

1. BASIC CONCEPTS OF INCOME TAX

| COMPONENTS OF INCOME TAX LAWS | PERSON [SECTION 2(31)] |
|---|--|
| <p>Income Tax Act, 1961</p> <ul style="list-style-type: none"> ▪ 1st April, 1962 ▪ 298 sections ▪ XIV schedules ▪ Proviso → Gives Exceptions to the provision contained in the respective section. ▪ Explanation → Gives clarification related to the provision contained in the section <p>Annual Finance Act: Gives applicable rates of tax.</p> <p>Income Tax Rules: issued by CBDT for proper administration of the Act.</p> <p>Notifications: subordinate legislation issued by CG.</p> <ul style="list-style-type: none"> ▪ CBDT is also empowered to make & amend rules by issuing notifications. ▪ Binding on everyone. [Assessee + Income Tax department] <p>Circulars: They deal with certain specific problems.</p> <ul style="list-style-type: none"> ▪ Issued by CBDT to clarify doubts regarding scope & meaning of provisions. ▪ Binding on the department but not on the assessee. ▪ However assessee can take advantage of beneficial circulars. <p>Case Laws (Judicial Decisions)</p> <ul style="list-style-type: none"> ▪ Supreme Court Decisions becomes Judicial Precedent (Law) & are binding on all the courts, Appellate Tribunal, Income Tax Authorities & on Assesseees. ▪ Decision of a High Court cannot bind other High Court. | <p>PERSON [SECTION 2(31)]</p> <ol style="list-style-type: none"> 1. Individual : → A Natural Human Being (Male/Female/Minor/Unsound Mind). <ul style="list-style-type: none"> ▪ Income of Minor & unsound Mind person → Assessed in hands of Manager/Guardian 2. HUF: Status in HUF is received by birth & not by operation of law. <ul style="list-style-type: none"> ▪ HUF is not defined under IT Act. However, as per Hindu Law, it consists of all males lineally descended from a common ancestor & includes their wives & unmarried daughters. Even a single male member can have HUF (w.e.f 6/9/2005). ▪ Only Co-parceners have the right to Partition. ▪ All Co-parceners are Members but all members need not be co-parceners. ▪ Coparceners → HUF may contain many members, but only members within 4 degrees including KARTA are called co-parceners (including daughters). [Note: wife/daughter-in-law cannot be co-parceners; but they can be members] 3. Company [Sec 2(17)] - It means: <ul style="list-style-type: none"> ▪ Any Indian Company defined in section 2(26); ▪ Any Body Corporate incorporated under the foreign laws [Foreign company]; ▪ Any institution, association or body (incorporated/not) whether Indian or non-Indian, declared by general or special order of CBDT to be a company. 4. Firm (registered/not) (including LLP) [Sec 2(23)] : Same Tax Treatment for both 5. Association of Persons (AOP)/Body of Individuals (BOI) 6. Local Authority (LA) 7. Every Other AJP (not falling in above categories): Ex: Idol/deity |
| <p style="text-align: center;">Assessee - [Sec 2(7)] : It includes –</p> <ol style="list-style-type: none"> (a) Tax Payable: Every Person by whom any tax or any other sum of money is payable under this Act (with/without any proceeding). (b) Proceeding started: Any Person against whom any proceeding has started (whether or not any tax, interest or penalty is payable by him). (c) Deemed Assessee: A person assessable for income of some other persons. (d) Assessee in default: Any person who <ol style="list-style-type: none"> (i) does not deduct tax or (ii) fails to pay advance tax (iii) after deducting tax, fails to pay tax deducted to the government or | <p>Person having SUBSTANTIAL INTEREST in the Company [Sec 2(32)]</p> <ul style="list-style-type: none"> ▪ Any beneficial owner of shares carrying at least 20% of voting power. |
| <p>Average Rate [SEC 2(10)]: $\frac{\text{Income Tax on Total Income using applicable slab rate}}{\text{Total Income}}$</p> | <p>Maximum Marginal Rate [SEC 2(29C)]:</p> <ul style="list-style-type: none"> ▪ Highest Slab Rate of Tax (including SC) applicable to Individual or AOP/BOI |

INCOME & ITS CONSTITUENTS [SECTION 2(24)]

Illegal/tainted income → Illegal Income is also taxed.

Disputed Income → Taxable to recipient till the dispute is settled.

Contingent Income → A contingent income is not income & thus not taxed.

Pin Money → **Income** × [Any property acquired using such money/savings → **Capital Asset**]

Income must come from Outside: A person cannot earn income from himself.

Relevance of Method of Accounting followed by the Assessee:

(i) Salary; (ii) HP; (iii) Capital Gains → Method of accounting is **irrelevant**.

(i) PGBP; (ii) IFOS → Method of accounting followed by the assessee is **relevant**.

Capital Receipt Vs Revenue Receipt:

Capital Receipts: Not Taxable unless expressly provided.

Revenue Receipts: Always Taxable unless expressly exempt.

Liquidated damages → **Capital receipt**. Amount received towards compensation for sterilization of profit earning source is not in ordinary course of business.

Compensation on Termination of Agency → **Capital receipt**. Receipt of compensation on termination of the agency business being the only source of income by the assessee. But if the assessee has several agencies and one of them is terminated & compensation is received, the receipt would be revenue receipt since taking agencies & exploiting the same for earning income is the ordinary course of business & loss of one agency would be made good by taking another.

Compensation received from the employer or from any person for **premature termination** of the service contract is a capital receipt but is taxable as profit in lieu of salary u/s 17(3) or IFOS u/s 56(2)(xi), respectively.

Compensation received or receivable in connection with **termination/modification of T & Cs of any contract** relating to its business shall be taxable as business income.

| Application of Income | Diversion of Income |
|--|--|
| <ul style="list-style-type: none"> If assessee applies (uses) his income to discharge his obligation after the income reaches the assessee, it is application of income Such Income is taxable to the assessee. | <ul style="list-style-type: none"> If there is overriding charge on the source of such income which diverts the income before it reaches the assessee, it is diversion of Income. Such Income cannot be treated as income & thus Not Taxable. |

FINANCIAL YEAR, PREVIOUS YEAR & ASSESSMENT YEAR

➤ FY - Year starting on 1st April & ending on 31st March.

➤ PY [Sec 3] - FY in which the income is earned.

➤ AY [Sec 2(9)] - FY in which income is assessed to tax.

Dual Role of a FY: Each FY is both PY as well as AY.

First PY for Newly Set-up Business/Profession during FY

1st PY = From date of setting up of business & ending on last day of that FY (31st Mar).

1st PY of newly set-up business/profession will be either 12 months or < 12 months. It cannot exceed 12 months. [Same provision is applicable for New Source of Income]

Uniform PY: All Assesseees are required to follow FY as PY uniformly for every year.

CASES WHERE INCOME OF THE PREVIOUS YEAR IS ASSESSED IN PY ITSELF**1. Shipping business of non-residents [Sec 172]**

- Ship of NR is allowed to leave the port only when tax has been paid or satisfactory arrangement has been made for payment thereof.
- Income = 7.5% of freight paid/payable whether in India or o/s India.**

2. Person Leaving India [Sec 174]

- If a person is leaving India & he has no present intention of returning to India,
- Income from the expiry of last PY upto the probable date of his departure from India is taxable in that PY itself.

3. AOP/BOI/AJP formed for a particular event/purpose [Sec 174A]

- If AO think that AOP/BOI is likely to be dissolved in same year or in next year,
- he will assess income upto date of dissolution in the relevant PY itself.

4. Persons likely to transfer property to avoid tax [Sec 175]

- Total income of such person for the period from the expiry of PY to the date when AO commences proceedings is taxable in that PY.

5. Discontinued Business [Sec 176]

- Income from the end of last PY upto the date of such discontinuance may, **at the discretion of AO** may be charged to tax in that PY itself.

Note: Section 176 is a Discretionary power. AO may choose not to apply it & wait till the end of PY.

PREVIOUS YEAR FOR UNDISCLOSED SOURCES OF INCOME**1. Cash Credits [Sec 68]**

- Where any sum is found credited in books of the assessee & assessee offers **no/unsatisfactory explanation** about **nature & source**,
- sum so credited may be charged as income of the assessee of that PY.

2. Unexplained Investments [Sec 69]

- If in any FY assessee has made **investments** which are **not recorded in books of A/c** & Assessee offers **no/unsatisfactory explanation** about **nature & source of investment**,
- Value of investments are taxed as income of assessee of such FY.

3. Unexplained Money/Bullion/Jewellery [Sec 69A]

- Where in any FY, assessee is found to be **owner of any money, bullion, jewellery** etc. &
- Such asset is **not recorded** in books of A/c & assessee offers **no/unsatisfactory explanation** about nature & source,
- Money & Value of bullion etc. will be deemed to be income of the assessee for such FY.
- Ownership is important & mere possession is not enough.**

4. Amount of Investments not fully disclosed in books [Sec 69B]

- Where in any FY, assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article &
- AO finds that **Amount spent** on making such investments > **Amount recorded in books of A/c** of the assessee & assessee offers **no/unsatisfactory explanation** for the **difference**,
- Such excess may be deemed as income of the assessee for such FY.

5. Unexplained Expenditure [Sec 69C]

- Where in any FY, Assessee has incurred any expenditure & he offers no/unsatisfactory explanation about the source of such expenditure,
- AO may treat such unexplained expenditure as income of the assessee.

6. Amount borrowed or repaid on Hundi [Sec 69D]

- Where any amount is **borrowed** on hundi or is **repaid** (thereon) **other than through A/c Payee Cheque**,
- Amount so **borrowed or repaid** shall be deemed to be income of the borrower or repaying of PY in which amount was borrowed/repaid.
- Amount repaid shall include interest paid on amount borrowed.**

Note: But if any amount borrowed on hundi has been taxed as income of the person, he will not be taxed again on **repayment** of such amount.

Rate u/s 68 & 69 [SEC 115BBE] = 60% + SC @ 25% + HEC @ 4% = 78%.

Neither BEL nor set off of any loss shall be allowable against such income.

TAX RATE FOR DIFFERENT PERSONS [Sec 2 of FA, 2018]

TI → Total Income after all deductions except Incomes Taxable at Specified Rates.

| Individual/HUF/AOP/BOI/AJP [R/NR] | | | | |
|-----------------------------------|---------------------|-------------|-----------|--------|
| TI | Upto 2,50,000 [BEL] | 2.5 L - 5 L | 5L - 10 L | > 10 L |
| Rate | Nil | 5% | 20 % | 30 % |

(i) For Resident Senior Citizen (Age: 60 years or more but < 80 years) → BEL = 3 Lacs.

(ii) For Resident Super Senior Citizen (Age: 80 years or more) → BEL = 5 Lacs

Surcharge: [Check for Marginal Relief u/s 89]

Income > 50 Lacs but ≤ 1 Cr 10% of IT

Income > 1 Cr 15% of IT

Marginal Relief (Sec 89): If SC is applicable on TI, Marginal relief is available.

Steps to calculate Marginal Relief:

- Calculate Tax (including surcharge) on Total Income of the Assessee.
- Tax payable on Rs. 50 Lacs/ 1 Cr/ 10 Cr as the case may be. **[Depends on levy of SC]**
- Calculate **"Extra Tax Payable"** because of Income above 50 Lacs/1 Cr/10 Cr. **[1-2]**
- Marginal Relief = Extra Tax Payable - Income above Rs. 50 Lacs/ 1 Cr/ 10 Cr.

PC NOTE: If Extra Tax > Extra Income, Difference between them is Marginal Relief.

Rebate u/s 87A

| Assessee | Resident Individuals whose Total Income ≤ Rs. 3,50,000 |
|----------|---|
| Rebate | Lower of (i) Income Tax payable on Total Income OR (ii) Rs. 2,500 |

Note: Rebate u/s 87A shall be before adding 4% of HEC.

Note: Rebate u/s 87A is not available in respect of tax payable @ 10% on LTCG u/s 112A.

| Firms/LLP/LA | Whole Income is taxable @ Flat 30% without any BEL. | | | |
|------------------------|---|---------------------------------------|-----------------|----------|
| Co-operative Societies | Total Income | Upto 10,000 | 10,001 - 20,000 | > 20,000 |
| | Rate | 10% | 20% | 30% |
| Company | Domestic | If Turnover/GR in PY 2016-17 ≤ 250 Cr | | 25% |
| | | In other case | | 30% |
| | Foreign (Companies other than Domestic Company) | | | |

SURCHARGE

| Assessee | Rate of Surcharge if Total Income ↓ | |
|--------------------------------------|-------------------------------------|------------|
| | >1 Cr but ≤ 10 Cr | > 10 Cr |
| 1. Firms/LLP/Co-operative society/LA | | 12 % of IT |
| 2. Domestic Companies | 7 % of IT | 12 % of IT |
| 3. Foreign Companies | 2 % of IT | 5 % of IT |

◆ **Health & Education cess** → @ 4% is levied on **Total Income tax + SC - Rebate u/s 87A.**

2. RESIDENTIAL STATUS

1. INDIVIDUAL

Basic Conditions: [Satisfy ANY ONE → Resident]

- (a) Total stay in India during PY \geq **182 days**; **OR**
 (b) (i) Total stay in India during PY \geq **60 days** &
 (ii) Total stay in India during **last 4 PYs** \geq **365 days**.

ADDITIONAL CONDITIONS: [Satisfy BOTH → ROR]

- (i) **Total stay** in India in **last 7 years** \geq **730 days** **AND**
 (ii) Resident in **Any 2 PY out of last 10 PYs**.

Exceptions: Following Individuals → Residents only if Period of Stay during PY \geq 182 days
[i.e 2nd Condition → Not Applicable in their cases]

- (i) **Indian Citizens** who leaves India during PY as a **member of crew** of Indian ship;
 (ii) **Indian Citizens** who leave India for **employment outside India**;
 (iii) **Indian Citizen** or **Person of Indian Origin** who comes on visit to India in PY. (Such person must be engaged in employment/business/profession outside India).

Person of Indian Origin: If the person or his parents or his grandparents were born in **UNDIVIDED INDIA**. Grandparents include both maternal & paternal grandparents.

Rule 126: Individual who is Citizen of India & member of crew of Foreign going ship, **Period of Stay in India shall not include the following period:**

| Period Commencing from | Ending on |
|---|--|
| Date entered into CDC for joining ship | Date entered into CDC for signing off |

- ☞ Date of Arrival & Departure → Considered in India for counting no. of days in India.
 ☞ Individual can be resident in more than 1 country, but he can be citizen in Only 1 Country.

2. HUF:

| | |
|--|-----------------|
| If Control & Management of HUF is situated wholly/partly in India | Resident |
| If Control & Management of HUF is situated wholly outside India | NR |

Note: C&M is situated at a place where the head & brain is situated.

Determination of status of ROR/RNOR

Status of Karta will determine whether HUF is ROR/RNOR.

- If KARTA is ROR → HUF is ROR &
- If KARTA is RNOR → HUF is RNOR.

3. FIRMS/AOP/LA/AJP

| | |
|--|-----------------|
| If Control & Management of HUF is situated wholly/partly in India | Resident |
| If Control & Management of HUF is situated wholly outside India | NR |

4. COMPANY

A Company shall be Resident in India if:

- (i) It is an **Indian company**; **OR**
 (ii) **POEM** of the company **is in India** in that PY.

POEM: A Place where key management & commercial decisions necessary for the conduct of the business of an entity as a whole are substantially made.

Circular: **NR Seafarer receiving Remuneration (salary) in NRE (Non-Resident External) A/c maintained with Indian Bank** for services rendered **outside India** on a foreign going ship (with Indian flag or foreign flag) → Not taxable in India.

SCOPE OF TOTAL INCOME [SECTION 5]

| Indian Income | 1. Income Received/Deemed to be received in India OR 2. Income Accrued/Deemed to be accrued in India. | INDIVIDUAL & HUF | Income | Tax Treatment | | |
|---|--|------------------|---------|---------------|-------------------------|-------------|
| | | | | ROR | RNOR | NR |
| Foreign Income | Income which is Neither Received nor Accrued in India. | | Indian | Taxable | Taxable | Taxable |
| | | | Foreign | Taxable | ** [Given on Left Side] | Not Taxable |
| ** Following 2 Foreign Incomes are taxable to RNOR even if it accrues o/s India: (i) Business Income which is controlled wholly/partly from India. (ii) Income from profession set up in India. ☞ No other foreign Income (Salary, Rent, Interest etc.) is taxable in India to RNOR. | | OTHERS | Income | Tax Treatment | | |
| | | | | ROR | NR | |
| | | | Indian | Taxable | Taxable | |
| | | | Foreign | Taxable | Not Taxable | |

INCOMES DEEMED TO ACCRUE OR ARISE IN INDIA [SECTION 9]

| | |
|---|---|
| <p>1. Income (of a NR) from Business Connection in India</p> <ul style="list-style-type: none"> ➤ Business connection includes any business activity carried out through a person acting on behalf of NR. Ex: Branch office, Agent, factory of NR in India. ➤ Person Acting on behalf of NR (Agent) must satisfy follⁿ conditions: <ul style="list-style-type: none"> ▪ Agent of NR must have Authority to conclude contracts on behalf of NR ▪ he habitually maintains stock of goods/ merchandise from which he regularly deliver goods/merchandise in India on behalf of NR. ▪ Where he habitually secures orders in India for NR. ➤ [2 NR → 1 Agent]: Business connection for other NR is established if: <ul style="list-style-type: none"> (a) such other NR controls the NR or (b) such other NR is controlled by the NR or (c) such other NR is subject to same control as that of NR. ➤ Significant Economic Presence of NR in India Constitute Business Connection. [To cover digitalized business not requiring physical presence/agent in India] ➤ Cases of No Business Connection → Independent Agent. <ul style="list-style-type: none"> ▪ Agent's authority is limited to purchase of goods for NR <p>2. Income from Property or Asset situated in India → Always Taxable to Everyone.</p> <p>3. Capital Gain from Capital Asset in India → Always Taxable to Everyone.</p> <p>4. Dividends paid by Indian company outside India → Always Taxable to Everyone.</p> | <p>5. Salary Income → Deemed to accrue at the place where services are rendered.</p> <p>Exception: Salary payable by Government to citizen of India for services rendered o/s India → Deemed to accrue in India & thus will be taxable to everyone. <i>But Allowances & Perquisites paid o/s India by Government is exempt u/s 10(7).</i></p> <p>Note: Pension payable o/s India by Government to its officials & judges who permanently reside outside India → not deemed to accrue in India & thus NO TAX.</p> <p>6. Interest, Royalty, FTS → Deemed to accrue in India in follⁿ cases & taxable to everyone:</p> <p>(a) If Payable by 'Government of India'. [Govn. → NR]</p> <p>(b) If Payable by 'Resident in India' [R → NR]</p> <p>Exceptions: [Not taxable to Recipient NR in such cases]</p> <p>(i) If Borrowed money is used for business/profession outside India.</p> <p>(ii) If Royalty or Technical fees given are for business/profession outside India.</p> <p>(c) Payable by 'Non- Resident in India' [NR → NR]</p> <p>(i) If borrowed money is used by NR for Business/Profession in India.</p> <p>(ii) If Royalty or Technical fees given are for Business/Profession in India.</p> <p>Exception: Interest on money borrowed by NR for any purpose other than Business/Profession → Not Deemed to accrue in India.</p> <p>PC Note: If Used for Business/Profession/Earning Income in India → Deemed to accrue in India & thus Taxable to Everyone. [Remember this logic for Correct Answer Always]</p> |
|---|---|

❖ **Receipt** → **First occasion** (time) when the recipient gets money under his control. **Any Further Remittance/Transmission** of the received amount to another place/person does not result in "Receipt" in the hands of subsequent recipient & thus will not be taxable to Recipient.

3A. EXEMPT INCOMES [Section 10]

❖ Section 14A r/w Rule 8D: Expenditure incurred to earn Exempt Income → Not allowed as deduction whether or not assessee has not earned any exempt income in such PY.

| Section | Particulars | | |
|--|---|--|--|
| 10(2) | Share received by member from Income of HUF → Exempt to Member even if such income is also exempt to HUF. | | |
| 10(2A) | Share of profit of Partner from Income of Firm → Exempt to Partner even if such income is also exempt to Partnership Firm. [Interest from Firm → Taxable] | | |
| 10(4) | (ii) Interest received on moneys in Non-Resident (External) A/c in any bank in India → Exempt to NRI [If permitted by RBI to maintain such A/c] | | |
| 10(4)(B) | Interest on Saving Certificate to NR [Citizen/Person of Indian Origin] → subscribed in convertible foreign exchange remitted from o/s India. | | |
| 10(6) | Sec | Remuneration to certain Individuals who are not Citizens of India & It's conditions | |
| | (ii) | Remuneration of Foreign Diplomats in India: [not engaged in any other Business/Profession in India] Remuneration received by Indian official in such foreign countries should be Exempt. | |
| | (vi) | Remuneration of Employees of a Foreign Enterprise: [Employer is not engaged in any other business/profession in India] 1. Employees' Stay in India ≤ 90 days in PY; 2. Remuneration paid to such employee → should Not Deductible to Employer ; | |
| | (viii) | Salary received by crew Member of Foreign Ship: If His stay in India ≤ 90 days in a PY. | |
| (xi) | Remuneration received by Foreign Government Employees from foreign government for specified training in India. | | |
| 10(6D) | Royalty/FTS received from National Technical Research Organisation (NTRO) → for services rendered in or outside India to NTRO. | | |
| 10(7) | Allowances/Perquisites paid by Government of India o/s India to Indian Citizen for services rendered o/s India. | | |
| 10(10BB) | Payment under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985. [If such amount has not been allowed as deduction] | | |
| 10(10BC) | Compensation received or receivable on account of any disaster [If such amount has not been allowed as deduction] | | |
| 10(10CC) | Tax on Non-Monetary Perquisites paid by Employer → Exempt to employee: [Not deductible to employer] | | |
| 10(10D) | Taxable Maturity Amount from Life Insurance Policy: (i) Sum received from a policy u/s 80DD(3); (ii) Sum received under Keyman Insurance Policy. | | |
| | | Exempt | |
| Any other policy (sum received on death of Person) | | | |
| Any other policy (not received on death of Person) | | | |
| (i) Issued before 1.4.2003 | | ▪ Fully Exempt (irrespective of Amount of Premium Paid) | |
| (ii) Issued on/after 1.4.2003 but before 1.4.2012 | | ▪ Exempt if Premium Paid ≤ 20% of sum assured. | |
| (iii) Issued during 2012-2013 | | ▪ Exempt if Premium Paid ≤ 10% of sum assured. | |
| (iv) Issued on or after 1.4.2013(for Disabled person) | | ▪ Exempt if Premium Paid ≤ 15% of sum assured. | |
| 10(11)/(11A) | Withdrawal of Accumulated balance from PF/PPF set up by CG | Interest & Withdrawals from Sukanya Samridhi A/c * | |
| 10(12)/(13) | Payment from Accumulated Balance of RPF | Payment from Accumulated Balance of Approved SAF to the employee. | |
| 10(12A) | Payment from NPS trust to employee on closure/opting out of scheme u/s 80CCD → Exempt upto 40% of total amount payable to him. | | |
| 10(12B) | Payment from NPS trust to employee on partial withdrawals from NPS referred u/s 80CCD → Exempt upto 25% of contributions made by him. | | |
| 10(15) | (i) Interest on Gold Deposit Bonds (ii) Interest on bonds issued by LA. | | |
| 10(16) | Scholarships granted to meet the Cost of Education | | |
| 10(17)/(17A) | Daily & Constituency allowance received by MPs & MLAs. | Awards or Rewards given by CG/SG (in cash/kind). | |
| 10(18) | Pension received by CG/SG Employee awarded by Param Vir Chakra/Maha Vir Chakra/Vir Chakra → Exempt. [After his Death → Family Pension is Exempt] | | |
| 10(19)/(19A) | Family Pension received by Family Members of Armed Forces who died on duty. | Annual value of one palace of the ex-ruler | |
| 10(23C) | Income of certain funds of National Importance set up by CG: | | |
| | (i) Swachh Bharat Kosh | (ii) Clean Ganga Fund. | (iii) NPO University/Educational institution. |
| | | (iv) NPO Hospital/medical institution. | |

| | | | |
|-------------------------|---|--|--|
| 10(26) | Income of a member of Scheduled Tribe in Specified Area = Manipur, Mizoram, Tripura, Nagaland, Arunachal Pradesh & Ladakh in J&K. Exempt Incomes = (i) Income from any source in specified areas (ii) Dividend/Interest. | | |
| 10(26AAA) | Income of Sikkimese Individual (i) From Any source in Sikkim (ii) (ii) Dividend or Interest on securities → Exempt Exemption not available → If Sikkimese woman marry Non-Sikkimese man on/after 1.4.2008. | | |
| 10(34) | Dividend received by shareholder of Domestic Company → Exempt (Check for Section 115BBDA) | | |
| 10(34A) | Capital Gains to Shareholder on buyback of Unlisted shares u/s 115QA → Exempt. | [Note: Cap. Gains on buyback of listed shares → Taxable u/s 46A] | |
| 10(35) | Income from units of UTI/MF notified u/s 10(23D) → Exempt. | [Note: Income on transfer of units of UTI/MF is not Exempt]. | |
| 10(37) | Individual & HUF: Cap. Gains on compulsory acquisition of Urban Agricultural Land. [Note: Rural Agricultural land → Not CA & thus NO CG] | | |
| 10(43)/(44)/(45) | Amount received as loan under Reverse Mortgage | Income of NPS Trust | Notified Allowance/Perquisite paid to Chairman/Member of UPSC. |

Tax Holidays for SEZ Units [Sec 10AA

| | | | | | | | | |
|--------------------------------|---|--|--|------------------------|-----------|-----------------------|-----------|--|
| Exempt Profit Deduction | Export Profits derived from articles/things or providing any Services from SEZ unit | | Sec 10AA(2): Utilization of SRR A/c Utilized for (i) Acquiring P&M (must be put to use w/i 3 years from end of PY of creation of SRR); & (ii) For Business: Till Acquisition of aforesaid P&M Do Not Utilize for: (i) Paying Dividend; (ii) Creation of Asset o/s India; | | | | | |
| | Profits from unit in SEZ × $\frac{\text{Export Turnover of SEZ units}}{\text{Total turnover of SEZ units}}$ | Export turnover does not include freight, telecommunication or insurance charges | | | | | | |
| Period of Deduction | <table border="1"> <tr> <td>First 5 AY</td> <td>100% of Export Profit.</td> </tr> <tr> <td>Next 5 AY</td> <td>50% of Export Profit.</td> </tr> <tr> <td>Next 5 AY</td> <td>50% of Export Profits debited to P&L A/c & credited to SEZ Reinvestment Reserve (SRR) A/c & utilized as per Section 10AA(2).</td> </tr> </table> | First 5 AY | | 100% of Export Profit. | Next 5 AY | 50% of Export Profit. | Next 5 AY | 50% of Export Profits debited to P&L A/c & credited to SEZ Reinvestment Reserve (SRR) A/c & utilized as per Section 10AA(2). |
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3B. AGRICULTURAL INCOME

Agricultural Income: [Income of cultivators + Land holders who have rented out lands]

- ❖ **Rent/Revenue derived from letting of land situated in India & used for agriculture**
 - **Rent:** Rent received by tenant from sub - tenant → Agricultural Income.
 - **Revenue:** Fees received for Renewal of Land Lease = Revenue derived from land.
- ❖ **Income derived from Agriculture or other related activities.**
Ex: Farm building used as dwelling house or as a store house.
- ❖ **Income from saplings/seeds grown in Nursery**

Note: Foreign Agricultural land → Agricultural Income is taxable u/h IFOS.

