



**SHIVAJI UNIVERSITY, KOLHAPUR**

**CENTRE FOR DISTANCE AND ONLINE EDUCATION**

**Advanced Accountancy Paper-III**  
**(Taxation)**

For

**M. Com. Part-I**

**Semester - I**

(In accordance with National Education Policy 2020)  
(Implemented from the Academic Year 2023-24)

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## Preface

We are glad to place the SLM on Advanced Accountancy Paper III which is written considering the revised syllabus of Shivaji University, Kolhapur for the M. Com. I, Semester I to be implemented from the academic year 2023-24 in line with the National Education Policy 2020.

The first unit focuses on income from salary. Provisions regarding computation of taxable income from salary are discussed in detail in this unit. The recently introduced new regime of taxation and existing old regime of taxation are also deliberated in this unit. The second unit is exhaustive as it consists of provisions regarding computation of taxable income from business/profession, house property as well as capital gain. The provisions of income from other sources are also included in this unit. The third unit consists of provisions relating to the deduction from gross total income. This unit has the provisions of computation of income tax also. The fourth unit presents the provisions regarding clubbing of income, set off of losses and carry forward the losses. The unit also describes the procedure of e-payment of tax and e-filing of return of income tax.

The theory and illustrations are presented in such a way that students can understand the concept easily. Though, the book focus on practical aspect sufficient theory is supported to learn the concepts clearly. The process and steps of solving problems are stated in simple language and in a systematic manner. We strongly believe that this book would prove highly useful to the students. The book is written for the students of distance education, but the students of the same programme as well as students of professional programmes can also find this useful.

We are thankful to the authors for providing the needed inputs. The efforts taken by the authors are commendable and due to those efforts, this book is being completed in time. We are indebted to the authorities of Shivaji, Kolhapur for giving us this opportunity to present this SLM for the students of M.Com. We express our sincere thanks to all those who have helped and supported us in writing the book. We also welcome the suggestions from the readers of the book for further improvement in the quality of the book in future. We are confident that the students and teachers will definitely welcome this book.

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**M. Com. Part-I**  
**SIM IN ADVANCED ACCOUNTANCY PAPER III**  
**(Taxation)**  
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Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2023-24 and study the reference books & other related material for the detailed study of the paper.



## **Unit-1**

### **Income From Salary (Section 15-17)**

---

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  - 1.5.3 Professional Tax [S.16(iii)]
- 1.6 Tax Return
- 1.7 Illustration
- 1.8 Check Your Progress
- 1.9 Summary

## **1.0 Objectives:**

After reading this unit, you will be able to understand:

- a) when the salary income is chargeable to tax
- b) the concept of profits in lieu of salary
- c) the various retirement benefits which will be charged as salary
- d) the concepts of allowances and perquisites
- e) the admissible deductions from salary

## **1.1 Introduction**

Salary as commonly understood means a fixed payment made periodically as compensation for regular services rendered. it covers wages paid for manual work salary paid for clerical jobs and remuneration paid to executives and managers .it includes all sums paid by an employer to an employee by way of basic salary Allowance perquisites etc. to understand how income under the head salary is computed one must have answers to the following questions

- (1) who are the persons liable to pay tax on salaries?
- (2) when is salary taxable -on accrual or on receipt?
- (3) what is the place of accrual for salary income?
- (4) how is salary computed? which items are included which items are exempt and what are the deductions available?

Let us final out the answers to the above questions.

## **1.2 TAXABILITY OF INCOME FROM SALARY:**

### **1.2.1 Who is taxable?**

(1) Employer-Employee Relationship: salary means the remuneration received by an employee from his employer for services rendered. Only an individual can earn salary since only an individual can render personal service any individual who receives remuneration from his employer is liable to be taxed on his income from salaries. for a payment to be regarded as salary, it is essential that the relationship between the payer and payee is that of an employer and employee or master and servant. The payee must be working under a contract of service and not a contract for service. Payment received by an individual from a person other than an employer is not taxable as salaries. Thus, examinership fees received by a professor from his college are taxable as salaries. But examinership fees received by the same professor from the university are taxable as income from other sources. Monthly amounts received by freedom fighters from government (though called pension) are not taxable as salary because the freedom fighters were not employed by the government for securing freedom for India!

An employee may be a full-time or a part-time employee. Further he may be an ordinary resident not-resident or resident but not ordinarily resident in India. The employer on the other hand may be any person e.g., an individual a firm a company government local authority a foreigner etc.

(2) Remuneration of a director: the remuneration received by a director from a company is taxable as salary if the director is an employee of the company in terms of a contract of employment or the Articles of Association. Otherwise, it is taxable as income from business or income from other sources depending upon the facts of each case.

(3) Remuneration of a partner: Any salary bonus commission or remuneration due to or received by a partner from the firm is not to be regarded as salaries [s-15-Explanation 2]. Such amounts are taxable as profits from business in the hands of the partner.

(4) Remuneration of a M.P/M.L.A: the salaries and allowances of a member of parliament (M.P) or a member of legislative assembly (M.L.A) are taxable as income from other sources and not under the head salaries since the M.P or the M.L.A is not an employee of the government or the parliament or the assembly.

### **1.2.2 When is salary taxable?**

#### **1.2.2.1 Legal Provisions:**

According to section 15, the following income shall be chargeable to tax under the head salaries

- (a) any salary due from an employer or former employer to an assessee in the previous year whether paid or not
- (b) any salary paid or allowed to him in the previous year by or on behalf an employer of former employer though not due or before it became due to him;
- (3) any arrears of salary paid or allowed in the previous year by on behalf of employer of former employer if not charged to income tax in any earlier previous year.

#### **1.2.2.2 Comments:**

- (1) **Earned in previous year:** An employee must compute his taxable salary for the previous year. The previous year for salary is the financial year April to march preceding the assessment year.
- (2) **Due or Received:** salary is taxable on either due basis or on receipt basis. Thus, salary due or received in the previous year April 2022 to March 2023 is taxed in the current assessment year 2023-24 In short salary is taxed at the earliest point of time possible but only once. This is irrespective of the method of accounting used by the employee. It does not matter whether the salary is recorded by the employee in his accounts on cash basis or mercantile (accrued) basis.
- (3) **From all Employers:** salary earned during a particular previous year is charged to tax whether received from the present or a former employer. The number of

salaries from all employers during the year is year is added the year is added together and taxed under the head salary.

- (4) **Due as per terms of service:** When salary becomes due depends upon the terms of service. Salary for a month normally becomes due on the last day of the month though paid in the next month. In such case salary due for the period from say April 2022 to March 2023 will be taxed in the previous year 2022-23 (as salary for April 2022 will be due on 30<sup>th</sup> April 2022 and salary for March 2022 will be due on 31<sup>st</sup> March 2022). However, if salary for a month becomes due on the 1<sup>st</sup> of the next month as per the terms of service (e.g., government employees), salary due for the period from say March 2022 to February 2023 will tax in the previous year 2022-23 (as salary for March 2022 will be due on 1<sup>st</sup> April 2022 salary for February 2023 will be due on 1<sup>st</sup> March 2023 and salary for March 2023 will be due on 1<sup>st</sup> April 2023).
- (5) **Grade system:** certain employees are entitled to a graded system of salary. Under this system the normal annual increments to be given to the employee are already fixed in the grade for example if an employee joins the service on 1-5-2022 and is placed in the grade of Rs.12,200-300-17,400-500-19,400. This means that he will get a basic salary of Rs.-12,200 w.e.f from 1-5-2022 he will get annual increment of Rs.300 w.e.f 1-5-2022 and onwards till his salary reaches Rs.17,400 thereafter he will get an annual increment of Rs.500 till his salary reaches Rs.19,400 no further increment will be given thereafter till he is placed in other grade further in certain cases it may happen that he may join the service in a particular grade but his salary is fixed not at the initial stage of the grade but at an amount somewhere between the grade. For example, X joins the service on 1-5-2022 in the grade of Rs.12000-300-15,000-500-18000 but his salary from the date of joining the service is fixed at Rs.14,400 this means that he will get a basic salary of Rs.14,400 from the date of joining and his annual increment for the next two years will be Rs.300. (i.e., till he reaches Rs.15,000). Thereafter his annual increment will be Rs.500.

#### **Illustration 1:**

Mr. Surendra an employee of XYZ Ltd. submits the following details in respect in respect of previous year 2022-23

- (1) He is entitled to salary @ Rs.5000 per month due on the last day of each month.

- (2) He has received salary for April 2023 in advance in March 2023
- (3) He has received arrears of salary amounting to RS-10,000 in respect of 2018-19 in October 2022. Compute the amount of salary subject to tax during the relevant previous year.

**Solution:**

Name of the assessee- Mr. Surendra

Previous year 2022-23

Assessment year: 2023-24

Particulars	Rs.
1. Salary Due in 2023-232 whether paid or not Salary due from April 2022 to March 2023 whether It is received in 2022-23 or not is $5,000 \times 12 =$	60,000
2. Salary received in 2022-23 whether due or not Salary for April 2023 received in advance in March 2023 (however this would not be taxed again in next F.Y. 2023-24)	5,000
3. Arrears of salary received in 2022-23 Provided these were not charged to tax earlier (on due basis)	10,000
Total Taxable salary in P.Y. 2022-23 ...	75,000

**Illustration 2:**

Mr. Somnath is employed in ABC Ltd. since 1-9-2019 in the grade of 25,000-2000-29,000-3,000-41,000 compute salary chargeable to tax for the P.Y. 2022-23 if (a) salary falls due on last day of each month (b) salary falls due on first day of next month.

**Solution:**

Date of increment of salary	Rs.	Date of increment of salary	Rs.
1-9-2020 [P.Y. 2019-20]	25,000	1-9-2023 [P.Y. 2023-24]	35,000
1-9-2021 [P.Y. 2020-21]	27,000	1-9-2024 [P.Y. 2024-25]	38,000
1-9-2022 [P.Y. 2021-22]	29,000	1-9-2025 [P.Y. 2025-26]	41,000
1-9-2023 [P.Y. 2022-23]	32,000	NO increment thereafter	

Salary falls due on the last of each month		Salary falls due on the first day of next month	
April 2022 to March 2023		March 2022 to February 2023	
April to August (5 ×29,000)	1,45,000	March to August (6×29,000)	1,74,000
September to March (7 ×32,000)	2,24,000	September to February (6 ×32,000)	1,92,000
Total salary		Total salary	
	3,69,000		3,66,000

### 1.3 WHAT IS INCLUDED IN SALARY?

#### 1.3.1 DEFINITION

According to section 17 (1) salary includes

- (1) wages to section including advance of salary
- (2) annuity or pension
- (3) gratuity
- (4) fees and commission
- (5) perquisites
- (6) profits in lieu of salary or in addition to salary or wages
- (7) advance
- (8) contribution made by the central Government on any other employer in the account of an employee under a pension scheme.
- (9) payment received by an employee in respect of any period of leave not availed of by him i.e., leave encashment.
- (10) annual accretion to the balance at the credit of an employee participating in a recognized provident fund to the extent it is taxable and

- (11) transferred balance in a recognized provident fund to the extent it is taxable In brief salaries include wages annuity pension fees commission perquisites profits in lieu of salary advance leave encashment and taxable contribution /interest/transferred balance in a recognized provident fund account since this is an inclusive definition the term salary would include other items commonly understood to indicate salary such as allowance bonus etc. the following points should be noted in this regard.
- (1) Advance/Arrears: salary also includes (a) advance salary (b) arrears of salary and (c) salary in lieu of notice period if any.
  - (2) voluntary payments: normally salary is paid as per the terms of contract of employment if the employer makes any voluntary payment to the employee in addition to the contracted amount in connection with any service rendered it is taxed as salary.
  - (3) Gross salary: salary means gross salary and not the net salary received by the employee after deductions such as the employees' contributions to provident fund or to employee's state insurance fund income tax deducted at source profession tax etc. these deductions should be added to the net salary received to determine the gross salary to be included in income.
  - (4) Exempt: the amounts received by way of remuneration which are exempt from tax under section 10 should be excluded and ignored while computing salaries (see para 5).

