are done with respect to the rightness and wrongness. We accordingly use the term of ethics to refer this individual moral consideration. This is including how people deal with implementation of SAS. They consider conscience to report their data of income, assets, and liabilities forthrightly. More or less it is like dealing with integrity of taxpayers to achieve tax compliance. Previous researches state that there is positively significant relation between tax knowledge and tax compliance. For example, research by Pail (2010), he found that in Malaysia tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents. Research conducted by Burhan (2011) in Africa, also resulted that tax compliance is influenced by tax education. There are several studies in Indonesia that seek how the understanding of tax can increase tax payers' compliance, for instance Sidebar et al (2012); Prakash and Nurswandari (2012). Tax knowledge can be learnt by self learning, taking formal education, and taking the informal ones. The government also takes many actions to socialize tax rules and policies where taxpayers can learn from. Unfortunately, not all people give their best attention to acknowledge the rules; some of them assume that tax is a burden that should be denied. Happening tax scandals corroborate the issue of tax reluctance. Students of high education are elected as a proxy of potential taxpayers. As in the future they will be taxpayers who execute the assessment. At their ages, they are expected to have broader point of view to consider the importance of taxation

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## 4.3 E-FILING PORTAL

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According to Section 139 (1) of the Income Tax Act, 1961 of India, individuals whose total income during the previous year is more than the maximum amount not chargeable to tax, should file their ITR or income tax returns. When such individuals file their income tax returns online, the process is known as e-filing.

As a taxpayer, you can seek professional help or file your returns yourself by simply registering on the income tax department website or other relevant websites. While every year the due date for filing tax returns is July 31st, the government may offer a grace period of 15-30 days to file the returns online or physically.

### Types of e-filing

Here are the different ways in which you can e-file your income tax returns:

- You can use a Digital Signature Certificate or DSC to e-file your tax returns. It has been made mandatory to file IT forms using Digital Signature Certificate (DSC) by a chartered accountant.
- In case you want to e-file your tax returns without DSC, an ITR V form is generated which should then be printed, duly signed and submitted to CPC, Bangalore. This document must be sent by ordinary post or speed post within 120 days from the date of e-filing.
- As a taxpayer, you can also e-file IT returns through an E-return Intermediary (ERI), with or without DSC.

### Parties who file income tax

Filing tax returns online is a simple and process and can be done by most assesses.

- Assesse with a cumulative income of Rs. 5 Lakhs and above.
- Individual/HUF resident with assets located outside India.
- An assessed as to provide returns under section 139 (4B) (ITR 7).
- Assesse needs to provide a notice under Section 11(2) (a) to the assessing officer
- An assessed required to furnish a report of audit specified under sections 10(23C) (IV), 10(23C) (v), 10(23C) (VI), 10(23C) (via), 10A, 12A (1) (b), 44AB, 80IA, 80IB, 80IC, 80ID, 80JJAA, 80LA, 92E or 115JB of the Act.
- A firm that does not fall under the provisions of section 44AB), AOP, BOI, Local Authority (ITR 5), Artificial Juridical Person or Cooperative Society.
- A person who claims relief under sections 90 or 90A or deductions under section 91.

- A person who is a resident and has the signing authority in any account, which is located outside India.
- All companies.

### Checklist for e-filing income tax returns

- When filing income tax returns online, you might get confused while deciding which form to submit. Hence, the various categories of Income Tax Return forms and their relevance for parties have been tabulated below.

ITR 1 (Asha)	Individuals with income from salary and interest
ITR 2	Individuals with Hindu Undivided Families not having income from business or profession
ITR 3	Individuals/HUFs being partners in firms and not carrying out business or profession under any proprietorship
ITR 4	Individuals and HUFs having income from a proprietary business or profession
ITR 4S (Sugar)	Individuals/HUF having income from presumptive business
ITR 5	Firms, AOPs, BOIs and LLP
ITR 6	Companies other than companies claiming exemption under section 11
ITR 7	Individuals including companies required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D)

- Check your tax credit - Form 26AS vs. Form 16 : It is imperative that you check Form 26AS before you file your returns. This form provides an insight into the amount of

tax deducted from your salary and deposited by your employer to the IT department. It is always wise to make sure that the tax deducted from your income as per your Form 16 matches with the amount mentioned in Form 26AS. If you file your returns without rectifying your errors, you are liable to get a notice from the IT department.

- Claim 80G, savings certificates and other deductions: You can claim your deductions under section 80G on donations made to charitable institutions, relief funds. It is important to note that all donations are not eligible, donations into prescribed funds only become eligible. Another point to note is that contributions made up to Rs. 10,000 in cash are eligible for claiming deductions. If one wants to make a higher donation, it has to be made through cheque or demand draft.
- Interest statement - Interest on savings accounts and fixed deposits: On interest earned on savings accounts, a deduction for up to Rs. 10,000 is allowed. Nonetheless, the interest earned on bank deposits becomes a part of your taxable income and is taxable at applicable slab rates.

In addition to the aforementioned statement, you must have the following documents in hand:

- Last year's tax returns
- TDS (Tax Deducted at Source) certificates
- Bank statements
- Profit and Loss (P&L) Account Statement, Balance Sheet and Audit Reports, if applicable

### **Documents required to file income tax**

When filing your income tax online or physically, it is always a good idea to be prepared. The below mentioned details serve as a checklist to help you get started with the e-filing of tax returns.

### **General details that would be required**

- Bank account details
- PAN Number

### **Reporting salary income required**

- Rent receipts for claiming HRA
- Form 16
- Pay slips

### **Reporting House Property income required**

- Address of the house property
- Details of the co-owners along with their share in the mentioned property and PAN details
- Certificate for home loan interest
- The date when construction was completed, in case an under-construction property was purchased
- Name and the rental income of the tenant, if the property is rented

### **Reporting capital gains required**

- There is a requirement of a stock trading statement with purchase details, in case there are capital gains from selling the shares
- If a house or property is sold, you must have sought sale price, purchase price, details of registration and capital gain details
- Mutual fund statement details, purchase and sale of equity funds, debt funds, SIPs and ELSS

### **Reporting other income required**

- The income from interest is reported. In case of interest accumulated in savings account, bank account statements are required
- Interest income from tax saving bonds and corporate bonds must be reported
- The income details earned from post office deposit must be reported

### **How to file e-RETURNS?**

Filing income tax returns has never been easier. Simply follow the below mentioned steps and you can seamlessly conduct the process.

- Fill your income tax returns offline and upload XML on the official website which is [IncomeTaxIndiaeFiling.gov.in](http://IncomeTaxIndiaeFiling.gov.in)
- Make necessary preparation and submit ITR 1 online.

### **Steps to follow to file IT returns online**

Now, filing your income tax has become an extremely easy process. Simply follow the below steps:

- To begin with, log on to [IncomeTaxIndiaeFiling.gov.in](http://IncomeTaxIndiaeFiling.gov.in) and register yourself on the website. Your Permanent Account Number (PAN) becomes your user ID.

- Now, you can view your tax credit statement or Form 26AS. The TDS in your Form 16 must tally with the figures in Form 26AS. If not, you must correct the discrepancy.
- Click on the income tax return forms and choose the financial year you want to file your returns for.
- Then, you need to download the ITR form which applies to you. If your exempt income exceeds Rs. 5,000, then the appropriate form will be ITR-2. However, you can complete the process on the portal itself, by using the 'Quick e-file ITR' link, if the applicable form is ITR-1 or ITR 4S.
- Next step is to open excel utility, which is the downloaded return preparation software and enter all the details in the form using your Form 16.
- Calculate and get an estimate of the tax payable amount by clicking the 'calculate tax' tab.
- Now, if applicable, pay tax and fill in the challan details.
- Confirm all the information provided in the worksheet by clicking on the 'validate' tab.
- Download this in an XML file and save it on your desktop.
- Then, go to 'upload return' on the portal's panel and upload the saved XML file.
- A pop-up will be appearing, requesting to digitally sign the file. In case you have your digital signature, then, select 'Yes'. In case you have not got digital signature, select 'No'.
- ITR Verification (ITR-V), which is the acknowledgment form will be generated in a downloadable format.
- Generate a printout of the form ITR-V and sign it only in blue ink.
- Send this form to the Income-Tax Department-CPC, Post Bag No. 1, Electronic City Post Office, Bangalore, 560 100, Karnataka, by ordinary or speed post, within 120 days of filing your returns online.

### **Steps to file ITR1 and ITR4S online**

You can submit your ITR 1 or ITR 4S forms by uploading XML on the official website or by online submission. The below mentioned steps should be able to guide you:

- Login to e- Filing application
- Go to 'e-File' and click on 'Prepare and Submit ITR Online'
- Choose the Income Tax Return Form ITR 1 or ITR 4S and enter the assessment year.

- Complete the details and then click on ‘Submit’ and select DSC (Digital Signature Certificate)’, in case it’s available. Now, click on the ‘Submit’ button.
- Once the submission is done, your acknowledgement detail is displayed.
- Click on the link to view or take a printout of the acknowledgement or ITR V form.
- In case you wish to use DSC, you will have to register it in the e-filing application. Simply log into the e-filing website of the IT Department and update the ‘Profile Settings’ section. Under this section, you need to select ‘Register Digital Signature’ Certificate and download the ITD e-Filing DSC Management Utility.

Apart from this you can also utilise many other websites to file your income tax returns online. Generally, such portals charge a nominal fee of Rs. 250 to 300. This is dependent on the kinds of service they offer.