Q. Profit on Transfer of Urban Agricultural Land: Whether Agricultural Income?
Ans: No, as per Explanation to section 2(1A), CG arising from transfer of urban agricultural land would **not be treated as agricultural income u/s 10 but will be taxable u/s 45.**

| Income from Growing & Manufacturing of any Product [Rule 7] | |
|---|---|
| Business Income | Sale Value of final product manufactured from Agricultural Produce – MV of agricultural produce used in manufacturing of such product – Manufacturing Expenses. |
| Agri Income | Market Value of Agricultural Produce – Cost of Cultivation. |

Apportionment of Income B/W Business & Agriculture

| Rule | Apportionment of income in certain cases | Agriculture | Business |
|-----------|---|-------------|----------|
| 7A | Growing & Manufacturing of Rubber | 65% | 35% |
| 7B | Growing & Manufacturing of Coffee | | |
| | Sale of coffee grown & cured | 75% | 25% |
| | Sale of coffee grown, cured, roasted & grounded | 60% | 40% |
| 8 | Growing & Manufacturing of Tea | 60% | 40% |

Partial Integration of Agricultural Income with Non-Agricultural Income

| | |
|----------------------|---|
| Applicability | Individuals, HUF, AOP/BOI [Company & Firms] |
| Conditions | Net Agricultural Income > 5,000 & Non-Agricultural Income > BEL |

Steps to Calculate Tax when Agricultural Income is given in Question

1. Tax on Total Income [Net Agricultural income + Non - Agricultural Income]
2. Tax on [Net Agricultural income + BEL]
3. Tax Payable = (Tax in 1 – Tax in 2) + SC (if any) - Rebate u/s 87A + HEC @ 4%

4A. INCOME FROM SALARY

Meaning: Payment by Employer → Employee for **service rendered** is taxable as Income from Salaries. [Employee → Full-time or Part-time; Employer → In India or Abroad]

Note: Any Payment is taxable u/h "Salaries" only if **relationship b/w payer & payee is of Employer & Employee or Master & Servant or Principal & Agent.**

| | |
|--|---|
| <p style="text-align: center; margin: 0;">Basis of Charge [Sec 15]</p> <p>1. Salary is taxable on Earlier of (i) Due or (ii) Receipt Basis</p> <p>2. Advance Salary → Taxable on Receipt Basis</p> <p>3. Salary in Arrears → Taxable on Due Basis</p> | <p style="text-align: center; margin: 0;">Foregoing of Salary</p> <ul style="list-style-type: none"> Salary is taxable on earlier of (i) Due or (ii) Receipt Basis. If employee foregoes his salary, it does not mean that salary so foregone is not taxable. Such waiver is only an application of income & hence, is taxable. Once salary accrues, subsequent waiver by employee does not make it exempt from tax. Surrender of salary: to CG u/s 2 of Voluntary Surrender of Salaries Act → Exempt. |
| <p style="text-align: center; margin: 0;">Salary Paid Tax-Free → Tax lagta hai but employer bharta hai</p> <ul style="list-style-type: none"> Employer bears the burden of tax on salary of the employee. Income = Salary income + Tax paid by the employer on his salary. Tax paid by Employer on Non-Monetary Perquisites → Exempt to employee u/s 10(10CC) & hence not deductible to employer. | <p style="text-align: center; margin: 0;">Loan or Advance against Salary → Not Taxed as Salary</p> <ul style="list-style-type: none"> Loan is different from salary. It cannot be taxed as Salary. Advance against salary is an advance taken by the employee from his employer to be adjusted in future. This advance is generally adjusted with his salary over a specified time period. |

| <p style="text-align: center; margin: 0;">PLACE OF ACCRUAL OF SALARY [SEC 9(1)] → Place where services are rendered</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Place of Service</th> <th>Place of Payment</th> <th>Accrue in India ?</th> <th>Tax</th> </tr> </thead> <tbody> <tr> <td>India</td> <td>India</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>India</td> <td>Abroad</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>India</td> <td>Pension for such Services is paid Abroad</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>Leaves Earned in service in India</td> <td>Leave salary for such leaves is paid abroad</td> <td>Yes</td> <td>Yes</td> </tr> </tbody> </table> <p style="margin-top: 10px;">Exception to Sec 9(1)(iii): Salary paid by GOI to Citizen of India (R/NR) for services rendered o/s India → Deemed to accrue in India. However Allowance & Perquisites paid to them is Exempt u/s 10(7).</p> | Place of Service | Place of Payment | Accrue in India ? | Tax | India | India | Yes | Yes | India | Abroad | Yes | Yes | India | Pension for such Services is paid Abroad | Yes | Yes | Leaves Earned in service in India | Leave salary for such leaves is paid abroad | Yes | Yes | <p style="text-align: center; margin: 0;">MEANING OF "SALARY" FOR CALCULATING EXEMPTIONS :</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #ADD8E6;">Allowance/Perquisites</th> <th style="background-color: #ADD8E6;">Definition of Salary for such purpose</th> </tr> </thead> <tbody> <tr> <td style="background-color: #ADD8E6;">Gratuity for Covered Employees</td> <td style="background-color: #ADD8E6;">BS + DA (whenever DA is paid)</td> </tr> <tr> <td style="background-color: #ADD8E6;">(a) Gratuity for other cases (b) NPS (c) Employer's Contribution to RPF (d) Leave salary (e) HRA (f) VRS</td> <td style="background-color: #ADD8E6;">BS + DA (forming part of all retirement benefits) + Commission (if paid as % of TO).</td> </tr> </tbody> </table> <p style="margin-top: 10px;">Rent-Free Accommodation = BS + DA (Forming part of all retirement benefits) + Any Commission + Bonus + Any Other Monetary Payment by whatever name called but Excludes: (a) Exempt Allowances; (b) Exempt Medical Allowance (c) Taxable Perquisites u/s 17(2); (d) Employer's contribution to PF; (e) Any Payment for Allotment of shares/Debentures/Warrants under ESOP.</p> | Allowance/Perquisites | Definition of Salary for such purpose | Gratuity for Covered Employees | BS + DA (whenever DA is paid) | (a) Gratuity for other cases (b) NPS (c) Employer's Contribution to RPF (d) Leave salary (e) HRA (f) VRS | BS + DA (forming part of all retirement benefits) + Commission (if paid as % of TO). |
|--|--|-------------------|-------------------|-----|-------|-------|-----|-----|-------|--------|-----|-----|-------|--|-----|-----|-----------------------------------|---|-----|-----|---|-----------------------|---------------------------------------|--------------------------------|-------------------------------|--|--|
| Place of Service | Place of Payment | Accrue in India ? | Tax | | | | | | | | | | | | | | | | | | | | | | | | |
| India | India | Yes | Yes | | | | | | | | | | | | | | | | | | | | | | | | |
| India | Abroad | Yes | Yes | | | | | | | | | | | | | | | | | | | | | | | | |
| India | Pension for such Services is paid Abroad | Yes | Yes | | | | | | | | | | | | | | | | | | | | | | | | |
| Leaves Earned in service in India | Leave salary for such leaves is paid abroad | Yes | Yes | | | | | | | | | | | | | | | | | | | | | | | | |
| Allowance/Perquisites | Definition of Salary for such purpose | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gratuity for Covered Employees | BS + DA (whenever DA is paid) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (a) Gratuity for other cases (b) NPS (c) Employer's Contribution to RPF (d) Leave salary (e) HRA (f) VRS | BS + DA (forming part of all retirement benefits) + Commission (if paid as % of TO). | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMPONENTS OF SALARY & THEIR TAXABILITY

| | | | |
|---|----------------|--|--|
| <p>Basic Salary Dearness allowance/Pay Salary in lieu of Notice Fees & Commission Annuity from Employer Profits in lieu of Salary Pension received under NPS</p> | ALWAYS TAXABLE | Annual Accretion to credit balance in RPF (Taxable Amount) = | Employer's contribution → Above 12% of salary Interest on Employer's contribution → Above 9.5%. |
| | | Advance Salary | Taxable in PY of Receipt |
| | | Arrears of Salary | Taxable in PY of Accrual |
| | | Salary to Partner | Not taxable u/h "Salaries", but taxable u/h "PGBP" |
| | | Bonus | Taxable on Receipt Basis [if not taxed earlier on due basis] |
| | | Salary/Pension from UNO | Exempt |

DIFFERENT FORMS OF ALLOWANCES & ITS TAXABILITY

| Fully Taxable Allowances | Fully Exempt Allowances | House Rent Allowance [Taxable HRA = HRA Received - Exempt HRA] | | | | | |
|---|---|---|--|---|------------------------------|--|---|
| <ul style="list-style-type: none"> ▪ Dearness Allowance ▪ Overtime Allowance ▪ City Compensatory Allowance ▪ Fixed Medical Allowance ▪ Tiffin/Lunch Allowance ▪ Interim Allowance ▪ Project Allowance ▪ Servant Allowance ▪ Warden Allowance ▪ Transport Allowance Except Handicapped Employee. ▪ Non-Practicing Allowance ▪ Any other cash allowance | <ul style="list-style-type: none"> ▪ Sumptuary allowance granted to HC/SC Judges. ▪ Compensatory Allowance received by judge ▪ Allowance paid by UNO. ▪ Allowances paid by Government to its employees outside India - [Sec 10(7)] | <p>Exempt HRA = Lease of the following</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">1. Amount of HRA received for occupied Period</td> </tr> <tr> <td style="padding: 2px;">2. Rent paid - 10% of Salary for occupied Period</td> </tr> <tr> <td style="padding: 2px;">3. City of Residence:</td> </tr> <tr> <td style="padding: 2px;"> (a) Mumbai, Delhi, Kolkata, Madras (Chennai): 50% of Salary for occupied Period</td> </tr> <tr> <td style="padding: 2px;"> (b) Other cities: 40% of Salary for occupied Period.</td> </tr> </table> <p>Other Conditions:</p> <ul style="list-style-type: none"> ▪ Salary for Occupied Period shall only be considered. ▪ Advance Salary/Arrears → Not considered for calculating HRA Exemption. ▪ No Exemption if employee lives in his own house/house where he does not pay rent. | 1. Amount of HRA received for occupied Period | 2. Rent paid - 10% of Salary for occupied Period | 3. City of Residence: | (a) Mumbai, Delhi, Kolkata, Madras (Chennai): 50% of Salary for occupied Period | (b) Other cities: 40% of Salary for occupied Period. |
| 1. Amount of HRA received for occupied Period | | | | | | | |
| 2. Rent paid - 10% of Salary for occupied Period | | | | | | | |
| 3. City of Residence: | | | | | | | |
| (a) Mumbai, Delhi, Kolkata, Madras (Chennai): 50% of Salary for occupied Period | | | | | | | |
| (b) Other cities: 40% of Salary for occupied Period. | | | | | | | |

| SPECIAL ALLOWANCES EXEMPT u/s 10(14) | | | | | | |
|---|--|-------|--------|---------|----------|---------------------|
| 1. EXEMPTION DEPENDS UPON ACTUAL EXPENDITURE INCURRED BY EMPLOYEE (CD-HURT) | | | | | | |
| Allowance → | Conveyance | Daily | Helper | Uniform | Research | Travelling/Transfer |
| Exempt Allowance = Lower of (a) Allowance Received or (b) Amount utilized for specific purpose | | | | | | |
| 2. EXEMPTION DOES NOT DEPENDS UPON ACTUAL EXPENDITURE INCURRED BY EMPLOYEE | | | | | | |
| Allowance | Specified Exemption [Rule 2BB] | | | | | |
| Children Education Allowance | 100 p.m per child [Max. 2 children] | | | | | |
| Hostel Expenditure Allowance | 300 p.m per child [Max. 2 children] | | | | | |
| Transport Allowance | 3,200 p.m only for handicapped/disabled employees | | | | | |
| Allowance for Transport Employees | Lower of (a) 10,000 p.m OR (b) 70% of Allowance received | | | | | |
| Tribal/Scheduled Areas Allowance | 200 p.m | | | | | |
| Underground Allowance | 800 p.m | | | | | |
| Exempt Allowance = Lower of (a) Allowance Received or (b) Amount Specified in Rule 2BB. | | | | | | |
| Exempt Allowances to Chairman/Member of UPSC [Sec 10(45)] | | | | | | |
| A. Exempt Allowance in case of Serving Chairman & Members of UPSC | | | | | | |
| <ul style="list-style-type: none"> ▪ Value of Rent-Free official Residence & Value of LTC. ▪ Value of Conveyance facilities including Transport Allowance, Sumptuary Allowance. | | | | | | |
| B. Exempt Allowance in case of Retired Chairman & Members of UPSC | | | | | | |
| <ul style="list-style-type: none"> ▪ Value of Residential telephone free of cost & number of free calls upto Rs. 1,500 p.m (over & above free calls per month allowed by the telephone authorities). | | | | | | |

PERQUISITES & THEIR TAXABILITY

Reimbursement of Expenses incurred in official discharge of duties → Not a Perquisite.

Perquisite will become taxable only if it has a **legal origin**.

Tax paid by employer on salary of employee = Perquisite in the hands of the employee.

1. Member of Household = (a) Spouse + (b) Children & their spouses + (c) Parents

2. (a) Children includes Step child & Adopted Child.

(b) Children born out of multiple birth after 1st Child will be treated as "One child only" & Exemption will be available for both such child.

Rent - free unfurnished accommodation

| Type of Employee | Value of Perquisite = | | | | | | | | |
|--|---|------------|------------|-------------------|----------------|-------------------|---------------|-------------------|---------------|
| (a) CG/SG Employees | License fee | | | | | | | | |
| (b) Other than Government Employee | | | | | | | | | |
| ❖ House is owned by Employer | <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Population</th> <th style="width: 50%;">Perquisite</th> </tr> </thead> <tbody> <tr> <td>Less than 10 lacs</td> <td style="color: #c00000;">7.5% of salary</td> </tr> <tr> <td>10 lacs – 25 lacs</td> <td style="color: #c00000;">10% of salary</td> </tr> <tr> <td>More than 25 lacs</td> <td style="color: #c00000;">15% of salary</td> </tr> </tbody> </table> | Population | Perquisite | Less than 10 lacs | 7.5% of salary | 10 lacs – 25 lacs | 10% of salary | More than 25 lacs | 15% of salary |
| Population | Perquisite | | | | | | | | |
| Less than 10 lacs | 7.5% of salary | | | | | | | | |
| 10 lacs – 25 lacs | 10% of salary | | | | | | | | |
| More than 25 lacs | 15% of salary | | | | | | | | |
| ❖ House is leased/Rent by employer | Lower of: (i) 15% of salary or (ii) Actual Lease Rent paid by employer | | | | | | | | |
| (c) Accommodation Provided in Hotel [Any Employer (G/NG)] | Lower of (i) 24% of salary or (ii) Actual Hotel charges paid by employer. | | | | | | | | |

Note: If Stay in Hotel ≤ 15 days on his transfer from one place to another → No Perquisite.

House is given @ 2 Places on transfer

- Upto 90 Days (3 Months) → Only 1 of House having lower perquisite value shall be taxable;
- After 90 days → Value of Both Houses shall be taxable as perquisite.

VALUATION OF FURNISHED ACCOMODATION

Taxable Value of Perquisite in **unfurnished accommodation**

Add: 10% p.a of original cost of furniture (if furniture is owned by employer).

Add: Lease charges/Rent paid for hiring furniture (If furniture is hired by employer).

Points to Remember:

- ❖ Rent-free official residence provided to a Judge of HC/SC → Not taxable.
- ❖ Rent-free furnished house provided to an Officer of Parliament → Not taxable.

"Use of Moveable Assets"

| Asset given | Value of Perquisite |
|--------------------------|--|
| (a) Laptops & computers | Nil |
| (b) Other Movable assets | 10% p.a. of Actual Cost (Rent Charges) |

PC Note: Completed Years of Use is not required. Even use of asset for part of year will be perquisite.

TRANSFER OF MOVEABLE ASSETS AT DISCOUNTED/ NOMINAL PRICE

- **Perquisite** = WDV [Actual Cost – Depreciation] – Amount paid by employee.
- **Rate of Depreciation ↓ [DEDUCT FOR COMPLETED YEARS OF USE ONLY]**

| | |
|---------------------------------|-------------------|
| 1. Computer & Electronics items | 50% on WDV |
| 2. Motor Car | 20% on WDV |
| 3. Any Other Asset | 10% on SLM |

GIFT, VOUCHER OR TOKEN → Perquisite = Actual cost to the employer.

- However, Aggregate **Exemption of 5,000** if Gift is Received "**IN KIND**".
- Cash gifts are fully taxable without any exemption.

Payment/Reimbursement of Telephone/Mobile Bills → Perquisite ☒

Credit Card Expenses

Perquisite = Expenditure incurred by Employer - Expenditure for official purposes.

Free Domestic Servant → **Perquisite** = Cost to Employer

❖ Salary of Gardener & Expenses on Maintenance of garden → **Perquisite** ☒.

Gas, Electricity or Water Supply → **Perquisite** = Cost to Employer

Interest-free loan or concessional loan

❖ [SBI Rate – Concessional Rate] × Outstanding monthly Balance of Loan.

No Perquisite: (a) Loan amount ≤ 20,000. (b) Loan is given for treatment of prescribed diseases. [If Claim Received; Such Claim Amount = Perquisite]

| MOTOR CAR | | | | [Month means Completed Month]. | |
|--|----------|-----------------------------------|--|----------------------------------|--|
| Owned/Hired by | Expenses | Purpose (Use) | Taxable Perquisite | | |
| 1. Employer | Employer | Fully Official | No Perquisite | | |
| 2. Employer | Employer | Fully Personal | (a) Actual Expenditure on Car + Salary of Driver (b) Depreciation @ 10% p.a on Actual Cost/Rent | | |
| Expenses recovered from Employee are Deductible. No limit of Rs. 900 for driver's Salary. | | | | | |
| 3. Employer | Employer | Partly Official & Partly Personal | Engine | Taxable Perquisite | |
| | | | ≤ 1600 CC | 1800 + 900 (driver) = 2,700 p.m | |
| | | | > 1600 CC | 2400 + 900 (driver) = 3,300 p.m | |
| Expenses recovered from employee are NOT deductible. Rs 900 p.m shall be taxable if driver is provided | | | | | |
| 4. Employer | Employee | Partly Official & Partly Personal | Engine | Taxable Perquisite | |
| | | | ≤ 1600 CC | 600 + 900 (driver) = = 1,500 p.m | |
| | | | > 1600 CC | 900 + 900 (driver) = = 1,800 p.m | |
| 5. Employee | Employer | Partly Official & Partly Personal | Actual Expenditure Incurred Less ↓ | | |
| | | | Engine | Reduce ↓ | |
| | | | ≤ 1600 CC | 1800 + 900 (driver) = 2,700 p.m | |
| | | | > 1600 CC | 2400 + 900 (driver) = 3,300 p.m | |
| 6. Employer | Employee | Fully Personal | 10% p.a on Actual cost of Car/Hire charges | | |
| 7. Bike of Employee | Employer | Partly Official & Partly Personal | Expenditure by Employer - Rs. 900 p.m | | |

- If 2 cars are given for "Partly Official & Partly Personal" purpose → Only 1 car is valued as "Partly Official & Partly Personal" Car; 2nd car → Valued as used for personal purpose.
- Facility for HC/SC Judges/Chairman/members of UPSC: Not taxable.
- Transport allowance provided to serving chairman/members of UPSC: Not Taxable.

| MEDICAL FACILITIES | |
|--|---|
| A. Medical Facilities in India | |
| Medical Treatment in | Perquisite |
| 1. Employer Hospital 2. Government Hospital; 3. Private Hospital (on recommendation) 4. Hospital approved by PCC/CCIT | No Perquisite |
| 5. Other facility in India (Ex: Family doctor) | Fully Taxable |
| B. Medical Facility outside India | |
| Expenditure | Perquisite |
| 1. Treatment | Exempt upto permitted by the RBI. |
| 2. Cost of Stay | Perquisite = Amount > Permitted by RBI |
| 3. Cost on Travel | Exempt only if GTI of employee computed before including this expenditure ≤ 2 lac |
| <ul style="list-style-type: none"> ❖ Fixed Medical Allowance → Fully Taxable. ❖ Health/Medical Insurance Premium paid by employer in approved scheme of CG/IRDA → NO Perquisite & thus No Tax. ❖ Life Insurance Premium of employee paid by employer → Taxable Perquisite ☑. ❖ Family → Spouse + Children (Max. 2) + [Dependent Parents + Brothers + Sisters]. | |
| FREE EDUCATION | |
| Nature of Expenditure | Perquisite |
| 1. Training of Employees | Not Taxable |
| 2. Education to Family Members; | Fully Taxable. |
| 3. Education to Children of Employees | Cost in same locality Exempt = 1000 p.m/ child |
| ❖ Scholarship given to children of the employee → No Perquisite. | |

| Free/Concessional Food & Non-Alcoholic Beverages |
|---|
| ❖ Meal provided in office → Perquisite = Cost to employer (in excess of Rs. 50) – Amount recovered. |
| ❖ Tea or snacks provided during working hours → Perquisite ☑ |

| Perquisite in case of Sweat Equity Shares/ESOP |
|--|
| ❖ Perquisite = FMV on Exercise Date – Amount Paid by Employee. |
| ❖ Taxable in year of Allotment of Shares. |

- ✓ Employee is on official tour & he takes his family member with him → Perquisite = Expenditure incurred for such family member
- ✓ Any official tour is extended as a vacation → Perquisite = Expenditure incurred for Extended period.

VALUATION OF LEAVE TRAVEL CONCESSION IN INDIA [SEC 10(5)]

- Journey in **India only along with Family**. [Same as Medical Facility]
- **Only 2 journeys in a block of 4 years are Exempt [Block: 2018-2022]**
- Exemption is based on **Actual Expenditure**.
- Exemption is available only on **Bus fare, Rail fare, Air fare**.
- **Carry Forward: 1 Exemption** can be carried forward in 1st calendar year of next block.
- **Amount of Exemption =**
 - (i) Journey by Air → Lower of (a) **Economy class** Fare (b) Amount spent.
 - (ii) Journey by Train → Lower of (a) 1st **class** Fare (b) Amount spent.
 - (iii) Journey by Road when train is available → Exemption is same as (ii).
 - (iv) If No Rail but Public transport Exists → Lower of (a) Deluxe fare (b) Amount spent.

CLUB EXPENDITURE

Perquisite = Expenditure incurred (including annual fees) - Expenditure for official purposes - Amount recovered from employee.

- ❖ Expenditure pertaining to **health club, sports facilities** etc. → **Not a perquisite**.
- ❖ Initial fee paid for acquiring such corporate membership → **Not a perquisite**.

Free/Concessional Tickets by Employer Engaged in G/P Transport Business

- Perquisite = Value at which such tickets are offered by such employer to the public.
- ❖ Free Tickets given to Employees of Airline or Railways → No Perquisite.

Perquisites Taxable only to Specified Employees [Sec 17(2)(iii)] [IMP]

- Provision of sweeper, gardener, watchman or personal attendant
- Facility of use of gas, electricity or water supplied by employer
- Free or concessional tickets
- Use of motor car
- Free or concessional educational facilities.

Specified Employees = [Director + Substantial Interest + Salary > 50K]

Note: While calculating limit of Rs. 50,000, following payment shall be ignored:

- (a) All Non-Monetary benefits; (b) Exempt Monetary Benefits [Ex: Exempt HRA]
- (c) Deductions u/s 16.

DEDUCTION ALLOWED FROM SALARY INCOME [Sec 16]

1. **Standard Deduction [16(ia)]** → Lower of (i) Rs. 40,000 or (ii) Salary Income.

2. **Entertainment Allowance [16(ii)]** → **[Only for Government Employees]**

- First included in salary income & then deduction is allowed u/s 16.
- **Least is Exempt for Government Employees only**

| |
|--|
| Entertainment Allowance actually received during PY. |
|--|

| |
|------------|
| Rs. 5,000. |
|------------|

| |
|----------------------|
| 20% of basic salary. |
|----------------------|

- **Actual Expenditure** towards entertainment is **NOT RELEVANT**.

3. **Professional Tax [Sec 16(iii)]** → **Deductible on Payment Basis during PY**

- If Employer pays PT of Employee → First included in salary Income as perquisite & then Deduction is allowed as deduction/s 16(iii).

MCQs Point: SG cannot impose profession tax > 2,500 p.a.

- Levied by a State under Article 276 of the Constitution.