### **1.3.2 PERQUISITES**

- (1) Meaning: perquisites mean any casual emoluments or benefits attached to an office or position in addition to salary perquisite is a personal advantage or benefit derived by virtue of employment office or position. It is an incidental income from employment in addition to the regular salary Mere reimbursement of expenses does not amount to a perquisite a perquisite denotes an additional monetary benefit going into the pocket of or enriching the employee perquisites may be in cash or kind.
- (2) Definition: The definition of perquisites under s.17 can be summarized and studied under the following heads: (A) perquisites taxable in case of all employees (B) perquisites taxable only in case of specified employees like directors etc. and (c) perquisites not taxable at all.



(3) Perquisites taxable in case of all employees: The following perquisites are taxable in case of every employee:

1. value of rent-free accommodation provided by the employer.
2. value of concession in rent in respect of accommodation provided by employer.
3. sum paid by the employer in respect of any obligation payable by the assessee.
4. sum payable by the employer to effect an assurance on the life of the assessee or to effect a contract for an annuity however this is not applicable to sums paid as employer contribution to
  - (a) a recognized provident fund
  - (b) an approved superannuation fund (up to Rs.1,50,000)
  - (c) a deposit linked insurance fund etc.
5. value of security under employee stock option plan (ESOP) or sweat equity shares allotted/transferred by the employer free of cost or at concessional rate.
6. value of any other prescribed fringe benefit or amenity i.e. (1) interest free or concessional loan (2) use of movable assets and (3) transfer of movable assets.

(4) Perquisites taxable only in case of specified employees: the value of any benefit or amenity given free of cost or at a concessional rate to a specified employee is treated as a perquisite and included in the salary of a specified employee. Specified employee means.

- (a) a director who is an employee of the company:
- (b) an employee having substantial interest in the company (i.e., an employee holding equity shares in the employer company carrying more than 20% or more voting power)
- (c) any other employee whose income from salary is more than RS 50,000 during the relevant previous year. (The amount of Rs.50,000 is to be

computed after excluding non-monetary benefits and deducting entertainment allowance and professional tax under s.16 explained later)

The following perquisites are taxable in case of a specified employee

1. Gas electricity or water supply provided free of cost
2. free education facilities for family members of employee
3. free domestic servants such as sweeper watchman gardener cook.

(5) Perquisites not taxable at all

(a) section 17 specifically provides that following are not regarded as perquisites in any case.

1. cost of medical treatment in a hospital maintained by the employer provided to an employee or any member of his family.
2. Reimbursement of medical expenses incurred by employee on medical treatment of himself or his family member in a hospital maintained by the government or any local authority or approved by government.
3. any sum paid by an employer directly to a hospital approved by the chief commissioner of income tax for medical treatment of the employee or his family member.
4. reimbursement by employer of any expenditure incurred by the employee on medical treatment of himself or his family in any hospital approved by the chief commissioner of income tax subject to the condition that the employee will attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital for such treatment.
5. premium on employee health insurance under any scheme approved by the central government under s.36 (1) (ib).
6. premium on insurance (Medi-claim) on the health of employee or his family member under any scheme approved for the purpose of s.80D.
7. Expenditure incurred by employer on
  - (a) medical treatment of the employee or his family member outside India

- (b) travel or stay abroad of the employee or his family member for medical treatment
  - (c) travel and stay abroad of one attendant who accompanies the patient in connection of such treatment
  - (d) expenditure on medical treatment and stay abroad will be exempt only to the employee permitted by the reserve bank of India and
  - (e) expenditure on travel shall be exempt only if the gross total income of such an employee does not exceed Rs.2,00,000 in the previous year.
8. Reimbursement of expenses specified in 7 above.
- (b) the following perquisites are not taxable at all per other acts/decisions of courts/circulars issued by the central board of direct taxes:
    - (1) telephone provided by an employer to an employee at his residence
    - (2) transport facility provided by an employer engaged in the business of carrying of passengers or goods to his employees either free of charge or at concessional rate
    - (3) privilege passes and privilege ticket orders granted by Indian railways to its employees
    - (4) perquisites allowed outside India by the government to a citizen of India for rendering services outside India.
    - (5) sum payable by an employer to a RPF or an approved superannuation fund or deposit linked insurance fund established under the coal mines provident fund or the employees provident fund act
    - (6) Employers' contribution to staff group insurance scheme
    - (7) leave travel concession
    - (8) payment of annual premium by employer on personal accident policy effected by him on the life of the employee
    - (9) refreshment provided to all employees during working hours in office premises
    - (10) subsidized lunch or dinner provided to an employee

- (11) recreational facilities include facilities extended to employees in general i.e., not restricted to a few select employees
- (12) amount spent by the employer or training of employees or amount paid for refresher management course including expenses on boarding and lodging
- (13) medical facilities subject to certain prescribed limits
- (14) rent free official residence provided to a judge of a high court or the supreme court
- (15) rent free furnished residence including maintenance provided to an officer of parliament union minister and a leader of opposition in parliament.
- (16) conveyance facility provided to high court judges under section 22B of the high court judges (condition of service) act 1954 and supreme court judges under section 23A of the supreme court judges (conditions of service) act, 1958.

### **1.3.3 PROFIT IN LIEU OF SALARY**

The term profit in lieu of salary according to section 17(3) includes the following

- (1) compensation for termination of Employment: normally compensation for termination of employment being a capital receipt is not taxable at all but section 17(3) has specifically provided that such compensation would be taxable under the head salary however the following compensations are exempt under section 10 (see para 5)
  - (a) retrenchment compensation to workers [S.10(10B)]
  - (b) voluntary retirement compensation to employees [S.10(10c)]
- (2) compensation for modification: of the terms and conditions relating to employment
- (3) payments from employer or provident or any other fund: over and above the employees' own contributions and interest except the following payments exempt u/s 10.

Gratuity [S.10(10)]

Commutation of pension [S.10(10A)]

Retrenchment compensation [S.10(10B)]

Payment from statutory or public provident fund [S.10(11)]

Payment from recognized provident fund [S.10(12)]

Payment from approved superannuation fund [S.10(13)]

Thus, lumpsum payments from unrecognized provident fund to an employee on his retirement over and above his own contribution are taxable under this provision the annuity received from a former employer is also taxable under this provision

- (4) Receipts from kayman insurance policy: including bonus if any
- (5) any amount due to or received whether in lump sum or otherwise by any assessee from any person.
  - (a) before his joining any employment with that person or
  - (b) after cessation of his employment with that person

### 1.3.4 PROVIDENT FUND

Provident fund scheme provides for monthly contribution from the employees as well as the employer to a provident fund account the balance to the credit of such accounts also earns interest the entire balance is paid to an employee on his retirement the taxability of (1) employer contribution (2) interest credited annually and (3) balance paid on retirement depends upon the type of provident fund there are different types of provident fund (P.F) such as (a) statutory P.F. (b) recognized P.F. and (c) unrecognized P.F.

- (1) **Statutory P.F.:** Statutory provident fund is set up and administered by the government.
- (2) **Recognized P.F:** Recognized P.F means as fund set up and operated by a private sector employer and recognize by the income tax department these recognized provident funds must strictly follow the rules regarding contributions investment of funds etc. prescribed by the income tax act.
- (3) **Unrecognized P.F:** unrecognized P.F. is a private provident fund set up and operated by an employer not recognized by the income tax department due to non-compliance of prescribed conditions.

The taxability of various amounts in each case is summed up in the following chart

#### PROVIDENT FUNDS

AMOUNT	Statutory P.F [10(11)]	Recognized P.F. [s.10 (12)]	Unrecognized P.F [S.17(3)]
Employers' contribution during previous year	Exempt	Exempt up to 12% of basic salary excess is taxable	Exempt
Interests credited during previous year	Exempt	Exempt if rate up to 9.5 % p.a. Excess is Taxable	Exempt
Lumpsum payment on retirement etc.	Exempt	Exempt subject to Rules	Employers' contribution & interest thereon taxable u/s 17(3)

#### NOTES:

- (1) In all cases employee's monthly contribution to P.F. deducted from salary forms part of the gross taxable salary of the employee.
- (2) Lump sum amount of employee's contribution received on retirement etc. is exempt in all cases.
- (3) Interest on employee's contribution received in lump sum on retirement from an unrecognized P.F. is taxable as income from other sources.
- (4) Rate if interest on R.P.F. is laid down in the fourth schedule [part A-rule 6(b)] to the income tax act [notification no 24/2011]
- (5) In case of recognized P.F the contribution exceeding 12% of salary and interest @rate exceeding 9.5 % p.a. credited during a year is taxed u/s 7

#### 1.3.5 ALLOWANCES

**(1) Meaning:** Allowances mean a fixed amount regularly paid to an employee in addition to his basic salary for various purposes. Thus, Expense Allowances are granted to meet expenses for the performance of duties or to meet the employee's personal expenses at office. Dearness Allowance, City Compensatory Allowance or House Rent Allowance are granted to compensate him for the increased cost of living. All Allowances are taxable as salaries, unless specifically exempted.

**(2) Exempt u/s 10:** Following allowances are exempt to the extent provided under section 10 (see para 5)-

**(a)** Allowances for expenses on Travelling on tour or transfer, Conveyance on office duties Outstation duties, Helpers in office, Professional research or development, and Purchase and maintenance of uniform are fully exempt to the extent actually spent.

**(b)** Leave travel allowance and House rent allowance are exempt to the extent of lower of the amount actually spent or the prescribed limits.

**(c)** Allowances for Duties at difficult areas (border/remote/disturbed/tribal areas etc.), Children education allowance and Children hostel expenses allowance are exempt to the extent of lower of allowance received or the lump-sum amount prescribed, irrespective of actual expenditure.