### **Things to keep in mind while e-filing**

A couple of facts need to be considered when filing your income tax returns online. Here’s a comprehensive list of all of them:

- In case your name which is mentioned in your bank documents or official statements is different from the one given in the PAN card even a bit, the portal will consider you a completely separate individual. In some cases, some taxpayers give their father's name as their 'middle' name in their PAN card, but do not use the same for their bank accounts.
- If the same mobile number or email address is entered by more than four taxpayers online, you cannot file returns on the website, unless the required change is done. For instance, in some cases, more than five returns may be filed which may include you, your wife, your mother, your father in law and the Hindu undivided family (HUF) of which you are the Karta or the executor of a will.
- If you are a non-resident Indian and wish to file income tax returns, you will require both, an India number and a foreign number.

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## **4.4 OTHER BASIC TERMS RELATED TO INCOME TAX FILING RETURN**

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If, as per the ITR form, an excess amount of tax has been paid during a financial year, the assessee is eligible to claim an income tax refund from the Income Tax Department. Income



Tax returns must be filed within a specified date. If a taxpayer does not file ITR within the deadline, he or she has to incur a penalty. Before filing your taxes, you must know some of the basic terminologies on tax.

Here are 20 basic tax terms that will help you in being better prepared before filing taxes:

**a. Income Tax Return –**

ITR is the form used for reporting income and tax to the Income Tax Department for the Previous Year or the applicable Assessment Year. There are different forms for ITR filing.

- ITR 1
- ITR 2
- ITR 3
- ITR 4
- ITR 5
- ITR 6
- ITR 7

Either of these forms must be used depending on the source of income, the net income earned and type of assessee.

**b. Gross Total Income –**

The first step of filing tax returns is the computation of Gross Total Income (GTI).

GTI can include:

1. Salary income
2. Capital gain
3. Income from house or property
4. Profits and gains from business & profession
5. Income from other sources

These must be calculated after making adjustments related to relevant exemptions like eligible allowances, HRA, interest component on home loan, etc.

**c. Net taxable income –**

Net taxable income is:

- The income chargeable to tax

It is computed after considering deductions allowed under Income Tax Act (i.e. different Section 80s). Tax is payable on this final amount.

**d. Assessee –**

A 'person' who, as per the Income Tax Act, is liable to pay income tax. An assessed could be:

1. Individual
2. Hindu Undivided Family (HUF)
3. Association of Persons (AOP)
4. Body of Individuals (BOI)
5. Companies
6. Limited Liability Partnerships (LLPs)
7. Local authority
8. Any artificial juridical person (AJP) not part of the above-mentioned categories

**e. Assessment –**

This is the process of inspection of the returns filed by an assessed as carried out by the Income Tax Department.

**f. Assessment Year (AY) –**

AY is the twelve-month period:

- That begins on the 1st day of April and
- Ends on March 31

It succeeds the respective Financial Year. For instance, for FY 2020-21, the AY is 2021-22.

An assessed has to file an income tax return for the applicable AYs.

**g. Previous Year (PY) –**

Previous year refers to the financial year immediately before the Assessment Year. In this context, PY is the same as the Financial Year.

**h. Tax Deduction at Source (TDS) –**

The tax deducted before making payment to the recipient is called Tax Deducted at Source or TDS. Following payments are subject to TDS as per Income Tax Act:

- salary
- interest on bank deposits
- commission
- consultation fees
- professional fees
- rent payment, etc

TDS is reflected in the Form 26AS or the TDS certificate. It is issued by the deductor or the entity/individual making the payment. To claim credit for the tax paid, an assessee can use these documents while filing income tax returns.

**I. Form 26AS –**

Form 26AS is a tax credit statement which reflects the tax deducted or collected by an entity.

It contains details of:

1. Tax deducted from all sources
2. Tax collected at source
3. Advance tax paid by the assessee
4. Self-assessment tax paid
5. Regular assessment tax
6. Refund in the financial year (if any)
7. Any high-value financial transactions (if any)

**j. Form 16 –**

Form 16 is issued by employers and contains information that is required to prepare and file Income Tax Returns.

Part A of Form 16 states:

1. Full address of the employer and employee
2. Permanent Account Number (PAN) of both
3. Tax deduction Account Number (TAN) of the employer
4. amount of tax deducted and deposited by the deductor for the Assessment Year
5. challan numbers

Part B of Form 16 states details like:

1. salary paid
2. any other income
3. exemptions & deductions availed and
4. tax deducted

**k. Surcharge –**

Also known as tax on tax, this is the additional tax payable apart from the applicable tax rate for an assessee who comes under a higher income tax slab.

**l. Advance Tax –**

This is the tax payable in advance. Instead of being paid in lump-sum at the end of a financial year, advance tax must be paid in four instalments:

1. on or before 15th June,

2. 15th September,
3. 15th December, and
4. 15th March

This is applicable to any

1. individual whose tax liability is more than Rs. 10,000 in a financial year.
2. those in business, and
3. those who have opted for presumptive taxation under Section 44AD or 44ADA

**m. Self-Assessment Tax –**

Income tax paid by the assessee after considering Advance Tax and Tax Deduction at Source is known as Self-Assessment Tax. It must be paid before filing the Income Tax Returns in an assessment year.

(The below-mentioned deductions of various Section 80s are not applicable if one chooses the New Tax Regime U/S 115BAC)

**n. Section 80C –**

Annual investments in certain eligible financial instruments of up to Rs 1.5 lakh can be claimed as a deduction under Section 80C of the Income Tax Act. This is one of the most commonly used deduction. The eligible financial instruments are:

1. Public Provident Fund
2. Sukanya Samriddhi Yojana
3. National Saving Certificate
4. 5-Year tax-saver term deposits
5. Senior Citizens Savings Scheme
6. National Pension System
7. Equity Linked Savings Schemes
8. Life insurance policies premium
9. Premium paid for pension plans
10. Contribution to the Employees' Provident Fund
11. Principal repayment on housing loans
12. Tuition fees paid for children's education
13. Registration fees and stamp duty on registration of a house

**o. Section 80D – Deduction for payment of health insurance premium**

Premium amount paid towards a health insurance policy is eligible for deduction as per Section 80D of the Income Tax Act, 1961

1. For a non-senior citizen – up to Rs 25,000
2. For senior citizens – Rs. 50,000

This deduction can be claimed by an individual and Hindu Undivided Family.

**p. Section 80E – Deduction for interest payment on education loan**

Deduction for interest repayment on an education loan:

- Can be claimed by assesses who are individuals
- The loan must specifically be taken to pursue higher studies in India or abroad.
- It should be taken from a bank, or financial institution or other approved charitable institution.
- The deduction can be claimed for a maximum of 8 years (starting from the year the assessee begins interest repayment) or till the interest is paid, whichever is earlier.
- No restriction on the amount to be claimed.

**q. Section 80EE – Deduction for first time home owners**

This deduction is meant for individuals who have taken a home loan for the first time. Some of the terms to be satisfied for claiming this deduction are:

- Applicable only on the interest portion
- The individual should not be owning any other house property
- The house or property value should be within Rs. 50 lakhs
- The loan amount can be maximum Rs. 35 lakhs
- Applicable on loans sanctioned between 1st April 2016 and 31st March 2017
- A deduction of Rs 50,000 can be claimed per annum from the Gross Total Income until the loan has been repaid in full.
- Beyond this amount, an assessed can claim a deduction under Section 24(b) for interest payment towards the home loan. Maximum permissible limit is Rs 2 lakhs per annum.

**r. Section 80EEA – Deduction of home loan interest in affordable housing segment**

Deduction for interest paid towards home loan taken specifically for availing a home in the affordable housing segment. It can be claimed only for individuals. The conditions for this deduction are:

1. the borrower should not own any other house or property as of the date of sanctioning of the loan
2. the loan must be taken from a bank or financial institution
3. the individual cannot claim a deduction under the existing Section 80EE

The individual is allowed to claim a deduction under Section 24(b) for interest paid towards the home loan, with maximum permissible limit being Rs. 2 lakhs per annum.

**s. Section 80TTA – Deduction of interest on SB account**

Under this individuals and HUFs can claim a deduction for interest earnings from a savings account maintained with a bank, co-operative society and post office. The interest earnings must be within Rs. 10,000.

**t. Section 80TTB – Deduction of interest on SB account for senior citizens**

Under this section, senior citizens can claim a deduction for interest earnings on savings accounts maintained with a bank, co-operative society and post office up to Rs. 50,000.

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## 4.5 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Long Questions

1. Explain different types of E-filing?
2. Is the maturity amount received from a life insurance taxable?
3. I have my long-term capital gains as the only source of income. Am I eligible for the income tax deductions u/s 80C to 80U?
4. There is a mismatch between the details in my Form 26AS and TDS certificates (Form 16 / 16A). What should I do?
5. What should I do if there are errors and omissions in my Form 26AS (Annual Information Statement)?

#### Short Questions

1. What is E-filing?
2. Who all are the parties to file income tax?
3. What are the different documents required to file income tax?
4. Who is Required to Fill Schedule FA (Foreign Assets)?
5. How can One Revise Income Tax Return?

### B. Multiple Choice Questions

1. What is the due date of submission of return for an individual?

- a. 31st July
- b. 31st August
- c. 30th September
- d. 31st October

2. Which one from the following options is the acknowledgement of filing the return of income?

- a. ITR4
- b. ITR – V
- c. Form26AS
- d. Form 26QB

3. TDS deduction entry can be made through

- a. Payment Voucher
- b. Receipt Voucher
- c. Journal Voucher
- d. All of these

4. Patent account falls under:

- a. Investments
- b. Liabilities
- c. Current Assets
- d. None of these

5. Any resident person who enters into a financial transaction of an amount aggregating to ..... during a financial year is required to obtain PAN i.e. 01-04-2018.