RELIEF [SECTION 89] (Only for INDIVIDUALS)

- If any individual receives Advance Salary, Salary in Arrears, profits in lieu of salary etc. during PY & because of such receipt, his Income is taxed @ Higher Rate. In such cases, Relief u/s 89 is available.
- Procedure for computing relief as given in Rule 21A is as follows:

| |
|---|
| 1. Calculate Tax payable of PY of Receipt of Arrears/Advance salary on |
|---|

| |
|---|
| (a) Total Income including of advance salary/ salary in arrears. |
|---|

| |
|--|
| (b) Total Income excluding of advance salary/ salary in arrears |
|--|

| |
|--|
| Tax on additional salary included in TI = (a) - (b) |
|--|

| |
|---|
| 2. Calculate Tax payable of PY to which Arrears/Advance salary relates. |
|---|

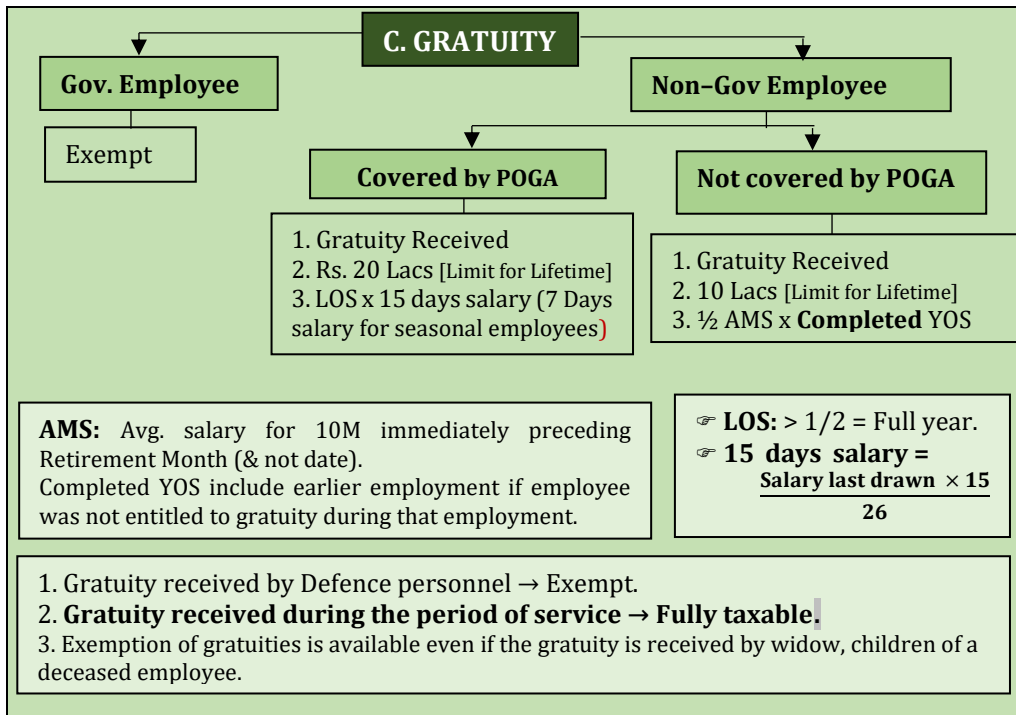
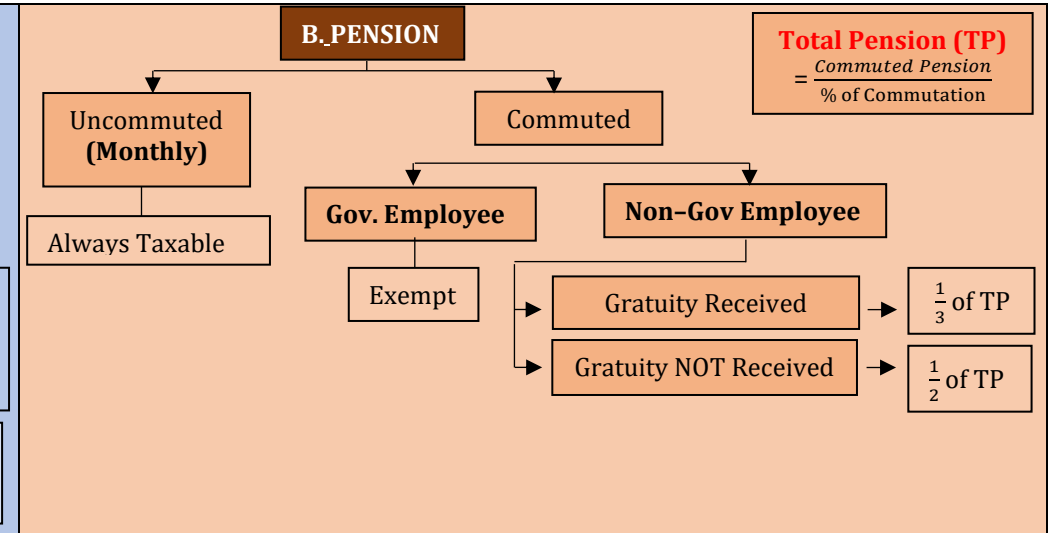
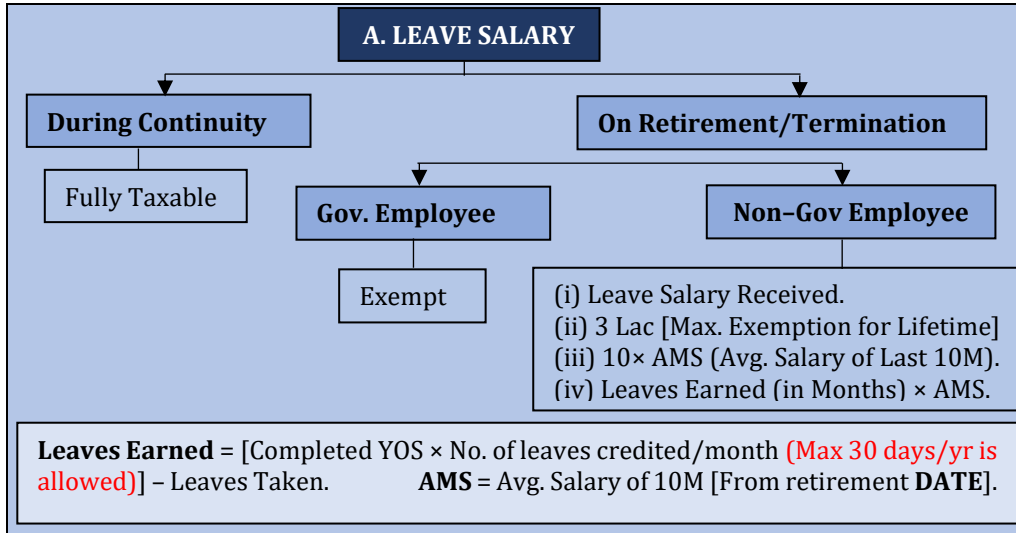
| |
|---|
| (a) Total Income including of advance salary/ salary in arrears |
|---|

| |
|--|
| (b) Total Income excluding of advance salary/ salary in arrears. |
|--|

| |
|---|
| (a) - (b) for All PY to which Arrears/ Advance salary relates. |
|---|

| |
|---|
| 3. Relief u/s 89 = Excess Tax on Additional Salary as calculated in 1 & 2 |
|---|

PC Note: Refer CQ 19 on Page 67 of "Concept Book".



D. RETRENCHMENT COMPENSATION [Sec 10(10B)]

Exemption → (a) Rs. 5 Lacs (b) Amount received; (b) 15 days Average pay × LOS
Note: Compensation to workman under CG scheme → FULLY EXEMPT u/s 10(10B).

E. COMPENSATION RECEIVED ON VRS - [Sec 10(10C)]

Exemption **upto Rs 5 Lacs** is available if following condition is satisfied:
Condition: Amount received for VRS should not exceed [Higher of (a) or (b)]

(a) **3 Months Salary** for each completed year of service.

(b) Salary @ time of retirement × Balance months of service left before retirement/superannuation.

| NATIONAL PENSION SCHEME | |
|-------------------------|--|
| Scheme | Employee Contribution = 10% of Salary; Matching contribution by Employer. |
| Tax | <ol style="list-style-type: none"> 1. Employer's contribution: First included in Salary of Employee & then Deduction is given u/s 80CCD(2) → Upto 10% of Salary 2. Employee's Contribution: Deduction = 10% of salary) u/s 80CCD(1). |
| Maturity | Pension received out of the aforesaid amount → Taxable to Recipient. |

4B. INCOME FROM HOUSE PROPERTY

BASIS OF CHARGE – (Sec 22) [NAV is taxable; Rent is only a measure to compute NAV]

| | | |
|---|---|---|
| Building + Land attached | Ownership of HP in PY | Not used for Business |
| <ul style="list-style-type: none"> ▪ Rent of Vacant Land → IFOS ▪ Subletting of HP → IFOS | <ul style="list-style-type: none"> ▪ + Deemed Ownership ▪ Registered/Beneficial | <ul style="list-style-type: none"> ▪ If used for Business → No Tax u/h PGBP. |

- ☞ HP with Disputed Title → Owner of HP = As Decided by IT Dep. till the court order.
- ☞ **Income from Sale of House Property → Taxable u/h “ Capital Gains”.**

Rental Income from HP held as SIT [Taxed u/h HP]

- **NAV of HP held as SIT = Nil for 1 year** from the end of FY in which completion certificate is issued if Not Let Out for such period.

COMPOSITE LETTING [HP + Other Assets/Services]

| Tax Treatment | Two lettings are separable | Two lettings are not separable |
|------------------|----------------------------|--------------------------------|
| Rent from HP | Taxable u/h HP | Taxable u/h PGBP or IFOS. |
| Rent from others | Taxable u/h PGBP or IFOS | Ex: Hotel Business/PG. |

Note: Expenses for other facilities → Deducted while computing income u/h PGBP/IFOS.

INCOME FROM FOREIGN HOUSE PROPERTY

| | |
|----------------------|---|
| 1. ROR (Note) | Taxable, whether or not such income is brought into India |
| 2. RNOR/NR | Taxable only if it is received in India. |

Note: Municipal Taxes Paid o/s India – Deductible if TDS done.

HOW TO COMPUTE INCOME FROM HOUSE PROPERTY

| | |
|--|-------|
| A. Gross Annual Value (GAV) | xxx |
| B. Less: Municipal tax paid by owner during PY | (xxx) |
| C. Net Annual Value (NAV) [A – B] | xxx |
| D. Less: Deduction u/s 24 | (xxx) |
| 24(a): Standard deduction (30% of NAV) | (xxx) |
| 24(b): Interest on borrowed Capital | (xxx) |

A. DETERMINATION OF GROSS ANNUAL VALUE [SECTION 23]

| | |
|---|---|
| 1 | Calculate Expected Rent (ER) → Higher of (a) MV or (b) FR subject to Max. of SR. |
| 2 | Calculate Actual Rent Received (ARR) → Rent receivable - Unrealized Rent |
| 3 | GAV = Higher of (1) ER or (2) ARR |

PC Note: Vacancy Loss (Rent for Vacant Period) → Not Included in ARR.

LOP – With Vacancy (Imp)

- Calculate ER for whole year even if HP was vacant.
- ARR → Rent for Let out period shall only be taken.
- If ARR > ER → GAV = ARR.
- If ARR < ER due to vacancy → GAV = ARR.
- If ARR < ER due to other reason → GAV = ER.

SOP/Unoccupied HP

- GAV = Nil
- MT Paid → No Deduction
- Thus NAV = Nil.

LOP for Part Year & SOP for Part Year

- ER → for whole year.
- ARR → for Let out period only.
- GAV = Higher of (i) ER (whole year) or (ii) ARR (Let out Period)

Deemed LOP

- 2 Houses & Both are SOP
- 1 HP = SOP & Other HP = DLOP
- GAV of DLOP → ER [No ARR]
- GAV of SOP = Nil

Single House – One portion is Let & other portion is SOP [Imp case]

- SOP → GAV = Nil; No deduction of Municipal taxes paid;
- Limit on Interest u/s 24(b) = Rs. 30,000/2,00,000 [Keep in Mind]
- For LOP → ER shall be computed on proportionate basis.

B. MUNICIPAL TAXES → Deducted from GAV if paid by Owner during PY

- Deductible in PY of Payment even if they relate to past years.
- Foreign MT paid → Deductible if TDS Done.
- Refund of Municipal Tax Paid → Not Taxable.

C. NET ANNUAL VALUE = GAV - Municipal Taxes paid by owner during PY.

D. DEDUCTIONS U/S 24

24(a) - Standard Deduction = 30% of NAV [Flat Deduction] [No other deduction in HP]

24(b) - Interest on Borrowed Capital [Deductible on Accrual Basis]

(i) Current Year Interest → [Interest of PY of completion of construction & afterwards]

Interest = Amount of Loan × ROI p.a (Without any limit)

(ii) Pre-Construction Interest → Deductible in **5 successive PYs** from PY of completion

Start: From Date of Borrowing & **End:** Earlier of (a) Date of Repayment of Loan or (b) 31st March coming before completion of construction.

PC Note: Interest will be aggregated from date of borrowing till the end of PY prior to PY of completion of construction & NOT till the date of completion of construction.

Point to Remember:

- Interest on fresh loan taken to repay original loan → Deductible.
- Brokerage/commission for Arrangement of loan → Not Deductible.
- Interest on unpaid interest → Not Deductible.
- If loan is taken from o/s India → Interest is deductible if TDS Done.

LIMIT ON DEDUCTIONS OF INTEREST - ONLY FOR SOP [No Limit for LOP/DLOP]

| Case | Max. Deduction |
|--|--------------------|
| Loan for repair/renovation of HP on/after 1.4.1999 | Max, 30,000 |
| Loan for acquisition/construction of HP on/after 1.4.99 & such acquisition or construction is completed within 5 year | Max. 2 Lacs |

TREATMENT OF INCOME FROM CO-OWNED PROPERTY [Sec 26]

| Co-owned HP is SOP | Co-owned HP is LOP |
|--|---|
| <p>For Each Co-owner:</p> <ul style="list-style-type: none"> Annual Value → Nil Deduction of 30K/2 L u/s 24(b) separately for each co-owner. | <ul style="list-style-type: none"> Compute Income from HP as if there is one owner Income so computed shall be apportioned amongst each co-owner as per their share. |

Note: If Shares of co-owners are not definite: Income from HP → Taxed as Income of AOP.

HP OWNED BY P'SHIP FIRM → Income is assessed in hands of firm & not to partners.

DEEMED OWNERSHIP [SEC 27]

(i) Transfer of HP to Spouse for **Inadequate** consideration → Transferor is deemed to be owner of HP transferred. [Except: Transferred under agreement to live apart].

(ii) Transfer of HP to Minor Child for inadequate consideration → Transferor is deemed as owner of HP. [Except: HP is transferred to a minor married daughter]

(iii) Holder of Impartible Estate → Deemed as owner of all properties in the estate.

(iv) Member of a Co-operative Society to whom a building is allotted/leased under House Building Scheme of → Deemed as owner of that building allotted to him although co-operative society is legal owner of that building.

(v) Person in possession of HP under part-performance of a contract [Sec 53 of TOPA] Buyer will be deemed as owner of HP although it is not registered in his name.

(vi) Person having right in a property by way of Lease for 12 years or more: A person who acquires any building by way of lease for a period of **12 years** or more shall be deemed to be the owner of that building.

Exception: Lease is acquired from **month to month** basis or for < 1 year.

EXEMPT INCOME FROM HOUSE PROPERTY

- Income from Farmhouse [If building is in immediate vicinity of Agri. Land]
- Property held for charitable or religious purposes.
- House property used for own business/profession.
- One Self-occupied house → GAV = Nil.
- Income from House property of Registered Trade union/Local Authority.
- Annual value of 1 Palace of Ex-ruler.

Unrealised Rent & Arrears of Rent received Subsequently [Sec 25A]

- ✓ Taxable @ 70 % of Amount Received in PY of Receipt.
- ✓ Only such amount which was allowed as deduction earlier is taxable.

Q. When unrealized rent shall be deducted from actual rent receivable?

Answer: If all the following conditions are satisfied:

- Tenancy is **bonafide**;
- Defaulting tenant has **vacated**, or steps have been taken to vacate the property;
- Defaulting tenant is **NOT in occupation** of any other property of the assessee;
- Assessee has taken **all reasonable steps to institute legal proceedings** for **recovery** of unpaid rent or **satisfies AO** that **legal proceedings would be useless.**

4C. PROFITS & GAINS OF BUSINESS & PROFESSION

BASIS OF CHARGE - [Sec 28]

1. **Profits & Gains** of any business or profession carried on at any time during PY.
 - Capital Receipt → Not Taxable; ▪ Capital Loss → Not Deductible.
2. **Compensation for Loss of Office**
 - **Termination or Modification** of contract relating to **Agency** in India
 - **Termination/Modification of T&C** of any **contract** relating to his business.
3. **Export Incentives.** [Sale of Import entitlements/Duty Drawback/Transfer of DEPS/DFRC]
4. **Non-Compete Fees [even if they are capital receipts]**
 - For **not carrying** out any activity in relation to any **business or profession**
 - **Not to share any know-how**, patent, copyright, TM
5. **FMV of Inventory (SIT) on its conversion into Capital Asset** → **FMV** of Inventory on the date of its conversion into capital asset would be **taxable** as business income.
6. **Benefit arising from Business/Profession.** [Gift] [Nexus Hona b/w Gift & Business]
7. **Remuneration received by Partners** is **taxable** in his hands [to the extent it is deductible in the hands of firm]
8. **Income of Trade/Professional Association from Specific Activities for its Members.**
9. **Maturity Amount of KIP (+ Bonus)** → Taxable in the hands of employer if Received by him.
10. Sum received/receivable on the demolition, destruction or transfer of any Capital Asset whole cost of which was allowed as deduction u/s 35AD.

FOLLOWING INCOMES ARE ALSO TAXED U/H "PGBP"

- (i) Sec 41: Deemed Income; (ii) Sec 176: Income earned after discontinuation of Business

SPECULATION BUSINESS

Meaning: Contract for purchase/sale of any commodity (including stocks & shares) is settled **otherwise than by the Actual delivery or transfer of the commodity/Scripts [Sec 43(5)].**

Speculation Profits/Losses → Treated Separately from other business/profession because **Speculation Business Loss can be set off against Speculative Business Profit only.**

Transactions NOT deemed to be speculative transactions

- (i) Hedging Contract in respect of Raw Materials or Merchandise or Stocks & Shares
 (ii) Forward Contract (iii) Trading in Derivatives or Commodity Derivatives

Method of Accounting followed by Assessee → Relevant u/h PGBP [Sec 145(1)]

GENERAL DEDUCTIONS - SECTION 37

1. Not covered in Sec 30 to 36.
2. **Not a capital expenditure** (Only revenue expenditure is deductible u/s 37).
3. Incurred during PY.
4. It must have been incurred after the business was set up.
5. Only Business Expenditure (**Personal Expenditure** is **NOT** deductible).
6. **Legal Purpose only. [Any Penalty → Not Deductible].**

Note: AO cannot question the necessity of expenditure in allowing deduction.

Some Important Circulars:

1. Premium paid on KIP by Employer → **Business Expenditure** & thus Deductible.
2. Expenditure incurred on CSR → Not **Business Expenditure** & Not Deductible.
3. Expenses on providing freebees to medical practitioner → Not Deductible.

- ✓ Income Tax & Related Payment → Not Deductible.
- ✓ Indirect Tax & Related Payment → Deductible.
- ✓ Demurrage paid to port authorities for releasing confiscated goods → Deductible
- ✓ Penalty paid by assessee for non-completion of contract within stipulated time → Deductible as it is not a fine paid for infraction of law. [Infraction of contract].

Any expenditure on advertisement in any souvenir, brochure, tract, pamphlet published by Political parties → Not deductible u/h "PGBP" but it can be claimed as deduction u/s 80GGB & 80GGC from GTI.

SPECIFIC DEDUCTIONS [SECTION 30 - 36]

1. **Rent, Rates, Taxes, Repairs & Insurance for BUILDING - [Sec 30]**

| Rent | Taxes | Revenue Repairs | Insurance |
|--------|-----------|-------------------------|-----------|
| Tenant | Check 43B | Done by owner or Tenant | Owner |

Note: No Deduction for Notional Rent;

Subletting of Rented premises → Deduction = Rent paid – Rent recovered.

2. **Revenue Repairs & Insurance of Plant, Machinery & Furniture [Sec 31]**

DEPRECIATION – (Sec 32) [on BLOCK OF ASSETS & Not on Individual Asset] + Lena Mandatory hai

CONDITION FOR CLAIMING DEPRECIATION

- OWNERSHIP** → Part/Full; Registered/Beneficial owner.
 - Note: If Tenant incurs Capital Expenditure on Leased/Rented Building, he will get depreciation on such Capital Expenditure.
- USED BY THE ASSESSEE FOR HIS BUSINESS/PROFESSION DURING PY**
 - Active or Passive use. [Ex: Trial run/Generators].
 - 2nd PY onwards: Asset used for 1 day in PY → 100% Depreciation (as per ROD)
 - 1st PY: If used for < 180 days → Only 50 % of the Allowable Depreciation.

Note: Asset acquired in PY but not put to use, 180 days condition is NA for 2nd PY; Thus 100% depreciation will be allowed in Next PY when it is put to use.

- Building** includes Roads, bridges & tubewells attached to it or forming part of it.
- Machinery** → Asset which is directly connected with Production or Manufacture.
- Furniture** → Asset used for Convenience & Decoration.
- Plant** → Any other Asset Essential to carry out the business.
 - Includes: Ships, vehicles, books, scientific apparatus & surgical used for business.
 - Excludes: Tea bushes or livestock etc.; animal, human body or SIT; Buildings.

Point to Remember:

- No Depreciation on **Land & Personal assets** & thus not included in **any block.**
- While calculating Depreciation on Building, **Cost of Land is to be Excluded.**

- Used Partly for Business & partly for Personal purposes:
- Deduction u/s 32 → Depreciation proportionate to Business only
 - Amount Reduced from WDV → Depreciation proportionate to Business only

- Used Partly for Business & partly for Agricultural purposes:
- Deduction u/s 32 → Depreciation proportionate to Business only
 - Amount Reduced from WDV → 100% Depreciation [Business + Agricultural Purpose]

- Assessee is **engaged in business of Letting** of Assets: Depreciation is allowed u/s 32.
- Assessee is **Not engaged in business of Letting** of Assets: Depreciation is allowed u/s 57(ii).

“BLOCK OF ASSETS” [Same Class & having Same ROD]

A. STEPS TO DETERMINE BLOCK OF ASSET:

- Classify all the given assets into (i) Tangible Assets & (ii) Intangible Assets.
- All Tangible Assets shall further be classified into
 - Building,
 - Plant & Machinery &
 - Furniture
- Group the classified assets in each category separately on the basis of ROD.
- Assets having same rate of depreciation should be grouped together.

B. STEPS TO CALCULATE DEPRECIATION [V. IMP]

- Find Closing WDV of the Block for PY [Op. WDV + Additions during PY – Sale Value]
- Classify assets for 180 days condition [(a) < 180 days & (b) **Balance WDV**]
- Calculate Depreciation on assets used for < 180 days.
- Reduce WDV of Assets in Step 3 from Closing WDV.
- 100% depreciation (as per rates) on Balance WDV.

ADDITIONAL DEPRECIATION [Sec 32(1)(iia)] → {Only on New P&M in Factory}

| | | |
|-------------------------------|---|---------------------------|
| Assessee | (a) Engaged in Manufacturing or Production or (b) Generation, transmission or Distribution of Power | |
| Ineligible Investments | <ol style="list-style-type: none"> Ships & Aircrafts Second-hand P&M (in/out of India) P&M installed in office premises, residential/guest house. Office appliances or Road Transport Vehicles. P&M whose whole of Actual cost has been allowed as deduction. | |
| Rate | Undertakings in Telangana/WB/AP/Bihar | 35% of Actual Cost |
| | Any other case | 20% of Actual cost |

Use < 180 days in 1st PY: Additional depreciation will be allowed as:

- 1st PY = Restricted to 50% (i.e. 10% or 17.5% as the case may be)
- Next PY = Remaining 50% that was disallowed in the 1st PY

- Addition depreciation will be over & above normal depreciation allowed.
- It should be reduced from WDV of the asset.

☑ [Circular No. 15/2016]: **Printing or Printing & Publishing = Manufacture** & thus **eligible for Additional Depreciation u/s 32(1)(iia).**

INVESTMENT IN NEW PLANT & MACHINERY [SECTION 32AD]

| | |
|--------------------------------|--|
| Assessee | Any Assessee + Manufacturing/Producing in AP/Telangana/WB/Bihar |
| Ineligible Investment | (a) Ship or Aircraft or Vehicle (b) Second-hand P&M (c) P&M installed in Office premises, Residential/Guest house. (d) Office appliances including computers/computer softwares (e) P&M whose whole of actual cost has been allowed as deduction. |
| Deduction | 15% of Actual Cost of New P&M. |
| Lock - in | 5 years from date of installation |
| Withdrawal of deduction | If New P&M is transferred w/i 5 years, Deduction allowed = Income u/h PGBP. Exception: Amalgamation/Demerger/Business re organisation. However, lock in will be applicable for remaining period to resulting company. |

DEPRECIATION IN CASE OF AMALGAMATION/DEMERGER OF COMPANY, SUCCESSION OF FIRM & OTHER BUSINESS RE-ORGANISATION [IMP]

- Cases of “**Change in ownership**”.
- Depreciation shall be calculated assuming that **no change in ownership has taken place.**
- Calculated Depreciation shall be apportioned b/w predecessor & successor in the **ratio of number of days for which the asset is USED by them.**
- **180 days Condition is NOT APPLICABLE in such cases.**

Note: Consideration for which the assets are transferred to the resulting company is **irrelevant** for calculation of depreciation. Students should not get confused by such amount given in question.

DEPRECIATION ON SLM BASIS [Sec 32(1)(i)]

| | |
|--|--|
| Assessee | Engaged in Generation, transmission, Distribution of Power. |
| Time to Exercise | Before DD of Filing ROI u/s 139(1) of PY in which they begin to generate power. The option once exercised shall be Final. |
| New Assets used for < 180 days | Depreciation is allowable at 50% of ROD; Remaining 50% will be allowed in next Year. |
| Sale in 1st Year | Profit/Loss arising shall be treated as STCG/STCL. |
| Option of SLM → For Tangible Assets only; Intangible Assets → only WDV is applicable. Depreciation can be charged on tangible assets individually; i.e SLM/WDV (more beneficial) | |

TRANSFER OF DEPRECIABLE ASSETS BY POWER SECTOR UNITS

| Conditions | Treatment |
|---------------------------------|--|
| 1. NSC < WDV | Terminal Depreciation (Loss) = WDV - NSC. Deductible u/s 32. |
| 2. COA > NSC > WDV | Balancing Charge (Profit) = NSC - WDV. Taxable u/s 41(2). |
| 3. NSC > COA | Balancing Charge (Profit) = Original COA - WDV. Taxable u/s 41(2). Capital Gain = NSC – Original COA. |

DETERMINATION OF ACTUAL COST FOR DEPRECIATION [Sec 43(1)]

| Cost of Acquisition/Construction of Asset | | XXX |
|--|------|------|
| Less: | | |
| (i) Excise Duty on which CENVAT credit is Allowed | (xx) | |
| (ii) Subsidy/Grant received (Directly/Indirectly) | (xx) | (xx) |
| Add: | | |
| (i) Interest upto the date on which asset is put to use | xxx | |
| (ii) Expenses incurred for acquiring Asset | xxx | |
| (iii) Expenses incurred for Installation of Asset. | xxx | |
| (iv) FOREX Fluctuations (if asset is imported) [Sec 43A] | xxx | Xxx |
| ACTUAL COST for computing Depreciation | | Xxx |

Note: Any **Expenditure** for **Acquisition** of any Asset for which aggregate payments made to **A Person in A Day, otherwise than by A/c Payee Cheque/Draft or Electronic Medium > Rs. 10,000**, such expenditure shall **not be included** in Cost of such asset.

UNABSORBED DEPRECIATION [SECTION 32(2)]

- Can be Carried Forward for Infinite PYs even if business is discontinued.
- Priority for Set-off in subsequent PYs:
(i) PY Depreciation (ii) B/f Business Loss (iii) Unabsorbed Depreciation.