**(d)** Allowances and perquisites paid outside India by the Government to a citizen of India for rendering service outside India [S.10(7)].

**(3) Deduction u/s 16:** Further, *Entertainment allowance* can be deducted from the Gross salary to the extent provided under section 16(ii) explained later (in para 6.1).

## **1.4 EXEMPTIONS (S.10)**

### **1.4.1 LEAVE TRAVEL CONCESSION [S.10(5)]**

Leave Travel Concession is exempt to the following extent:

- (1) in the case of an individual.
- (2) the value of any travel concession or assistance received by or due to him,
- (3) from his employer for himself and his family, in connection with his proceeding on leave to anyplace in India.
- (4) or, from his employer or former employer for himself and his family, for proceeding to any place in India after retirement from service or after the termination of his service,
- (5) subject to the conditions prescribed as to the number of journeys and the amount exempt per head

**‘Family’** of the individual includes: (a) his spouse and children and (b) his parents, brothers and sisters who are mainly dependent upon him.

The amount of exemption is limited to the actual expenses incurred for the travel.

**Other provisions** to be kept in mind in this regard are as follows:

- (1) **Where journey is performed by air:** Amount of exemption will be lower of amount of economy class air fare of the National Carrier by the shortest route or actual amount spent.
- (2) **Where journey is performed by rail:** Amount of exemption will be lower of amount of air- conditioner first-class rail fare by the shortest route or actual amount spent. The same rule will apply where journey is performed by any other mode and the place of origin of journey and destination are connected by rail.
- (3) **Where the place of origin and destination are not connected by rail and journey is performed by any mode of transport other than by air:**

The exemption will be as follows:

- (a) If recognized public transport exists: Exemption will be lower of first class or deluxe class fare by the shortest route or actual amount spent.
  - (b) If no recognized public transport exists: Exemption will be lower of amount of air-conditioned first-class rail fare by the shortest route (considering as if journey is performed by rail) or actual amount spent.
- (4) **Block:** Exemption is available for 2 journeys in a block of 4 years. The block applicable for current period is calendar year 2018-23. (Extended up to 31/03/2023 vide order dt. 27/12/2022)
- (5) **Carry over:** If an employee has not availed of travel concession or assistance in respect of one or two permitted journeys in a particular block of 4 years, then he is entitled to carry over one journey to the next block. In this situation, exemption will be available for 3 journeys in the next block. However, to avail of this benefit, exemption in respect of journey should be utilized in the first calendar year of the next block. In other words, in case of carry over, exemption is available in respect of 3 journeys in a block, provided exemption in respect of at least I journey is claimed in the first year of the next block.



- (6) **No journey, no exemption:** Exemption is in respect of actual expenditure on fare, hence, if no journey is performed, then no exemption is available.
- (7) **Family:** Family will include spouse and children of the individual, whether dependent or not and parents, brothers, sisters of the individual or any of them who are wholly or mainly dependent on him. Exemption is restricted to only 2 surviving children born after October 1, 1999 (multiple births after first single child will be considered as one child only), however, such restriction is not applicable to children born before October 1, 1999.
- (8) **Deemed LTC:** The Central Board of Direct Taxes has provided income-tax exemption for the payment of cash equivalent of LTC fare [subject to maximum of ₹ 36,000 per person as deemed Leave Travel Concession (LTC) fare per person Round Trip] to the employees of the Central Government, state governments, public sector enterprises, banks, and private sector subject to certain conditions.

The employee is required to spend a sum equal to three times of the value of the deemed LTC fare on purchase of goods or services which carry a GST rate of 12% or more from GST registered vendors/service providers through digital mode between October 12, 2020 to March 31, 2021 and obtain a voucher indicating the GST number and the amount of GST paid. An employee who spends less than three times of the deemed LTC fare on specified expenditure during the specified period shall not be entitled to receive full amount of deemed LTC fare and the related income-tax exemption and the amount of both shall be reduced proportionately. The employees have to exercise an option for the deemed LTC fare in lieu of the applicable LTC is the Block year 2018-2023.

#### **1.4.2 GRATUITY [S.10(10)]**

Gratuity is a lump-sum amount paid to an employee, on the basis of the duration of his employment, *on termination of service* due to retirement, resignation, death etc. It is exempt from tax, either fully or partly, depending on the type of employee receiving it. Gratuity received while still in service is not exempt; it is taxable as salary.

##### **1.4.2.1 Gratuity to Government Employees**

[A] Any death-cum-retirement gratuity received under -

- (a) the Revised Pension Rules of the Central Government,
- (b) the Central Civil Services (Pension) Rules, 1972,
- (c) any similar scheme applicable to -
  - (1) the members of civil services of the Union,
  - (2) holders of defense or civil posts under the Union, (3) the members of the All-India Services,
  - (4) the members of the civil services of a State,
  - (5) holders of civil posts under a State,
  - (6) the employees of a Local Authority; and
- [B] Any retirement gratuity under the Pension Code or Regulations applicable to the members of the defense services, is wholly exempt from tax. In short, the gratuity received by any employee of the Central/State Government(s), Union, Local Authority, or the defense services is entirely exempt from tax.

#### **1.4.2.2 Gratuity Under Payment of Gratuity Act, 1972**

- (1) A person working in any factory, mine, oil field, plantation, port, railways, and a shop or establishment (employing 10 or more persons) is covered under the Payment of Gratuity Act 1972.
- (2) Any gratuity received by such person is exempt from tax, to the extent of the least of the following amounts-
  - (a) Gratuity actually received;
  - (b) ₹ 20,00,000, being the notified limit (as amended vide Notification dt. 29-03-2019);

15 days

- (c)  $\text{Salary last drawn} \times \frac{15}{26} \times \text{No. of completed years}$
- (3) It should be noted that -
  - a. basically, gratuity is equal to 15 days' salary (based on salary last drawn), for every completed year of service (part of year exceeding 6 months is treated as one year),

- b. in case of a seasonal establishment, 7 days' salary is taken instead of 15 days;
- c. 26 days refer to the working days per month;
- d. "salary" includes Basic + Dearness Allowance, but excludes bonus, commission, other allowances, overtime etc.

### Illustration 3:

Mr. Jaydeep, covered under the Payment of Gratuity Act, 1972 retired on 30-8-2022. At the time of retirement. he was getting basic salary of 10,000 p.m. and Dearness Allowance @ 10% of the basic salary. He had joined the company on 1-4-2004. He was paid gratuity of 1,25,000. Compute the amount of gratuity taxable for the assessment year 2023-24.

### Solution:

1. Salary last drawn: Basic + D. A. last drawn = 10,000 + 1,000 = 11,000 p.m.
2. Period of Service: 17 years & 5 months, rounded off to 17 years.
3. 15 days' salary: 17 years x 11,000 x 15 ÷ 26 = 1,07,885
4. Gratuity Exempt: Least of
  - (a) 15 days' salary = 1,07,885
  - (b) ₹ 20,00,000
  - (c) Actually Received = ₹ 1,25,000
5. Gratuity Taxable: Received Less Exempt = 1,25,000 - 1,07,885 = 17,115

### 1.4.2.3 Gratuity to any other Employee

(1) Any other gratuity received-

1. by an employee on (a) retirement or (b) his becoming incapacitated (handicapped) before his retirement or (c) termination of his employment, including by resignation; or
2. by his widow, children or dependent, on his death,
3. to the extent of the least of the following amounts is exempt from tax-
  - (a) gratuity actually received during previous year.

- (b) sum notified by the Government (₹ 20,00,000 as notified vide NN 16/2019 dt. 8-3-2019); (c) half months' salary for each completed year of service, on the basis of the average salary for the 10 months immediately preceding the month of retirement.
- (2) If an employee receives gratuities from more than one employer, in the same previous year, the total exemption cannot exceed the limit notified by the Government (i.e., ₹ 20,00,000).
- (3) Similarly, the notified ceiling applies to any gratuity received and exempted in any earlier previous years by the employee. Any such gratuity exempted earlier shall be reduced from the c amount of ₹ 20,00,000, and only the balance amount can be claimed, subsequently.
- (4) "Salary", for this clause, includes basic salary, dearness allowance (to the extent eligible retirement benefits) and commission at fixed percentage on turnover achieved by employee.
- (5) "Completed years of service" means only completed years; part of year, even if more the months is to be ignored and not rounded off.
- (6) Note that while the gratuity under this clause is calculated on the basis of the average salary last 10 months, gratuity under Payment of Gratuity Act, 1972 is calculated on the basis of salary drawn.

**Illustration 4:**

Mr. Suhas, Working in JK Ltd. where total employees were 5, retired on 31-1-2023 after 20 years and 11 months of service. During the preceding ten months, he was drawing a basic salary of ₹ 2,500 p.m., Dearness Allowance of ₹ 1,000 pm (50% eligible for retirement benefit) and Conveyance Allowance turnover achieved by him. He was paid Gratuity of ₹ 38,000. Earlier, he had received ₹ 5,000 as gratuity from his previous employer Oxford Ltd, in respect of which he had claimed full exemption Compute the taxable amount of gratuity.

**Solution:**

1. Mr. Suhas is neither a government employee, nor a person covered under the Payment of Gratuity Act as JK Ltd employs less than 10 persons.
2. Therefore, gratuity exempt u/s 10(10) (iii), is the least of the following amounts—

- (a) actual amount received ₹ 38,000
- (b) notified amount ₹20,00,000 - ₹5,000 claimed earlier = ₹ 19,95,000,
- (c) 1/2 months' salary for each completed year of service on the basis of the average salary for the past 10 months, i.e.,  $1/2 \times 3,500 \times 20 = 35,000$ ;

[Notes: (a) 'Salary' includes eligible DA (50% of 1,000), commission at fixed percentage on his turnover but excludes Conveyance Allowance (b) Total Salary for 10 months Basic  $2,500 \times 10 = 25,000$  + D.A.  $500 \times 10 = 5,000$  + Commission  $5,000 = ₹ 35,000$ , average salary = ₹ 3,500 p.m. (c) Completed years of service are 20 years; part or fraction of year is to be ignored and so 11 months are not to be rounded e so a year] Thus, the exempt amount of gratuity is ₹ 35,000 being the least amount.

3. The taxable amount of gratuity is  $38,000 - 35,000 = 3,000$ .

### **1.4.3 COMMUTATION OF PENSION [S.10(10A)]**

Pension is the monthly payment by the ex-employer to a retired employee which is taxed as "salary" An employee may opt to get a one-time lump-sum payment in lieu of such monthly payments. This is known as commutation of pension, which is exempt fully or partly depending on the category of the employee, as explained below.