- a. Rs.2,50,000 or more
- b. Rs.2,50,000 or less
- c. Rs.2,00,000 or more
- d. Rs.2,00,000 or less

**Answers: 1-a, 2-b, 3-c, 4-d, 5-a**

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## **UNIT- 5 CONCEPTUAL KNOWLEDGE**

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### **STRUCTURE**

5.0 Objectives

5.1 Introduction

5.2 Conceptual knowledge of Form No 49A and 49B and their relevant data fields

5.3 Knowledge of different income tax return forms like ITR 1,

ITR2, ITR3, and ITR 4 and their relevant data fields

5.4 Unit End Questions

5.5 Reference

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### **5.0 OBJECTIVES**

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- Explain conceptual knowledge of Form No. 49A
- Describe the meaning if ITR 1
- Explain the use of ITR 2
- Discuss ITR 3 and ITR4 in detail

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### **5.1 INTRODUCTION**

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The word Income has a very broad and inclusive meaning which is defined under section 2(24) of income tax act, without getting too in depth we will understand it broadly.

- In case of a salaried person, whatever amount received from an employer, either in cash or kind or as a facility is considered as income.
- For a businessman, his profits and gains will constitute income
- For professionals, freelancers etc. their earnings from various sources like professional fees, other incomes etc. are considered as Income.
- You might receive Rental income from house owned.
- Or capital gains from sale of shares, buying or selling of property etc.
- Income may also flow from investments in the form of Interest, Dividend, and Commission etc.
- Income Tax Department has classified income in 5 broad categories. Those are:

1. **Income from Salary :** The amount received by you from your employer every month comes under the head income from salary. As per law, employer-employee relationship is must to consider the amount as income from salary else it will be considered under other head and therefore exemptions, allowances available to a salaried individuals will not be available.

The amount of your Salary includes basic pay, dearness allowance, medical, transport, annuity, gratuity, advance of salary, allowances, commission, perquisites in lieu of salary and retirement benefits etc.; The aggregate of the above incomes, after the exemptions but before the deductions, is known as Gross Salary and this is charged under the head income from salary. (you can refer to column no. 6 of your Form- 16 to know your taxable salary amount)

2. **Income from House property:** Any Rental Income from residential or commercial property that you own will be taxed. If you have home loan then interest part of it would also be considered as negative income from House property.
3. **Income from Business or Profession:** Income earned through business or profession is taxable under the head 'profits and gains of business or profession. The income on which tax is levied shall be net of expenses.

The income on which tax is levied shall be net of expenses.

4. **Income from capital gains:** Any profit or gain arising from transfer of capital asset held as investments (such as house, Jeweler are chargeable to tax under the head capital gains. The gain can be on account of short-term and long-term gains. Our article Basics of Capital Gain talks about it in detail.
5. **Income from other sources :** Any income that does not come under the above four heads of income is taxed under the head income from other sources. For eg. savings bank interest, lottery you win (probably never: P) or Reality shows like “Kaon Banega correlate” etc. all these Incomes are taxable that means the person winning 1 Crore in the show will have to pay 30% of tax. so he actually never became correlate.

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## 5.2 CONCEPTUAL KNOWLEDGE OF FORM NO 49A AND 49B AND THEIR RELEVANT DATA FIELDS

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### Form 49A

Form 49A is the application form for the allotment of Permanent Account Number for Indian residents. Any individual who is a resident of India and wishes to apply for PAN should compulsorily fill the form 49A as it is the application form. One can download the application form online from Protean ego Technologies Limited e-Governance official website or UTIITSL website. Once the form is filled with the correct details, the applicant can make the payment online and submit the form with the required documents and photographs.

### **Structure of Form 49A**

Form 49A is neatly structured into different sections to make it easier for the customer to file the form. The form has designated spaces for the applicant to affix their photographs on the top corners of the form. The form is designed with 16 components, each component with a sub section that needs to be filled out.

### **Components of Form 49A**

**Given below is a detailed explanation of all the components present on Pan Form 49A.**

1. **Assessing officer code-** In AO code section, the applicant has to mention the Area code, Accounts office type, Range code and Accounts office number
2. **Full name-** This is the part of the form where the individual mentions their marital status, their first name, last name and their Sur name.
3. **Abbreviation of the name-** The applicant has to abbreviate their name as they would like to see on their PAN card in this section of the form.
4. **Other name-** In here, the applicant has to mention if they were ever known by any other name than the name mentioned. If they did have another name, the applicant has to provide details such as First name, Last name and Surname of their other name.
5. **Gender-** The part of the form where in the applicant has to mention their orientation status.
6. **Date of birth-** In case of an individual applicant, the applicant has to mention their date of birth and in case of organizations, they have to mention the date of partnership/incorporation/Agreement or Trust deed.
7. **Father's name-** The applicant has to mention the first name, last name and surname of their father in this part of the form. This is applicable only to individual applicants including married women.
8. **Address-** The applicant needs to enter the details of their residence address and office address in this part of the form. The applicant needs to be careful while filling in the address and should give the correct details.

9. **Address of communication-** The applicant has to choose the address of communication between office or residence.
10. **Telephone number and email id-** The applicant has to mention their Country code, State code and telephone/mobile number.
11. **Status of applicant-** In here, the applicant has to mention if they are an individual, a HUF member, Company, Partnership firm, etc.
12. **Registration number-** The registration number indicates the registration number for company, firms, LLPs, etc.
13. **Adjara number-** The Adjara number should be mentioned if the individual owns an Adjara card.
14. **Source of income-** The applicant should mention from where they draw their income.
15. **Representative Assessee-** The applicant needs to provide the name and address of the representative assessee.
16. **Documents submitted-** In this part of the form, the applicant needs to mention all the documents they have submitted with the form.

#### **How to fill Form 49A?**

There are some rules that one should follow while filling in Pan Card Form 49A. Given below are a few things one needs to be wary of when filling in the form.

- **Language and basic rules-** The applicant can fill in Form 49A only in English. There is no provision to fill in the form in any other language other than English. It is also important that the form be filled with block letters and preferably in black ink. Each box provided should be filled in with only a single character, leaving an empty box after each character.
- **Photographs-** The applicant is required to attach two recent colour photographs in the space provided on the top corners of the form. It is very important to note that the photographs should not be stapled or clipped to the form as this will be the photograph that will be displayed on the PAN card. The clarity of the photo on the PAN card will depend on the clarity of this photo and hence, it is important to provide a photograph with good clarity.
- **Signature on the photograph-** A signature or a left hand thumb impression should be provided across the photo that is affixed to the left top corner of the form. The applicant should ensure that the signature or the thumb print is on the photograph as well as the form. For the photograph on the right top corner of the form, the signature or thumb impression should be contained inside the box provided and not on the

photograph as the photograph on the right top corner of the form will be the one displayed on the PAN card.

- **Correct details-** It is important to take your time and fill the form and ensure that you have filled in the correct details. Filling the form with incorrect details might lead to complications during the processing of the form and might even lead to rejection of the application.
- **Overwriting-** Overwriting should be avoided when filing the form.
- **Contact details-** There are some details that one needs to be aware of while filling in the contact details in the form. While mentioning the address, it is important to provide complete details including details of Town, city and Pin code is mandatory. It is also important to mention the STD code for the phone number provided.

### **PAN Application Form 49AA**

Foreign residents and entities incorporated outside of India are also eligible for PAN. Form 49AA is the application form for the allotment of Permanent Account Number for Foreign residents and entities incorporated outside India. One can download the application form online from Protean ego Technologies Limited official website or UTIITSL website. The applicant can submit the form once they have filled it with the correct details and attached the required documents along with the form.

### **Structure of Form 49AA**

Form 49AA is divided into different sections with sub sections to make filling the form much easier for the applicant. The form has designated spaces for the applicant to affix their photographs on the top corners of the form. The form is divided into about 17 components, each with a different attribute.

### **Components of Form 49AA**

Given below is a detailed explanation of all the components present on Form 49AA.

1. **Assessing officer code-** In this section, the applicant has to mention the details of the Assessing Officer code details such as the Area code of the accounts office, Accounts office type, Range code and Accounts office number.
2. **Full name-** This is the part of the form where the individual mentions their marital status along with their first name, last name and their Sur name.
3. **Abbreviation of the name-** This is the part of the form where in the applicant has to abbreviate their name based on what they want to be displayed on the PAN card.
4. **Other name-** In here, the applicant has to mention the details of their other name if they were ever known by another name other than the name already mentioned.

5. **Gender**- The part of the form where in the applicant has to mention their gender.
6. **Date of birth**- In case of an individual applicant, the applicant has to mention their date of birth and in case of organizations, they have to mention the date of partnership/incorporation/Agreement or Trust deed.
7. **Father's name**- The applicant has to mention the first name, last name and surname of their father in this part of the form. This is applicable only to individual applicants and even married women should fill in this part of the form.
8. **Address**- The applicant needs to enter the details of their residence address and office address in this part of the form. The applicant needs to be careful while filling in the address and should give the correct details.
9. **Address of communication**- The applicant has to choose the address at which they would like to be contacted at.
10. **Telephone number and email id**- The applicant has to mention their Country code, State code and telephone/mobile number for communication purposes.
11. **Status of applicant**- In here, the applicant has to mention if they are an individual, a HUF member, Company, Partnership firm, etc.
12. **Registration number**- The registration number indicates the registration number for company, firms, LLPs, etc.
13. **Citizenship**- The applicant has to mention the country of their citizenship and ISD code of country of citizenship in this part of the form.
14. **Representative of the applicant in India**- In here, the applicant should mention details of the representative or the agent including their address and full name.
15. **Documents submitted**- In this part of the form, the applicant needs to mention all the documents they have submitted with the form.
16. **KYC details**- This part of the form should be filled in by a Qualified Foreign Investor as prescribed by the regulations under SEBI. This will contain details such as the marital status, occupation details, citizenship status and more.

### **How to fill Form 49AA?**

There is certain rule that an individual or an entity should follow when filling in Form 49AA. Though filing in a form might seem like an easy task, there are some rules that can lead to rejection of your application if ignored. Given below are some of the important rules to keep in mind while filling in Form 49AA.