"ACTUAL COST" IN SPECIAL CASES [Explanation to Section 43(1)]

| Cases | Actual Cost |
|--|--|
| Scientific Asset/ 35AD Asset brought into business. | Nil |
| Conversion of CA into SIT | FMV of CA on date of conversion into SIT |
| Conversion of SIT into CA & used into Business | FMV of SIT on date of conversion into CA |
| Acquired by Gift/Will/ Inheritance | WDV to Previous owner. |
| Second hand asset | If AO is satisfied that main purpose was to reduce Tax Liability by claiming depreciation on enhanced cost, he may, with previous approval of JCIT, determine Actual Cost. |
| Re-acquisition of Asset used for Business/profession earlier. | (a) WDV at the time of original transfer or (b) Cost of re-acquisition , whichever is Lower. |
| Sale & Leaseback | Cost of asset in the hands of Transferee = WDV of asset in the hands of Leasee. |
| Building which was used for non-business purpose earlier. Note: Applicable Only for Building | Actual cost of building – Deemed Depreciation as if building was used for Business. ▶ Other assets → Recorded @ original COA. |
| Transfer by HC → WOS or vice versa | |
| Transfer in scheme of Amalgamation to Amalgamated (Indian) company | Actual cost of the asset = Same Cost/WDV as it would have been if the transferor company had continued to hold the asset. |
| Transfer in scheme of Demerger to Resulting (Indian) company | |
| Foreign Asset brought to India by NR & used for his business/profession. | Actual cost – Deemed Depreciation as if asset has been used in India since acquisition. |

CASES WHEN NO DEPRECIATION IS ALLOWED & STCG/STCL Arises

- ☞ WDV is Zero but Block is not Empty → No Depreciation & STCG u/s 50(1).
- ☞ Block is empty but WDV is not Zero → No Depreciation & STCL u/s 50(2).

EXPENDITURE ON SCIENTIFIC RESEARCH [SECTION 35]**A. (i) SCIENTIFIC RESEARCH CARRIED ON BY ASSESSEE [Related to business]**

| Revenue Expenditure [Sec 35(1)(i)] - [100 % Deduction] | |
|---|--|
| Pre-commencement [Last 3 years before] | (i) Payment of Salary (excluding perquisites) (ii) Purchase of Materials used in research. |
| Post-commencement | Any Revenue Expenditure |
| Capital Expenditure [Sec 35(1)(iv) & 35(2)] - [100 % Deduction] | |
| Pre-commencement [Last 3 years before] | Any Capital Expenditure (Except Cost of Land). |
| Post-commencement | Any Capital Expenditure (Except Cost of Land). |

A. (ii) EXPENDITURE ON IN-HOUSE RESEARCH → Only COMPANY [SEC 35(2AB)]

| Assessee | Company only |
|--------------------|--|
| Business | Bio-technology OR Manufacture/Production |
| Expenditure | Capital & Revenue Expenditure [Excluding Cost of L&B] |
| Deductions | 150% of Capital & Revenue [Except Cost of L&B] |

PC Note: For Company → Pre-commencement Expenditure & cost of Building is not allowed as deduction u/s 35(2AB). Thus, company will not get 150% deduction. But they are allowed as deduction @ 100% u/s 35(1) & 35(2). Hence, company will get 100% deduction on Pre-commencement expenditure & cost of Building u/s 35(1)/(2).

B. CONTRIBUTION MADE BY ASSESSEE TO OUSIDER [Related to Business/Not]

| Research | Sec | Contribution to whom | Deduction |
|------------------------------|-------------|--|-------------|
| Scientific | 35 (2AA) | National laboratory/ National university IITs/ IIMs | 150% |
| | 35 (1)(ii) | Approved Research Association or Approved University/College etc. | 150% |
| | 35 (1)(iia) | Indian Company having scientific research as its main business objective. ▶ Recipient company <u>cannot claim weighted deduction</u> u/s 35(2AB). | 100% |
| Social or Statistical | 35 (1)(iii) | Approved Research Association or Approved University/College etc. | 100% |

Note: Deduction cannot be denied just because approval granted was withdrawn.

INVESTMENT IN SPECIFIED BUSINESS [SECTION 35AD]**1. Specified Business ↓**

| | | |
|---|-----------------------------|---------------------------|
| Cold Chain Facility | Warehouse for Agri Produce | Warehouse for Sugar |
| Hotel (2 Star +) | Hospitals (100 Beds) | Production of Fertilizer |
| Slurry Pipeline | Cross country pipeline | Setting up ICD/CFS |
| Affordable Housing Project & Slum Redevelopment Project | | |
| Bee-keeping & Production of Honey & Bee wax | | |
| Setting Semiconductor Wafer Fabrication Manufacture unit | | |
| Developing/Maintaining/Operating new infrastructure facility. | | |

2. Deduction = 100% of Capital Expenditure [Except Land/GW/Fin. Instrument]

Note: Prior Period Expenses → Deductible if CAPITALIZED in books of A/c.

3. Conditions to claim Deduction u/s 35AD:

- ☞ Business Not Formed by Splitting/Reconstruction of Existing Business.
- ☞ Not Formed by Transfer of **Used P&M**. [Used P&M → Allowed upto 20%]
[Imported P&M → Treated as New for Sec 35AD].
- ☞ **Use Asset 'Only for Specified Business' for 8 Years:**
Otherwise **PGBP Income** = Total Deduction Claimed – Deemed Depreciation.

Note: Any Expenditure for Acquisition of any Asset for which aggregate payment made to **A Person in A Day**, otherwise than by **A/c Payee Cheque/Draft** or Electronic Medium > **Rs. 10,000** → Not Eligible for Deduction u/s 35AD.

| Sec | Expenditure/Contribution on | Deduction & Conditions |
|--------------|---|--------------------------|
| 35CCA | Rural Development Programmes | 100% |
| 35CCC | Agricultural Extension Project | 150% [Except L&B] |
| 35CCD | Skill Development Project - Company only | 150% [Except L&B] |

AMORTIZATION OF PRELIMINARY EXPENDITURE [SEC 35D]

| | |
|-------------------------------|--|
| Assessee | (a) Indian Company or (b) Other Residents in India. |
| Eligible Expenditure | (a) In case of New companies → Expenses for setting up any business. (b) In case of Existing companies → Expenses for Expansion of Business. <ul style="list-style-type: none"> ▪ Expenditure on Preparation of feasibility report, Project report, conducting market survey or engineering services. ▪ Legal charges for drafting any agreement related to business. ▪ Legal charges for drafting MOA & AOA of the company. ▪ Printing charges of MOA & AOA of the company. ▪ Registration fees of the company. ▪ Expenditure on public issue of shares/debenture, underwriting commission, brokerage & drafting & advertising prospectus. |
| Maximum Limit | 1. Indian Company: Higher of 5% of [Project Cost or Capital]. 2. Other Assessee: 5% of Cost of Project. |
| Qualifying Expenditure | Lower of (i) Eligible Expenditure or (ii) Maximum Limit |
| Deduction | 1/5th of the Qualifying expenditure in 5 successive PYs. |
| Audit | COMPULSORY AUDIT for PYs in which expenditure is incurred. |

- ☞ Cost of Project → Actual cost of Fixed assets [L & B, P & M, F & F etc];
- ☞ Capital Employed → Issued share capital + Debentures + Long-term borrowings;

Class Note:**AMORTIZATION OF COMPENSATION PAID UNDER VRS - (SEC 35DDA)**

| | |
|------------------|---|
| Assessee | Any Assessee |
| Deduction | 1/5th of Expenditure shall be deductible for 5 succeeding PYs . <ul style="list-style-type: none"> ✓ Each Part Payment of VRS is deductible in 5 Instalments. ✓ 1st Instalment is deductible in the PY in which VRS is Paid. |

Note: In case of any Business Re-organization → Deduction shall be allowed to resulting company (organisation) for Remaining years.

MISCELLENEOUS DEDUCTIONS - SECTION 36(1)

| | |
|---|--|
| <p><u>INSURANCE PREMIUM PAID ON:</u></p> <p>(i) Stocks or stores</p> <p>(ia) Lives of Cattles owned by members of primary milk co-operative society.</p> <p>(ib) Health of Employees → Paid by Employer [Any mode other than Cash].</p> <hr/> <p>(ii) BONUS OR COMMISSION [Sec 43B will Apply] Bonus/commission PAID to the Employees [not payable as dividend]</p> <hr/> <p>(iii) Interest on Capital Borrowed for Business</p> <ul style="list-style-type: none"> ▪ Interest for the period after asset is put to use → Deductible. <p>Note: Interest for the period before asset is put to use → Added to COA of Asset & thus not deductible u/s 36(1)(iii).</p> <p>Points to Remember:</p> <ul style="list-style-type: none"> ❖ Interest paid on money borrowed for payment of dividends → Deductible. ❖ Interest paid on money borrowed for payment of Tax → Not Deductible. ❖ Interest paid by a firm to partners → Deductible; ❖ However, Interest paid by AOP to its members → Not Deductible. <hr/> <p>(iii)(a) Amortization of Discount on ZCBs by Issuing Company</p> <ul style="list-style-type: none"> ▪ Discount on ZCB - Deductible over the life of such bond. <hr/> <p><u>EMPLOYER'S CONTRIBUTION</u> towards</p> <p>(iv) RPF or Approved SF, Subject to section 43B.</p> <p>(iva) Pension scheme to the extent of 10% of salary of the employee in PY.</p> <p>(v) Approved Gratuity Fund subject to Section 43B.</p> <hr/> <p><u>EMPLOYEE'S CONTRIBUTION</u></p> <p>(va) Employee's contribution towards RPF/SF, if deposited by employer before DD.</p> <p>Note: Employee's contribution is first included in total income of the employer. Then deduction is given under this section if the sum received is deposited before due date.</p> | <p>(vi) ANIMAL ALLOWANCE</p> <ul style="list-style-type: none"> ▪ Deduction = Purchase Price of animals – Sum realized on sale of death body. ▪ Deduction → In PY when animals dies or becomes useless for business. <hr/> <p>(vii) BAD DEBTS (EXCLUDING PROVISIONS FOR BAD DEBT)</p> <p>Conditions:</p> <ul style="list-style-type: none"> ▪ Debt must be charged as income in computing the income of assessee of any PY ▪ Must be written off in books of A/c. ▪ Debt may be money lent in ordinary course of banking or money lending business <p>Second Proviso inserted by FA, 2015: If whole or part of Debt has been included in the income of PY in which it becomes irrevocable or earlier PYs without recording the same in the books of accounts; such Debt amount shall be allowed in PY in which, it becomes irrevocable and it shall be deemed that such amount has been written off in the accounts.</p> <p>Other points:</p> <ol style="list-style-type: none"> 1. In case of succession → Successor can claim deduction of Bad debt when a debt originally due to predecessor is written off as bad debt by successor in his books. 2. Recovery of Bad debts is taxable as business income in PY of recovery. [Sec 41(4)] <hr/> <p>(ix) Expenditure on Family Planning → Only for Company. <u>Deduction will be as follows:</u></p> <ul style="list-style-type: none"> ▪ Revenue Expenditure: Fully allowed in the PY in which it is incurred. ▪ Capital Expenditure: 1/5th of the expenditure allowed in 5 PY's. <p>Note: Treatment of Unabsorbed Expenditure is same as unabsorbed depreciation.</p> <hr/> <p>(xv) Securities Transaction Tax [STT] paid</p> <hr/> <p>(xvi) Commodity Transaction Tax [CTT] paid</p> |
|---|--|

SPECIFIC DISALLOWANCES

| ANY PAYMENT TO NR (On which TDS Provisions Apply) [Sec 40(a)(i)] | | INCOME TAX Paid: is not allowed as deduction – Sec 40(a)(ii) | | | | | | |
|---|---|--|-------------|------------------------|---|--|--|---------------------------|
| Conditions for Disallowance | (i) Tax is not deducted before the end of PY. OR (ii) Tax is deducted but not paid before DD of filing ROI u/s 139(1). | SALARY PAID TO NR [SEC 40(a)(iii)] <ul style="list-style-type: none"> ▪ on which tax has been <u>neither deducted</u> before the end of PY <u>nor paid</u> before DD of filing ROI u/s 139(1) → Not allowed as deduction. | | | | | | |
| Consequences | 100 % of such amount paid/payable is disallowed in that PY. | TAX PAID BY EMPLOYER ON NON-MONETARY PERQUISITES [Sec 40(a)(v)] <ul style="list-style-type: none"> ▪ Not Deductible to Employer. ▪ Exempt in the hands of employee – [Sec 10(10CC)] | | | | | | |
| Deduction or Payment in Subsequent PY | (i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during PY but paid after DD; then 100% of such sum shall be allowed as deduction in the PY in which such tax has been paid. | DISALLOWANCE IN CASE OF PARTNERSHIP FIRM/LLP [Sec 40(b)] A. REMUNERATION TO PARTNERS [By whatever name] Following payments to partners are disallowed to Partnership firm: <ol style="list-style-type: none"> 1. Remuneration to Non- Working Partner. 2. Remuneration to Working Partner if: <ol style="list-style-type: none"> (a) Not Authorized by Partnership deed. (b) Not in Accordance with T&C of partnership deed. (c) For the period prior to the date of agreement. (d) Exceeding the limit given below ↓ | | | | | | |
| To get Deduction, (i) Deduct Tax in PY AND (ii) Pay before DD ; Otherwise disallowed. | | <table border="1" style="width: 100%; border-collapse: collapse; margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #e0ffe0;">Book Profit</th> <th style="background-color: #e0ffe0;">Amount of Remuneration</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e0ffe0;">Upto Rs. 3 Lacs of Book Profit OR Book Loss</td> <td style="background-color: #e0ffe0;">Higher of (i) Rs 1.5 Lacs OR 90% of Book Profit</td> </tr> <tr> <td style="background-color: #e0ffe0;">Balance of Book Profit [Above 3 Lacs]</td> <td style="background-color: #e0ffe0;">60% of Book Profit</td> </tr> </tbody> </table> | Book Profit | Amount of Remuneration | Upto Rs. 3 Lacs of Book Profit OR Book Loss | Higher of (i) Rs 1.5 Lacs OR 90% of Book Profit | Balance of Book Profit [Above 3 Lacs] | 60% of Book Profit |
| Book Profit | Amount of Remuneration | | | | | | | |
| Upto Rs. 3 Lacs of Book Profit OR Book Loss | Higher of (i) Rs 1.5 Lacs OR 90% of Book Profit | | | | | | | |
| Balance of Book Profit [Above 3 Lacs] | 60% of Book Profit | | | | | | | |
| PAYMENTS TO RESIDENT (on which TDS Provisions Apply) [Sec 40(a)(ia)] | | B. INTEREST PAID TO PARTNERS Interest paid to partners is disallowed in following cases: <ol style="list-style-type: none"> (a) Not Authorized by Partnership deed (b) For the period prior to the date of Partnership Deed. (c) At a Rate Exceeding 12% p.a. | | | | | | |
| Conditions for Disallowance | (i) Tax is not deducted before the end of PY. OR (ii) Tax is deducted but not paid before DD of filing ROI u/s 139(1). | Note: Remuneration Paid by AOP/BOI to its Members [Sec 40(ba)] → Not Deductible | | | | | | |
| Consequences | 30 % of such amount paid/payable is disallowed in that PY. | | | | | | | |
| Deduction or Payment in Subsequent PY | (i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during PY but paid after DD; then 30% of such sum shall be allowed as deduction in the PY in which such tax has been paid. | | | | | | | |
| Payment of Tax by Resident Payee of such sum [Sec 201] | <ul style="list-style-type: none"> ▪ Resident Payee only → If Tax on such income has been paid by the payee of such income by showing such sum as his income in his ROI, then it shall be deemed that Assessee has deducted & paid tax & No disallowance shall be attracted under this section. ▪ Deemed Date of TDS & Payment of tax → Date of filing ROI by payee. | | | | | | | |
| Note: Since date of filing ROI by resident payee is deemed to be the date on which the payer has deducted & paid tax → 30% shall be disallowed u/s 40(a)(ia) in the year in which the said expenditure is incurred. However, such 30% will be allowed as deduction in subsequent year in which ROI is filed by resident payee. | | | | | | | | |

SPECIFIC DISALLOWANCES [V. IMP]

Sec 40A(2): Excessive Payment to RELATIVES → Not Allowed as deduction.

PAYMENT IN CASH [OTHER THAN A/C PAYEE CHEQUE ETC] [SEC 40A(3)]

1. A Payment or **Aggregate of Payments** made to **A Person** in **A Day** for **An Expenditure exceeds Rs. 10,000** [35,000 for Transport/Goods Carriages Business].
2. Payment is made **otherwise than by A/c payee cheque/draft/Electronic Medium**

Then → **NO DEDUCTION** shall be allowed for such expenditure.

Exceptions: [In following cases, NO Disallowance even if amount paid > Rs. 10,000]

| | |
|--|--|
| Payment made to Banks , LIC etc. | Payment made to Government |
| Payment through Banking System . | Payment by Book Adjustments |
| Payments made to Cultivator, Grower or Producer of agricultural produce & related products etc. | Payment to producers of goods in cottage industry without the aid of power . |
| Payment @ place not served by bank. | Any terminal benefits ≤ Rs. 50,000 . |
| Payment made on a day on which Banks were closed | Payment to Employees on temporary posting for more than continuous period of 15 days if such payment is made after TDS & employee does not have bank A/c at such place. |
| Payments made by any person to his commission agent | |
| Payment made by Authorized Dealer or Money changer | |

Points to Remember:

1. If Expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/35,000 in cash to a person in a day, then such payment shall be deemed to be the income of PY in which payment is made.
2. Sec 40A(3) does not Apply for Repayment of Loans. But it applies to interest payments since interest is a deductible expenditure.

Provision for payment of unapproved gratuity "Not due" → **Not Deductible [Sec 40A(7)]**

Contribution by Employer to URPF [Sec 40A(9)] → Not Deductible.

EXPENDITURES DEDUCTIBLE ON PAYMENT BASIS ONLY [SEC 43B]

➤ **Conditions:** Assessee following **Mercantile Basis** of Accounting **only**.

Following Expenses (which are deductible in normal circumstances) are **deductible in relevant PY only** if they are **paid before due date of filing ROI** of such PY u/s 139(1).

1. **Tax, Duty, Cess or Fee** (by whatever name called) levied under any law.
2. **Employer's Contribution to any PF/SF/Gratuity Fund** or any recognized fund.
3. **Bonus/Commission to employees** [Arrears of salary & other benefit → not covered]
4. **Interest** on any Loan or borrowing from any PFI/SFC/SIIC/Bank
5. **Leave Salary**
6. Any **Sum Payable to Indian Railways** for the use of Railways Assets.

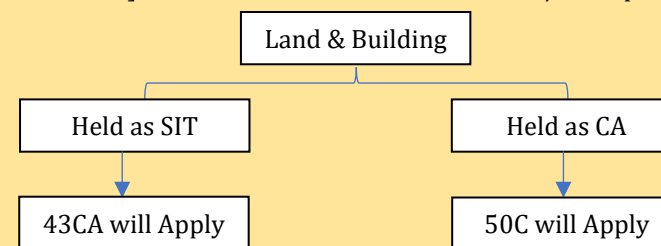
Note: Conversion of unpaid interest into Fresh Loan by Bank /FI → Not deemed to be paid & thus **no deduction shall be allowed**.

ADJUSTMENT IN COA OF ASSET DUE TO CHANGE IN FOREX RATE [SEC 43A]

- If any business Asset is acquired/Loan is taken in Foreign Currency;
- At the time of payment, there is a change in Foreign exchange rates;
- Such Difference [**Increase/decrease in liability**] shall be adjusted in COA of Asset
- **Consider Profit/loss only on amount actually paid during PY & Ignore loss/profit on outstanding amount.**
- Such Adjusted Cost shall be **taken as Cost of Acquisition** for all Taxation purposes.

FULL VALUE OF CONSIDERATION IN CASE OF TRANSFER OF L&B HELD AS SIT

[Section 43CA] → To be Studied with Section 50C u/h "Capital Gains".



COMPULSORY MAINTENANCE OF BOOKS OF A/C – [Sec 44AA]**A. SPECIFIED PROFESSIONS**

| | |
|--|--|
| GR > 1,50,000 in All of the Last 3 PY | Books prescribed u/r 6F |
| GR ≤ 1,50,000 in Any of the last 3 PY | Books of A/c which will enable AO to compute taxable income. |

Specified Profession: Legal, Medical, Engineering, Architectural, Accountancy, Technical consultancy or Interior Decoration, *Authorized representatives, film artists & CS, Information technology persons.*

B. FOLLOWING PERSON WILL BE REQUIRED TO MAINTAIN SUCH BOOKS OF A/C WHICH WILL ENABLE AO TO COMPUTE THEIR TAXABLE INCOME

| |
|---|
| 1. INDIVIDUAL/HUF carrying Non-Specified Business or Profession: <ul style="list-style-type: none"> Income > 2.5 Lac OR Sale, T/O or GR > 25 Lac in ANY ONE of the last 3 PY. |
| 2. Other than Ind/HUF carrying Non-Specified Business or Profession: <ul style="list-style-type: none"> Income > 1.2 Lac OR Sales, T/O or GR > 10 Lac in ANY ONE of the last 3 PY. |
| 3. Person showing Lower Income than computed on Presumptive basis u/s 44AE. |
| 4. If Sec 44AD(4) is applicable to him & his income exceeds BEL in any of those PY. |

MCQ→ Minimum period of Maintenance of books of A/Cs = **6 years** from the end of AY.

DEEMED PROFIT & THEIR TREATMENT [SECTION 41]

- Refund/Recovery against any Deduction or Remission/Cessation of Trading Liability
- Balancing Charge – Refer Depreciation in Case of “Power-Generating Undertakings”.
- Sale of Scientific Research Asset**
 - Taxable Amount = **Lower of (a) Sale Price OR (b) Deduction Allowed**
 - Year of Taxability: PY of Transfer/Sale.**
- Recovery of Bad Debt** Allowed as deduction → Taxable in PY of **Recovery.**
- Adjustment of Loss of Discontinued Business incurred in PY of Discontinuance**
 - Generally, loss from business cannot be c/f after **8 years.**
 - If loss of discontinued business cannot be set off against any other income in the year of discontinuation; **AND**
 - After discontinuation of business, there is a receipt which is deemed as business income u/s 41(1)/(3)/(4);
 - Unabsorbed loss of PY of Discontinuance** only (not earlier years) **can be set off against any deemed income u/s 41(1), (3), (4), (4A);**
 - Even if no ROL is filed within time u/s 139(1).

COMPULSORY AUDIT OF BOOKS OF ACCOUNTS [SECTION 44AB]

| Taxpayer | Circumstances when audit is compulsory |
|-------------------------------------|---|
| Business Person | If TO, GR for PY > Rs. 1 Crore. ** |
| Professionals | If GR for PY > Rs. 50 Lacs. |
| Person covered u/s 44AE | If such person claims that his income is LOWER than Income computed on Presumptive basis. (Such Audit have nothing to do with their turnover) |
| Person covered u/s 44AD & Sec 44ADA | If such person claims that his income is LOWER than Income computed on Presumptive basis & his Income Exceeds BEL. |
| Person covered u/s 44AD(4) | If his Income Exceeds BEL. |

**** Requirement of Compulsory Audit u/s 44AB does not apply to a person who declared profit u/s 44AD on presumptive basis & his Total Sales, Turnover, or Gross Receipts ≤ Rs. 2 Crores.**

PRESUMPTIVE SCHEME OF TAXATION

| Particulars | Sec 44 AD → Business | Sec 44ADA → Profession | Sec 44AE → Transport Business |
|----------------------|--|--|---|
| Eligible Assessee | <ul style="list-style-type: none"> ▪ Resident Individual/HUF/Partnership Firm (LLP ☒) & ▪ Engaged in ANY BUSINESS (other than Negative Listed). ▪ Turnover ≤ Rs. 2 Crores in the PY of such business. | <ul style="list-style-type: none"> ▪ Specified Professional u/s 44AA. ▪ Gross Receipt ≤ Rs. 50 Lacs. | <ul style="list-style-type: none"> ▪ Persons carrying on business of plying, hiring, & leasing goods carriages & ▪ not owning more than 10 Goods Carriages at any time during the PY. |
| Income | <p>8 % of Turnover.</p> <p>However, Income = 6 % of Turnover or Gross Receipt for amount received by A/c Payee cheque/draft/Electronic Medium during PY or before DD of Filing ROI u/s 139(1).</p> | Income = 50% of Gross Receipt | <ol style="list-style-type: none"> 1. Heavy Vehicle → Rs. 1,000 per ton per month or part of it. 2. Other than Heavy Vehicle → Rs. 7,500 per month or part of it. <p><i>Only for the period during which vehicle is owned by Assessee in PY</i></p> |
| Deduction | No Deduction u/s 30 - 38 shall be available. However, Salary & Interest paid by firm to partner → Deductible. {AY 2019-20}. | | |
| Audit & Books of A/c | Not required. | | |
| VI-A Deductions | Deduction u/s 80C to 80U shall be available to the Assessee. | | |
| Advance Tax | Pay 100% Advance Tax in 1 instalment on/before 15th March. | | |
| Depreciation | Depreciation for subsequent PY when he ceases to be eligible assessee for presumptive scheme → WDV of the Assets shall be computed, as if Depreciation had been allowed in earlier year. | | |
| Option to Pay Higher | Yes. Available in all cases. | | |
| Option to Pay Less | Yes. But (i) He will have to maintain books of accounts & (ii) If declared income > BEL, he will have to get his books of accounts Audited. | | |

SECTION 44AD(4): If an eligible assessee declares profit for any PY as per 44AD on presumptive basis & he does not declare profit on presumptive basis as per section 44AD(1) for any of the next 5 consecutive PY, he **becomes ineligible** to claim the **benefit of presumptive income** as per AD(1) for next 5 AYs subsequent to PY in which profit has not been declared as per 44 AD.

1. **Heavy Vehicle:** Any goods carriage whose gross vehicle weight > 12,000 kgs.
2. **Gross vehicle weight:** Total weight of vehicle & load certified & registered by authority.
3. **Unladen weight:** Weight of a vehicle or trailer including all equipment ordinarily used with the vehicle or trailer when working **but excluding Weight of driver;** Where alternative parts or bodies are used, weight of the vehicle with heaviest such alternative body or part = Unladen Weight.

4D. INCOME U/H “CAPITAL GAINS”

Definition of Capital Asset – [Section 2(14)]

- ☞ **Any Property** (Movable/immovable), connected with business/profession or not.
- ☞ Any Securities held by **FIIs** (as per SEBI regulations) **[Always CA → Even if SIT]**

EXCEPTIONS: [Following are NOT CAPITAL ASSETS]

1. **SIT/RM/Consumables stores** (Except Securities held by FIIs as SIT).

Note: Securities held by FIIs → Always Capital Asset even if held as SIT.

2. **Movable Personal effects** (including wearing apparel & furniture) **but excludes** ↓

- Jewellery,
- Archaeological collections;
- Drawings; Paints; Sculptures;
- Any other work of Art.

Note: If Precious stones/metals are sewn/worked/set into Wearing Apparel/ furniture, it is classified into the category of jewellery & thus it is a Capital Asset.

Ex: Madhuri ka Ghagra, Throne of Gold/Diamonds; Shirt with diamond buttons.

3. **Rural Agricultural Land in INDIA** [Note: Urban Agricultural land → Capital Asset]

- **Rural Land** means land outside the following Specified limits:

| Population | Distance from Municipality |
|----------------|----------------------------|
| ≤ 10 K | 0 Kms |
| > 10 K & ≤ 1 L | 2 Kms |
| > 1 L & ≤ 10 L | 6 Kms |
| Above 10 L | 8 Kms |

- **Agricultural Land:** Land used for agricultural purposes for 2 yrs prior to transfer.

What about Urban Land? Capital Gain on Transfer of Urban Agricultural Land → Not treated as Agricultural Income & thus it is **not exempt** u/s 10(1).