#### **1.4.3.1 Government Employees**

A payment in commutation of pension is fully exempt, if received under-

- (1) the Civil Pensions (Commutation) Rules of the Central Government,
- (2) a similar scheme applicable to members of civil services of the Union, holders of defense or civil posts under the Union,
- (3) members of All India Services, defense services, State civil services.
- (4) holders of civil posts under a State,
- (5) employees of a Local Authority or statutory corporation

#### **1.4.3.2 Other Employees**

Any payment in commutation of pension received under any scheme of any other employer (the commuted value being determined having regard to the age, and health

of the recipient, the rate of interest and official table of mortality) is exempt to the extent, it does not exceed -

- (a) where the employee receives any gratuity, the commuted value of  $\frac{1}{3}$  of the pension which he is normally entitled to receive (i.e.,  $100 \div \% \text{ of Pension Commuted} \times \text{Amount Commuted} \div 3$ ).
- (b) in any other case, the commuted value of  $\frac{1}{2}$  of such pension; (i.e.,  $100 \div \% \text{ of Pension Commuted} \times \text{Amount of Commuted Pension} \div 2$ ).

The above discussion is summed up in the following exhibit.

#### Illustration 5:

Mr. A retires from X Limited on June 30, 2022. He had joined the company on 4-1-1990. He gets pension of 2,000 p.m. up to 30th November 2022. On 1st December, 2022, he requests for commutation of 50% of his pension. His request is accepted and he receives 75,000. Compute his gross taxable salary if he has received 50,000 as Gratuity, which is fully exempt from tax.

#### Solution:

INCOME UNDER "SALARIES":	₹	₹
Uncommuted Pension $[(2,000 \times 5) + (1,000 \times 4)]$		14,000
Commuted Pension Received	75,000	
Less: Exempt u/s 10 (10A)		
50% commuted value = 75,000		
100% commuted value = $75,000 \times 2 = 1,50,000$		
$\frac{1}{3}$ of 1,50,000 (full commuted value) exempt <u>50,000</u>		<u>25,000</u>
Gross Taxable Salary		39,000

#### Illustration 6:

Compute the taxable income of A if no gratuity is received by him, in the above case.

#### Solution:

INCOME UNDER "SALARIES":	₹	₹
Uncommuted Pension $[(2,000 \times 5) + (1,000 \times 4)]$		14,000
Commuted Pension Received	75,000	
Less: Exempt u/s 10(10A)		

50% commuted value = 75,000		
100% commuted value = 1,50,000		
1/2 full commuted value exempt	<u>75,000</u>	<u>NIL</u>
Gross Taxable Salary		14,000

### 1.4.3.3 Commuted Pension from L.I.C. Pension Fund

Commuted pension received from the pension fund set up by the Life Insurance Corporation of India u/s 10(23AAB) by a member of such Fund is fully exempt u/s 10(10A) (iii).

### 1.4.4 ENCASHMENT OF LEAVE SALARY [S. 10(10AA)]

Leave encashment means cash received by an employee against leave earned but not taken and accumulated. Leave encashment while in service is taxable. Leave encashment on leaving a job (by retirement, superannuation, resignation etc.) is exempt as explained below.

#### 1.4.4.1 Government Employees

Any payment received by an employee of the Central Government or a State Government as the encashment of the earned leave to his credit at the time of his retirement, is wholly exempt from tax.

#### 1.4.4.2 Other Employees

In the case of non-Government employees, leave salary is exempt to the extent of the least of the following amounts -

- encashment of the earned leave, not exceeding 30 days per each completed year of service with the employer from whose services he is retiring, standing to the credit of the employee at the time of retirement;
- 10 months' average salary, on the basis of the salary drawn for the 10 months immediately preceding the date of retirement;
- the amount notified by the Government (₹3,00,000 at present);
- the amount actually received.

Where leave encashment is received by an employee from two or more employers in the same year, the exemption cannot exceed the notified limit of ₹3,00,000. Similarly, the notified limit of ₹3,00,000 applies to all such amounts

received by an employee, including amounts received and exempted in any earlier year(s). Any such amount exempted earlier will be reduced from the limit of ₹3,00,000 at the time of any subsequent claim.

"Salary" for this clause, includes Basic Salary, Dearness Allowance (eligible for retirement benefits) and Commission at fixed percentage on turnover achieved by the employee. "Average salary" under this clause is to be calculated on the basis of the salary of 10 months preceding the date of retirement; (note that in case of gratuity exempt under s. 10(10)(iii), it is to be calculated on the basis of the salary of 10 months preceding the month of retirement).

The above discussion is summed up in the following exhibit.

#### **Illustration 7:**

Mr. Madhav received leave salary from X Ltd. calculated @ 10,000 for every month of leave to his credit on his retirement on 31-3-2023. Compute taxable amount of leave salary on the basis of the following information:

1. Period of Service: 15 years and 6 months.
2. Earned leave entitlement :2 months per year
3. Earned leave taken while in service: 3 months
4. Average salary for 10 months ending 31-3-2023: 10,000 p.m.

#### **Solution:**

The leave salary exempt u/s 10(10AA) is the least of the following amounts:

- a. Encashment of leave @ 30 days per completed year = RS 10,000 × 12 months [note 1] =Rs.1,20,000
- b. 10 months average salary =10,000 ×10=1,00,000
- c. Maximum notified exempt amount =Rs.3,00,000
- d. Amount actually received [note 2] =Rs.2,80,000

Thus, the amount of leave salary exempt is the least amount of RS 1,00,000 and the amount taxable received Rs.2,80,000 exempt Rs. 1,00,000 = Rs.1,80,000

Note 1:

- a. completed years of service: 15 years (ignore part of year or months)



- b. leave eligible u/s 10(10AA) @30 days (1 month) per year: 1 month  $\times$  15 years = 15 months (ignore the actual entitlement of 2 months per year)
- c. leave availed earlier: 3 months.
- d. leave balance eligible u/s (10AA): 15 months - 3 months = 12 months (ignore the actual leave balance)

Note 2:

- a. Total leave entitlement 2 months  $\times$  15<sup>1/2</sup> years = 31 months
- b. Actual leave balance on date of retirement = 31 months - 3 months = 28 months
- c. Leave salary received = 28 months  $\times$  Rs. 10,000 = 2,80,000

#### **1.4.5 RETRENCHMENT COMPENSATION [S.10(10B)]**

(1) Conditions: the exemption is in respect of

- 1. Any compensation received by a workman under the industrial disputes Act 1947 or under any other act rules orders or notification there under Standing orders award contract of service etc.
- 2. At the time of-
  - (a) his retrenchment (dismissal from job) or
  - (b) the closing down of the undertaking in which he is employed or
  - (c) the transfer of the services of the workman due to change in the Management or ownership of the undertaking if his service is Interrupted due to such transfer or his new service conditions are less Favorable or the new employer is not liable to pay retrenchment Compensation in respect of the earlier period of service
- 3. Limited up to the amount
  - (a) calculated u/s 25F(b) the industrial disputes act or
  - (b) notified by the central government whichever is less
- 4. Except that no limit is applicable in respect of any compensation received under a scheme approved by the central government.

(2) Amount of exemption: the amount is the least of the following

- (A) amount calculated at 15 days average pay for every completed year of continuous service or any part thereof in excess of six months month for this purpose should be taken as 26 days
- (B) Rs. 5,00,000
- (C) retrenchment compensation actually received

The above limits will not apply in cases where the compensation is paid under any scheme approved by the central government.

Notes:

- (1) Meaning of average pay: average pay will be the average wages for the following period preceding retrenchment (i) for three complete Calendar months in the case of a monthly paid workman (ii) for four Complete weeks in the case of a weekly paid workman and (iii) twelve full working days in the case of a daily paid workman.
- (2) Meaning of wages: wages mean all remuneration capable of being expressed in terms of money which would be payable to a workman and will include all allowances (including dearness allowance) value of amenities provided by employer and value of any travel concession however bonus employers contribution benefit scheme and gratuity will be excluded.

#### **Illustration 8:**

Mr. Omkar was retrenched on 1-7-2022 and on that date the workman had put in a service of 30 years 5 months the working was paid a retrenchment compensation of Rs. 2,60,000. The monthly wages received by Mr. Omkar during the month April 2022, May 2022 and June 2022 were Rs.12,000, Rs.13,000 and Rs.14,000 respectively calculate the amount exempt u/s 10 (10b)

#### **Solution:**

Exemption is the least of:

- (a) Retrenchment compensation actually received =Rs. 2,60,000
- (b) Maximum exemption admissible Rs.5,00,000
- (c) Amount calculated at 15 days average wages per year for 30 years' service:  
 $13,000 \times 15/26 \times 30 = \text{Rs. } 2,25,000$

Exemption u/s 10 (10b) (least of a, b, and c) i.e., Rs.2,25,000

#### **1.4.6 RETIREMENT COMPENSATION TO EMPLOYEES [S.10(10C)]**

- (1) Any amount received or receivable (i.e., in instalment) as compensation
- (2) By an employee of-
  - (a) a public sector company.
  - (b) any other company
  - (c) an authority established under a central state or provincial act
  - (d) a local authority
  - (e) a cooperative society
  - (f) a statutory or recognized university
  - (g) a notified institute of management
  - (h) state government
  - (i) the central government
  - (j) a notified institution having importance throughout India or any state
  - (k) an Indian institute of technology (IIT)
- (3) On his voluntary retirement
- (4) Under any scheme framed as per the prescribed guidelines
- (5) Is exempt up to Rs.5 lakhs
- (6) Provided that (i) no such exemption was allowed to the assessee in any Earlier assessment year and (ii) no relief has been allowed u/s 89

#### **1.4.7 TAX ON PERQUISITES PAID BY EMPLOYER [S.10(10CC)]**

- (1) In the case of an employee being an individual
- (2) Deriving income by way of non-monetary perquisites [i.e., not being monetary payments as defined u/s 17(2)]
- (3) The tax on whole or part of such income
- (4) Actually, paid by his employer at the option of the employer
- (5) On behalf of such employee

- (6) Shall be exempt from tax
- (7) Notwithstanding anything contained in section 200 of the companies act 1956 (which prohibits payment of tax-free salary by a company)

Such tax paid cannot be claimed as business expenditure by the employer as provided in s.40(a)(vi) [seen chapter 6].

#### **1.4.8 PAYMENT FROM STATUTORS/PUBLIC P.F [S.10(11)]**

This exemption is in respect of-

- (1) Any payment to a member from
- (2) A provident fund to which the provident funds act 1925 applies
- (3) Or from any other provident fund set up and notified by the central government (i.e., the public provident fund).

Interest accrued during the previous year in the account of an employee maintained by the fund shall not be exempted to the extent it relates to the following amount.

case	Interest not exempted
Where employer is giving contribution	Interest on employee's contribution (made on or after 1-4-2022) in excess of RS 2,50,000 per year.
Where employer is no giving contribution.	Interest on employee's contribution (made on or after 1-4-2022) in excess of RS 5,00,000 per year'

#### **1.4.9 PAYMENT FROM RECOGNISED P.F. [S.10(12)]**

This exemption pertains to-

- (1) the accumulated balance due and becoming payable
- (2) to any employer participating in a recognized provident fund.
- (3) to the extent provided in rule 8 of part A of the 4<sup>th</sup> schedule to the act.