- **Basic rules of filling Form 49AA**- The applicant should fill in the form only in English and not any other language. The form should be filled in block letters and

each box in the form can contain only one character. The applicant is also advised to use black ink to fill the form, it is better to use a ballpoint pens and avoid liquid ink pens as the latter might make the form look splotchy.

- **Thumb impression and signature on photographs-** The applicant is required to provide signature or left hand thumb impression on the photograph attached to the left top corner of the form. The applicant should sign or leave a thumb impression in such a manner that it can be seen on the photograph as well as the form.
- **AO code details-** The AO Code details such as Area Code, AO Type, Range Code and AO number should be filled by only the applicant and the applicant can avail the details can be availed from the Income Tax office or from one of the PAN centres.
- **Accuracy of the information provided-** It is important to provide accurate details while filling the form. Providing the wrong or incorrect details can create a lot of complications including rejection of the application for PAN.
- **Contact details-** The applicant has to provide the ISD code for their phone number since they reside outside India. It is also important that they provide the country name along with the Zip code for the country.

#### **Where can I submit my online printed PAN card form?**

Applicants can submit their filled up forms along with the copies of required documents at the Protean ego Technologies Limited office or at the UTIITSL office. To submit at Protean ego Technologies Limited office, the application needs to be sent at -

Income Tax PAN Services Unit,  
Protean ego Technologies Limited,  
5th Floor, Mantra Sterling,  
Plot No. 341, Survey No. 997/8,  
Model Colony, Near Deep Bungalow Chow,  
Pune - 411 016

If the applicant has applied for the Permanent Account Number from UTIITSL, the application form along with the relevant documents can be submitted at any of the addresses mentioned below:

#### **PAN PDC in charge - Mumbai region**

- UTI Infrastructure Technology and Services Limited, Plot No. 3, Sector 11, CBD Belau, Navy Mumbai – 400614

### **PAN PDC in charge - Kolkata region**

- UTI Infrastructure Technology and Services Limited, 29, N. S. Road, Ground Floor, Opp. Glader House and Standard Chartered Bank, Kolkata - 700001

### **PAN PDC in charge - Chennai region**

- UTI Infrastructure Technology and Services Limited, D- 1, First Floor, Thira-Vi-Ki Industrial Estate, Gundy, Chennai - 600032

### **PAN PDC in charge - New Delhi region**

- UTI Infrastructure Technology and Services Limited, 1/28 Sunlight Building, Asif Ali Road, New Delhi - 110002

### **Form 49B for TAN Application**

TAN number is assigned to everyone having the authority to collect income tax on behalf of the Income Tax Department (ITD). TAN is a 10-digit account number which has to be possessed by everyone who can deduct tax on behalf of the ITD.

Like PAN or Permanent Account Number is a unique number assigned to all taxpayers, similarly, TAN is a unique 10 digit number assigned to all entities which have the authority to deduct and collect income tax on behalf of the Income Tax Department. Wherever TAN needs to be quoted, quoting of PAN at those places is a strict no since both these numbers are meant for totally different purposes. Quoting the TAN is compulsory while filing TDS and TCS returns for both paper and electronic modes.

TAN or Tax Deduction and Collection Account Number is a 10-digit account number that all assessee liable to deduct tax on behalf of the Income Tax Department need to possess. This number is to be quoted in the TDS that they file and all communication regarding taxation, with the Income Tax Department.

A fine of Rs. 10,000 is imposed on entities which do not obtain this number despite deducting TDS. Also, banks have the authority to deny transactions with respect to taxation in case TAN is not quoted by the assessee.

TAN is to be applied for by both private as well as public sector enterprises that deduct tax on behalf of the Income Tax Department.

### **How can you Apply for TAN?**



Application for new TAN can be made by filling and submitting form 49B at any of the TIN facilitation centres meant for receiving e-TDS returns. TAN is allotted to such applicant entities by the Income TAX Department. TAN can be applied for either by visiting the Income Tax Department or by making online application at the Income Tax official website. Application for issue of TAN can only be made via form 49B. In case of physical applications, no supporting documents are required to be furnished to the Income Tax Department. However, for online application, the acknowledgement received after submitting form 49B is to be saved and sent to the Income Tax Department as proof.

### **Contents of Form 49B**

Form 49B is a long application form consisting of various types of information. Listed below are the contents of the form that need to be filled and submitted.

- First section details out the particulars pertaining to the office name, the type of government it falls under, the address of the office, designation of person who will make tax payments on behalf of the entity, company branch, division of company, information on whether the TAN is in the name of HUF (Hindu Undivided Family) or individual and so on.
- Second section deals with the address of the entity. This includes the complete address details like block number, street number, area code, state, town, city etc.
- Third block of information is about the nationality of the deductor
- Permanent Account Number of PAN is to be mentioned in this section in case it is applicable
- Existing Tax Deduction Number is to be filled in in this section
- Existing Tax Collection Number is to be filled in in this section
- Date on which the form is being submitted is the next piece of information to be given
- In the end the person who is filling the form and applying has to fill in his/her personal details in order to verify that the above mentioned information is true to the best of his/her knowledge
- In the end the applicant has to sign the form or put his/her thumb impression to verify the contents of the form

### **Instructions for Filling Form 49B**

Form 49B has a lot of sections that need to be filled carefully for your TAN application to be accepted. Listed below are some important points that you need to keep in mind while filling form 49B.

- Form 49B is to be filled only in English and in capital letters so that the entries are legible.
- While filling the form, every text box should have one letter in it for better readability and clarity
- In case left hand thumb impression is used for signing the form, the same should be attested by a gazette officer, a notary or a magistrate
- Details of assessing officer need to be furnished by deduct or or collector of tax. These details can be accessed from the Income Tax Office in case these are not available
- Details pertaining to area, area code, district etc. need to be furnished by the tax collector or deduct or. In case these are not known, Income Tax Office may assist you in finding out
- Form 49B should be filled up completely. Any blank or pending sections are not considered
- Person who is responsible for filing and submission of tax should list down his or her designation mandatorily
- The address of the applicant needs to be an Indian address

Once form 49B is filled and submitted, the Income Tax Department verifies the submitted details. In case the application looks good and correct, NSDL will intimate the new TAN details at the address indicated in form 49B or will send across an email with TAN information in case where online application has been made.

#### **Documents Required for TAN Application**

If TAN application is being made online, then the print of the acknowledgement received needs to be sent to the Income Tax Department. Acknowledgement of TAN is received as soon as form 49B is submitted to the NSDL website. For physical filling and submission of form 49B, no other accompanying document is required.

Fee for Tan Application:

An application fee of Rs.50 plus service charges applicable are charged while applying for new TAN. This fee is non-refundable in case your application has an error and is rejected.

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## 5.3 KNOWLEDGE OF DIFFERENT INCOME TAX RETURN FORMS LIKE ITR 1, ITR2, ITR3, AND ITR 4 AND THEIR RELEVANT DATA FIELDS

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ITR stands for Income Tax Return. The Income Tax Act, 1961 governs all the ITR forms and procedures to be followed. This article gives an in-depth understanding of the ITR definition and types of ITR forms.

### What is ITR?

Income Tax Return (ITR) is a form in which the taxpayers file information about their income earned and tax applicable to the income tax department.

The department has notified 7 various forms i.e. ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, ITR-6 & ITR-7 to date. Every taxpayer should file his ITR on or before the specified due date. The applicability of ITR forms varies depending on the sources of income of the taxpayer, the amount of the income earned and the category of the taxpayer like individuals, HUF, company, etc.

### Why should you file ITR?

It is mandatory to file income tax returns (ITR) in India if any of the conditions mentioned below are applicable to you:

1. If your gross annual income is more than the basic exemption limit as specified below-

Particulars	Amount
For individuals below 60 years	Rs 2.5 lakh
For individuals above 60 years but below 80 years	Rs 3.0 lakh
For individuals above 80 years	Rs 5.0 lakh

2. If you want to claim an income tax refund from the department.

3. If you have earned from or have invested in foreign assets during the FY.

4. If you wish to apply for a visa or a loan

5. If the taxpayer is a company or a firm, irrespective of profit or loss.

Also, you are mandatorily required to file ITR even if your income is below the basic exemption limit but you meet one of the following conditions:

1. Have deposited an aggregate amount of more than Rs.1 crore in one or more current bank accounts; or
2. Have incurred an aggregate expenditure of more than Rs 2 lakh on foreign travel for self or any other person; or

3. Have incurred an expenditure aggregate of more than Rs.1 lakh towards electricity consumption.
4. If the tax deducted at source (TDS)/ tax collected at source (TCS) exceeds Rs 25,000 in the previous year. In the case of a senior citizen (above 60 years), this limit is Rs 50,000.
5. In case you are a businessman and your total sales, turnover, or gross receipt exceeds Rs 60 lakh during the previous year.
6. You are liable to file a tax return if you are engaged in a profession and your gross receipts are more than Rs 10 lakh during the previous year.

### **Which ITR to file?**

The following infographic will help you find out which type of income tax return is applicable to you for FY 2021-22.

Once you figure out which ITR you need, click on the links below to learn more about them.

### **File ITR-1**

1. Who is eligible to file ITR-1 for AY 2021-22?

ITR-1 can be filed by a Resident Individual whose:

- Total income does not exceed 50 lakhs during the FY
- Income is from salary, one house property, family pension income, agricultural income (up to ₹5000/-), and other sources, which include:
  - Interest from Savings Accounts
  - Interest from Deposits (Bank / Post Office / Cooperative Society)
  - Interest from Income Tax Refund
  - Interest received on Enhanced Compensation
  - Any other Interest Income
  - Family Pension
- Income of Spouse (other than those covered under Portuguese Civil Code) or Minor is clubbed (only if the source of income is within the specified limits as mentioned above).