4. **Gold Deposit bonds/Certificates.**

Definition of Transfer of Capital Asset - [Sec 2(47)]

1. Sale, exchange or relinquishment of the asset.
2. Extinguishment of any rights in the asset.
3. Compulsory Acquisition of any Capital Asset under any law.
4. Conversion of Capital Asset into Stock in trade.
5. Maturity/Redemption of ZCB.
6. Giving possession of IMMOVABLE PROPERTY under Part performance of a contract.
7. Other Transactions which have the effect of transferring the enjoyment of Immovable property.

TYPES OF CAPITAL ASSET – SECTION 2(42A)

- ▶ **STCA:** If POH of Asset ≤ 36 months. ▶ **LTCA:** If POH of Asset > 36 months.

Exceptions: Following assets become LTCA if POH is more than 12/24 Months.

A. LTCA if POH > 12 Months

- (i) **Listed Equity/Preference shares.**
- (ii) **Listed Securities** (Debentures/Bonds) **other than units.**
- (iii) Units of UTI/EOMF.
- (iv) **Zero Coupon Bonds.**

B. LTCA if POH > 24 Months

- (i) **Unlisted Equity/Preference Shares.** [Shares in Private/unlisted public company]
- (ii) Immovable property, **being Land or Building** or both.

COMPUTATION OF CAPITAL GAINS – [SECTION 48]

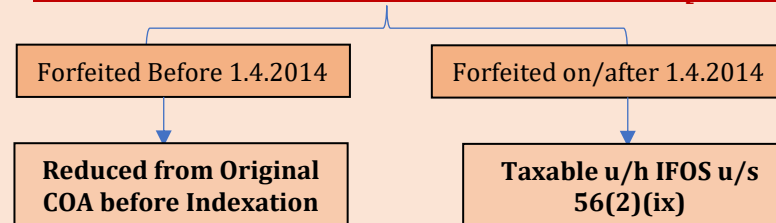
| Particulars | Amount | Meaning/Reference/PC Note |
|--|--------|---|
| Full Value of Consideration (Check Sec 50C for L&B) | XXX | If consideration is received in kind, then FVC = FMV; Adequacy & Receipt of Consideration → IRRELEVANT |
| Less: Expenses of Transfer | (xxx) | Ex: Brokerage, stamp fees, litigation expenditure etc; [Note that STT paid is NOT DEDUCTIBLE] |
| Net Sale Consideration | XXX | FVC – Expenses of Transfer |
| Less: Cost of Acquisition (Indexation if CA is LTCA) | (xxx) | Any Revenue Expenditure → will not form part of COA; Amount Paid to discharge mortgage → Included. |
| Less: Cost of Improvement (Indexation if CA is LTCA) | (xxx) | <ul style="list-style-type: none"> ▪ Capital Expenditures only; Revenue Expenditure will not be included in COI. ▪ Year in which Improvement is done → Not Relevant. [If CA is LTCA → Indexation Milega] |
| SHORT/LONG TERM CAPITAL GAIN | XXX | Check for Section 54 Series Exemption to Arrive @ Taxable Capital Gain. |

| INDEXED COST OF ACQUISITION | OPTION TO TAKE FMV ON 1.4.2001 AS COA | COST OF IMPROVEMENT |
|---|--|---|
| $\frac{\text{COA}}{\text{CII of PY in which asset was first held by Assessee}^{**} \times \text{CII of PY of Transfer}}$ <p style="text-align: center;">OR CII of 2001 – 2002 (whichever is Later)</p> <p>** CII of PY of acquisition of asset by Previous owner [For Transfer u/s 49(1)].</p> <p>Note: Indexation is available from PY 2001-02.</p> <p>PC Note: What if Asset is acquired before PY 2001-02? Since Indexation is available from PY 2001-02, we will have a GAP left for the earlier period & thus we will loose Indexation for such period.....WHAT TO DO ????????</p> | <p>If CA is acquired before 1.4.2001 → Assessee have the option to take FMV of CA on 1.4.2001 as COA of CA.</p> <p>Note: OPTION NOT AVAILABLE</p> <ul style="list-style-type: none"> ▪ Depreciable Assets; ▪ Goodwill/other like assets. <p style="text-align: center;">→ This will Fill the Time GAP.</p> | <ul style="list-style-type: none"> ▶ COI → Considered only if incurred on/after 1.4.2001 ▶ COI by Previous Owner → Considered (Check 1) ▶ In case of Goodwill of Business → COI = Nil. <p style="text-align: center;"><u>INDEXED COST OF IMPROVEMENT</u></p> $\frac{\text{COI}}{\text{CII of PY of Improvement}} \times \text{CII of PY of Transfer}$ |

NO INDEXATION IS AVAILABLE IN FOLLOWING CASES [EVEN IF ASSETS ARE LTCA]

1. Zero Coupon Bonds
2. **Debentures/ Bonds** [Except Capital Indexed Bonds/ Sovereign Gold Bonds issues by RBI]
3. Slump Sale [Section 50B]
4. **Depreciable Assets** [Since capital gain arising on depreciable asset is always STCG]
5. Share/Debentures acquired by NR in foreign currency in Indian company. (1st Proviso to sec 48)
6. **Long term capital assets specified u/s 112A.** [AY 2019-20].

TREATMENT OF ADVANCE MONEY FORFEITED – [Sec 51]



Note: Amount Forfeited by Previous owner → Ignored.

FVC IN CASE OF TRANSFER OF L&B HELD AS CAPITAL ASSET - [Sec 50C]

| | |
|-----------------|-----------------|
| Actual SC > SDV | FVC = Actual SC |
| Actual SC < SDV | FVC = SDV |

PC Note: 5% Variation Allowed from AY 2019-20.

If SDV ≤ 105% of Actual SC → FVC = Actual SC [AY 2019-20]

FULL VALUE OF CONSIDERATION ON TRANSFER OF UNLISTED SHARES [Sec 50CA]

► If Actual SC < FMV of such share → FVC = FMV.

FMV → Deemed to be Full Value of Consideration - [Sec 50D]

► If Consideration is not determinable → FVC = FMV on date of transfer.

VALUE BY VALUATION OFFICER [PC: BEACH ka Bandar]

| | |
|-----------------------------------|-------------------|
| Value by VO > SDV | FVC = SDV |
| Value by VO > Actual SC but < SDV | FVC = Value by VO |

Examples:

| Actual SC | SDV | Value by VO | FVC |
|-----------|-----|-------------|-----|
| 50 | 45 | - | 50 |
| 50 | 75 | - | 75 |
| 50 | 75 | 85 | 75 |
| 50 | 75 | 55 | 55 |
| 50 | 75 | 45 | 50 |

SDV → When Date of Agreement (DoA) & Date of Registration (DoR) are DIFFERENT:

| Whether Payment (Full/part) received on/before DOA by A/c Payee cheque ↓ | FVC ↓ |
|--|------------|
| YES | SDV on DOA |
| NO | SDV on DOR |

Examples:

| DOA | DOR | Sale Consideration & Receipts | SDV on DOA | SDV on DOR | FVC |
|----------|-----------|--|----------------|----------------|------------|
| 1.9.2017 | 1.5.2018 | 100L (10 L received by cheque on 1.9.2017) | 120 (1.9.2017) | 210(1.5.2018) | 120 |
| 1.9.2017 | 1.5.2018 | 100 L (10 L received by cash on 1.9.2017) | 120 (1.9.2017) | 210(1.5.2018) | 210 |
| 1.5.2018 | 31.3.2019 | 100 L (Full amount received on DOR) | 120 (1.5.2018) | 210(31.3.2019) | 210 |

CAPITAL GAINS IN CASE OF DEEMED SALE [SEC 45] → [Not Actual Sale & thus Sec 50C is NOT Applicable]

| Particulars | Sec 45(1A) | Sec 45(2) | Sec 45(3) | Sec 45(4) |
|--------------------|--------------------------|--|---|---|
| Cap. Gain on | Destruction of CA | Conversion of CA into SIT | Capital Contribution [Partners → Firm] | Dissolution/Retirement of Partners [Firm → Partners] |
| Sale Consideration | Insurance Compensation | FMV of CA on Date of Conversion | Value of Asset recorded in books of Firm | FMV of CA on date of transfer |
| Taxable in PY → | PY of Receipt of Money | PY in which SIT is sold/transferred & not in PY of Conversion into SIT | PY in which CA is given to firm | PY in which CA is given to partners |
| Indexation till | Till Date of Destruction | Till Date of conversion of CA into SIT | Till PY of Capital Contribution | Till PY of Distribution of CA to partners |

| COMPULSORY ACQUISITION OF CAPITAL ASSET [SEC 45(5)] | | CAPITAL GAINS IN CASE OF SPECIFIED AGREEMENT [SEC 45(5A)] | |
|---|--|---|--|
| INITIAL COMPENSATION | | Applicability | Individual & HUF |
| SC | Amount of Initial Compensation | Transaction | Cap. Gain on Transfer of L&B or Both under Specified Agreement. |
| Taxed in | PY of Receipt of Initial Compensation (either Whole/Part). ▪ If compensation is received in Instalments, <u>Entire Cap. Gain on Total Compensation</u> is taxable in PY of receipt of 1 st Instalment. | Taxable in | PY in which <u>Certificate of Completion</u> for whole/part of project is issued. |
| POH | Till: Date of Compulsory Acquisition. | SC | SDV of his share in project (being L&B or both) on date of issue of Completion Certificate + Cash Received. |
| Indexation | Upto PY of Compulsory Acquisition of Asset. | Meaning | Registered agreement in which a person owing L/B or both agrees to allow another person to develop a real estate project on such L/B. Developer will give such person share in the project with/without payment of part of the consideration in cash. |
| ENHANCED COMPENSATION | | Consequences of Transfer before Date of Issue of Completion Certificate: | |
| SC | Enhanced Compensation. | <ul style="list-style-type: none"> Benefit u/s 45(5A) is Not available if assessee transfers his share in project on/before issue of completion certificate to any person. In such case, CG shall arise in the year of such transfer. In such case, section 45(5A) will not apply for determining full value of consideration. Thus, FVC = Higher of (i) SDV on date of transfer of his share or (ii) Actual consideration. | |
| Taxed in | Taxable in PY of Receipt. ▪ Enhanced Compensation is received in Instalments → only Proportionate Cap. Gain shall be taxable in that PY. Note: Enhanced compensation received under interim order will be taxable in PY in which final order of court is passed. | | |
| COA/COI | Nil. However Litigation expenses are allowed as deduction. | | |

| CAPITAL GAINS ON BUYBACK OF LISTED SHARES [SEC 46(A)] | | | REFERENCE TO VALUATION OFFICER [SEC 55A] – Theory Question |
|---|---------------------------------|---|--|
| ☞ Sale Consideration = Buy-Back Price given by the company to Shareholder | | | AO may refer valuation officer with a view to ascertain FMV in foll ⁿ cases: |
| Tax Treatment | | | (i) Where the value of the asset claimed by the assessee is in accordance with valuation made by the registered valuer, but AO is of the opinion that value so claimed is less than FMV of the Asset. |
| Assessee | Listed Shares | Unlisted Shares | <ul style="list-style-type: none"> AO can refer VO in cases where FMV is taken as sale consideration. If FMV on 1.4.2001 is taken as COA, AO can make a reference to VO if he is of the view that there is any variation b/w FMV on 1.4.2001 claimed by assessee & FMV on that date. |
| Shareholder | Taxable as Capital Gain u/s 46A | Exempt u/s 10(34A). | (ii) Where AO thinks that FMV of the asset exceeds value claimed by <ul style="list-style-type: none"> More than 15% of the value claimed by the assessee or Rs. 25,000 (whichever is less). |
| Company | Not Taxable to company. | Additional Income-tax @ 23.296% . [20% + 12% SC + 4% HEC] | (iii) Where AO thinks that it is necessary to do so having regards to nature of the asset & relevant circumstances. |

COST OF ACQUISITION IN SPECIAL CASES

| GW/TM/BN/Right to Manufacture etc. [Sec 55(2)(A)] | | RIGHT SHARES/BONUS SHARES [Sec 55(2)(aa)] | |
|---|--|--|--|
| COA | 1. Self-Generated Assets: Nil 2. Purchased: Actual COA (purchase price) | Particulars | COA |
| <ul style="list-style-type: none"> ▪ Option to take FMV on 1.4.2001 → Not Available. ▪ If COA is NOT Ascertainable → No TAX. [Ex: Self-generated GW of a profession]. | | 1. Bonus Shares | |
| | | <ul style="list-style-type: none"> ➤ Acquired before 1.4.2001 ➤ Acquired on/after 1.4.2001 | FMV as on 1.4.2001 Nil [No option is available] |
| | | 2. Right Shares | |
| | | <ul style="list-style-type: none"> ➤ Purchased by Original Shareholder ➤ Purchased by Purchaser of Right | Issue Price Issue price + Cost of Right |
| | | 3. Right | Always Nil & always STCG |
| SWEAT EQUITY SHARES/ESOP [Sec 49(2AA)] | | | |
| ☞ COA = FMV on the date of exercising ESOP option. | | | |
| | | Indexation: From date of allotment of Right/Bonus Shares. | |

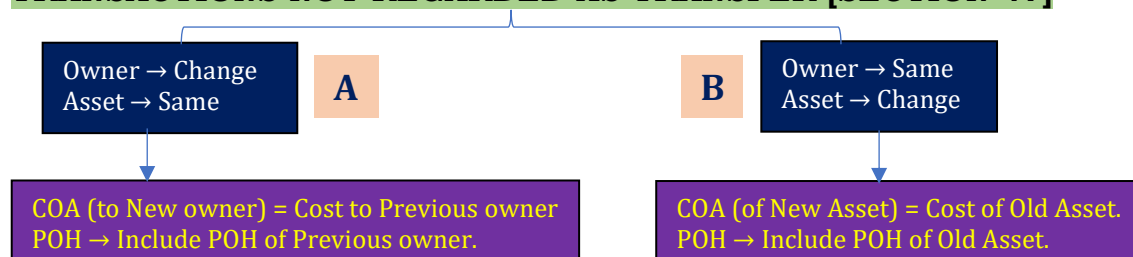
MISCELLANEOUS CASES OF COMPUTING CAPITAL GAIN

| CAPITAL GAIN IN CASE OF SLUMP SALE [Sec 50B] | | SHARES/DEBENTURES ACQUIRED IN FOREIGN CURRENCY BY NR [1 st Proviso to Sec 48] | | | | | | | |
|---|--|--|---|---------------------------|---|---------------------|--|--------------|--|
| COA & COI | <ul style="list-style-type: none"> ❖ COA & COI = Net worth of the undertaking/division. ❖ Net worth = Total value of All Assets – Total Liability ❖ Change due to REVALUATION → IGNORED. | | <ul style="list-style-type: none"> ➤ Cap. Gain shall be computed in the foreign currency in which NR acquires shares/debentures. ➤ After calculating capital gains in foreign currency, it will be converted into Indian Currency. ➤ Indexation is NOT AVAILABLE. | | | | | | |
| Indexation | No Indexation. | STEPS TO COMPUTE CAPITAL GAINS | | | | | | | |
| Cap. Gain | <ul style="list-style-type: none"> ❖ If POH of undertaking/division ≤ 36 Months → STCG. ❖ If POH of the undertaking/division > 36 Months → LTCCG. | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">SC & Expenses of Transfer</td> <td>Convert into FC by using Average Buying Rate on date of transfer.</td> </tr> <tr> <td>Cost of Acquisition</td> <td>Convert into FC by using Average Buying Rate on date of acquisition.</td> </tr> <tr> <td>Capital Gain</td> <td>Capital Gain in Foreign Currency shall be Re-converted into INDIAN CURRENCY by applying BUYING Rate on date of transfer.</td> </tr> </table> | SC & Expenses of Transfer | Convert into FC by using Average Buying Rate on date of transfer. | Cost of Acquisition | Convert into FC by using Average Buying Rate on date of acquisition. | Capital Gain | Capital Gain in Foreign Currency shall be Re-converted into INDIAN CURRENCY by applying BUYING Rate on date of transfer. |
| SC & Expenses of Transfer | Convert into FC by using Average Buying Rate on date of transfer. | | | | | | | | |
| Cost of Acquisition | Convert into FC by using Average Buying Rate on date of acquisition. | | | | | | | | |
| Capital Gain | Capital Gain in Foreign Currency shall be Re-converted into INDIAN CURRENCY by applying BUYING Rate on date of transfer. | | | | | | | | |
| <ul style="list-style-type: none"> ❖ Total value of All Assets shall be calculated as: <ul style="list-style-type: none"> ▪ Sec 35AD Assets: Nil ▪ Depreciable Assets: WDV of block; ▪ All other Assets: Book value. | | | | | | | | | |

| CAPITAL GAINS ON TRANSFER OF DEPRECIABLE ASSET [SEC 50] | TRANSFER OF SECURITIES HELD IN DEMAT FORM- [SEC 45(2A)] | | | | | | |
|---|---|----------------------|---|--|--|---|--|
| <ul style="list-style-type: none"> ➤ Always be STCG irrespective of POH. ➤ Capital Gain on Depreciable Assets will arise only in following two cases: <ul style="list-style-type: none"> ▪ WDV is Zero but Block is not Empty → No Depreciation & STCG u/s 50(1). ▪ Block is empty but WDV is not Zero → No Depreciation & STCL u/s 50(2). <p>PC Note: If Sale consideration of All Assets in Block < WDV of Block → STCL = Sale Consideration – WDV of the block.</p> <p>Refer: Transfer of Capital Asset by Power Generating Undertaking [Sec 50A] in “PGBP”.</p> | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr style="background-color: #fff2cc;"> <td style="width: 15%;">COA & POH</td> <td>Determine using FIFO on the basis of Date of Entry in DEMAT A/c</td> </tr> <tr style="background-color: #fff2cc;"> <td colspan="2">CONVERSION OF OLD PHYSICAL STOCK INTO DEMATERIALIZED FORM</td> </tr> <tr style="background-color: #fff2cc;"> <td colspan="2"> <ul style="list-style-type: none"> ▪ For SALE: Date of Entry in DEMAT A/C is considered. ▪ For POH: Original Date of acquisition is considered. </td> </tr> </table> | COA & POH | Determine using FIFO on the basis of Date of Entry in DEMAT A/c | CONVERSION OF OLD PHYSICAL STOCK INTO DEMATERIALIZED FORM | | <ul style="list-style-type: none"> ▪ For SALE: Date of Entry in DEMAT A/C is considered. ▪ For POH: Original Date of acquisition is considered. | |
| COA & POH | Determine using FIFO on the basis of Date of Entry in DEMAT A/c | | | | | | |
| CONVERSION OF OLD PHYSICAL STOCK INTO DEMATERIALIZED FORM | | | | | | | |
| <ul style="list-style-type: none"> ▪ For SALE: Date of Entry in DEMAT A/C is considered. ▪ For POH: Original Date of acquisition is considered. | | | | | | | |

| ASCERTAINMENT OF COA IN SPECIFIED CIRCUMSTANCES [SEC 49(1)] | CAPITAL GAIN ON "DISTRIBUTION OF ASSETS IN KIND BY COMPANY TO ITS SHAREHOLDERS ON LIQUIDATION" [Section 46] |
|--|---|
| <p>☞ In following cases, Cost of Acquisition = Cost of Acquisition to Previous Owner.</p> <p>If Capital Asset became the property of the assessee on/by way of/under:</p> <p>(a) Distribution of assets on Partition of a HUF;</p> <p>(b) Gift or will/Succession, Inheritance or Devolution;</p> <p>(c) Distribution of Assets on Liquidation of Company;</p> <p>(d) Transfer of CA under a Trust (revocable or irrevocable);</p> <p>(e) Transfer of CA by HC to WOS (Indian) Company or by SC to its 100% HC (Indian).</p> <p>(f) Transfer of CA by Amalgamating company to Amalgamated Indian company, in a scheme of amalgamation referred to in section 47(vi).</p> <p>(g) Transfer of a Capital Asset by Demerged company to Resulting Indian company, in a scheme of demerger referred to in section 47(vib).</p> <p>(h) Conversion of his separate property into HUF property by Individual ref. in 64(2).</p> | <p>FOR COMPANY IN LIQUIDATION</p> <ul style="list-style-type: none"> Asset distributed in kind by company to its shareholders on liquidation → Transfer ☑. No Capital Gain shall arise to the company on distribution of such Assets. <p>FOR SHAREHOLDERS</p> <ul style="list-style-type: none"> Cap. Gain ☑ & SC = FMV of Assets received in Kind – Deemed Dividend u/s 2(22)(c). <p>Cap. Gain on Transfer of Assets received in Kind by Shareholders</p> <ul style="list-style-type: none"> When asset received in kind by the shareholder is transferred later, CG will arise. COA of such asset = FMV of such asset on date of distribution by the company. POH shall be reckoned from the date of receipt of asset on liquidation. |
| <p>Case Law: Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42 (Bom)</p> <ul style="list-style-type: none"> ✓ In case of mode of acquisition of asset specified u/s 49(1), POH of Previous Owner shall also be considered for taking Indexation of COA. ✓ Indexation shall be available from Date of Acquisition of the Asset by Previous Owner. Thus, Sec. 2(42A) → POH of the transferee shall include POH of Previous Owner. | |

TRANSACTIONS NOT REGARDED AS TRANSFER [SECTION 47]



Category A

1. Distribution on "Partition of HUF"
2. Transfer by way of "Gift/Will/Irrevocable Trust"
3. Transfer by "HC to its Indian WOS Company"
4. Transfer by "WOS Company to Indian HC"
5. Transfer by "Amalgamating Co. to Indian Amalgamated Co." in scheme of Amalgamation
6. Transfer by "Demerged Co. to Indian Resulting Co." in scheme of Demerger.

Some other Exempt Transfers:

- ☞ Redemption of Sovereign Gold Bonds by Individual issued under Sovereign Gold Bond Scheme, 2015 [Sec 47(viic)].
- ☞ Transfer of Rupee denominated bond of Indian Co. issued o/s India by NR to another NR.
- ☞ Transfer of CA being Any Work of Art to Government/University or National Museum/National Art Gallery etc.
- ☞ Transfer of CA in scheme of Reverse Mortgage – [Sec 47(xvi)]

Category B:

1. Transfer by way of 'Conversion of Bonds/Debentures into Shares'
2. Allotment of Shares to shareholders by Amalgamated Co. in lieu of Shares held in Amalgamating Co.
3. Transfer of units of MF 'held in Consolidating Scheme' in consideration of 'Allotment of Units in Consolidated Scheme of MF'.
4. Transfer of 'Share from shareholder of company' in consideration of 'Share in LLP'.
5. Conversion of Preference shares into Equity shares.

ALLOTMENT OF SHARES BY RESULTING CO. TO SHAREHOLDERS OF DEMERGED CO.

| Assets | Cost of Acquisition |
|-----------------------------|---|
| Shares in Resulting Company | COA of shares in Demerged Co. $\times \frac{\text{Net BV of Asset after demerger in demerged co.}}{\text{Net BV of Asset before demerger in demerged co.}}$ |
| Shares in Demerged Company | COA of share in Demerged Co. – Cost apportioned to shares of Resulting Co. |

Q. Mr A. acquired 1000 shares in XY Ltd of Rs. 20,000. XY Ltd. was demerged on 25.9.2018 & Net book value of the asset transferred to Y Ltd (resulting company) was 30 Lacs. Compute the cost of acquisition of shares of Mr. A in demerged company as well as resulting company assuming the paid up capital & general reserve of XY Ltd before demerger were 1 crore.

Solution:

COA of Shares in Resulting Co. = $20,000 \times \frac{30 \text{ Lacs}}{1 \text{ crore}} = \text{Rs. } 6,000.$

COA Shares in Demerged Co. = Rs. 20,000 – Rs. 6,000 = Rs. 14,000.

Note: For determining POH of Shares in Resulting Co. → Includes POH of Shares in Demerged Co.

REVERSE MORTGAGE SCHEME

| | |
|-----------------|--|
| Meaning | <ul style="list-style-type: none"> Reverse Mortgage scheme is for the benefit of senior citizens who own residential house. Senior citizens can mortgage their house property with scheduled bank etc. for lumpsum amount or regular monthly/quarterly/annual income. |
| Scheme | <ul style="list-style-type: none"> Senior citizens can mortgage their house & get the contracted amount. They can continue to live in their house & receive regular income without having to pay back the loan. Borrower can use the loan amount for renovation & extension of residential property, family's medical and emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes. Bank/housing finance company would revalue the property once every 5 years. |
| Recovery | <ul style="list-style-type: none"> Bank will recover loan with interest by selling house after the death of the borrower. The excess amount will be given to the legal heirs. However before selling the house, preference will be given to the legal heirs to repay the loan and interest and get the mortgaged property released. |
| Taxation | <ul style="list-style-type: none"> Transfer of capital asset in a transaction of reverse mortgage under a scheme made & notified by CG would not amount to a transfer - Section 47(xvi). Amount received by the senior citizen as a loan (Lump sum/Instalments) in a transaction of reverse mortgage would be exempt from income-tax- [Sec 10(43)]. Capital gains would arise in the hands of senior citizen only when the mortgaged property is sold by the bank/housing finance company for recovering the loan. |

CAPITAL GAIN ON CONVERSION OF LLP INTO GENERAL PARTNERSHIP

- Since the tax treatment of LLP & general partnership is same, conversion from a general Partnership firm to LLP will have **no tax implications** if the **rights & obligations** of the partners **remain same after conversion** and if there is no transfer of any asset or liability after conversion.
- However, if there is a **change in rights & obligations of partners** or there is a transfer of asset or liability after conversion, then provisions of **Section 45** would get attracted.