Interest accrued during the previous year in the account of an employee maintained by the fund shall not be exempted to the extent it relates to the following amount.

case	Interest not exempted
Where employer is giving contribution	Interest on employee's contribution (made on or after 1-4-2022) in excess of RS 2,50,000 per year.
Where employer is no giving contribution.	Interest on employee's contribution (made on or after 1-4-2022) in excess of RS 5,00,000 per year'

#### **1.4.10 PAYMENT FROM NPS [S.10 (10A & 12B)]**

As per section 80CCD any payment from national pension system trust to an assessee (employee or not) on account of closure or his opting out of the pension scheme is chargeable tax. Any payment from national pension system trust to an assessee on account of closure or his opting out of the pension scheme referred to in section 80CCD to the extent it does not exceed 60% of the total amount payable to him at the time of closure or his opting out of the scheme shall be exempt from tax vide s.10 (12A). however, the whole amount received by the nominee on death of the assessee shall be exempt from tax.

Further any payment from the national pension system trust to an employee under the pension scheme referred to in section 80CCD on partial withdrawal made from his account in accordance with the terms and condition specified under the pension fund regulatory in development authority act, 2013 (23 of 2013) and the regulation made there under to the extent it does not exceed 25% of the amount of contribution made by him shall be exempt.

#### **1.4.11 PAYMENT FROM SUPERANNUATION FUND [S.10(13)]**

This exemption is in respect of-

- (1) any payment made from an approved superannuation fund.
- (2) on the death of the beneficiary, or
- (3) to an employee in lieu of or in commutation of an annuity-
  - (a) on his retirement at or after certain age or
  - (b) on his becoming incapacitated prior to such retirement or
- (4) by way of refund of contribution on the death of a beneficiary.

- (5) or refund of contributions to an employee on leaving the Service otherwise than on retirement incapacitation etc. so far as the Payment relates to the contribution made by him before 1-4-1962 And any interest thereon.

#### **1.4.12 HOUSE RENT ALLOWANCE [S.10(13A)]**

The exemption is in respect of

- (a) any special allowance granted to an employee by his employer to specifically meet expenditure actually incurred on the payment of rent for residential accommodation occupied by him.
- (b) to such extent as may be prescribed having regard to the area or the place and such other considerations.
- (c) provided that no exemption is available if –
  - (1) such accommodation occupied by the assessee is owned by him or
  - (2) the assessee has not actually incurred any expenditure on payment of rent in respect of such by him.

In case the individual's HRA has not been mentioned and yet you are eligible then the person needs to calculate HRA using the formula under section 10 mentioned in Form 16. For instance, if your LTA is Rs. 50,000 and therefore the HRA that computes to Rs.1 lakh then the Allowances that would be exempted under the section of the Income Tax Act would be Rs 1.5 lakhs.

The least of the mentioned below should be ideally claims as the House rent allowance:

- 50% / 40% (metro / non-metro) of basic salary
- Rent paid minus 10% of salary.
- Actual HRA received

#### **1.4.13 SPECIAL ALLOWANCE FOR EXPENSES [S.10(14)]**

##### **1.4.13.1 Allowance exempt to the extent spent**

The exemption u/s 10(14) (i) is in respect of-

- (1) any prescribed special allowance or benefit
- (2) not being in the nature of a perquisite under section 17(2)

- (3) specifically granted to meet expenses wholly necessarily and exclusively incurred in the performance of the duties of an office or employment of profit
- (4) to the extent actually spent

Examples of such allowances (under rule 2BB) exempt to the extent actually spent are travelling /transfer allowance conveyance allowance outstation daily allowance actually utilized on tour transfer etc. helper allowance to meet actual expenses on helpers in office allowance for research studies professional development etc. uniform allowance used for purchase or maintenance of uniform for wear at office.

#### **1.4.13.2 Allowance exempt to the extent prescribed**

The exemption u/s 10(14) (ii) is in respect of-

- (1) a prescribed allowance granted either to meet the assessee personal expenses at his place of work or residence or to compensate him for the increased cost living other than any allowance granted to remunerate or compensate the assessee for performing duties of a special nature relating to his office or employment

- (2) to the extent prescribed

[examples of such allowances (under rule 2BB) exempt to the extent prescribed

- (a) children education allowance @RS 100 p.m. child for up to two children
- (b) children hostel expenses allowance @ RS 300 p.m. per child for two children
- (c) transport allowance for travelling between home and office in case of a blind or deaf or dumb or handicapped RS 3,200 p.m.]

### **1.5. WHAT IS DEDUCTED FROM SALARY?**

The following two deduction from gross salary are allowed vide section 16: (1) entertainment allowance and (2) professional tax no other deductions expenses on purchasing books etc. are allowed.

#### **1.5.1 STANDARD DEDUCTION [S.16 (ia)]**

A standard deduction of RS 50,000 or the amount of salary whichever is lower is allowed to an employee.

### 1.5.2 ENTERTAINMENT ALLOWANCE [S.16(ii)]

- (1) only to govt. employee: entertainment allowance is initially included in gross taxable salary thereafter section 16(ii) allows a deduction from salaries only to government employees to the least of the following:
  - (a)  $1/5^{\text{th}}$  of basic salary
  - (b) RS 5000
  - (c) amount of entertainment allowance actually received
- (2) non-govt. employee: a non-government employee is not entitled to any deduction for entertainment allowance.
- (3) irrespective of actual expenses: the deduction is allowed for the entertainment allowance as such irrespective of the actual amount spent on entertainment by the employee.

#### Illustration 9:

X a government employee receives RS 50,000 as salary and RS 12,000 as entertainment allowance. His actual expenditure on entertainment is only RS 3000 compute the taxability of the entertainment allowance.

#### Solution:

The deduction of entertainment allowance u/s 16 (ii) does not depend upon the amount of actual expenditure. Mr. A. being a government employee can deduct the least of the following amounts:

- (A) 20% of salary i.e., 20% of 50,000 = Rs. 10,000
- (B) Rs. 5000
- (C) Entertainment allowance i.e., Rs. 12000

The deduction will be Rs. 5000.

### 1.5.3 PROFESSIONAL TAX [S.16(iii)]

Section 16(iii) allows a deduction from salaries of the amount of a tax on employment (i.e., professional tax) levied by or under any law by the state government under article 276 of the constitution.



***Deductions and Exemptions Allowed under the Old and New /Alternate tax regime***

Particulars	Old Tax Regime	New Tax Regime (until 31 <sup>st</sup> March 2023)
Standard deductions (50000)	Yes	No
Rebate u/s 87A	12500/-	12500/-
Leave Travel Allowance	Yes	No
HRA	Yes	No
Other allowances	Yes	No
Entertainment Allowance and Professional Tax	Yes	No
Interest on Home Loan u/s 24b	Yes	No
Deductions u/s 80 C EPF,ELSS,PPF,FD, tuition fee etc.	Yes	No
Employees own Contribution to NPS	Yes	No
Employers contribution to NPS	Yes	Yes
Medical Insurance 80D	Yes	No
Disabled Individual 80 U	Yes	No
Interest on education loan 80 E	Yes	No
Interest on Electric Vehicle loan 80 EEB	Yes	No
Donation on political party/ trust 80G	Yes	No
Saving Bank interest u/s 80TTA and 80 TTB	Yes	No
Other Chapter VI-A deductions	Yes	No
Perquisites for official purpose	Yes	Yes

Source: <https://cleartax.in/s/old-tax-regime-vs-new-tax-regime>

## **1.7 ILLUSTRATION**

### **Illustration 10:**

Mr. Kamlesh who is currently employed with Wax Ltd. furnishes you with the following information. The details of monthly salary for the year ended 31-3-2023 are as under:

Basic Salary per month = Rs.5000

Dearness Allowance per month

From 1-4-2022 to 31-12-2022 = 25% of basic

From 1-1-2023 to 31-3-2023 = 32% of basic

Professional Tax Deducted per month Rs.120

Taxable conveyance allowance Rs.3500

Bonus @ 20% on Basic plus Dearness Allowance.

Mediclaime Premium paid by employer on behalf of Mr. C Rs. 2800

Compute his taxable salary for the assessment year 2023-24. (Old Tax Regime and New/ Alternate Tax Regime)

**Solution:**

PREVIOUS YEAR: 2022-23

ASSESSMENT YEAR: 2023-24

Particulars	Old/Regular Tax Regime Rs.	New/ Alternate Tax Regime
1. SALARY & ALLOWANCES		
Basic 5,000 x 12	60,000	
D.A. (up to December) 25% of (5,000 x 9)	11,250	
DA. (Jan.-March) 32% of (5,000 x 3)	4,800	
Conveyance allowance	3,500	
Bonus [20% of (60,000+ 16,050)]	15,210	
		94760
2. GROSS TAXABLE SALARY	94,760	
3. Less: DEDUCTION UNDER S. 16		
Standard Deduction	50,000	
Professional Tax (120 x 12)	1,440	
	51,440	-
4. NET TAXABLE SALARY (2-3)	43,320	94760

Notes: Medi-claim premium paid by the company is an exempt perquisite.

**Illustration 11:**

Mr. Vatsal, an employee of Reliance Ltd., covered by the Payment of Gratuity Act, 1972, retires on 31st January 2023, after 35 years and 7 months service. At the time of retirement employer paid him gratuity of 65,000 and he received 50,000 being the accumulated balance of Statutory Provident Fund. The due date of salary and allowances etc. was 1st day of the next month his and were paid on due date. He was entitled to monthly pension of 400 with effect from 1st day of February, 2023, which becomes due on the last day of the month. Professional Tax is 800. Compute the taxable income of Mr. Dharmesh for the Assessment Year 2023-24 (Old Tax Regime and New/ Alternate Tax Regime) on the basis of the following further information:

- (1) Basic Salary = 2,500 p.m.
- (2) House Rent Allowance 400 p.m. Taxable value is 50% of the amount received.
- (3) Project Allowance paid during the year Rs.12,000
- (4) Bonus paid during the year 3,600.
- (5) In retirement, on encashment of earned leave at his credit of 15 months he received 37,500.

**Solution:**

PREVIOUS YEAR: 2022-23

ASSESSMENT YEAR: 2023-24

Particulars	Regular/ Old Tax Regime Rs.	New/ Alternate Tax Regime
1. SALARY & ALLOWANCES		
1. Salary (2,500 x 11)	27500	27500
2. House rent allowances taxable value (200 x 11)	2200	2200
3. Project allowance	12000	12000
4. Bonus	3600	3600
5. Leave encashment (Note)	12500	12500
6. Gratuity (Note)	13077	13077
7. Pension (400 x 2)	800	800
2. GROSS SALARY	71,677	71,677

<b>3. LESS: DEDUCTION U/S 16</b>		
Standard Deduction	50,000	
Professional Tax	800	
	50,800	-
<b>4.NET TAXABLE SALARY (2-3)</b>	<b>20,877</b>	<b>71,677</b>

Notes:

- (1) Gratuity: An employee covered under Payment of Gratuity Act, 1972 is entitled to exemption u/s 10(10) to the extent of the least of the following amounts:
- 15 days salary (i.e., 15/26 working days x salary p.m.) based on the salary last drawn for every completed year of service or part thereof in excess of six months i.e.,  $2,500 \times (15/26) \times 36 = \text{Rs. } 51,923$ :
  - 20,00,000
  - gratuity actually received, i.e., 65,000.