2. Who is not eligible to file ITR-1 for AY 2021-22?

ITR-1 cannot be filed by any individual who:

- is a Resident Not Ordinarily Resident (RNOR), and Non-Resident Indian (NRI)?
- has total income exceeding 50 lakh
- has agricultural income exceeding 5000/-

- has income from lottery, racehorses, legal gambling etc.
- has taxable capital gains (short term and long term)
- has invested in unlisted equity shares
- has income from business or profession
- is a Director in a company?
- has tax deduction under section 194N of Income Tax Act
- has deferred income tax on ESOP received from employer being an eligible start-up
- owns and has income from more than one house property
- is not covered under the eligibility conditions for ITR-1

### 3. What are the changes in ITR-1 as compared to previous years?

In ITR-1 for AY 2021-22, there is an addition of section 115BAC. If you wish to opt for the new tax regime under section 115BAC, select Yes in the new ITR form, else select No.

Please note that option for new tax regime u/s 115BAC will be available only till due date of filing of return u/s 139(1).

### 4. What documents do I need to file ITR-1?

You would need Form 16, house rent receipt (if applicable), investment payment premium receipts (if applicable). However, ITRs are annexure-less forms, so you are not required to attach any document (like proof of investment, TDS certificates) along with your return (whether filed manually or electronically). However, you need to keep these documents for situations where they need to be produced before tax authorities such as assessment, inquiry, etc.

### 5. What precautions should I take while filing the return of income?

- Download Form 26AS (Annual Information Statement) and check the actual TDS / TCS / tax paid. If you see any discrepancy, you should reconcile it with the Employer / Tax Deduct or / Bank.
- Compile and carefully study the documents to be referred to when filing your ITR, like bank statement / passbook, interest certificates, receipts to claim exemptions or deductions, Form 16, Form 26AS (Annual Information Statement), investment proofs, etc.
- Ensure details like PAN, permanent address, contact details, bank account details, etc. are correct in the pre-filled data.
- Identify the correct return for you (from ITR-1 to ITR-7). Provide all the details in the return such as total income, deductions (if any), interest (if any),

taxes paid / collected (if any), etc. No documents are to be attached along with ITR-1.

- e-File the return of income on or before the due date. The consequences of delay in filing returns include late filing fees, losses not getting carried forward, deductions and exemptions not being available.
- After e-Filing the return, e-Verify it. If you want to manually verify your return, send the signed physical copy of ITR-V Acknowledgement (by ordinary post or speed post) within 120 days of filing the return to Centralized Processing Centre, Income Tax Department, Bengaluru 560500 (Karnataka).

#### 6. How do I know which ITR I need to file?

Different tax returns are prescribed for filing by individual taxpayers depending on their source of income and residential status. To determine the correct ITR to file, you can use the Help me decide which ITR Form to file option. You can then proceed based on questions displayed to determine the correct ITR to file.

#### 7. What is Form 26 AS (Annual Information Statement)?

Form 26AS is an annual information statement which shows various details including Tax Deducted / Collected at Source, Advance Tax / Self - Assessment Tax, Specified Financial Transactions Demand / Refund Pending / completed Proceedings for a taxpayer's PAN as per ITD's database.

A taxpayer may pay tax in any of the following forms:

- Tax Deducted at Source (TDS)
- Tax Collected at Source (TCS)
- Advance Tax or Self-Assessment Tax

The Income Tax Department maintains a database of the total tax paid by all taxpayers, which is called tax credit in the taxpayer's account. The ITD generally allows taxpayers to claim the credit of taxes as reflected in their Form 26AS.

#### 8. What should I do if there are errors and omissions in my Form 26AS (Annual Information Statement)?

Errors or omissions in your Form 26AS (Annual Information Statement) may happen due to several reasons, such as:

- Non-filing of TDS returns by Deduct or
- Non-payment of TDS by Deduct or
- Quoting of wrong AY or wrong PAN (or no PAN)
- Incorrect challan details in the TDS returns submitted

- Challan details wrongly quoted in the TDS return by Deduct or or in details uploaded by the bank

You can take the following action to correct the details in your Form 26AS:

1. Provide a correction statement (via NSDL website) for only those records that require correction.
2. In cases of a mistake made by the Deduct or (e.g., your employer), you should contact the Deduct or and request them to:
  - File the TDS return if it is still pending
  - Furnish a revised TDS return if they filed the return with incorrect details / wrong or no PAN
  - If there is a mistake made by the bank (e.g., in tax amount, PAN), you should request the bank to rectify it in the challan details uploaded by the bank

Especially in cases of tax amount being wrong, it is mandated that you get it corrected – else you will not get a tax credit for deductions that are not mentioned in Form 26AS.

9. There is a mismatch between the details in my Form 26AS and TDS certificates (Form 16 / 16A). What should I do?

Some of the common errors leading to mismatch between Form 26AS and Form 16 are as follows:

- Non-filing of TDS returns by Deduct or
- Wrong PAN number of the employee quoted by the Deduct or.
- Wrong PAN / TAN of Deduct or / AY quoted
- Wrong Challan Identification Number (CIN) of TDS payment quoted in TDS Return
- Omitted detail of TDS payment
- Challan-wise annexure in TDS Statement does not mention details of the employee (e.g., name or gender)
- False / Excess TDS amount claimed in the return

Compare the figures in Form 26AS with that of Form 16 and Form 16A. Mismatches between your Form 26AS and Form 16 or TDS certificates may lead to less refund or more taxes payable. If you find that any of the above details don't match:

- You need to inform the party responsible for deducting TDS from your income (i.e., your employer).
- The employer has to file a revised TDS Return. Ensure that the details are correct in the revised TDS return to avoid another mismatch.

10. I am a joint owner of a house with my spouse. We do not have any additional property. Can I file ITR-1 in AY 2021-22?

Yes, you can file ITR-1 for the AY 2021-22 in case the following conditions are met:

- If you are a single or joint owner of a single property, you can file ITR-1 for AY 2021-22
- If you own more than one property, you can't file ITR-1 (even as a single owner)

11. What precautions should I take to avoid issues while filing my ITR? To avoid issues while filing your return and getting your refund, ensure you do the following:

- Link Adjara and PAN.
- Pre-validate your bank account where you want to receive your refund.
- Choose the correct ITR before filing it; else filed return will be treated as defective and you will need to file a revised ITR using the correct form.
- File the return within the specified timelines.
- Verify your return and you can opt for e-Verification (recommended option – e-Verify Now) is the easiest way to verify your ITR.
- File the responses for the notices received from the ITD within the specified timelines.

12. What is Advance Tax?

For salaried individuals, advance tax is mostly taken care of through TDS by employers. But other forms of income such as interest on savings bank accounts, fixed deposits, rental income, bonds, or capital gains increase the tax liability. One's tax liability needs to be estimated beforehand. If tax amounts to more than ₹10,000/- per year, taxpayers need to pay advance tax in quarterly instalments (June, September, December and March).

13. How is Advance Tax and Self-Assessment Tax calculated and paid?

Advance Tax: Advance Tax must be calculated as given below:

a) In case of all assesses (other than the eligible assesses as referred to in section 44AD and 44ADA of the Income Tax Act):

At least to 15%

On or before 15<sup>th</sup> June



At least to 45%                      On or before 15<sup>th</sup> September

At least to 75%                      On or before 15<sup>th</sup> December

100%                                      On or before 15<sup>th</sup> March

b) In case of eligible assessee as referred to in section 44AD and 44ADA:

100%	On or before 15 <sup>th</sup> March
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Any tax paid on or before 31st March will be treated as Advance Tax paid during the same FY. The deposit of Advance Tax is made through challan ITNS 280 by ticking the relevant column, i.e., Advance Tax.

Self-Assessment Tax: After filling out your ITR form with the TDS and advance tax details (if paid), the system computes your income and checks whether tax is still payable. You need to pay it and then fill in the challan details in the return before submitting it.

14. What is the difference between allowance and perquisite? Are these considered as my income?

Allowances are fixed periodic amounts, apart from salary, which are paid by an employer, e.g., conveyance allowance, travelling allowance, uniform allowance, etc. Allowances are considered income and will increase your gross total income on which you will be taxed. Allowances can be taxable, partially exempted, and fully exempted. Perquisites are benefits you receive because of your official position, and are over and above your salary or wage income. These perquisites can be taxable or non-taxable depending upon their nature.

15. Are all donations 100% exempted from tax?

No, not all donations qualify for 100% exemption from tax. The categories for tax deduction, based on whom you donated to (charitable institution, fund set up by Government, scientific research, etc.) are as follows:

1. Donations entitled for 100% deduction without qualifying limit
2. Donations entitled for 50% deduction without qualifying limit
3. Donations entitled for 100% deduction subject to qualifying limit
4. Donations entitled for 50% deduction subject to qualifying limit

You need to check the exemption limit on your donation receipt and claim deduction accordingly while filing your return.

16. Is e-Filing and e-Payment the same thing?

No. e-Filing is the process of electronically submitting your Income Tax Return on the e-Filing portal and e-payment is the process of electronically paying tax.

17. I made a calculation mistake in my filed ITR. Can I correct it and re-submit my return?

Yes, you can re-submit return in case you have already filed your Income Tax Return and later discover that you have made a mistake. This is called a Revised Return. Your return has to be revised three months before the end of the relevant AY. For AY 2021-22, the due date for filing revised return is 31st December 2021.

18. Can I file ITR for last 3 years now?

No, you can only file Income Tax Return for one AY in the current financial year. Tax filing beyond the last one year is only possible when you receive a notice from the Income Tax Department.