CAPITAL GAINS EXEMPTIONS U/S 10:

1. Capital Gain arising to Individual/HUF on Compulsory Acquisition of Urban Agricultural Land [Sec 10(37)]
2. Capital Gain arising on Buy-back of Unlisted shares of Domestic Company [Sec 10(33)]

EXEMPTIONS FROM CAPITAL GAINS [SECTION 54]

| Section | 54 | 54B | 54D | 54EC *** | 54EE | 54F |
|---|---|----------------------------------|---|--|---|---|
| Eligible Assessee | Individual/HUF | Individual/HUF | Any Assessee | Any Assessee | Any Assessee | Individual/HUF |
| Which Asset must be Transferred | LTCA – House | Urban Agricultural Land (LT/ST). | Industrial L&B or Both (STCA/LTCA) | L & B or Both (LTCA) [AY 19-20] | Any LTCA | Any LTCA Except House |
| Which Asset must be Acquired | One Residential House in India | Agricultural Land (Rural/Urban) | Land or Building for Industrial purpose | NHAI; REC; PFC; IRFC redeemable after 5 yrs | Notified Units of Specified Funds | One Residential House in India |
| Time limit for acquiring new asset | Purchase → Within 1 year before DOT OR w/i 2 yrs after DOT. Construct → Within 3 years from DOT. | W/i 2 years from DOT | Within 3 years from Date of Receipt of compensation | Within 6 months from DOT | Same as 54EC | Same as 54 |
| Exemption = | Lower of (i) Investment in New Asset or (ii) Capital Gain | | | Same as 54. But Max. Limit of Rs. 50 Lacs in PY of Transfer & Next (Subsequent) PY. | | <i>Proportionate Exemption</i> [Refer Note given Below] |
| Consequences of Transfer of Newly acquired asset within lock-in period | <ul style="list-style-type: none"> Exemption granted will be taken back. [Lock-in period of 3 years] For computing STCG on transfer of New Asset: <i>Cost of New Asset = (COA – CG Exempted earlier).</i> Sec 54B: If New Asset is Rural Agricultural Land → CA ☒ ; No Cap Gain. | | | Exemption granted will be taken back. [Lock-in period of 5 years] | Exemption granted will be taken back. [Lock-in period of 3 years] | |
| Capital Gains A/c ? | Applicable | | | Not Applicable | Not Applicable | Applicable |

Notes for:

[DOT = Date of Transfer]

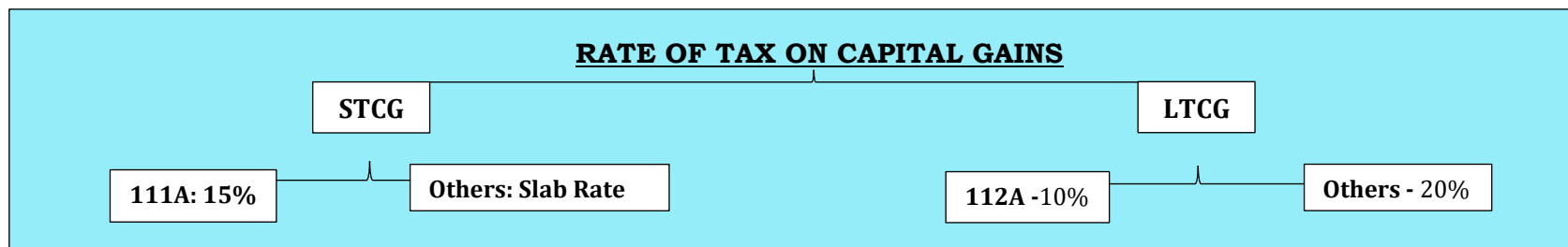
| Section 54 | Section 54F |
|--|--|
| <ul style="list-style-type: none"> A person may <u>Sell 2 Houses & Purchase 1 House</u> Date of completion of construction is relevant. Holding of Legal Title → Not Necessary. | <ul style="list-style-type: none"> To get exemption of Whole Capital Gain, you need to Invest Whole Net Sale Consideration. Proportionate Exemption = $LTCG \times \frac{\text{Amount Invested}}{\text{Net Sale Consideration}}$ |
| <p>Section 54EC & 54EE</p> <ul style="list-style-type: none"> Assessee should not transfer or convert or avail loan on the security of such bonds in Lock-in-Period. | <p>Withdrawal of Exemption</p> <ul style="list-style-type: none"> If the new house is transferred within 3 years from the date of acquisition. If assessee purchases another residential house within 2 years from DOT of original asset. If assessee completes construction of another residential house in or o/s India within 3 years from DOT of original asset. |

CAPITAL GAINS A/C SCHEME (CGAS): If Investment is not made before DD of filing of ROI, then Capital Gain/NSC(for 54F) has to be deposited under CGAS to get exemption.

- Such deposit in CGAS should be made before filing ROI or before DD of filing ROI, whichever is earlier. Proof of such deposit should be attached with the return.
- If amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be taxed as capital gain of PY in which specified period expires.
- If **Individual dies** before stipulated period, **unutilized amount is not** taxable in the hands of **legal heirs** of deceased individual.

RATE OF TAX ON CAPITAL GAINS

| A. SHORT- TERM CAPITAL GAINS [STCG] | B. LONG - TERM CAPITAL GAINS [LTCG] | | | | |
|--|--|---|--|--------------|------------|
| <p>(I) STCG u/s 111A: Taxable @ 15%</p> <ul style="list-style-type: none"> ▪ STCG on transfer of Equity shares/units of EOMF on which STT is paid → 15% ▪ Benefit of UNEXHAUSTED BEL will be available for Resident Individual/HUF. ▪ No deduction under Chapter VI-A against STCG taxable u/s 111A. <p>(II) Other STCG:</p> <ul style="list-style-type: none"> ▪ STCG other than Section 111A are treated as Normal Income & will be taxed @ Slab Rate along with Other Incomes. | <p>(I) LTCG u/s 112A: Taxable @ 10% on LTCG > Rs. 1 Lac. [No Chapter VI-A Deduction]</p> <ul style="list-style-type: none"> ▪ LTCG on transfer of Equity shares/units of EOMF on which STT is paid → 10%. ▪ Rebate u/s 87A → Not Available against LTCG taxable u/s 112A. <p>Note:</p> <ol style="list-style-type: none"> 1. Equity share → STT is to be paid on acquisition & transfer of such capital asset. 2. Units of EOMF/Business Trust → STT is to be paid on transfer of such capital asset. <p>(II) OTHER LTCG: Taxable @ 20% [No Chapter VI-A Deduction]</p> <ul style="list-style-type: none"> ▪ Resident Individual & HUF → 20%. Benefit of Unexhausted BEL is available. ▪ Other Person & Domestic Company → 20%. No Benefit of Unexhausted BEL. ▪ Foreign company/ Non-corporate Non-Resident: <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <tr> <td style="padding: 2px;">Unlisted securities/Shares in Private Co.</td> <td style="padding: 2px;">10% without Indexation & currency fluctuations under 1st proviso to sec 48.</td> </tr> <tr> <td style="padding: 2px;">Other Assets</td> <td style="padding: 2px;">20%</td> </tr> </table> | Unlisted securities/Shares in Private Co. | 10% without Indexation & currency fluctuations under 1 st proviso to sec 48. | Other Assets | 20% |
| Unlisted securities/Shares in Private Co. | 10% without Indexation & currency fluctuations under 1 st proviso to sec 48. | | | | |
| Other Assets | 20% | | | | |
| <p>Benefit of UNEXHAUSTED BEL from All LTCG & STCG u/s 111A to Resident Individual/HUF</p> <ul style="list-style-type: none"> ❖ Resident Individual/HUF → Benefit of Unexhausted BEL is available. ❖ Unexhausted BEL means Taxable Income (excluding LTCG/STCG) < BEL. ❖ In such case, the shortfall* shall be deducted from LTCG/STCG u/s 111A & balance Capital Gains shall be taxable. ❖ Shortfall = BEL - (Taxable income - LTCG/STCG u/s 111A). | <ul style="list-style-type: none"> ❖ LTCG arising from transfer of listed securities (other than units) & ZCBs ▪ Option to pay tax @ (i) 10% without Indexation or (ii) 20% with Indexation. ❖ What about Debt-oriented MF or unlisted securities? ▪ Not eligible for concessional rate of 10% (without indexation). ▪ Thus taxable @ 20% with indexation. | | | | |



4E. INCOME FROM OTHER SOURCES [IFOS]

FOLLOWING INCOMES ARE GENERALLY TAXABLE U/H "IFOS"

| | | | |
|---|--|--|------------------------|
| Rent from Vacant Land (Ground Rent) | Interest on Income Tax Refunds | Casual & Non-Recurring Income | Director's Sitting Fee |
| Rent from Vacant Land (Ground Rent) | Dividends Except Dividend u/s 115-0 | Examination Fees received by Teacher from Non-Employer | |
| Income from Undisclosed Sources | Director's Commission from bank for Guarantee | Director's Commission for Underwriting shares. | |
| Remuneration received by MPs/MLAs | Interest on Employees Contribution from URPF. | Family Pension received by family of Deceased Person. | |
| Agricultural Income OUTSIDE India | Interest received on Compensation for Compulsory Acquisition by Government of India. | | |
| Compensation or any other payment received in connection with termination of his employment or modification of the terms and conditions of the employment [Section 56(2)(xi)] | | | |

FOLLOWING INCOMES ARE TAXABLE u/h "IFOS" IF NOT TAXABLE u/h "PGBP"

| | | | |
|---|---|----------------|----------------------|
| Employee Contribution to PF/SAF etc. received by Employer [If not remitted before Due Date] | Interest on securities etc | Royalty Income | Insurance Commission |
| Income from letting out → When letting of buildings is inseparable from letting of P&M/furniture. | Income from letting out P&M, Furniture on hire. | | |
| Maturity Amount of KIP (+ Bonus) if received by any person other than employer & employee [Received by Employer → PGBP; Received by Employee → Salary] | | | |

Taxation of Dividend Income [SECTION 56(2)(i)]

[Always Taxable u/h "IFOS"]

| Types of Dividend & their Taxability for Shareholders | | Tax on Dividends received from Domestic Companies [Sec 115BBDA] | |
|---|---|---|--|
| Dividend by Indian Co. | Exempt u/s 10(34); (Sub. to 115 BBDA) [Co. pay DDT u/s 115-0 @ 15%] | Eligible Assessee | Any Resident Person OTHER THAN (a) Domestic Company (b) NPO institutions or trust etc. |
| Dividend by Foreign Co. | Taxable [if (i) Recipient is ROR; (ii) Anyone if Received in India] | Applicability | If Total Dividend Received from ALL Domestic companies in PY > Rs. 10 lacs. |
| Dividend by MF/UTI | Exempt u/s 10(35). | Taxable Dividend | Dividend in excess of Rs. 10 Lacs. Dividend includes Dividend referred u/s 2(22)(a)-(d); But does not Include Dividend u/s 2(22)(e). |
| Deemed Dividend u/s 2(22)(a) - (d) | Company pay DDT u/s 115-0 & thus Exempt to shareholders. | Rate of Tax | 10% (+ SC + HEC). |
| Deemed Dividend u/s 2(22)(e) | ❖ Upto 31/03/2018 → Taxable to shareholder u/s 56. ❖ From 1/4/2018 → Exempt to Shareholders [Because company pay DDT u/s 115-0 @ 30%]. | Deduction | No Deduction is allowed from Dividend Income. |
| Note: Dividend declared by Indian company outside India → Deemed to accrue/arise in India. | | | |

| Deemed Dividend [Sec 2(22)] – To the Extent of Accumulated Profit only | Meaning of Accumulated profits [Read Once] |
|--|---|
| <p>(a) Distribution of Accumulated Profit by Company to Shareholder which Releases Company's Asset. Note: Issue of Bonus Shares to equity shareholders → No Assets are released & thus No DD.</p> <p>(b) Any distribution by a company of : ↓ [Note: Release of asset is not necessary]</p> <ul style="list-style-type: none"> ▪ Bonus Debentures/Debenture Stock → to any shareholders. ▪ Bonus shares → to Preference shareholders. [No Dividend if given to Equity Shareholders] <p>(c) Distribution of Accumulated Profit at the time of Liquidation. Note: Distribution of Profits AFTER Liquidation → NOT Dividend. It is repayment of capital.</p> <p>(d) Distribution by the company on Reduction of Share Capital.</p> <p>(e) Distribution of Accumulated Profits by Closely Held company by way of ADVANCE/LOAN to</p> <ol style="list-style-type: none"> 1. Shareholders beneficially holding at least 10% equity shares in the company; 2. Any person on behalf of such shareholders/for benefit of such shareholder; 3. Any CONCERN in which such shareholder has substantial interest; 4. Any CONCERN in which such shareholder is member/partner. <p>Exception: Money lending is substantial business of company & loan is given in ordinary course.</p> <p>Following Payments shall not be treated as Deemed Dividend:</p> <p>(a) Payment on Buy-back of shares; (b) Distribution of shares in the scheme of Demerger. (c) Trade Advances in the nature of commercial transactions → Not a Deemed Dividend.</p> | <ol style="list-style-type: none"> 1. It includes all profits upto the date of Distribution/Liquidation (if company is in liquidation). 2. Accumulated profit includes capital profits (Bonus shares issued) only for clause [a-d] & not for clause 'e'. Thus Capitalized profit is not considered for Section 2(22)(e). 3. It includes tax-free Income (Agricultural Income). However capital receipts are included in accumulated profits only if they are taxable u/h "Capital Gains" in the hands of recipient company. 4. Does not includes Provision for taxation/dividend, depreciation reserves (provisions for outsiders) 5. If Government/ Government company has compulsorily acquired the company → Accumulated profits do not include any profits of the company prior to the 3 successive PYs immediately preceding the PY of compulsory acquisition. *6. In case of Amalgamated company → Accumulated Profits of amalgamating company on the date of amalgamation shall be included in accumulated profits of amalgamated company. |

| Casual Incomes (Winning from Lottery etc.) [Sec 56(2)(ib)] | Interest received on Securities [Sec 56 (2)(id)] |
|--|---|
| <ul style="list-style-type: none"> ▪ Taxable @ 30% + SC (if any) + 4% HEC on tax u/s 115BB. ▪ No deduction for any Expenditure [Not even expenses for buying lottery ticket]. ▪ Chapter VI-A Deduction → NOT ALLOWED against casual Income. ▪ Adjustment of unexhausted BEL → NOT ALLOWED against casual Income. <p style="text-align: center;">GROSSING UP of Winning from Lottery/Interest on securities:</p> <ul style="list-style-type: none"> ▪ If Net Amount is given, it shall be grossed up. Tax will be levied on Gross Income. ▪ Gross Amount = $\frac{\text{Net Amount}}{[1 - \text{Tax Rate}]}$ [Note: If Gross Amount is given, No grossing again] | <ul style="list-style-type: none"> ▪ Securities held as Investment → IFOS; ▪ Securities held as SIT → PGBP. <p>Exempt Interest u/s 10(15) - [IMP]</p> <ol style="list-style-type: none"> 1. Interest on Post Office Savings Bank A/c <ul style="list-style-type: none"> ▪ Upto Rs. 3,500 → Individual A/c. ▪ Upto Rs. 7,000 → Joint A/c. 2. Interest on bonds of IRFCL, NHAI, RECL, PFCL. 3. Interest on Gold Deposit Bonds issued u/s Gold Monetization Scheme, 2015. 4. Interest from "Tax-Free Pooled Finance Development Bonds" |

Taxation of GIFT: Receipt of Money/Property for Inadequate Consideration/Without Consideration by ANY PERSON [Sec 56(2)(x)]

| SN | Nature of Gift | Taxability in the hands of Recipient |
|----|---|---|
| 1 | Money/Cheque (All Transactions) | If Total Amount of Money received from one or more person during PY > 50,000 → Whole Amount of Money received is Taxable. |
| 2 | Receipt of Movable Property (Limit for All Transactions) | |
| | (a) Free (Without Consideration) | If Aggregate FMV of all Movable properties received > 50,000 → Whole amount of FMV of Movable Properties received is Taxable. |
| | (b) Concessional (Inadequate) | If Aggregate Discount on all Movable properties received > 50,000 → Aggregate Discount received is Taxable. |
| 3 | Receipt of Immovable Property (Limit for Single Transaction) [All the immovable Properties shall be Checked Individually] | |
| | Free (Without Consideration) | If SDV > Rs. 50,000 → Whole SDV is taxable. |
| | Concessional (Inadequate) | If Discount > Higher of (i) Rs. 50,000 or (ii) 5% of Consideration → Discount is taxable. |

Applicability of Section 56(2)(x): Only if Gift (Property) received is a Capital asset for recipient. It would not apply if property received is Personal Effect/SIT/RM/CS of recipient.

Following Gifts are NOT TAXABLE irrespective of their Amount: While calculating the above limit of Rs 50,000, following amount shall not be considered.

| | | | | |
|---|---|--|--------------------------------------|----------------------|
| Gifts from Relatives | Gift received on Marriage | Gift received in Contemplation of Death of the payee/donor | Gift received under Will/Inheritance | From Local Authority |
| From Registered Charitable trust ref. u/s 10(23C) | Gift received by a trust from Individual. (Trust must be created for benefit of relative of individual) | | | |

RELATIVES = In case of Individual ↓

[For HUF → Relative = Any Member of HUF]

| | | |
|--|---|---|
| Spouse/Brother/sister of the Individual | Brother/sister of Spouse of the Individual | Brother/sister of either of the Parents of the Individual |
| Lineal Ascendant/Descendant of the Individual. | Lineal Ascendant/Descendant of Spouse of the Individual | Spouse of any of the persons referred earlier |

| | |
|--|--|
| <p>Interest received on Compensation for Compulsory Acquisition of Land & Building [Sec 56(viii)]</p> <ul style="list-style-type: none"> ☞ Taxable in PY of Receipt (irrespective of the PY for which it is paid). ☞ 50% of Receipt → Deductible u/s 57. Thus Only 50% of amount received is taxable in PY of Receipt. | <p>Permissible Deductions u/h IFOS [Sec 57]</p> <ol style="list-style-type: none"> 1. Commission & Remuneration paid to realise Dividend & Interest. 2. Family Pension → Lower of (a) 15,000 or (b) 1/3rd of FP Received. 3. Employee Contribution if remitted before DD by Employer. 4. Income from letting of P&M/furniture on hire: <ol style="list-style-type: none"> (a) Amount paid for current repairs to P&M/furniture. (b) Insurance premium paid for P&M/furniture. (c) Normal depreciation allowance for P&M/furniture. |
| <p>Advance Forfeited on/after 1.4.2014 on Transfer of Capital Asset → Taxable u/h IFOS u/s 56(2)(ix).</p> <p>Issue of Shares @ PREMIUM by Closely Held Company to Resident [Sec 56(2)(viib)]</p> <ul style="list-style-type: none"> ☞ Taxable Amount: (in the hands of closely held company) = Issue Price of Share – FMV of share. | |

INADMISSIBLE DEDUCTIONS FROM IFOS [Section 58]

1. Personal Expenses; 2. Excessive Payment to Relative; 3. Cash Payment > Rs. 10,000 [Same as 40A(3)]; 4. Disallowance studied in PGBP for “TDS Default” will also apply in IFOS.

5. CLUBBING OF INCOME

Transfer of Income without Transfer of Asset [Sec 60] → Clubbed in hands of Transferor

Income from 'Revocable Transfer' of Asset [Sec 61] → Clubbed in hands of Transferor.

Meaning of Revocable Transfer:

- It contains any provision for Re-transfer of Asset/Income to the transferor during lifetime of Beneficiary/Transferee. OR
- It gives right to transferor to re-assume power over the Asset/Income during the lifetime of Beneficiary/transferee.

Exceptions (Sec 62)

- **Transfer not revocable during the lifetime of beneficiary/transferee** → **No Clubbing.**

Note: Income arising from revocable transfer of Asset is clubbed when power to revoke transfer arises **even if power to revoke has not been exercised by transferor.**

CLUBBING OF INCOME TO SPOUSE [Sec. 64(1)(ii)]

A. Remuneration to Spouse: from concern in which other Spouse has Substantial Income →

- Clubbed in the hands of the spouse who has Substantial Interest.
- Both Husband & Wife has SI & both gets remuneration without Qualification from Same Concern → Clubbed in TI of Husband/Wife whose TI (excluding such remuneration) is higher.
- **NO CLUBBING** → If Remuneration is received by Spouse due to his/her **Qualifications.**
 - ❖ Substantial Interest: Individual along with his relatives beneficially holds 20% or more Equity shares at any time during PY.
 - ❖ **Relative:** Husband, wife, brother, sister or Lineal Ascendant/Descendant of Individual.

B. Income from Assets transferred to Spouse/Son's Wife [Sec 64(1)(iv)/(vi)]

- Individual transfer any Asset (other than House) to his/her spouse/Son's Wife for Inadequate Consideration → Income from such Asset shall be clubbed in TI of Transferor.

Points to Remember:

1. HP transferred for Inadequate consideration → Deemed Owner u/s 27 & thus No Clubbing. **CAPITAL GAIN** on Transfer of such House Property → **Clubbed** in hands of Transferor.
2. **Transfer before Marriage & After Divorce** → **No Clubbing.**
3. Transfer for Agreement to Live Apart → Adequate Consideration & thus, **No Clubbing.**
4. If Any **Property** is acquired by the Wife out of the **Pin Money** → **No Clubbing.**

Income from assets transferred to ANY PERSON for benefit of Spouse/Son's Wife: [Sec 64(1)(vii)/(viii)]

- Clubbed in Income of Transferor (upto benefit accruing to spouse/son's wife).

CLUBBING OF INCOME OF A MINOR CHILD [Sec 64(1A)]

- All Incomes of Minor Child → Clubbed in hands of either of his Parents whose TI (excluding Minor's Income) is greater.
- **Parents got divorced** → Clubbed to parent who maintain minor child in the PY.
- **Both Parents are Dead:** Income of Minor **cannot** be assessed in hands of his grandparents.
- **Exemption to Minor's Parent u/s 10(32) = Rs. 1500.**
- **Income arising to minor married daughter** → **Clubbing** ☑
- If Minor attains Majority during PY → Income till date of attaining majority is clubbed.

NO CLUBBING:

1. Income has been earned by the Minor due to his **own Skills.**
2. **Minor is suffering from disabilities** referred in **Section 80U.**

Income from Self-acquired Property converted to HUF property for Inadequate Consideration [Sec 64(2)]

- Income derived by HUF from such property → Clubbed in hands of transferor.
- **CLUBBING AFTER PARTITION:**
Share of Individual + Spouse + Minor Child → Clubbed in hands of transferor.

Important Point related to Clubbing of Income

- No Clubbing on Accretion of Income (Income on Income).
- Change in Identity of Transferred Asset: Income from such changed asset shall be Clubbed.
- Clubbing of Losses: Income includes loss. Thus Losses are also clubbed.
- Relevant Head of Clubbing → Under Same Head.

6. SET OFF OF LOSSES

| 1. Intra Head/Inter Source Adjustments [Section 70] | 2. Inter Head Adjustment [Section 71] | | | | | | | | | | | | | | | | |
|--|---|---|-------------------------|---|---------------------------------------|--|------------------------------------|--|------------------------|---|--|--------------|--|-----------|--|---------|---|
| <p>☞ Loss from one source can be set off against Income from another source under same head.</p> <p>Exceptions to Intra Head Adjustment:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr style="background-color: #e6f2ff;"> <td style="width: 20%; padding: 5px;">Speculation Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Set off against Income of Any other speculation business only; ▪ Cannot be set off against Non-Speculative (Normal) Income] </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">Specified Business Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Can be set off against ANY Specified Business Income only; ▪ Cannot be set off against Non-Specified (Normal) Business Income. <p><i>Note: Normal Business Loss can be set off against Specified Business income.</i></p> </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">Loss from Activity of O&M Race Horses</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Can be set-off only against Income from Activity of O&M Race Horses. </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">Loss from Casual Sources of Income</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ NO SET OFF @ ALL against any Income. <i>Note: Taxed @ 30%. [Expenses of buying lottery → Not deductible]</i> </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">Long Term Capital Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Can be set off against LTCG only & NOT STCG; <i>Note: STCL can be set off against both STCG & LTCG]</i> </td> </tr> </table> | Speculation Loss | <ul style="list-style-type: none"> ▪ Set off against Income of Any other speculation business only; ▪ Cannot be set off against Non-Speculative (Normal) Income] | Specified Business Loss | <ul style="list-style-type: none"> ▪ Can be set off against ANY Specified Business Income only; ▪ Cannot be set off against Non-Specified (Normal) Business Income. <p><i>Note: Normal Business Loss can be set off against Specified Business income.</i></p> | Loss from Activity of O&M Race Horses | <ul style="list-style-type: none"> ▪ Can be set-off only against Income from Activity of O&M Race Horses. | Loss from Casual Sources of Income | <ul style="list-style-type: none"> ▪ NO SET OFF @ ALL against any Income. <i>Note: Taxed @ 30%. [Expenses of buying lottery → Not deductible]</i> | Long Term Capital Loss | <ul style="list-style-type: none"> ▪ Can be set off against LTCG only & NOT STCG; <i>Note: STCL can be set off against both STCG & LTCG]</i> | <p>☞ Loss from one head of income can be set off against another head.</p> <p>Exceptions to Inter Head Adjustment:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr style="background-color: #e6f2ff;"> <td style="width: 20%; padding: 5px;">Capital Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ only against Income u/h 'Capital Gains'. </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">PGBP Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Cannot be set off against Income u/h Salaries. </td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">HP Loss</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Set off against ANY HEAD upto 2 Lacs only. </td> </tr> </table> <p>Since in following cases, Intra-Head Adjustment is NOT PERMITTED & hence Inter-Head Adjustment will also be NOT PERMITTED:</p> <ol style="list-style-type: none"> 1. Speculation Business Loss; 2. Specified Business Loss; 3. Loss from Activity of owning & maintaining race horses; 4. Loss from Casual Source of Income [Ex: Lottery] | Capital Loss | <ul style="list-style-type: none"> ▪ only against Income u/h 'Capital Gains'. | PGBP Loss | <ul style="list-style-type: none"> ▪ Cannot be set off against Income u/h Salaries. | HP Loss | <ul style="list-style-type: none"> ▪ Set off against ANY HEAD upto 2 Lacs only. |
| Speculation Loss | <ul style="list-style-type: none"> ▪ Set off against Income of Any other speculation business only; ▪ Cannot be set off against Non-Speculative (Normal) Income] | | | | | | | | | | | | | | | | |
| Specified Business Loss | <ul style="list-style-type: none"> ▪ Can be set off against ANY Specified Business Income only; ▪ Cannot be set off against Non-Specified (Normal) Business Income. <p><i>Note: Normal Business Loss can be set off against Specified Business income.</i></p> | | | | | | | | | | | | | | | | |
| Loss from Activity of O&M Race Horses | <ul style="list-style-type: none"> ▪ Can be set-off only against Income from Activity of O&M Race Horses. | | | | | | | | | | | | | | | | |
| Loss from Casual Sources of Income | <ul style="list-style-type: none"> ▪ NO SET OFF @ ALL against any Income. <i>Note: Taxed @ 30%. [Expenses of buying lottery → Not deductible]</i> | | | | | | | | | | | | | | | | |
| Long Term Capital Loss | <ul style="list-style-type: none"> ▪ Can be set off against LTCG only & NOT STCG; <i>Note: STCL can be set off against both STCG & LTCG]</i> | | | | | | | | | | | | | | | | |
| Capital Loss | <ul style="list-style-type: none"> ▪ only against Income u/h 'Capital Gains'. | | | | | | | | | | | | | | | | |
| PGBP Loss | <ul style="list-style-type: none"> ▪ Cannot be set off against Income u/h Salaries. | | | | | | | | | | | | | | | | |
| HP Loss | <ul style="list-style-type: none"> ▪ Set off against ANY HEAD upto 2 Lacs only. | | | | | | | | | | | | | | | | |

Some IMP Points

1. Loss from **Exempt Source** can **NEITHER BE SET-OFF** against profits from a taxable source of income **NOR CARRIED FORWARD.**
2. Assessee can Set off Losses in the **most beneficial manner to him;**
3. Set off of losses (if eligible profit is there) is **Mandatory.**

CARRY FORWARD OF LOSSES

❖ If Loss cannot be set off either under (i) Same head (Intra Head) or (ii) Different heads of Income (Inter Head) due to **Absence of Eligible Income in same year**, it is carried forward to next year & **SET OFF AGAINST INCOME FROM SAME HEAD** subject to certain restrictions in following AYs subject to prescribed time limit.