Thus, the exemption in this case is 51,923. Taxable Amount:  $65,000 - 51,923 = 13,077$ .

- (2) Leave Encashment: The least of following is exempt u/s 10(10AA):

- Encashment @ 30 days p.a. (i.e., 35 months x 2,500 = 87,500)
- 10 x Average Salary (i.e.,  $10 \times 2,500 = 25,000$ )
- Actually received (i.e., 37,500)
- 3,00,000.

So, exempt amount is Rs.25,000. Taxable Amount is  $37,500 - 25,000 = 12,500$ .

- (3) Due Basis: Salary of Mar. 2021 is taxable on due basis on 1-4-2021 i.e., in previous year 2022-23. Apr. 2022 to Dec. 2022 salaries will also be taxed in the same previous year. Hence total salaries taxable will be for 11 months. Pension being due on last day of the month is for two months.

### Illustration 12:

Mr. Jagdish joined a company XYZ Ltd. on June 1, 2022 and was paid the following emoluments and allowed perquisites as under.

Basic pay = Rs. 50,000 per month

Dearness Allowance = Rs. 20,000 Per month

Bonus = Rs. 1,00,000 per month

**Perquisites:**

- (1) Furnished accommodation owned by the employer and provided free of cost.  
Taxable value of this rent-free furnished accommodation was 2,56,000.
- (2) The company paid medical insurance premium of Mr. X amounting to 15,000.

Before joining the company AB Ltd., he was a Central Government employee and retired on May 31, 2022. He was paid the following emoluments and perquisite till May 31, 2022 by the Government.

Basic Salary = Rs. 96,000 p.a.

Dearness Allowance = Rs. 6000 p.a.

Entertainment Allowance since 1963 = Rs. 24,000 p.a.

From June 1, 2022 he receives the monthly pension of 3,000 from the Government. He received 30,000 as Leave Salary in respect of earned leave at his credit. He received 1,20,000 as gratuity. Compute the taxable salary of Mr. X for the assessment year 2023-24. (Old Tax Regime and New/ Alternate Tax Regime)

**Solution:**

PREVIOUS YEAR: 2022-23

ASSESSMENT YEAR 2023-24

Particulars	Regular/ Old Tax Regime Rs.	New/Alternate Tax Regime
COMPUTATION OF TOTAL INCOME FROM SALARY		
A. GROSS SALARY		
(1) <u>From AB Ltd.</u>		
Basic = 50,000 x 10 = 5,00,000		
Dearness Allowance = 20,000 x 10 = 2,00,000	17,00,000	17,00,000
Bonus 1,00,000 x 10 = 10,00,000 <b>1700000</b>		
Add: Perquisites	2,56,000	2,56,000
Rent free furnished accommodation      256000	19,56,000	19,56,000
(2) <u>From central government</u>	16,000	16,000
Basic (96,000 x 2/12).	1,000	1,000

Dearness Allowance (6,000 x 2/12)	4,000	4,000
Entertainment Allowance (24,000 x 2/12)	30,000	30,000
Monthly Pension (3,000 x 10)		
<b>GROSS TOTAL SALARY</b>		
<b>b. LESS: DEDUCTION U/S 16</b>		
Standard Deduction		
Entertainment Allowance (Least of following)		
(1) 1/5 of Basic Salary (16,000+ 1,000) = 3400		
(2) Maximum Allowed = 5,000		
(3) Actual = 4000		
	20,07,000	20,07,000
<b>C. NET TAXABLE SALARY (A-B)</b>		
	50,000	-
	3400	-
	<b>19,53,600</b>	<b>20,07,000</b>

Working Notes:

- (1) Leave Salary 10(10AA) & Gratuity 10(10) Exempted fully for Government Employee.
- (2) Mediclaim Premium Paid by the Employer is not a taxable perquisite.

## 1.8 CHECK YOUR PROGRESS

### A) MULTIPLE CHOICE QUESTIONS

1. M, a chartered accountant is employed with m ltd as an internal auditor and requests the employer to call the remuneration as internal audit fee m shall be chargeable to tax for tax for such fee under the head.
  - (a) Income from salaries
  - (b) Profit and gains from business and profession
  - (c) Income from other sources
  - (d) None of these

2. Mr.A, who is entitled to a salary RS 20,000 p.m. took an advance of RS 50,000 against salary in the month of march 2022 the gross salary of m for assessment year 2022-23 shall be:
  - (a) 2,90,000                      (b) 2,40,000                      (c) 50,000                      (d) None of these
3. Mr.C who is entitled to salary of RS 12000 p.m. took advance salary from his employer for the months of April and May 2022 along with salary or march 2022 on 31-3-2022 the gross salary of m for assessment year 2022-23 shall be
  - (a) RS 1,44,000                      (b) RS 1,68,000                      (c) RS 24,000                      (d) None of these
4. salary of m becomes due on 1<sup>st</sup> of next month and it is paid on 7<sup>th</sup> that month. For the assessment year 2022-23 the salary of m shall be taken from
  - (a) April 2020 to March 2022                      (b) March 2021 to February 2022
  - (c) April 2021 to March 2023                      (d) None of these
5. A. Ltd. Announced increase in D.A. on 21-3-2021 with retrospective effect from 21-3-2016 and the same were paid on 6-4-2021 the arrears of D.A. shall be taxable in the previous year.
  - (a) 2020-21    (b) 2021-22
  - (c) In respective previous years to which these relate
  - (d) None of these
6. Uncommuted pension received by a government employee is
  - (a) Exempt                      (b) Taxable                      (c) 1/3 is exempt                      (d) None of these
7. Mr.X claimed the exemption of gratuity in the past to the extent of RS 2,50,000. He was entitled to the gratuity from the present employer amounting to RS 2,00,000 in the previous year 2021-22 m can claim exemption to the maximum extent of
  - (a) RS 2,00,000                      (b) Rs. NIL                      (c) RS 1,00,000                      (d) None of these
8. Employee A is neither a government employee nor covered under payment of gratuity act 1972 he has completed 16 years and 8 months of service the number of completed years considered for gratuity exemption shall be
  - (a) 17 years    (b) 16 years

- (c) 16 years and 8 months (d) None of these
9. Compensation received on voluntary retirement is exempt under sec 10(10c) to the maximum extent of
- (a) RS 2,40,000 (b) RS 3,00,000 (c) RS 5,00,000 (d) None of these
10. Mr. S is entitled to children education allowance @ RS 80 p.m. child for 3 children amounting RS 240 p.m. It will be exempt to the extent of
- (a) Rs. 200 P.M. (B) Rs. 160 P.M. (C) Rs. 240 P.M. (D) None of the above
11. A is entitled to children education allowance @ RS 80 p.m. par child for 3 children amounting RS 240 P.M. it will be exempt to the extent of:
- (a) Fully exempt (b) Fully taxable
- (c) Exempt up to certain limits mentioned in sec. 16
- (d) First included in full in gross salary and thereafter deduction allowed from gross salary under section 16
12. Pension received by an employee of the central or state government who has been awarded param Vir chakra
- (a) Is taxable as income from salary
- (b) Is exempt from tax
- (c) Is taxed after deducting RS 15000 or 1/3 whichever is lower
- (d) Is taxable as income from other sources
13. Children Education allowance is
- (a) Exempt up to the lower of the amount spent or prescribed limit
- (b) Exempt fully to the extent actually spent
- (c) Exempt to the extent of lower of allowance received or the lump sum amount received irrespective of actual expenditure
- (d) Fully taxable
14. Leave travel concession is
- (a) Exempt up to lower of the amount actually spent or the prescribed limits
- (b) Exempt full to the extent actually spent



- (c) Exempt to the extent of lower of allowance received or the lump sum amount prescribed irrespective of actual expenditure.
  - (d) Full taxable
15. Allowances for expenses on travelling on tour or transfer are
- (a) Exempt up to lower of the amount actually spent or the prescribed limits
  - (b) Exempt full to the extent actually spent
  - (c) Exempt to the extent of lower of allowance received or the lumpsum amount prescribed irrespective of actual expenditure.
  - (d) Full taxable
16. Lumpsum payment from unrecognized provident fund to an employee on his retirement over and above his own contributions
- (a) Is not taxable
  - (b) Is taxable as income from other sources
  - (c) Is taxable in case of only specified employees
  - (d) Is taxable as profit in lieu of salary
17. compensation for termination of employment
- (a) Is not taxable
  - (b) Is taxable as capital
  - (c) Is taxable in case of only specified employees
  - (d) Is taxable as profit in lieu of salary
18. Cost of medical treatment in a hospital maintained by the employer provided to an employee
- (a) Is not taxable
  - (b) Is a perquisite taxable in case of all employees
  - (c) Is a perquisite taxable in case of specified all employees
  - (d) Is taxable as profit in lieu of salary

19. Gas, electricity, or water supply provided free of cost
- (a) Is exempt from tax
  - (b) Is a perquisite taxable in case of all employees
  - (c) Is a perquisite taxable in case of specified all employees
  - (d) Is taxable as profit in lieu of salary
20. Sum paid as employer contribution to a recognized provident fund within the allowed limits
- (a) Is not taxable
  - (b) Is a perquisite taxable in case of all employees
  - (c) Is a perquisite taxable in case of specified all employees
  - (d) Is taxable as profit in lieu of salary
21. Value of rent-free accommodation provided by the employer
- (a) Is exempt from tax
  - (b) Is a perquisite taxable in case of all employees
  - (c) Is a perquisite taxable in case of specified all employees
  - (d) Is a perquisite taxable in case of only government employees
22. Salary received by partner from firm
- (a) Salary
  - (b) Income from other sources
  - (c) Income from business
  - (d) Exempt income
23. Salary received by a member of parliament
- (a) Salary
  - (b) Income from other sources
  - (c) Income from business
  - (d) Exempt income
24. Payment received by a college lecturer from university for setting question papers
- (a) Salary
  - (b) Income from other sources
  - (c) Income from business
  - (d) Exempt income

## **B) FILL IN THE BLANKS**

1. Salary received by the partner from the firm in which is a partner is taxable under the head .....
2. Income under the head salary is taxable only if there is a relationship ..... and ..... Between the payer and the payee
3. Profits in lieu of salary is taxable under the head ..... (salaries /profits from business)
4. Compensation payable to an employee on termination of service is a capital receipt it is ..... (taxable / non-taxable)
5. A Ltd. paid salary of Rs. 2,00,000 to employee M and undertakes to pay the income tax amounting to Rs. 6,120 during the previous year 2021-22 on behalf of M the gross salary of M the gross salary of am shall be .....
6. Medi-claim insurance premium paid by employer on the behalf of employee is a ..... (tax-free / taxable) perquisite.
7. Amount notified as exempt gratuity for a non-government employee is .....
8. Employers' contribution to recognized provident fund during the previous year in excess of ..... Of basic salary is taxable as salary
9. .... of commuted pension received (along with gratuity) by a non-government employee is exempt from tax
10. Leave encashment received while in service is .....(taxable / exempt)
11. M pays a salary of RS 2,50,000 to his employee V and undertakes to pay the income tax amounting to RS 49,980 during the previous year 2021-22 on behalf of V gross salary of V for assessment year 2022-23 is Rs. ....
12. M was employed on 1-4-2014 in the grade of RS 15,000-400-17000-500-22000 gross salary for assessment year 2022-23 is Rs., .....
13. M was employed on 1-8-2018 in the grade of Rs. 15000-400-17000-500-22000- and his salary was fixed at Rs. 16200 from the date of joining gross salary for assessment year 2022-23 is Rs. ....