19. What happens if I file Income Tax Return after the due date u/s 139(1)?

In case you miss filing the ITR within the due date u/s 139(1), you can still file your Income Tax Return but you may be required to pay a late filing fee of up to ₹5000/-. Additionally, you will also be required to pay interest on the tax liability (if any).

20. Do I need to file returns if tax has been deducted by my employer / bank?

Yes, employers and banks deduct tax at source on salary and interest income respectively. You still need to disclose the income on which tax has been deducted and claim credit for TDS in the Income Tax Return.

21. Will I get a refund if I have paid excess tax?

Yes, any excess tax paid by you can be claimed as refund by filing your Income Tax Return. After your return is processed, ITD checks and accordingly accepts your refund claim, and then the amount is credited to your bank account. You will also get a message on your email ID registered on the e-Filing portal.

## **File ITR-2**

1. Who is eligible to file ITR-2 for AY 2021-22?

ITR-2 can be filed by individuals or HUFs who:

- Are not eligible to file ITR-1 (Asha)

- Do not have income from profit and gains of business or profession and also do not have income from profits and gains of business or profession in the nature of:
  - interest
  - salary
  - bonus
  - commission or remuneration, by whatever name called, due to, or received by him from a partnership firm
- Have the income of another person like spouse, minor child, etc., to be clubbed with their income – if income to be clubbed falls in any of the above categories.

2. Who is not eligible to file ITR-2 for AY 2021-22?

ITR-2 cannot be filed by any individual or HUF, whose total income for the year includes income from profit and gains from business or profession, and also who has income in the nature of:

- interest
- salary
- bonus
- commission or remuneration, by whatever name called, due to, or received by him from a partnership firm.

3. What are the changes in ITR-2 as compared to previous years?

In ITR-2 of AY 2021-22, you can choose to opt for the new tax regime under section 115BAC. Please note that option for selecting new tax regime u/s 115BAC will be available only till the due date of filing of return u/s 139(1).

4. What documents do I need to file ITR-2?

- If you have salary income, you need Form 16 issued by your employer.
- If you have earned interest on fixed deposits or saving bank account and TDS has been deducted on the same, you need TDS certificates i.e., Form 16A issued by Deductors.
- You will need Form 26AS to verify TDS on salary as well as TDS other than salary. Form 26AS could be downloaded from the e-Filing portal.
- If you are living in rented premises, you need rent paid receipts for calculation of HRA (in case you have not submitted the same to your employer).

- If you have any capital gains transactions in shares, you will need a summary or profit / loss statement of capital gain transactions of shares or securities during a year, if any, for computation of capital gain.
- You will need your bank passbook, Fixed Deposit Receipts (FDRs) to calculate amount of interest income.
- If you have received rent from your rented house property, then you will need your tenant / local tax payment / interest on borrowed capital details (if any) to calculate income from house property.
- In case you want to claim any loss incurred during the current year, then you will need the relevant documents exhibiting the loss.
- In case you wish to claim previous year's loss, you will need a copy of ITR-V pertaining to the previous year, disclosing the said loss.
- You will also need documents or proofs for claiming tax saving deductions u/s 80C, 80D, 80G, 80GG such as life and health insurance receipts, donation receipts, rent receipts, receipts for tuition fees etc., if the same were not considered in your Form 16.

5. What precautions should I take to avoid issues while filing my ITR?

To avoid issues in filing your return and getting your refund, you must ensure you have done the following:

- Linked Adjara and PAN.
- Pre-validated your bank account where you want to receive your refund.
- Choose the correct ITR before filing it; else filed return will be treated as defective and you will need to file a revised ITR using the correct form.
- File the return within the specified timelines.
- Verify your return - you can opt for e-Verification (recommended option – e-Verify Now) is the easiest way to verify your ITR.

6. Can an HUF / Firm claim rebate u/s 87A?

No. Rebate under section 87A is available only to an individual, hence, any person other than an individual cannot claim rebate under section 87A.

7. I am a non-resident. Can I claim rebate u/s 87A?

No. Rebate under section 87A is available only to an individual who is resident in India, hence, non-residents cannot claim rebate under section 87A.

8. I own two houses. One is a farmhouse that I visit every week, and the other is my residence. Can both these residences be treated as self-occupied?

Up to AY 2019-20, you can claim only one property as self-occupied property and other property will be deemed to be let-out. From AY 2020-21 onwards only, both the houses can be treated as self-occupied properties for residential purpose subject to fulfilment of specified conditions.

9. How to compute income from a property that is self-occupied for part of the year and let out for part of the year?

In this case, for the purpose of computation of income chargeable to tax under the head Income from House Property, such a property will be treated as let-out throughout the year and income will be computed accordingly. However, while computing the taxable income in case of such a property, actual rent will be considered only for the let-out period.

10. What incomes are charged to tax under the head Capital Gains?

Any profit or gain arising from transfer of a capital asset during the year is charged to tax under the head Capital Gains.

11. What is the meaning of Capital Asset?

Capital Asset is defined under Section 2(14) of the Income Tax Act, 1961 to include:

- Any kind of property held by an assessee, whether or not connected with business or profession of the assessee.
- Any securities held by a FII which has invested in such securities in accordance with the Regulations made under the SEBI Act, 1992 (subject to certain exclusions).

12. What is the meaning of the term Long-Term Capital Asset?

- Any capital asset held for a period of more than 36 months immediately preceding the date of its transfer will be treated as Long-Term Capital Asset. However, in respect of certain assets like shares (equity or preference) which are listed in a recognized stock exchange in India, units of equity-oriented mutual funds, listed securities like Debentures and Government Securities, Units of UTI and Zero Coupon Bonds, the period of holding to be considered is 12 months instead of 36 months.
- In case of unlisted shares in a company, the period of holding to be considered is 24 months instead of 36 months.
- With effect from AY 2018-19, the period of holding of immovable property (being land or building or both) shall be considered as 24 months instead of 36 months.

13. As per the Income Tax Law, gain arising on transfer of Capital Asset is charged to tax under the head Capital Gains. What constitutes transfer as per Income Tax Law? Generally, transfer means sale, however, as per Section 2(47) of the Income Tax Act, 1961 transfer, in relation to a Capital Asset, includes:

- Sale, exchange or relinquishment of the asset;
- Extinguishment of any rights in relation to a Capital Asset;
- Compulsory acquisition of an asset;
- Conversion of Capital Asset into Stock-in-Trade;
- Maturity or redemption of a Zero Coupon Bond;
- Allowing possession of immovable properties to the buyer in part performance of the contract of the nature referred to in section 53A of the Transfer of Property Act, 1882;
- Any transaction which has the effect of transferring an (or enabling the enjoyment of) immovable property; or
- Disposing of or parting with an asset or any interest therein or creating any interest in any asset in any manner whatsoever.

14. What are the provisions framed under the Income Tax Law in relation to carry forward and set-off of Capital Loss?

- If loss under the head Capital Gains incurred during a year cannot be adjusted in the same year, then unadjusted Capital Loss can be carried forward to next year.
- In the subsequent year(s), such loss can be adjusted only against income chargeable to tax under the head Capital Gains, however, Long-Term Capital Loss can be adjusted only against Long-Term Capital Gains. Short-Term Capital Loss can be adjusted against Long-Term Capital Gains as well as Short-Term Capital Gains.
- Such loss can be carried forward for eight years immediately succeeding the year in which the loss is incurred.
- Such loss can be carried forward only if the return of income / loss of the year in which loss is incurred is furnished on or before the due date of furnishing the return, as prescribed u/s 139(1).

### **ITR 3 Form Filing**

ITR 3 Form is applicable for the individuals and Hindu Undivided Families that earn profit and gains from business or profession.

If the individual or the Hindu undivided family is having an income as a partner of a partnership firm that is carrying out business, then ITR-3 cannot be filed as in such cases the individual is required to file ITR-2.

### **Eligibility for filing ITR 3 Form**

Who can file ITR 3?

ITR 3 Form is to be filed by the individuals and the HUFs who earn income from carrying a profession or from a proprietary business. ITR 3 Form can be used when the income of the assessee falls in the categories that are mentioned below:

- Income from carrying a profession
- Income from proprietary business
- Apart from this, the returns of the business can also include the house property, the salary or pension, and the income from other sources.

### **Who is not eligible to file ITR 3 Form?**

In case if the individual or the Hindu Undivided Family is functioning as a partner of the partnership firm that is carrying out business or profession then he cannot file form ITR 3 as he will be eligible to file Form ITR 2.

Structure of Form ITR 3

ITR-3 is divided into:

Part A includes-

- **Part A-GEN:** General information and Nature of Business
- **Part A-BS:** Balance Sheet as of March 31, 2020, of the Proprietary Business or Profession
- **Part A- Manufacturing Account:** Manufacturing Account for the financial year 2019-20
- **Part A- Trading Account:** Trading Account for the financial year 2019-20
- **Part A-P&L:** Profit and Loss for the Financial Year 2019-20
- **Part A-OI:** Other Information (optional in a case not liable for audit under Section 44AB)
- **Part A-QD:** Quantitative Details (optional in a case not liable for audit under Section 44AB)

Schedules include:

- **Schedule-S:** Computation of income under the head Salaries.