Note: Brought Forward Loss can be set off only against INCOME FROM SAME HEAD only (Unabsorbed Depreciation → Against ANY HEAD except Salary).

TIME LIMIT FOR CARRY FORWARD OF LOSSES

| | | | | | |
|----------------|----------------------|--------------------------|---------------------------|--------------|---------------------------------------|
| House Property | Normal Business Loss | Specified Business Loss | Speculation Business Loss | Capital Loss | Loss from Activity of O&M Race Horses |
| 8 AYs | 8 AYs | Indefinite Period | 4 AYs | 8 AYs | 4 AYs |

ORDER OF SET OFF OF LOSSES

1. Current year Depreciation;
2. Brought forward Loss from business/profession [Sec 72(1)];
3. Unabsorbed depreciation [Sec 32(2)].

7. DEDUCTION FROM GTI

■ Deduction is allowed from GTI. **If NO GTI → NO DEDUCTION;**

■ **Chapter VI-A Deductions are NOT ALLOWED from** (i) Capital Gains (ii) Casual Incomes

Sec 80C: ■ Individual/HUF (R/NR); ■ Payment Basis; ■ Taxable/Exempt Income.
Payment made in name of Individual, Spouse, Any Children [Parent → ☒]

- ✓ Contribution towards SPF/PPF/RPF/SAF
- ✓ Subscription to **SUKANYA SAMRIDHI A/c** Scheme [Girl Child]
- ✓ **Subscription to**
 - National Savings Certificates (VIII or IX Issue). [Refer Note Below]
 - Bonds issued by NABARD; Notified units of MF/UTI.
- ✓ **Any sum deposited in -**
 - Account under the Senior Citizens Saving Scheme Rules, 2004.
 - 5 yrs time deposit under the Post Office Time Deposit Rules, 1981.
 - Term deposit for fixed period of **not less than 5 years** with scheduled bank.
- ✓ Payment made for **NON-COMMUTABLE DEFERRED ANNUITY**
- ✓ Contribution in **Unit-Link Insurance Plan of UTI or LIC Mutual Fund**
- ✓ Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008
- ✓ Contribution to **Approved Annuity Plan of LIC** or any other insurer.
- ✓ Payment of **TUITION FEES IN INDIA** for FULL TIME EDUCATION [Max. 2 Children] [Note: Donation paid → No Deduction]
- ✓ Repayment of Housing Loan + Stamp Duty, Registration Fee (Principal only).
Note: Loan from Relative → No deduction.
- ✓ **Premium paid on Life Insurance Policy** [Refer Note Below]

| Premium paid on Insurance Policy ↓ | Deduction u/s 80D |
|--|------------------------|
| 1. Issued before 1.4.2003 | Upto 20% of SA |
| 2. Issued b/w 1.4.2003 & 31.3.2012 | Upto 20% of SA. |
| 3. Issued on/after 1.4.2012 but before 1.4.2013 | Upto 10% of SA. |
| 4. Issued on/after 1.4.2013 on life of a person (a) with Disability referred u/s 80U or (b) Suffering from Specified Disease u/s 80DDB | Upto 15% of SA. |

Note:

- ☞ Interest Accrued on NSC → Deemed to be Reinvested & Deductible u/s 80C.
- ☞ Maturity Amount received (+ Bonus) under Life Insurance Policy is **NOT Exempt** if **Premium paid for any year Exceeds SPECIFIED %** given in Sec 80C.
Maturity Amount of Policy issued before 1.4.2003 → Always Exempt.

Deduction = Lower of (i) Eligible Investment (ii) Rs. 1.5 Lacs.

Contribution to Pension Funds (Annuity Plan of LIC) [Sec 80CCC]

- Only Individuals (R/NR); ■ Deduction = Same as 80C; ■ Either 80CCC or 80C.

CONTRIBUTION TO PENSION SCHEME NOTIFIED BY CG [SEC 80CCD]

| Deduction | 1. Employee's Contribution [Sec 80CCD(1)]: Upto 10% of Salary. 2. Employer's Contribution [Sec 80CCD(2)]: Upto 10% of Salary. 3. For Self-employed Individual: Upto 20% of GTI. |
|--|---|
| <ul style="list-style-type: none"> ■ Employer's Contribution is firstly taxable as Salary Income in the hands of Employee. ■ Atal Pension scheme has been notified by CG till now. | |

80CCD(1B): Additional Deduction upto 50,000 of Payment under NPS is allowed u/s 80CCD(1B) over and above deduction u/s 80CCD(1).

Note: Deduction u/s 80CCD(1) is subject to overall limit of Rs. 1.50 lacs u/s 80CCE.
But deduction u/s 80CCD(1B) is in addition to overall limit of Rs. 1.50 lacs u/s 80CCE.

TAXABILITY OF MATURITY AMOUNT OF PENSION RECEIVED

| | |
|---|--------------------|
| 1. Amount received on Closure of Account or opting out of NPS | 60% Taxable |
| 2. If Amount is received by Nominee on the Death of Assessee | Exempt |
| 3. Pension received out of NPS | Taxable |
| 4. Amount received (Specified in 1,2,3) utilized for purchasing annuity plan in same PY | Exempt |
| 5. Pension received out of Annuity Plan specified in (4) | Taxable |

Note: Partial withdrawal from NPS → 25% of Contributions is Exempt [Sec 10(12B)]

MAXIMUM COMBINED CEILING u/s 80C, 80CCC & 80CCD(1) [Sec 80CCE]

| Section | Max. Deduction | Max deduction (80CCE) |
|---|----------------------|-----------------------|
| 80C | Rs. 1,50,000 | } Rs 1,50,000 |
| 80CCC | Rs. 1,50,000 | |
| Employee's Contribution u/s 80CCD(1) | 10% of Salary | |
| Additional Deductions u/s 80CCD(1B) | Rs. 50,000 | Not Applicable |
| Employer's contribution u/s 80CCD(2) | 10% of Salary | Not Applicable |

DEDUCTION FOR INVESTMENT IN EQUITY SAVINGS SCHEME [80CGG]

| | |
|--------------------------------------|---|
| Assessee | Resident Individual + New Retail Investor + GTI ≤ 12 L. |
| Investment | Listed Equity Shares/Listed units of Equity Oriented Fund |
| Deduction | Lower of: (a) 50% of Amount invested OR (b) Rs. 25,000 |
| Period | 3 consecutive AYs beginning with PY in which Investment is made. |
| Consequences of Contravention | Deduction Allowed → Deemed to be Income of PY of Violation. [Lock - in - Period = 3 years] |

PC Note: This Section was in force for the last time in AY 2017 -18. **No deduction under this section shall be allowed from AY 2018-19.** However, deduction shall be allowed till AY 2019-20 to an assessee who has claimed deduction under this section for AY 2017-18 or earlier AYs, if he satisfies all other conditions to claim the deduction.

DEDUCTION IN RESPECT OF MEDICAL INSURANCE PREMIUM [SEC 80D]

- Only Individual/HUF [R/NR]; ▪ Any Mode except Cash [Prev. Health Checkup → Cash ✓]

MAXIMUM DEDUCTION:

| Particulars | INDIVIDUAL | | HUF |
|---|------------|------------|------------|
| | Family | Parents | Member |
| For whose benefit payment shall be made → | | | |
| 1. (a) Medical Insurance Premium | ✓ | ✓ | ✓ |
| (b) Contribution to CG Health Scheme | ✓ | × | × |
| (c) Preventive Health Check-up | ✓ | ✓ | × |
| ❖ Maximum Deduction for (a), (b), (c) | Rs. 25000 | Rs. 25000 | Rs. 25000 |
| ❖ Additional Deduction on (a) when Medi-claim policy is taken on Life of Senior Citizen | Rs. 25,000 | Rs. 25,000 | Rs. 25,000 |
| 2. Medical Expenditure on Super Senior citizen if NO Medical Insurance is paid for him. | ✓ | ✓ | ✓ |
| Maximum Deduction for (2) | Rs. 50,000 | Rs. 50,000 | Rs. 50,000 |
| 3. Maximum Combined Deduction for 1 & 2 | Rs. 50,000 | Rs. 50,000 | Rs. 50,000 |

- ❖ Maximum Deduction for **Preventive Health-Check up of Family + Parents → Rs. 5,000.**
- ❖ Family = Individual + Spouse + Dependent Children.
- ❖ Parents = Father + Mother (Dependent/Independent); Father/Mother-in-Law → ☒.

Note: Lumpsum Premium Paid for > 1 Year → Deduction for each PY on Proportionate basis.

DEDUCTION FOR MAINTENANCE etc. OF DEPENDANT DISABLED [Sec 80DD]

| | |
|--|--|
| Assessee | Resident Individual/HUF |
| Deduction | ➤ 75,000 ; [Irrespective of Actual Expenditure] ➤ 1,25,000 for dependent person with severe disability. |
| ❖ Meaning of 'Dependant' | (a) For Individual → Spouse, Children, Parents, Brothers & Sisters (b) For HUF: Any member of HUF who has not claimed any deduction u/s 80U during PY. |
| ❖ Disability < 40% → No Deduction. | |
| ❖ Person with severe disability = 80% Disabilities. | |

DEDUCTION IN RESPECT OF MEDICAL TREATMENT, ETC. [SEC 80DDB]

Assessee → Resident Individual/HUF

| | |
|------------------|---|
| Payment | Expenditure on Treatment of Specified Disease in Rule 11DD: For: Individual → Himself or Dependant; HUF → Member of HUF |
| Deduction | ➤ Amount Actually Paid or Rs. 40,000 (Lower) ➤ Senior Citizen: Amount Actually Paid or 1,00,000 (Lower) |
| Note: | If any amount is received under insurance or reimbursed by employer for Medical treatment, received amount shall be reduced from allowable deduction |

INTEREST PAID ON LOAN TAKEN FOR HIGHER EDUCATION [SEC 80E]

| | |
|------------------|---|
| Assessee | Individuals only |
| Source | Loan taken from Bank, FI [Relative → ☒] |
| Purpose | Higher education of Assessee; His Relatives (Spouse/Children) ▪ Courses after Class XII/Equivalent → Qualify for deduction. ▪ Study in India/Outside; ▪ Full-time or Part-time. |
| Deduction | Interest paid during PY. |
| Period | 8 AYs starting from AY of payment of interest for 1 st time. |

Interest on Loan for Acquisition of Residential House [Sec 80EE]

| | |
|-------------------|--|
| Assessee | Individuals only [R/NR] |
| Source | (a) Bank; (b) FI [Relatives → ☒] |
| Purpose | Acquisition of Residential House Property. |
| Conditions | Sanctioned in FY 2016-17. Loan Sanctioned ≤ Rs. 35 Lacs. Value of House ≤ Rs. 50 Lacs. Assessee does not own any House on Date of Sanction of Loan. |
| Deduction | Lower of (a) Interest paid or (b) 50,000. ▶ Over & above 24(b). |
| Period | Till Repayment of loan. |

Deduction of Rent Paid [Sec 80GG]

| | |
|--------------------------|--|
| Assessee | <ul style="list-style-type: none"> ▪ Any Self-Employed Individual OR ▪ Employed Individual (No HRA/RFA) |
| Payment | Rent paid for his House |
| Deduction [Lower] | (a) Rs. 5,000 Per Month (b) Rent paid - 10% of Adjusted GTI (c) 25% of Adjusted GTI |
| Adjusted GTI | Adjusted GTI = GTI as REDUCED by: 1. LTCG included in GTI. 2. STCG u/s 111A. 3. All Deductions u/s 80C-80U except 80GG. |

- ☞ No Deduction if HRA Mila.
- ☞ Assessee + Spouse + Minor Child/His HUF → Should Not own House in such city.
- ☞ House @ other place is not treated as SOP.

DONATION FOR SCIENTIFIC RESEARCH/RURAL DEVELOPMENT [Sec 80GGA]

- ☞ Any Assessee **NOT having PGBP Income**; ▶ Deduction = **100%** of Donation Paid.
- ☞ Mode of Payment → Any mode **other than Cash**. [≤ 10000 → Cash ✓]

CONTRIBUTION/DONATIONS TO POLITICAL PARTY

| Sec 80 GGB | Sec 80 GGC |
|--|---|
| Indian Companies only. | Any Person [Except LA & AJP funded by Gov.] |
| Deduction = 100% Donation Paid by Any mode other than Cash. | |

DEDUCTION OF "INTEREST ON SAVING A/C" [SEC 80TTA]

- ▶ Assessee → Individual/HUF; ▶ Deduction = 10,000; ▶ Resident Senior Citizen ☒.
- Note:** Sec 10(15)(i) → Saving A/c Interest in POST OFFICE is Exempt upto 3,500/7,000.

INTEREST ON DEPOSITS IN CASE OF SENIOR CITIZENS [SEC 80TTB]

- ▶ Resident Senior Citizen only ▶ Deduction = 50,000; [AY 2019-20]
- Note:** It may be Interest on Saving A/c, Fixed Deposit or Any other Interest.

DEDUCTION IN RESPECT OF ROYALTY ON PATENTS [SECTION 80RRB]

- ✓ Assessee: **Resident Individual** only
- ✓ Deduction = Lower of (a) Amount of Royalty Received or (b) **Rs. 3 lacs.**
- ✓ **Royalty from Foreign Country:** Deduction if Royalty brought to India w/i 6 Months.

ROYALTY INCOME OF AUTHORS OF BOOKS [SECTION 80QQB]

- ✓ Assessee: **Resident Individual** only
- ✓ Deduction = Lower of (a) Amount of Royalty Received or (b) **Rs. 3 lacs.**
- ✓ **Royalty from Foreign Country:** Deduction if Royalty brought to India w/i 6 Months.
- ✓ Such book should be a work of Literary, Artistic or Scientific Nature.

Note: Royalty Income from Textbook for Schools, Guides, Commentaries, Newspapers, Journals, Pamphlets → **Not Eligible for Deduction.**

DEDUCTION IN CASE OF PERSON WITH DISABILITY [SEC 80U]

- ✓ Eligible Assessee → **Disabled Resident Individual**;
- ✓ Deduction → **Rs. 75,000 [Person with disability];**
→ **Rs. 1,25,000 [Person with Severe Disability (over 80%)]**

DONATION TO SPECIFIED APPROVED FUNDS [SEC 80G]

- ▶ Assessee → Any Assessee (R/NR); ▶ Mode → Any Mode **other than Cash**. [Cash Donations ≤ 2000✓]
- ▶ Adjusted GTI = GTI - LTCG u/s 112/112A - STCG u/s 111A - Deductions u/s 80C - 80U except u/s 80G.
- ▶ **Deduction u/s 80G = Total of Deductions permissible under A, B, C & D.**

How to calculate Deduction u/s 80G

1. Calculate Adjusted GTI.
 2. Calculate Qualifying Limit [= 10 % of Adjusted GTI]
 3. Donation in A & B shall be available @ prescribed rate [100% or 50%]
 4. Eligible donations in C & D (which are subject to Qualifying Limit) should be Aggregated.
 5. Qualifying Limit gives us "Total Amount of Donations" eligible for Deduction.
- [It is mistaken that Qualifying Limit gives us Maximum Possible Deduction]**
6. Firstly, Donations eligible for 100% Deduction (C) should be adjusted against Qualifying Limit.
 7. Balance Qualifying Limit shall be adjusted against Donations Eligible for 50% Deduction & then deduction of 50% shall be calculated.
 8. **Total Deduction under (C) & (D) should be limited to Qualifying Limit (10% of Adjusted GTI)**
 9. **Donations made under (A) & (B) are fully allowed as deduction without QUALIFYING LIMIT.**

AMOUNT OF DEDUCTION [Refer "How to calculate Deduction" Above]**(A) Donations Eligible for 100% Deduction WITHOUT QUALIFYING LIMIT**

- National Defence Fund/ National Foundation for Communal Harmony;
- Zila Saksharta Samiti/State/ Andhra Pradesh CM's Cyclone Relief Fund, 1996;
- PM's National Relief Fund/ [(Maharashtra CM's/PM's Armenia) Earthquake Relief Fund]
- CM's Relief Fund/Lieutenant Governor's Relief Fund in any State or Union Territory.
- National Fund for control of Drug Abuse (Inserted by FA, 2015 w.e.f. A.Y. 2016 -17)
- Donations made to Swachh Bharat Kosh/ Clean Ganga Fund set up by CG
- National Children's Fund (Inserted by FA, 2015 w.e.f. A.Y. 2015 -16).

(B) Donations Eligible for 50% Deduction WITHOUT QUALIFYING LIMIT

- Jawaharlal Nehru Memorial Fund/Prime Minister's Drought Relief Fund.
- Indira Gandhi Memorial Trust/ Rajiv Gandhi Foundation.

(C) Donations Eligible for 100% Deduction SUBJECT TO QUALIFYING LIMIT

- Donation to Government/Approved LA/Institution for Promoting Family Planning;

(D) Donations Eligible for 50% Deduction SUBJECT TO QUALIFYING LIMIT

- Donation to Government/Approved LA/Institution for Any Charitable Purpose **other than Promoting Family Planning.**
- Notified Temple, Mosque, Gurdwara, Church for Renovation/Repair of such Place.

DEDUCTION FOR "EMPLOYMENT OF NEW EMPLOYEES" [80JAA]

Applicability → Assessee to whom Section 44AB (Tax Audit) Apply.

Deduction → 30% of Additional Employee Cost (AEC).

Note: Business should Not be formed by Splitting up or Reconstruction of Existing Business.

AEC = Emoluments Paid to Additional Employees Employed during PY.

A. In case of Existing Business: AEC = Nil if:

- (i) No Increase in Total No. of Employees [Even if New Employees are Employed]
- (ii) Payment is made **otherwise than** by A/c Payee Cheque/Draft.

B. In case of New Business:

AEC = Emoluments Paid to Employees Employed during that PY.

Calculation of No. of Additional Employee

Employee who has been Employed during PY but does Not Include:

- (a) Employee whose **Total Emoluments > Rs. 25,000 p.m;**
- (b) Employee for whom **Entire Contribution is Paid by Government**
- (c) Employee Employed for **< 240 days** during PY.
[If Assessee engaged in Business of Manufacturing of **Apparel, Footwear, Leather Products** → Employee employed for **< 150 days** during PY]
- (d) Employee who does **Not Participate in RPF.**

Meaning of Emoluments:

Any Sum Paid/Payable to Employee **but does Not Include**:

- (a) Employer Contribution to Pension fund/PF/other welfare Fund;
- (b) Terminal Benefits @ Termination or Superannuation/VRS.

8. TAX DEDUCTION AT SOURCE

| Sec | Eligible Payment | Rate | Exemption | No TDS in following cases even if payment > Exemption Limit |
|--------|--|---|---|--|
| 192 | Taxable Salary | Average Rate | BEL | NA |
| 192A | Premature withdrawal from PF | 10% (No PAN → MMR) | < 50K | If period of continuous service ≥ 5 years, Withdrawal from PF will be Exempt & thus No TDS. |
| 193 | Interest on Securities | 10% | NA | (a) 7 Years NSC; (b) National Development/Defence Bond; (c) 6.5%/7% Gold Bonds; (d) CG/SG Securities (e) Listed DEMAT Securities; (g) Payable to LIC/GIC/Insurance co. (f) Interest on Debentures of Public Co. to Resident Ind/HUF by A/c payee cheque in FY ≤ 5K. ♦ 8% saving (taxable) bonds, 2003/7.75% Savings (Taxable) Bonds, 2018 > 10K → TDS ☑. |
| 194A | Interest other than "Interest on securities" | 10% | <ul style="list-style-type: none"> ▪ Bank/PO ≤ 10K ▪ Resident Senior ≤ 50K ▪ Others ≤ 5K | (a) Interest credited/paid by Bank/Cooperative society/Post office on Time deposits (+ RD) ≤ 10,000 during a FY to a person. [Limit of Rs. 10,000 → Branch wise; But if CBS is adopted, limit of Rs 10,000 is for Whole bank & not for individual branch]. (b) Interest on loan given to Banks/FIs/LIC/UTI/Insurance company; (c) Interest on ZCB. (d) Interest paid by Firm to partners; (e) Interest on refund of tax by Government. (f) Interest paid by co-operative society to its member/other co-operative society; [However, Co-op. Banks → Members; TDS ☑ if Interest credited/paid is > 10,000]. (g) Interest paid by primary agricultural credit society on deposits made with them. (h) Interest on compensation awarded under Motor Accidents Claims Tribunal → No TDS on Credit of Any Amount of Interest & No TDS on payment ≤ 50,000 in a FY. |
| 194B | Lottery etc. | 30% | ≤ 10 K | NA |
| 194BB | Horse Race etc | 30% | ≤ 10 K | NA |
| 194C | Contractors/Sub-contractors | Depends on Payee * Ind/HUF - 1% * Others - 2% | * Single ≤ 30 K * Aggregate ≤ 1 Lac | (a) Contract of personal nature for Individual/HUF. (b) Payment to contractor in transport business owning ≤ 10 trucks during FY & who furnishes PAN to the Deductor. |
| 194D | Insurance Commission | 5%/10%(company) | ≤ Rs. 15 K | NA |
| 194DA | Maturity Amt. of LIC policy | 1 % (+ bonus) | < Rs. 1 Lac | (a) Amount Exempt u/s 10(10D); (b) Keyman insurance policy. |
| 194E | Payment to NR Sportsman | 20.8% | Nil | NA |
| 194EE | National Saving scheme | 10% | ≤ Rs. 2.5 K | Payment made to legal heirs of a deceased depositor |
| 194F | Repurchase of MF units | 20% | Nil | NA |
| 194G | Commission on Sale of lottery | 5 % | ≤ Rs. 15 K | NA |
| 194H | Commission/Brokerage | 5% | ≤ Rs. 15 K | (a) Paid to Stock Broker (b) Commission by BSNL/MTNL to Public Call Office (PCO) franchisee |
| 194I | Rent of L&B, P&M, F&F | * P&M - 2% * L&B, F&F - 10% | ≤ Rs. 1.8 Lac | (a) Rent paid to GOVERNMENT/REIT. |
| 194IA | Transfer of Immovable Property (Except Agri. land) | 1% | < 50 Lacs | NA |
| 194 IC | Specified Agreement 45(5A) | 10% | Nil | NA |

| | | | | |
|-------|--|---|--|---|
| 194LA | Compulsory Acquisition of Immovable Property (other than Agri. Land) | 10% | ≤ Rs. 2.5 Lacs | NA |
| 194J | * Fees for technical service * Fees for Professional * Royalty * Non-Compete Fee * Director's Remuneration | 10% 2% - Payee is engaged in Operation of Call centre) | * ≤ 30 K (Separate limit for each of the category) * Directors fees → No Exemption Limit | (a) Services for Personal Purposes to Individual/HUF. |

Note: In Case of Section 194A, 194H, 194I, 194J; Deductor shall be (a) All person (other than Individual/HUF); (b) Individual/HUF [if Last Year Tax Audit

| | |
|---|--|
| *** Payment of Rent of Land or Building or Both by Individual/HUF who were not liable to Tax audit u/s 44AB(a)/(b) in last PY [Sec 194-IB] | |
| Deductor | Individual/HUF (Last year tax audit was not done u/s 44AB (a)/(b); |
| Rate of TDS | 5% (20% if PAN is not given) [If Rent per month or part of month > Rs. 50,000 during PY] |
| Time of TDS | Earlier of (i) Time of credit of such rent [for Last month of PY or Last month of tenancy (if property is vacated during the year)] or (ii) Time of payment. |

Note: TDS u/s 194-IB ≤ Rent for last month of PY/last month of tenancy even if NO PAN is provided..

Section 196: No TDS on Interest/Dividend/other sums payable to GOVERNMENT/RBI/CORPORATIONS established under central act.

NO DEDUCTION TO BE MADE IN CERTAIN CASES [SEC 197A] → A declaration in writing that tax on his estimated total income of PY will be **NIL**.

| Payee | Section | Form No | Non-Applicability [197A(1B)] |
|---|--------------------------------------|-----------------------------------|--|
| Resident Individual | 194 and 194EE | 15G | Aggregate Income credited or paid during PY exceeds BEL. |
| Person (not being Company or Firm) | 192A, 193, 194A, 194D & 194DA, 194I. | (15H by person ≥ 60 years of age) | |
| Deductor shall deliver to PCC/CC/PC, one copy of the declaration on/before 7th day the month next following the month in which the declaration is furnished to him. | | | |

RATE OF TAX IF NO PAN IS PROVIDED
RATE OF TDS = Higher of following rates:
 (a) Rate prescribed in the Act
 (b) Rate in force [Rate mentioned in Finance Act
(c) 20%.

| TABLE A: DUE DATE FOR DEPOSIT OF TDS AMOUNT – Rule 30 | | | |
|---|------------|---|---------------------------------|
| | DEDUCTOR | Cases | Due Date |
| 1 | Government | Tax paid without production of Income Tax challan | Same Day of TDS |
| 2 | | Tax paid accompanied by an income Tax challan | 7 days from end of month of TDS |
| 3 | Any other | Deduction made in the month of April to Feb | 7 days from end of month of TDS |
| 4 | Person | If income is credited or paid in the month of March | 30th April |

| DD FOR FILLING QUARTERLY STATEMENT | | |
|------------------------------------|----------------------------|---|
| | Quarter ending on | Due date |
| 1 | 30 th June | 31 st July |
| 2 | 30 th September | 31 Oct |
| 3 | 31 st December | 31 Jan |
| 4 | 31 st March | 31 st May of next FY of deduction. |

CONSEQUENCES OF FAILURE TO DEDUCT OR PAY TDS TO CG [SEC 201]

| | |
|----------------------------|--|
| Assessee in Default | Any person who is: (a) Required to deduct Tax at Source. (b) Being an employer opts for payment of tax u/s 192 (1A); does not deduct or pay the whole or any part of the tax, such person shall be deemed to be an assessee in default in respect of such tax. |
| Not "Assessee in Default" | If Payee is Resident in India & has furnished ROI u/s 139 & has included such Amt. in ROI & has paid tax on such sum. |

INTEREST FOR DELAY IN DEDUCTION OR PAYMENT [SEC 201(1A)]: If no TDS is deducted or deducted but not paid then,

| | |
|--|--|
| 1. SI @ 1% per month/part thereof of Late Deduction | from the date on which tax was deductible to the date on which such tax was actually deducted |
| 2. SI @ 1.5% per month/part thereof of Late Payment | from the date on which tax was deducted to the date on which such tax is actually paid. |

TAX COLLECTION AT SOURCE

BASIC CONCEPTS & RATES OF TCS [SECTION 206C]

As per Section 206C(1), specified percentage for collection of tax at source is as follows:

| Nature of Goods/Services | % of TCS |
|---|----------|
| A. Sale of Goods | |
| 1. Alcoholic liquor for Human Consumption | 1% |
| 2. Tendu Leaves | 5% |
| 3. Timber obtained under a forest Lease | 2.5% |
| 4. Timber obtained by any other mode than under a forest lease | 2.5% |
| 5. Any other forest produce not being timber or tendu leaves | 2.5% |
| 6. Scrap | 1% |
| 7. Minerals (Being Coal, Lignite or Iron Ore) | 1% |
| B. Leasing/Licensing Services | |
| 1. Parking lot/Toll Plaza/Mining/Quarry (Other than Mineral oil, Petroleum, Natural Gas) to any person other than Public Sector Co. | 2% |
| C. Sale of Motor Vehicle | |
| Sale of Motor Vehicle of value > 10 lacs [Only for Retail Level Sale] | 1% |

Points to be Noted relating to Sale of Motor Vehicle: [Imp]

- Mode of Payment is irrelevant to attract TCS.
- No TCS** on sale of Motor Vehicle **by manufacturers to dealers/ distributors.**
- Applicable for **ANY Motor Vehicles including Luxury Cars.**
- Limit of 10 Lacs is **applicable to Single sale** & not to Aggregate sale made during FY.