14. M who is entitled to a salary of Rs. 10,000 p.m. paid on last day of the month took an advance of Rs. 20,000 on 1-3-2021 against salary in the month of march 2021 gross salary for assessment year 2022-23 is Rs.....
15. M who is entitled to salary Rs. 10,000 p.m. took advance salary from his employer for the month of April and May 2022 along with salary of march 2022 on 31-3-22 gross for assessment year 2022-23 is Rs.....
16. M is employed with V Ltd at a salary of RS 10,000 p.m. as V Ltd was in financial crisis it paid the salary of January 2021 to march 2021 to M only in July 2021 gross salary for assessment year 2022-23 is RS .....
17. Salary of M is 10,000 p.m. M had taken salary in advance for the months of April 2021 to June 2021 in march 2021 itself gross salary of assessment year 2022-23 is Rs .....
18. M who was working with another company joined the present employer w.e.f. 1-5-2021 at a salary of Rs. 10.000 p.m. his salary becomes due on first of next month he was also entitled to a pension of Rs. 4000 p.m. from his former employer gross salary for assessment year 2022-23 Rs. ....
19. Mayank is a government employee he Draws a monthly salary of Rs. 5000 and dearness allowance @ RS 300 p.m. he gets RS 500 p.m. as entertainment allowance the amount of deduction towards entertainment allowance is Rs. ....
20. X a government employee receives Rs. 50,000 as salary and Rs. 12000 as entertainment allowance his actual expenditure on entertainment is only Rs. 3000 the deduction for entertainment allowance is Rs. ....
21. Shobha is getting a pension of RS 3000 p.m. from a company during the previous year he got three66-fourth of his pension commuted and received RS 2,40,000 assuming that he also received gratuity earlier the exempt amount is Rs. ....
22. C retires from service on 30-11-2021 he is in receipt of Rs. f Rs. 3000 p.m. as pension up to 31-1-2022 payable on the last day of each month on 1-2-2022 he gets two third of his pension commuted for Rs. 1,20,000 he is an ex-employee of central govt the amount of pension taxable is Rs. ....

23. Mr. X is employed in ABC Ltd and the employer has paid him children education allowance of Rs. 175 p.m. per child for three in this case taxable amount shall be Rs.....
24. Mr. X is employed in ABC Ltd. And the employer has paid him children education allowance of Rs. 45 p.m. per child for three children.in this case taxable amount shall be Rs. ....
25. Mr. X is employed in ABC Ltd and is getting children education allowance of Rs. 75 p.m. per child for three children and Mr. X has incurred Rs. 500 p.m. on the of each of the child in this case taxable amount shall be Rs. ....

### 1.9 Summary

Income from salary includes a variety of components such as Basic pay, dearness allowance; House rent allowance (HRA), special allowances, bonuses, perquisites, pensions, and gratuities. These components compose an individual's taxable earnings.

There are several exemptions available to lessen the tax burden on salaried persons. HRA exemptions, which allow a portion of HRA to be tax-free, standard deductions, exemptions for LTA, employer payments to provident funds, and certain gratuity receipts, are among them.

The deductions from salaries are undertaken largely to maintain tax compliance and include professional tax, tax deducted at source (TDS), and payments to schemes such as the Employee Provident Fund (EPF) and the National Pension System (NPS).

### ANSWER TO CHECK YOUR PROGRESS

#### A) MULTIPLE CHOICE QUESTIONS

- |        |        |         |         |         |         |
|--------|--------|---------|---------|---------|---------|
| 1. (A) | 5. (B) | 9. (C)  | 13. (C) | 17. (D) | 21. (B) |
| 2. (B) | 6. (B) | 10. (B) | 14. (B) | 18. (A) | 22. (C) |
| 3. (B) | 7. (A) | 11. (D) | 15. (B) | 19. (C) | 23. (B) |
| 4. (B) | 8. (B) | 12. (B) | 16. (D) | 20. (A) | 24. (B) |

#### B) FILL IN THE BLANKS

- |                     |                        |              |
|---------------------|------------------------|--------------|
| (1) Business income | (2) Employer; Employee | (3) salaries |
| (4) taxable         | (5) 2,06,120           | (6) tax free |

(7) 12 %	(8) 10,00,000	(9) taxable
(10) taxable	(11) 2,99,980	(12) 2,10,000
(13) 2,08,000	(14) 1,20,000	(15) 1,40,000
(16) 1,20,000	(17) 90,000	(18) 1,48,000
(19) 5000	(20) 5000	(21) 5000
(22) 1,06,667	(23) 3,900	(24) 540
(25) 900		

## EXERCISE

### DESCRIPTIVE QUESTIONS

- Discuss the basis of charge in respect of income from salaries.
- Who are the persons liable to be taxed on income salaries?
- Explain whether following receipts are taxable as income from salaries-
  - Remuneration received by a director from company
  - Remuneration received by a partner from firm
  - Remuneration received by a member of parliament
  - Commission received by an agent from principal
  - Fees received by a lawyer from his clients
  - Bonus received on life insurance policy by the insured from the insurance company
- Explain the following statements-
  - Employer employee relationship is a basic condition for determining basis of charge under the head salary
  - Salary is taxable either on accrued or receipt basis whichever occurs first
  - Salary is taxable at earliest possible time but only once
- How does the income tax act define the term salary?
- Briefly enumerate the items covered by the definition of salary under the income tax act.
- Define perquisites describe the items taxable as perquisite
  - In case of all employees and
  - In case of specified employees

8. What do you mean by perquisites? enumerate the persons in whose case the value of a benefit or amenity given free of cost or at a concessional rate is treated as a perquisite give 5 instances of such perquisites taxable in the hands of such specified employees.
9. Enumerate the items which are not treated as perquisites under the act.
10. Enumerate the items which are exempt from tax under section of the income tax act
10. Define perquisites and give a few instances of perquisites taxable and exempt under the income tax act
11. What do you mean by profit in lieu of salary? explain and illustrate.
12. What are the deductions allowed from the income from salary? explain and illustrate
13. Explain entertainment allowance
14. Explain the various deduction u/s 16 of the income tax act 1961 available from income from salary for the current assessment year.

### **SHORT NOTES**

Write a short note on

1. Salary basis of charge
2. Perquisites
3. Profit in lieu of salary
4. Gratuity exemption
5. Leaver salary exemption
6. Standard deduction

### **Reference for further study:**

- 1) Singhanian V. K. (2023), Direct taxes, Taxman Publication
- 2) Banger M, (2023), Income tax, Aadhya Publication.



## **Unit-2**

### **Income from Business or Profession, Income from House Property, Capital Gains and Income from other sources (Of individuals only)**

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## 2.0 Objectives

After studying this unit you will be able to;

1. Understand the concept and terminology of Income from House Property, Income from Business or Profession, Capital gains and Income from other sources
2. Explain the sources of incomes for individuals
3. Understand the calculation of taxable income as per new regime and old regime

## 2.1 Introduction

In the intricate web of financial structures and taxation systems, understanding the diverse sources of income is paramount. The Income Tax Act of any country classifies income into several categories, each with its unique set of rules and implications. In India, these classifications encompass Income from House Property, Income from Business and Profession, Capital Gains, and Income from Other Sources. These categories serve as the backbone of the Indian taxation system, shaping the way individuals and entities report their earnings and fulfill their tax obligations.

### **Income from House Property:**

Income from House Property constitutes a significant segment of India's taxation framework. It encompasses revenue generated from properties such as houses, apartments, commercial spaces, or land. The calculation of this income involves assessing the property's rental value, adjusted for standard deductions like municipal taxes and a 30% deduction on the net annual value. However, if the property is self-occupied, no tax is applicable on the rental value. For property owners, understanding the nuances of this category is vital, as it determines their tax liability and compliance with the law.

### **Income from Business and Profession:**

Income from Business and Profession stands as a pillar of the Indian economy, embracing a diverse range of entrepreneurial ventures and professional services. Entrepreneurs, self-employed individuals, and professionals like doctors, lawyers, and architects fall under this category. Calculating the income involves meticulous

accounting, encompassing revenue, expenses, and deductions related to the business or profession. The Income Tax Act allows for different accounting methods, like cash or accrual, catering to the varied nature of businesses. Proper understanding and adherence to the tax regulations in this category are indispensable for both the growth of businesses and the sustenance of a robust economy.

### **Capital Gains:**

Capital Gains illuminate the realm of investments and asset management. It encompasses profits earned from the sale of capital assets such as real estate, stocks, mutual funds, or jewelry. These gains are classified as short-term or long-term based on the duration of asset holding. Short-term gains, accrued from assets held for less than two years, are taxed at applicable slab rates. In contrast, long-term gains, from assets held for more than two years, enjoy a lower tax rate with the benefit of indexation. Certain investments, such as Equity Linked Savings Schemes (ELSS) and agricultural assets, enjoy exemptions, creating a complex yet essential landscape for investors to navigate.

### **Income from Other Sources:**

Income from Other Sources constitutes a multifaceted category, encapsulating all earnings that do not align with the aforementioned classifications. This category includes interest income from savings accounts, fixed deposits, winnings from lotteries or game shows, and gifts received. The taxation of this income involves adding it to the total income and taxing it according to the applicable slab rates. Given the diversity of sources falling under this category, meticulous documentation and accurate reporting are vital to ensuring compliance with tax regulations.

Comprehending these four fundamental categories of income under the Indian tax system is indispensable for individuals and entities alike. Whether one owns property, operates a business, invests in assets, or earns from various sources, understanding the intricacies of these categories is crucial for financial planning and adherence to legal obligations. As the economic landscape evolves, staying abreast of changes in tax laws and seeking professional guidance becomes imperative. Through a nuanced understanding of Income from House Property, Income from Business and Profession, Capital Gains, and Income from Other Sources, individuals and businesses can navigate the complexities of taxation, fostering financial stability and contributing to the growth of the economy.