- **Schedule-HP:** Computation of income under the head Income from House Property
- **Schedule BP:** Computation of income from business or profession
- **Schedule-DPM:** Computation of depreciation on plant and machinery under the Income-tax Act
- **Schedule DOA:** Computation of depreciation on other assets under the Income-tax Act
- **Schedule DEP:** Summary of depreciation on all the assets under the Income-tax Act
- **Schedule DCG:** Computation of deemed capital gains on the sale of depreciable assets
- **Schedule ESR:** Deduction under section 35 (expenditure on scientific research)
- **Schedule-CG:** Computation of income under the head Capital gains.
- **Schedule 112A:** Details of Capital Gains where section 112A is applicable
- **Schedule 115AD(1)(iii) Provision:** For Non-Residents Details of Capital Gains where section 112A is applicable
- **Schedule-OS:** Computation of income under the head Income from other sources.
- **Schedule-CYLA-BFLA:** Statement of income after set off of current year's losses and Statement of income after set off of unabsorbed loss brought forward from earlier years.
- **Schedule-CYLA:** Statement of income after set off of current year's losses
- **Schedule BFLA:** Statement of income after set off of unabsorbed loss brought forward from earlier years.
- **Schedule CFL:** Statement of losses to be carried forward to future years.
- **Schedule- UD:** Statement of unabsorbed depreciation.
- **Schedule ICDS:** Effect of Income Computation Disclosure Standards on Profit
- **Schedule- 10AA:** Computation of deduction under section 10AA.
- **Schedule 80G:** Statement of donations entitled for deduction under section 80G.
- **Schedule RA:** Statement of donations to research associations etc. entitled for deduction under section 35(1)(ii) or 35(1) (ilia) or 35(1)(iii) or 35(2AA)
- **Schedule- 80IA:** Computation of deduction under section 80IA.
- **Schedule- 80IB:** Computation of deduction under section 80IB.
- **Schedule- 80IC/ 80-IE:** Computation of deduction under section 80IC/ 80-IE.
- **Schedule VIA:** Statement of deductions (from total income) under Chapter VIA.



- **Schedule SPI-SI-IF:** Income of specified persons (spouse, minor, etc) includable in the income of the assessee, Income chargeable at special rates, info partnership firms in which assessee is a partner.
- **Schedule AMT:** Computation of Alternate Minimum Tax Payable under Section 115JC
- **Schedule AMTC:** Computation of tax credit under section 115JD
- **Schedule SPI:** Statement of income arising to spouse/ minor child/ son's wife or any other person or association of persons to be included in the income of the assessee in Schedules-HP, BP, CG, and OS.
- **Schedule SI:** Statement of income which is chargeable to tax at special rates
- **Schedule-IF:** Information regarding partnership firms in which the assessee is a partner.
- **Schedule EI:** Statement of Income not included in total income (exempt incomes)
- **Schedule PTI:** Pass-through income details from a business trust or investment fund as per section 115UA, 115UB
- **Schedule TPSA:** Secondary adjustment to transfer price as per section 92CE(2A)
- **Schedule FSI:** Details of income from outside India and tax relief
- **Schedule TR:** Statement of tax relief claimed under section 90 or section 90A or section 91.
- **Schedule FA:** Statement of Foreign Assets and income from any source outside India.
- **Schedule 5A:** Information regarding apportionment of income between spouses governed by Portuguese Civil Code
- **Schedule AL:** Asset and Liability at the end of the year (applicable where the total income exceeds Rs 50 lakhs)
- **Schedule DI:** Schedule of tax-saving investments or deposits or payments to claim deduction or exemption in the extended period from 1 April 2020 until 30 June 2020
- **Schedule GST:** Information regarding turnover/ gross receipt reported for GST
- **Part B-TI:** Computation of Total Income.
- **Part B-TTI:** Computation of tax liability on total income.
- Verification

### **Instructions to be followed while filing ITR 3 Form**

The Sections mentioned above will have to be addressed in the Form. But here is the list of important instructions that are to be followed while filing the ITR 3 Form:

1. If in case the Schedule is not applicable to the assessee, then the assessee has to just put -NA-
2. In case if there is no figure to denote, mention Nil.
3. If there is a negative balance and you are writing it against a profit column, then the " - " sign needs to be added before the figure.
4. Round off the figures to the nearest one rupee.
5. The total income or the payable loss should be rounded off to the nearest multiple of Rs.10.
6. The Section in Part A needs to be filled after that 23 schedules are to be filled in Part B, Finally, you need to verify the document.

### **How to file ITR 3 Form?**

ITR 3 Form can be filed either offline or online:

1. **Offline:** The returns can be furnished in a paper format through a bar-coded return.
2. **Online:** The returns can be furnished electronically using the Digital Signature Certificate. This data can be transmitted after submitting the verification of the return.

The assessee must have two print copies of the ITR 3 Form when he is filing the returns online.

Electronic returns can be filed when:

The assessee is a resident of India or if the signing authority is located outside India.

The assesses with more than Rs.5 lakhs total income are required to furnish the returns electronically.

Assesses that are claiming relief under Section 90, 90A,91 for whom the schedule FSI and Schedule TR that applies must file the returns electronically.

Major Changes made to the ITR 3 Form for the AY 2021-2022

The Changes that are incorporated in the ITR 3 Form are:

The recipient of the dividend will be liable to pay taxes from 1st April 2020. Relevant Sections such as Section 10(34), 10(35), 115-O are amended in the Act and accordingly, suitable changes are incorporated in the ITR Form.

In case if the dividend is not received the taxpayers are given relief payment of advance tax liability. So the ITR Form allows the taxpayers to enter the details of the dividend income

every quarter so that the interest under Section 234C can be computed for default in the payment of advance tax.

With the amendments in the Finance Bill 2021 in section 44AB the threshold limit of the tax audit is increased from Rs. 5 crores to Rs.10 crores if the cash payments are less than 5 percent of the total amount of sales or turnover. The corresponding amendment is incorporated in the ITR Form.

The Schedule DI inserted for the AY 2020-2021 to claim the deduction for the investments or expenditures that are made in the extended period (1st April 2020 to June 30th, 2020) is removed in the ITR Form for the AY 2021- 2022.

Schedule 112A and Schedule 115AD (1) (b) (iii) proviso are changed with an additional column to mention the details of the nature of the securities that are transferred for the resultant capital gains tax under the Section 112A or Section 115 AD (1) (b) (iii) of the Income Tax Act. The schedules are also modified so that the taxpayers can provide information for the sale price, fair market value, and the cost of acquisition of the security.

The Part A of the ITR 3 Form has general information that is modified where the taxpayer is given to choose the best alternative option of the new tax regime under Section 115 BAC.

The assessee that earns income from business or profession and opting for an alternative tax regime is needed to mention the date of filing the Form 10-IE and the acknowledgment number.

#### **File ITR-4**

1. Who is eligible to file ITR-4 for AY 2021-22?

ITR-4 can be filed by a Resident Individual / HUF / Firm (other than LLP) who has:

- Income not exceeding 50 Lakh during the FY
- Income from Business and Profession which is computed on a presumptive basis u/s 44AD, 44ADA or 44AE
- Income from Salary / Pension, One House Property, Agricultural Income (up to 5000/-)
- Other sources which include (excluding winning from Lottery and Income from Race Horses):
  - Interest from Savings Account
  - Interest from Deposit (Bank / Post Office / Cooperative Society)
  - Interest from Income Tax Refund

- Family Pension
- Interest received on enhanced compensation
- Any other Interest Income (e.g., Interest Income from unsecured loan)

## 2. Who is not eligible to file ITR-4 for AY 2021-22?

ITR-4 cannot be filed by an individual /HUF / Firm (other than LLP) who:

- is a Residents Not Ordinarily Resident (RNOR), and Non-Resident Indian?
- has total income exceeding 50 Lakh
- has agricultural income in excess of 5,000/-
- is a Director in a Company?
- has income from more than One House Property;
- has income of the following nature:
  - winnings from lottery;
  - activity of owning and maintaining race horses;
  - income taxable at special rates u/s 115BBDA or Section 115BBE;
- has held any unlisted equity shares at any time during the previous year
- has deferred income tax on ESOP received from employer being an eligible start-up
- is not covered under the eligibility conditions for ITR-4

## 3. What are the changes in ITR-4 as compared to previous years?

As compared to previous years, ITR-4 of AY 2021-22 has an option where, if you wish to opt for the new tax regime u/s 115BAC, you need to select Yes in the new form.

Please note that individual or HUF opting for new tax regime u/s 115BAC has to mandatorily file Form 10-IE before due date of filing of return u/s 139(1). After filing Form 10-IE, original return or revised return is required to be filed mandatorily to avail the benefit of new tax slab u/s 115BAC and Acknowledgement Number and Date of filing Form 10IE are mandatory fields in ITR-4.

## 4. What documents do I need to file ITR-4?

You will need to keep the below documents ready (as applicable) to file ITR-4:

- Form 16
- Form 26AS
- Form 16A
- Bank Statements
- Housing Loan Interest Certificates

- Receipts for Donation Made
- Rental Agreement
- Rent Receipts
- Investment premium payment receipts - LIC, ULIP etc.

5. What is the presumptive taxation scheme for users filing ITR-4?

According to Sections 44AA of the Income Tax Act (1961), a person engaged in business or profession needs to maintain regular books of accounts under certain circumstances as per specific conditions. To relieve small taxpayers from such compliance burden, the Income Tax Act has framed the presumptive taxation scheme u/s 44AD, 44ADA and 44AE. A person adopting the presumptive taxation scheme can declare income at a prescribed rate. The Act has laid out presumptive taxation schemes (for ITR-4 users) as given below: ·

- Section 44AD: Computation of income on estimated basis in the case of taxpayers (being a Resident Individual, Resident HUF, or Resident Partnership Firm (other than LLP) engaged in certain business subject to certain conditions.
- Section 44ADA: Computation of professional income on estimated basis for Assesse being a resident in India and engaged in a profession referred to in section 44AA (1) subject to certain conditions.
- Section 44AE: Computation of income on estimated basis in the case of taxpayers (being an Individual, HUF, Firm (other than LLP) or any other person being a resident or non-resident) engaged in the business of plying, leasing or hiring goods carriages, who owns not more than ten goods carriages at any time during the previous year.