MEANING OF SOME IMPORTANT TERMS

1. BUYER:

- **For Sec 206C(1)/(1C):** A person who obtains goods specified above or right to receive any such goods **but does not include:**
 - Public sector company, CG, SG & Embassy, High commission, a club, or
 - Buyer (in Retail sale)** purchased by him for **personal consumption.**
- **For Sec 206C(1F):** A person who obtains specified goods but does **not include:**
 - CG, SG, & Embassy, High Commission, legation, commission, consulate & trade representation of a foreign State; or Local authority; or
 - Public sector company engaged in business of carrying passengers.**

2. SELLER

- Individual/HUF** [Tax audit u/s 44AB(a)/(b) is done in last PY]
- Any Company or a Firm or Co-operative society
- CG/SC or any LA or any corporation or
- Authority established by or under a Central, State or Provincial Act, or

3. SCRAP: Waste & scrap from manufacture or mechanical working of materials which is definitely not usable **as such** due to breakage, cutting up, wear & other reasons.

9. ADVANCE TAX

| <p style="text-align: center; color: #c00000; font-weight: bold;">Liability to pay Advance Tax</p> <ul style="list-style-type: none"> ▪ Person whose ATL > Rs. 10,000 in FY on Estimated Income. [ATL = (Tax on Estimated Total Income - Rebate/Relief) + HEC - TDS/TCS] Exception: Resident Senior Individual (Age > 60 Yrs) + No PGBP Income. <p style="text-align: center; color: #c00000; font-weight: bold;">INSTALMENTS OF ADVANCE TAX & DUE DATES</p> <p>1. Assessee computing profits on Presumptive Basis ☞ Pay 100% of ATL in 1 Installment on/before 15th March of PY.</p> <p>2. Assessee other than following Presumptive Scheme</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr> <th style="width: 20%;">Date of Payment</th> <th style="width: 80%;">Cumulative % of Advance Tax</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">15 June</td> <td style="text-align: center;">15% of Advance Tax</td> </tr> <tr> <td style="text-align: center;">15 Sep</td> <td style="text-align: center;">45% of Advance Tax</td> </tr> <tr> <td style="text-align: center;">15 Dec</td> <td style="text-align: center;">75% of Advance Tax</td> </tr> <tr> <td style="text-align: center;">15 March</td> <td style="text-align: center;">100% of Advance Tax</td> </tr> </tbody> </table> <p>Some Important Points:</p> <ul style="list-style-type: none"> ▪ Estimated Income shall be Revised @ every date of Payment. ▪ Submission of Statement of Estimated Income to AO → Not Required. ▪ Tax deductible but not so deducted cannot be reduced for computing ATL. ▪ Estimated Net Agricultural Income → Considered for Rate purposes. ▪ Advance tax paid on/before 31st March → Treated as Advance Tax paid during PY but Interest u/s 234 will be applicable. ▪ "Assessee in Default" → If Any Installment of AT is not paid. ▪ Banks Closed on Payment Date → Pay on Next Working Day; Interest ☒. <p style="text-align: center; color: #c00000; font-weight: bold;">Shortfall in advance tax due to Capital Gains / Casual Incomes</p> <ul style="list-style-type: none"> ▪ If any unexpected income arises after DD of any instalment. In such cases, Advance Tax payable on such Income, shall be paid in Remaining Instalments or by 31st March of PY (if No Instalment is remaining). Ex: Capital Gains; & Lottery, New PGBP Income; Dividend > 10 lacs]. ▪ If Entire Tax payable on such Income is paid, NO INTEREST u/s 234B/234C. <p>Q. Can AO issue order to an assessee to pay Advance Tax? YES Ans: (i) If Person was required to pay advance tax & he has not paid it. (ii) If any person is already assessed for any earlier PY, AO can serve order u/s 210(3) to pay Advance Tax specifying Advance tax & Instalments. Such order may be served latest by last day of February.</p> | Date of Payment | Cumulative % of Advance Tax | 15 June | 15% of Advance Tax | 15 Sep | 45% of Advance Tax | 15 Dec | 75% of Advance Tax | 15 March | 100% of Advance Tax | <p style="text-align: center; color: #c00000; font-weight: bold;">INTEREST FOR DEFAULT IN FURNISHING ROI [Sec 234A]</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 20%;">Circumstances</td> <td>► If No ROI is filed; ► ROI is filed after the Due Date u/s 139(1).</td> </tr> <tr> <td>Consequences</td> <td>SI @ 1% p.m (or part) → on Tax on Assessed Income - TDS/TCS - AT.</td> </tr> <tr> <td>Time for Levy of Interest</td> <td>From: Next day of DD of filing ROI. Upto: (i) If ROI is filed after DD → Date of filing ROI (ii) If NO ROI is filed → Date of Completion of Assessment u/s 144</td> </tr> </tbody> </table> <p>Note: No Interest u/s 234A on SAT Paid on/before DD of filing ROI.</p> <p style="text-align: center; color: #c00000; font-weight: bold;">INTEREST FOR NON-PAYMENT OR SHORT PAYMENT OF ADVANCE TAX [Sec 234B]</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 20%;">Circumstances</td> <td>► No Advance Tax Paid OR ► Advance Tax paid is < 90% of Assessed Tax</td> </tr> <tr> <td>Consequences</td> <td>SI @ 1% p.m (or part) is payable on Assessed Tax - AT Paid</td> </tr> <tr> <td>Time for Levy of Interest</td> <td>From → 1st April of the relevant AY Upto → Date of determination of total income u/s 143(1).</td> </tr> </tbody> </table> <p style="text-align: center; color: #c00000; font-weight: bold;">INTEREST FOR DEFERMENT OF ADVANCE TAX [Sec 234C]</p> <p>1. Assessee opting for Presumptive Scheme Interest u/s 234C = [Advance Tax Payable - Advance Tax paid] × 1%.</p> <p>2. ASSESSEES OTHER THAN (1)</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr> <th style="width: 15%;">DD</th> <th style="width: 15%;">Adv Tax</th> <th style="width: 70%;">INTEREST PAYABLE u/s 234C</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">15 June</td> <td style="text-align: center;">15%</td> <td>S.I @ 1% p.m for 3 months on shortfall from 15%. (No Interest if Advance Tax paid ≥ 12%)</td> </tr> <tr> <td style="text-align: center;">15 Sep</td> <td style="text-align: center;">45%</td> <td>S.I @ 1% p.m for 3 months on shortfall from 45%. (No Interest if Advance Tax paid ≥ 36%)</td> </tr> <tr> <td style="text-align: center;">15 Dec</td> <td style="text-align: center;">75%</td> <td>S.I @ 1% p.m for 3 months on shortfall from 75%.</td> </tr> <tr> <td style="text-align: center;">15 Mar</td> <td style="text-align: center;">100%</td> <td>S.I @ 1% p.m for 1 month on shortfall from 100%.</td> </tr> </tbody> </table> <p style="text-align: center; color: #c00000; font-weight: bold;">Shortfall = [Advance Tax Payable - Advance Tax paid]</p> <p style="text-align: center; color: #c00000; font-weight: bold;">Fee for default in filing ROI [Sec 234F]</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <tbody> <tr> <td style="width: 70%;">If ROI is filed on/before 31st December of AY</td> <td style="text-align: center;">Rs. 5,000</td> </tr> <tr> <td>Any other case</td> <td style="text-align: center;">Rs. 10,000</td> </tr> </tbody> </table> <p>Note: If Total Income of the person ≤ Rs. 5 lacs, fees payable shall not exceed Rs. 1,000.</p> | Circumstances | ► If No ROI is filed; ► ROI is filed after the Due Date u/s 139(1). | Consequences | SI @ 1% p.m (or part) → on Tax on Assessed Income - TDS/TCS - AT. | Time for Levy of Interest | From: Next day of DD of filing ROI. Upto: (i) If ROI is filed after DD → Date of filing ROI (ii) If NO ROI is filed → Date of Completion of Assessment u/s 144 | Circumstances | ► No Advance Tax Paid OR ► Advance Tax paid is < 90% of Assessed Tax | Consequences | SI @ 1% p.m (or part) is payable on Assessed Tax - AT Paid | Time for Levy of Interest | From → 1 st April of the relevant AY Upto → Date of determination of total income u/s 143(1). | DD | Adv Tax | INTEREST PAYABLE u/s 234C | 15 June | 15% | S.I @ 1% p.m for 3 months on shortfall from 15%. (No Interest if Advance Tax paid ≥ 12%) | 15 Sep | 45% | S.I @ 1% p.m for 3 months on shortfall from 45%. (No Interest if Advance Tax paid ≥ 36%) | 15 Dec | 75% | S.I @ 1% p.m for 3 months on shortfall from 75%. | 15 Mar | 100% | S.I @ 1% p.m for 1 month on shortfall from 100%. | If ROI is filed on/before 31 st December of AY | Rs. 5,000 | Any other case | Rs. 10,000 |
|--|--|--|---------|--------------------|--------|--------------------|--------|--------------------|----------|---------------------|--|---------------|---|--------------|--|---------------------------|--|---------------|--|--------------|---|---------------------------|---|----|---------|---------------------------|---------|-----|--|--------|-----|--|--------|-----|--|--------|------|--|---|------------------|----------------|-------------------|
| Date of Payment | Cumulative % of Advance Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 June | 15% of Advance Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 Sep | 45% of Advance Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 Dec | 75% of Advance Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 March | 100% of Advance Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Circumstances | ► If No ROI is filed; ► ROI is filed after the Due Date u/s 139(1). | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consequences | SI @ 1% p.m (or part) → on Tax on Assessed Income - TDS/TCS - AT. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Time for Levy of Interest | From: Next day of DD of filing ROI. Upto: (i) If ROI is filed after DD → Date of filing ROI (ii) If NO ROI is filed → Date of Completion of Assessment u/s 144 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Circumstances | ► No Advance Tax Paid OR ► Advance Tax paid is < 90% of Assessed Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consequences | SI @ 1% p.m (or part) is payable on Assessed Tax - AT Paid | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Time for Levy of Interest | From → 1 st April of the relevant AY Upto → Date of determination of total income u/s 143(1). | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DD | Adv Tax | INTEREST PAYABLE u/s 234C | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 June | 15% | S.I @ 1% p.m for 3 months on shortfall from 15%. (No Interest if Advance Tax paid ≥ 12%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 Sep | 45% | S.I @ 1% p.m for 3 months on shortfall from 45%. (No Interest if Advance Tax paid ≥ 36%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 Dec | 75% | S.I @ 1% p.m for 3 months on shortfall from 75%. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 Mar | 100% | S.I @ 1% p.m for 1 month on shortfall from 100%. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| If ROI is filed on/before 31 st December of AY | Rs. 5,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Any other case | Rs. 10,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

10. RETURN OF INCOME

| PROVISION FOR FILING ROI [SECTION 139] | |
|---|--|
| Companies & Firms | Compulsory (even in Loss). |
| Person other than Company & Firm | If TI > BEL. |
| TI for filing ROI = "Income before claiming Chapter Vi-A deductions & Sec 10A/10AA. | |
| R/ROR holding Foreign Assets - 4th Proviso to Sec 139(1) | <ul style="list-style-type: none"> ▪ If ROR at any time during PY <ul style="list-style-type: none"> (a) holds any asset located o/s India or (b) has signing authority in any A/c o/s India or (c) beneficiary of any asset located o/s India. Note: Asset includes any financial interest o/s India. ☞ This proviso is NOT APPLICABLE TO RNOR. |
| 5th Proviso to Sec 139(1) | <ul style="list-style-type: none"> ▪ Beneficiary of Asset located o/s India - Not required to file ROI, if such income is includible in the income of beneficial owner. |

| DUE DATE OF FILING ROI [SECTION 139(1)] | | |
|---|---|--------------------------------------|
| | ASSESSEE | DUE DATE |
| 1 | Assessee required to furnish TPR u/s 92E in form 3CEB. | 30 th Nov of Relevant AY |
| 2 | <ul style="list-style-type: none"> ▪ Any Company (other than 1) ▪ Person whose Books of A/c are required to be AUDITED; ▪ Working Partner of Audited FIRM | 30 th Sep of Relevant AY |
| 3 | OTHERS. [Also includes Non-Working Partner of the Firm] | 31 st July of Relevant AY |

| RETURN OF LOSS [SECTION 139(3)] |
|---|
| <ul style="list-style-type: none"> ➤ Required if a person wants to carry forward his losses. ➤ Furnished in same manner as of ROI within the time allowed u/s 139(1). ➤ Not compulsory (Except Company/Firm) but it should be filed to carry forward loss. |
| Section 80: File ROL u/s 139(3) on/before DD u/s 139(1) to carry forward following Losses (i) Business Loss u/s 72(1); (ii) Speculation Business Loss u/s 73(2); (iii) Capital Loss u/s 74(1); (iv) Specified business Loss u/s 73A(2); (v) Loss from Activity of O&M Race Horses u/s 74 A(3). |
| Losses which can be carried forward even if ROL is filed after DD u/s 139(1): (i) House Property Loss u/s 71B; (ii) Unabsorbed Depreciation u/s 32. |
| Points to be Noted: |
| Inter - Source Set off u/s 70 & Inter - Head Set off u/s 71 possible even if ROL is filed after DD. B/F Losses can be carried forward (If ROL was filed within DD in that year). |

| BELATED RETURN [SECTION 139(4)] |
|---|
| If ROI is NOT filed w/i time allowed u/s 139(1), he may file Belated ROI (i) Before End of relevant AY or (ii) Before Assessment u/s 144 [Earlier]. |
| Q. Can Belated Return filed u/s 139(4) be revised? Answer: YES, Even Belated ROI can be revised now. |

| REVISED RETURN [SECTION 139(5)] |
|--|
| Assessee discover any omission/wrong statement in ROI filed u/s 139(1) → [Original ROI] or 139(4) → [Belated ROI], he may file Revised ROI u/s 139(5). |
| Time Limit: (a) Before End of relevant AY or (b) Before completion of Assessment u/s 143(3) or u/s 144 (whichever is earlier). |
| Q. How many times can a ROI be revised? Any No. of times but it should be revised within Time limit of Section 139(5). |
| Q. Can a ROL be revised? YES. ROL u/s 139(3) is deemed as if it was a return u/s 139(1). Thus ROL can be revised u/s 139(5). |
| ☞ If original ROL is filed u/s 139(3) & then it is revised u/s 139(5), such Revised ROL substitutes original ROL & shall be deemed to be filed within time limit of section 139(1) & loss claimed in revised ROL can be carried forward. |

| DEFECTIVE RETURN [SECTION 139(5)] | | | | | | |
|--|---|--|------------------------------|---|----------------------|--|
| ROI SHALL BE REGARDED AS DEFECTIVE IF FOLLOWING CASES: | | | | | | |
| 1. Annexure, statements & columns in ROI relating to computation of Income under each head, computations of GTI & TI are NOT duly filled in. | | | | | | |
| 2. ROI is NOT accompanied by the following, namely: <ul style="list-style-type: none"> (a) Statement showing Computation of Tax payable; (b) Audit Report u/s 44AB; (c) Proof regarding TDS/TCS/Advance Tax paid/ SAT paid. | | | | | | |
| 3. Copies of Audited P&L A/c, Balance sheet & Auditor's Report etc. | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #008000; color: white;"> <th style="text-align: center; padding: 5px;">Intimation of Defect by AO</th> <th style="text-align: center; padding: 5px;">Opportunity to rectify defect w/i 15 days.</th> </tr> </thead> <tbody> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">No Rectification w/i 15 days</td> <td style="padding: 5px;">Treated as invalid & deemed that NO ROI is filed.</td> </tr> <tr style="background-color: #e6f2ff;"> <td style="padding: 5px;">Condonation of Delay</td> <td style="padding: 5px;">Possible if valid reason is given by assessee.</td> </tr> </tbody> </table> | Intimation of Defect by AO | Opportunity to rectify defect w/i 15 days. | No Rectification w/i 15 days | Treated as invalid & deemed that NO ROI is filed. | Condonation of Delay | Possible if valid reason is given by assessee. |
| Intimation of Defect by AO | Opportunity to rectify defect w/i 15 days. | | | | | |
| No Rectification w/i 15 days | Treated as invalid & deemed that NO ROI is filed. | | | | | |
| Condonation of Delay | Possible if valid reason is given by assessee. | | | | | |

PERMANENT ACCOUNT NUMBER [SECTION 139A]**APPLICATION FOR PAN [SEC 139A(1)]**

1. LEGAL REQUIREMENT: Every person who has not been allotted a PAN shall apply to AO for the allotment of PAN in the following cases:

(a) If Total Income > BEL; or (b) Total Turnover/GR are or is likely to exceed 5,00,000 in any PY.

2. POWER OF CG: CG is empowered to specify any person for allotment of PAN by notification in OG. Such persons shall apply within time mentioned in OG.

3. POWER OF AO: AO having regard to nature of transactions may allot PAN to any other person in the prescribed manner.

4. SUO MOTO APPLICATION BY THE ASSESSEE: Any person (other than mentioned above) may apply to AO for allotment of PAN.

QUOTING OF PAN

| (A) SALE/PURCHASE OF SECURITIES | | | (C) TRANSACTIONS WITH BANKS/CO-OPERATIVE BANKS/POST OFFICE | | |
|---|------------------------------|-------------------------|--|--|--|
| Nature of Transaction | | Value | Nature of Transaction | | Value of transaction |
| Contract for Sale/Purchase of securities | | > Rs. 1 lac | Opening Bank A/c other than time deposit | | All Transactions. |
| Sale/Purchase of unlisted shares from open market. | | > Rs. 1 lac | Application for issue of Credit/Debit card | | All Transactions. |
| Payment to a mutual fund for purchase of its units. | | > Rs 50,000 | Opening Demat account. | | All Transactions. |
| Payment for acquiring debentures/bonds/RBI bonds | | > Rs 50,000 | Cash Deposit with a bank | | ≥ 50,000 in a day. |
| | | | Purchase of bank draft/Cheque from bank | | > 50,000 in a day. |
| (B) SALE/PURCHASE OF OTHER ASSETS | | | Time deposit with (i) Bank/Co-operative bank/PO | | > 50,000 OR |
| Nature of Transaction | | Value of Transaction | (ii) Nidhi Co. (iii) Registered NBFC. | | > 5 Lacs in a FY. |
| Sale/Purchase of Immovable property. | | If SC/SDV > Rs. 10 lacs | Total Payment for prepaid payment instruments to a bank/co-operative bank. | | > 50,000 in a FY in cash/draft/pay order |
| Sale/Purchase of other Goods/Services | | > Rs. 2 lacs | | | |
| Sale/Purchase of Motor Vehicle | | All Transactions | | | |
| (D) OTHER TRANSACTIONS | | | MINOR: He shall quote PAN of parent or guardian. | | |
| Hotel/Restaurants bills | Purchase of foreign currency | Life Insurance Premium | PERSON NOT HAVING PAN: Give Declaration in Form No. 60. | | |
| > 50,000 in cash | > 50,000 in cash | > 50,000 in FY | | | |

REQUIREMENTS OF AADHAR – NOT NECESSARY

Exceptions: Provisions of Sec 139AA would not apply to Individual who does not possess Aadhar number or Enrolment ID & is:

- (a) Residing in States of Assam, Jammu & Kashmir and Meghalaya;
 (b) Super Senior Citizen [Age ≥ 80 years at any time during PY];
 (c) Non-Resident; (d) Not a Citizen of India.

SCHEME FOR SUBMISSION OF ROI THROUGH TRPs [SEC 139B]**A. WHO CAN BE A TRP? [Imp]**

Any Individual OTHER THAN (a) Officer of Bank in which assessee has Current A/c (b) Legal practitioner (c) CA (d) Employee of 'Specified class of Persons'

☞ Specified class of persons means ANY PERSON **other than** (a) Company; (b) Person whose accounts are required to be audited u/s 44AB & who is required to file ROI.

Thus Employees of Companies & Persons whose accounts are required to be Audited u/s 44AB CAN BE TRP.

FOLLOWING PERSONS CANNOT FURNISH ROI THROUGH TRPs:

- (a) Any Person other than Individual & HUF. **[Only Individual & HUF are eligible person]**
 (b) Individual/HUF carrying out Business or Profession during PY & their Accounts are required to be audited u/s 44AB or under any other law for the time being in force; or
 (c) Individual/HUF who is a Non-Resident in India during the previous year.

PERSONS AUTHORISED TO VERIFY RETURN OF INCOME [SECTION 140]

| Assessee | | Verified by |
|-----------------|--|--|
| 1 | INDIVIDUAL | HIMSELF |
| | If Individual is Absent from India | Agent holding a valid power of attorney from such individual. (POA should be attached to ROI). |
| | If Individual is Mentally Incapacitated | His guardian; or Any other person competent to act on his behalf |
| | Individual cannot verify ROI for other reasons | Agent holding a valid power of attorney from such individual. (PoA should be attached to ROI). |
| 2 | HUF | KARTA OF HUF |
| | If Karta is absent from India or Mentally Incapacitated | Any other Adult Member of HUF. |
| 3 | COMPANY | MANAGING DIRECTOR |
| | There is no MD/MD is unable to verify ROI | By any Director |
| | Non Resident Company | Any person holding valid power of attorney. Such PoA should be attached to ROI. |
| | When the company is in liquidation | The Liquidator. |
| | When company's management is taken over by CG/SG. | The Principal Officer. |
| | Where an application for corporate Insolvency Resolution Process has been admitted by Adjudicating Authority under the Insolvency & Bankruptcy Code, 2016. [AY 2019-20] | Insolvency Professional appointed by such Adjudicating Authority |
| 4 | FIRM/LLP | MANAGING PARTNER/ DESIGNATED PARTNER |
| | There is no Managing Partner/Designated Partner OR Managing Partner/Designated Partner is not able to verify ROI. | Firm: Partner of the firm not being a minor. LLP: Any Partner |
| 5 | Local authority | Principal officer. |
| 6 | Political party | CEO of such party (whether known as Secretary or by any other designation). |
| 7 | Any other association | Any Member of Association or Principal Officer. |

SELF-ASSESSMENT TAX [SECTION 140A]

| | |
|--|--|
| Payment of Tax, Interest & Fee before filing ROI | Where any Tax is payable on the basis of ROI, after considering (i) Tax already paid (ii) TDS/TCS; Assessee shall be liable to pay such tax with Interest & Fees for any default or delay in payment of Advance Tax before filing ROI. ROI shall be accompanied by proof of payment. |
| Order of Adjustment of Amount paid by Assessee | If SAT paid u/s 140A(1) is less than Tax, Interest & Fees payable, amount so paid shall first be adjusted towards the fees payable & thereafter towards Interest & the balance, if any, shall be adjusted towards the tax payable. |
| Failure to Pay | If any assessee fails to pay Whole/any part of such of Tax or Interest or Fees, he shall be deemed to be an assessee in default. |

BEST JUDGMENT ASSESSMENT [SECTION 144] - Theory Question [2M]

AO shall himself make assessment of Total Income/Loss to the best of his judgment & determine the tax payable by the assessee, if assessee fails to:

- (a) File ROI u/s 139; (b) Comply with notice issued u/s 142 to file ROI/produce books/furnish information required by AO;
 (c) Get his accounts audited if directed by AO; (d) Comply with all the terms of a notice issued u/s 143(2).

11. Miscellaneous

A. TREATMENT OF PROVIDENT FUND

| Particulars | SPF | RPF | PPF | URPF |
|-----------------------------|-------------------|---|-------------------|------------------------|
| 1. Employee's contribution | | Deductible u/s 80C | | No Deduction |
| 2. Employer's contribution | Exempt | <input checked="" type="checkbox"/> Exempt upto 12% of Salary. <input checked="" type="checkbox"/> Any excess over 12% of Salary → Taxable | NA | Refer Note Given Below |
| 3. Interest | Exempt | <input checked="" type="checkbox"/> Exempt upto 9.5% p.a. <input checked="" type="checkbox"/> Any excess over 9.5% p.a. → Taxable | Exempt | |
| 4. Withdrawal on retirement | Exempt u/s 10(11) | Exempt u/s 10(12) subject to certain conditions. [Refer 'Note 1' Below] | Exempt u/s 10(11) | |

Note: URPF

(a) **Employee's contribution** → NO DEDUCTION @ Contribution (Payment) & NO TAX on Withdrawal.

(b) **Interest on Employee's contribution** → Taxable u/h IFOS.

(c) **Employer's contribution** → NO DEDUCTION to Employer @ Contribution (Payment) BUT TAXED to employee as "profit in lieu of salary" when accumulated balance is withdrawn by employee.

(d) **Interest on Employer's Contribution** → Taxable as profit in lieu of salary.

B. BOND WASHING TRANSACTION (INTEREST STRIPPING) [SECTION 94(1)]

| | |
|----------------------|--|
| Circumstances | 1. If owner of any securities (say Mr. X) sells them before due date of interest to another person (Mr. Y); 2. Such other person (Mr. Y) receives interest on such securities on due date ; & 3. The owner buy back such securities after due date of Interest & 4. Interest on such securities received by other person to whom such securities were sold is not taxed/taxed at lower rate. |
| Consequences | <ul style="list-style-type: none"> ▪ Interest received by other person on such securities shall be included in Total Income of original owner. <p>Note: If any person has had beneficial interest in securities at any time during PY & result of transaction relating to securities (sale) is that → No income is received or less income is received than what would have been receivable on day to day basis, then such proportionate income shall be clubbed in his hands. Ex: A security has been held for 7 months & then sold; then 7 months interest shall be clubbed in his hands.</p> |
| Exception | If AO is satisfied that no tax has been avoided or Avoidance was exceptional & not systematic & there has been no such avoidance for any 3 preceding years. |

C. DIVIDEND STRIPPING [3 → 3/9]

| | |
|----------------------|--|
| Applicability | Any securities/units of MF. |
| Circumstances | Buy → 3 Months before Record Date & Sell → 3 Months (Securities)/9 months (Units of MF) after Record Date & Dividend/Income on securities/ units received by such person has been Exempt. |
| Consequences | Loss arising on sale shall be reduced by Dividend/ Income received/ receivable. |

D. BONUS STRIPPING [3 → 3/9]

| | |
|----------------------|---|
| Applicability | Units ONLY |
| Circumstances | Buy → 3 Months before Record Date & Receive bonus units on such units bought. Sell → All/Any of original Units within 9 months of Record Date & continue to hold bonus units. |
| Consequences | Loss arising on account of sale of original units shall be ignored for his income computation & shall be deemed to be Cost of bonus units. |