6. Who is not eligible for the presumptive taxation scheme of Section 44AD?

The scheme of Section 44AD is designed to give relief to small taxpayers engaged in any business, except the following businesses:

- Business of plying, hiring, or leasing goods carriages referred to in sections 44AE
- A person carrying on any agency business
- A person earning income in the form of commission or brokerage (e.g., insurance agents)
- Any business whose total turnover or gross receipts exceeds 2 Crore

Apart from the above, a person who is required to maintain books of accounts as referred to in Section 44AA (1) is not eligible for presumptive taxation scheme u/s 44AD.

7. The gross receipts for my business in the year are more than 2 Crore. Can I opt for presumptive taxation scheme of 44AD?

No. You can opt for the presumptive taxation scheme of section 44AD only if the total turnover or gross receipts from your business do not exceed the limit prescribed (i.e., ₹ 2 Crore).

8. I opted for the presumptive taxation scheme u/s 44AD for my last filed ITR. If I don't opt for it any time in the next 5 years, what will happen?

If you opt for presumptive taxation scheme then you are required to follow the same scheme for the next 5 years. If you don't, the presumptive taxation scheme won't be available for you for next 5 years. For example, you claimed to be taxed on presumptive u/s 44AD for AY 2019-20, AY 2020-21 and AY 2021-22. However, for AY 2022-23, let's say you did not opt for the presumptive taxation scheme. In this case, you will not be eligible to claim benefit of presumptive taxation scheme for next five AYs (AY 2023-24 to 2027-28).

9. Who can opt for presumptive taxation scheme of Section 44ADA?

The presumptive taxation scheme of Section 44ADA can be adopted by a resident in India carrying on specified profession whose gross receipts do not exceed ₹ 50 Lakh in a FY. Following professions are specified profession:

- Legal
- Medical
- Engineering or Architectural
- Accountancy
- Technical Consultancy
- Interior Decoration
- Any other Profession as notified by CBDT

10. I opted for presumptive income scheme of Section 44AD or 44ADA. Can I claim further deduction of expenses after declaring profit at applicable rate under respective sections of gross receipts?

No, a person who opted for the presumptive taxation scheme is deemed to have claimed all deduction of expenses. Any further claim of deduction is not allowed after declaring profit at specified rate. However, you can claim deductions under Chapter VI-A.

11. I opted for the presumptive income scheme of Section 44ADA. Do I have to pay

Advance Tax in respect of income from profession covered in Section 44ADA?

Yes. Anyone opting for the presumptive taxation scheme u/s 44ADA is liable to pay 100% of Advance Tax on or before 15th March of the previous year. If you fail to pay the Advance Tax by 15th March of previous year, you will be liable to pay interest as per Section 234B and Section 234C. Any amount paid by way of Advance Tax on or before 31st March will also be treated as Advance Tax paid during the FY ending on that day.

12. I opted for presumptive taxation scheme of Section 44ADA. Do I need to maintain books of accounts as per Section 44AA?

If you are engaged in a specified profession as referred in Sections 44AA (1) and opt for presumptive taxation scheme of Section 44ADA (declare income @50% of the gross receipts), you are not required to maintain the books of accounts in respect of specified profession (i.e., the provision of Sections 44AA will not apply).

13. I opted for presumptive income scheme of Section 44AE. Do I need to maintain books of accounts as per Section 44AA?

Section 44AA of the Income Tax Act, 1961 has provisions relating to maintenance of books of account by persons engaged in Business / Profession. In case you opt for the presumptive taxation scheme of Section 44AE, the provisions of Section 44AA relating to maintenance of books of account will not apply.

14. I opted for the presumptive taxation scheme of Section 44AE. Do I have to pay Advance Tax in respect of income from business covered in Section 44AE?

Yes, you will be liable to pay Advance Tax. There is no concession with regard to the payment of Advance Tax if you opted for the presumptive taxation scheme of Section 44AE.

15. How do I compute income from a House Property which is partly self-occupied and partly let-out?

A house property may consist of two or more independent units, one of which is self-occupied and the remaining is used for any other purpose (i.e., let-out or used for own business). Income from such property will be computed in the following manner:

1. Part / unit which is occupied by you for your residence throughout the year will be treated as an independent property and income from such a part / unit will be computed in the manner as described in the ITR-4 user manual in case of a self-occupied property.
2. Part / unit which is let out will be treated as an independent property and income from such a part / unit will be computed in the manner as described in

the ITR-4 user manual in case of let out property.

16. What is the tax treatment of unrealized rent that is subsequently realized?

Any subsequent recovery of unrealized rent will be deemed to be your income under the head Income from House Property in the year in which such rent is realized (whether or not you are the owner of that property in that year). It will be charged to tax after deducting a sum equal to 30% of unrealized rent.

17. Can my employer TAN be quoted in place of PAN?

No. PAN should never be quoted in the textbox where TAN is to be quoted, as the purposes for which PAN and TAN are allotted are different. TAN is a unique identification number which is allotted to parties who deduct or collect tax at source. PAN is a unique identification number issued to keep a linking of the transactions carried by a person like payment of tax, TDS / TCS credit, Return of Income, Return of Wealth, correspondence with the Income Tax Department or correspondence by the ITD, investments made by a person, loan taken by a person, etc.

18. What is the due date of Filing ITR-4 for AY 2021-22 (FY 2020-21)?

For AY 2021-22 (FY 2020-21) the due date of filing of ITR-4 is 31st July 2021.

### **ITR-5**

ITR-5 is for firms, LLPs (Limited Liability Partnership), AOPs (Association of Persons), BOIs (Body of Individuals), Artificial Juridical Person (AJP), Estate of deceased, Estate of insolvent, Business trust and investment fund.

### **ITR-6**

For Companies other than companies claiming exemption under section 11 (Income from property held for charitable or religious purposes), this return has to be filed electronically only.

### **ITR-7**

For persons including companies required to furnish returns under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) or section 139(4E) or section 139(4F).

- Return under section 139(4A) is required to be filed by every person in receipt of income derived from property held under trust or other legal obligation wholly for charitable or religious purposes or in part only for such purposes.
- Return under section 139(4B) is required to be filed by a political party if the total income without giving effect to the provisions of section 139A exceeds the maximum amount, not chargeable to income-tax.



- Return under section 139(4C) is required to be filed by every –
  - Scientific research association;
  - News agency;
  - Association or institution referred to in section 10(23A);
  - Institution referred to in section 10(23B);
  - Fund or institution or university or other educational institution or any hospital or other medical institution.
- Return under section 139(4D) is required to be filed by every university, college or other institution, which is not required to furnish a return of income or loss under any other provision of this section.
- Return under section 139(4E) must be filed by every business trust which is not required to furnish a return of income or loss under any other provisions of this section.
- Return under section 139(4F) must be filed by any investment fund referred to in section 115UB. It is not required to furnish a return of income or loss under any other provisions of this section.

<b>ITR Form</b>	<b>Applicable to</b>	<b>Salary</b>	<b>House Property</b>	<b>Business Income</b>	<b>Capital Gains</b>	<b>Other Sources</b>	<b>Exempt Income</b>	<b>Lottery Income</b>	<b>Foreign Assets/Foreign Income</b>	<b>Carry Forward Loss</b>
ITR-1 Individual, HUF, Ash (Resident)	Yes	Yes (On House Property)	No	No	Yes	Yes (Agricultural Income less than Rs 5,000)	No	No	No	
ITR-2 Individual, HUF	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	
ITR-3 Individual or HUF, partner in a Firm	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
ITR-4 Individual	Yes	Yes (On Presumptive)	No	Yes	Yes	Yes	No	No	No	

4	l, HUF, Firm		e House Property)	ve Business Income			(Agricultural Income less than Rs 5,000)			
ITR-5	Partnership Firm/LLP	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ITR-6	Company	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ITR-7	Trust	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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## 5.4 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Long Questions

1. How to fill Form 49A?
2. What precautions should I take to avoid issues while filing my ITR?
3. How to file ITR-2?
4. How to file the ITR-4 form?
5. What is PAN Form 49A?

#### Short Questions

1. What is Form no. 49A?
2. What are the components of Form No. 49A?
3. What is Form No. 49B?
4. How can you Apply for TAN?
5. What is ITR?

### B. Multiple Choice Questions

1. Which form is used to file an application for obtaining Permanent Account Number (PAN) by an Indian resident?

- a. Form 49A
- b. Form 49
- c. Form 49AA
- d. Form 49B

2. Choose correct category of assesses with PAN AFZFK7109K

- a. Individual
- b. Partnership Firm
- c. Company
- d. Proprietorship

3. The provisions for allotment of PAN are laid down under section .....

- a. Section 114B
- b. Section 144
- c. Section 49A
- d. Section 139A

4. For filing online return, person required to upload XML file, which the person can generate by using which of the utility provided by income tax department.

- a. PPT Utility
- b. Word utility
- c. Access Utility
- d. Excel Utility

5. Mr. Arvind has e-file his return and his income is less than five lakhs and he is not claiming any refund, he can e-verify his return by

- a. All of these
- b. Email ID & Mobile Number
- c. Adjara Card
- d. Net Banking

**Answers:** 1-a, 2-b, 3-c, 4-d, 5-a

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## 5.5 REFERENCE

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### Reference Books:

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- Girish Ahuja & Ravi Gupta (2021). *Systematic Approach to Income Tax Including GST*. Wolters Kluwer India Pvt Ltd.
- Kapoor, A., & Maheshwari, S. (2021). *Direct Taxes Law and Practice*. Sultan Chand & Sons.
- Tyagi, R., & Kumar, D. (2021). *Income Tax Law and Practice*. Pearson India.
- T.N. Manoharan (2021). *Students Handbook on Taxation*. Wolters Kluwer India Pvt Ltd.

### Web Resources:

- Income Tax Department, Government of India. (n.d.). <https://www.incometaxindia.gov.in>
- Central Board of Direct Taxes (CBDT). (n.d.). <https://www.cbdt.gov.in>
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