## **2.2 Income from House Property**

### **2.2.1 Introduction**

#### **Income taxable under the head 'Income from House Property' (Sec. 22)**

Income from the house property is ascertained on the basis of annual value of the house property. According to Section 22, income from house property means 'the annual value of property, consisting of any buildings or lands connected thereto, of which the assessee is the owner. However, the properties or portions of such properties which are occupied by him for the business or profession carried on by him are not covered under this head'.

From the above provisions it is clear that the annual value or rental income of a house property is chargeable to tax under the head 'Income from house property, if the following conditions are satisfied :

(a) The property should consist of buildings or lands appurtenant (or connected) thereto : The land may be in the form of courtyard or compound forming part of the building. If the rent is received on purely open plot of land, it is taxable under the head 'Income from other sources' and not under the head 'Income from house property'.

A building means an enclosure with walls and / or roof. It is a structure designed for habitation, purpose of occupation or for storage of commodities. e.g. Residential houses, warehouses, auditoriums, cinema houses, stadiums, open air theatres etc.

However, income from buildings used as staff quarters is taxable under the head 'Income from business' and if the building is let out along with machinery, furniture etc. for inseparable rent, its income is shown as income from other sources or business income.

**(b) The assessee should be the owner of the property :** The legal owner of the house property is charged to the tax in respect of income from house property. Hence, the rent received by the tenant by subletting any portion of the building is taxable under the head 'Income from other Sources'. In the same manner, income from the mortgaged property is treated as the income of the mortgager and not that of mortgagee and it is taxable in the hands of mortgager.

**Deemed Owner [Sec. 27]** Under the following circumstances the assessee is deemed to be the owner of the property even though he is not the legal owner.

(a) An individual who transfers any house property to spouse without any consideration or an agreement to live apart, is treated as the owner of property so transferred.

(b) An individual who transfers any house property to minor child excluding married daughter without consideration, is treated as the owner of such property.

(c) A holder of an impartible estate.

(d) A member of co-operative society or a company, to whom a building or a part of it, is allotted or leased under the scheme of the society or the company, as the case may be.

(e) A person who is allowed to take or retain possession of any building or part thereof in part performance of a contract as provided in Section 53 of Transfer of Property Act, 1882.

**(c) The property should not have been occupied by the assessee for the purpose of carrying on his business or profession :** If any house property is occupied by an assessee for the purpose of his own business or profession, the profits of which are assessable to tax, the annual value of such property is not taxed under this head. Even if the house is used for business by a partnership firm in which the assessee is a partner, it would amount to the assessee only carrying on business. Similarly, if only part of the house property is used for his business, the income of remaining part will be assessed under this head.

Secondly, the assessee is not allowed to claim any notional rent in respect of the own property used for the business to be charged against the profits of such business or profession. However, he can charge against the profit, the expenses incurred by way of repairs, taxes etc. and depreciation on such property in computing his profits from business and profession. If an assessee receives any rent from the residential quarters let out to the employees and if it is incidental to carrying on of the business, such rent will be treated as business profit.

### **Annual Value [Sec. 23]**

The income from house property is charged to income-tax on the basis of the annual value of that property. Annual Value is the sum for which the property is reasonably expected to be let out from year to year. Thus, annual value is a notional figure. It is determined on due consideration of factors like rent payable by tenant,

location of the property, annual ratable value of the property fixed by municipalities. rents of similar properties in the similar locality. In general, the gross annual value of the house property is determined by taking into consideration the following four factors :

(a) Actual rental value (b) Municipal value (c) Fair rent of the property (d) Standard rent (if Rent Control Act is applicable.).

**(a) Actual Rental Value :** It refers to the actual sum for which the property is let out. It is considered in determining annual value of the property. Moreover, if the tenant has undertaken any liability of the owner besides paying rent, or if the owner has undertaken any obligation of the tenant, rent payable by the tenant will have to be adjusted to arrive at de facto rent of the property.

**Treatment of composite rent, if any :** Apart from recovering rent of building in some cases, the owner gets rent of other assets (like furniture) or he charges for different services provided in building (such as charges for lift, security, air conditioning etc.). The amount so recovered is called 'Composite Rent'. In such a case the rent attributable to other assets and services is separated and charged to tax under the head Income from other sources or Income from Business or Profession and rent of property is charged under the head Income from H.P. If the composite rent is inseparable between building and other assets it is entirely chargeable to tax under the head Income from Business and Profession or Income from other sources.

**(b) Municipal Value :** For determining the municipal taxes, the local authority makes periodical survey of all buildings in its jurisdiction. Such valuation (called municipal value or annual ratable value) is taken into consideration in determining the annual value.

**(c) Fair Rental Value :** Fair rent means the rent that property might reasonably be expected to fetch from year to year depending upon the locality, the rent of similar properties in nearby area. Fair rental value is relevant in arriving at annual value.

**(d) Standard Rent :** It is the fair rent of the property determined under the Rent Control Act. The landlord cannot reasonably expect to receive from a tenant anything more than standard rent. If the property is covered under Rent Control Act, its annual value cannot exceed standard rent fixed under the Act. But if the actual rent received / receivable is more than the sum for which the property might reasonably be

expected to let from year to year, actual rent will be taken as annual value in case of let out property.

### **Determination of Annual Value**

For computation of the annual value, house properties can be divided into the following types : (1) Let out property. (2) Self-occupied house property. (3) Self-Occupied and let out for part of the year. (4) House partly self-occupied for residence and partly let out. (5) More than one house self-occupied., (6) House reserved for self-occupation.

#### **1. Let Out Property (Sect. 23 (1))**

The annual value of let out property is ascertained in following steps

##### **Step (I) Ascertain Gross Annual Value (GAV)**

According to Section 23 (1) of the Act the Gross Annual Value of the property is deemed to be

1. The sum for which the property might reasonably be expected to be let from year to year (i.e. Reasonable Lettable Value). In case the Rent Control Act is not applicable for the place where house property is let out, the Reasonable Lettable Value is (a) Fair Rent or Municipal Value whichever is higher.

If however, the Rent Control Act is applicable for the place where house property is Let out, the Reasonable Lettable Value (computed as above) should not exceed the Standard Rent given under Rent Control Act.

OR

2. Where the property (or any part of the property) is let and the actual rent received or receivable by the owner in respect thereof is in excess of the Reasonable Lettable Value (RILV) as above, the amount so received or receivable shall be the Gross Annual Value (GAV)

OR

3. Where the property (or any part of the property) is let out and was vacant during the whole year (or any part of the year) and owing to Such vacancy the actual rent received or receivable by the owner in respect thereof is less than the Reasonable Lettable Value referred to in item (1) above, the amount so received or receivable shall be the Gross Annual Value.

## **Step II - Deduct Municipal Taxes**

From the gross annual value determined in the step I, the municipal taxes (or local taxes) PAID by the owner should be deducted to arrive at net annual value. If the local taxes are borne by the tenant no deduction is to be made. Also if the local taxes are due during the year but not paid, the deduction is not to be made.

## **Step III - Allow Deductions u/s 24**

From the net annual value determined in step II, make the deductions provided by Section 24. The balancing figure will be the taxable income in respect of let out property.

### **2. Self –Occupied House Property [ Sec.23 (2) a (i)]**

When a property is occupied by owner himself for his own residence, the annual value of such house property is to be treated as NIL provided the following two conditions are fulfilled:

- (i) The property is not let out actually during any part of the year and
- (ii) No other benefit is derived from such property.

Deductions under clauses of Section 24 are not available from the annual value of such property except interest on funds borrowed for the purpose of purchase, construction, repairs, renovation of such property not exceeding Rs. 30,000. But if house property is acquired or constructed with funds borrowed on or after 1-4-1999 and the construction or acquisition is completed within 3 years from the end of the financial year in which capital was borrowed. The deduction limit will be Rs. 2,00,000 instead of Rs. 30,000. **It should be noted that deduction under Section 24 (b) in respect of interest on borrowed capital (pertaining to self occupied properties) is not available, if the assessee opts for the alternative tax regime.**

No such deduction shall be allowed in respect of such interest unless the person extending the loan certifies that such interest was payable in respect of the amount advanced for acquisition or construction of the house or as refinance of the principal amount outstanding under the earlier loan amount taken for such acquisition or construction. While claiming such deduction in respect of interest, 1/5 of pre-construction period interest plus actual interest paid or payable for F. Y. may be considered.

If the assessee has self occupied houses at two locations on account of job, children's education, care of parents etc. interest on borrowing for acquisition or construction of two self occupied houses properties shall be admissible as deduction subject to the existing overall ceiling of Rs. 2,00,000 p.a.

**Example 2.1: (Annual value of self-occupied property)**

Mr. X is the owner of a house occupied by him for his own residence. The municipal value of the house was Rs. 25,000 on which he paid local taxes at 10%. He also paid interest of on loan Rs. 2.60,000 taken for construction which got completed on 31st December, 1999.

Compute his taxable income from house property if the housing loan was borrowed on : (a) 1-2-1999 (b) 1-5-1999

Computation of Income from self occupied house of X for A.Y. 2023-2024

Particulars	Loan borrowed on	
	1-2-1999	1-5-1999
Annual Value	Nil	Nil
Less : Deduction u/s 24 (b) Interest on Borrowings	30,000	200,000
<b>Income from Self Occupied house</b>	<b>(30,000)</b>	<b>(200,000)</b>

### 3. Partly Self-occupied and Partly Let Out

If only a part of the house is self-occupied for residence and the other part is let out during the year, the annual value of self-occupied portion of the house is taken to be the NIL and the annual value of the let out portion is determined as explained in (1) above.

Thus, annual value of any portion or part of a property which is let out shall be computed separately under the 'let out property' category and that of the other portion or part which is self-occupied, shall be computed under the 'self occupied property' category. For instance, if a building or a floor in a building of which assessee is the owner, comprises of independent, self-contained flats / units of residence / apartments, then income from each unit can be computed separately where one flat is self-occupied and the other unit/units is / are let-out. There is no need to treat the whole property as a single unit for computation of income from house property



unless the entire house is self-occupied. Municipal valuation or fair rent, if not given separately, shall be apportioned between the let out portion and self-occupied portion either on plinth area or built- up floor space or on such other reasonable basis.

Similarly, where, in a building, the ground floor is let-out and the first floor is self-occupied or vice -versa, such a property need not be recognized as a single unit. Instead, income from the floor which is let-out can be computed separately subject to the principles applicable to a let out property and income from the floor which is self-occupied can be computed by applying the principles relating to self-occupied property as if each such floor is an independent property. On the other hand, if both the ground floor and first floor are occupied wholly for self occupation, the entire house should be treated as a single unit and computation should be done accordingly.

Property taxes if given on a consolidated basis, can be bifurcated as attributable to each such portion or floor on a reasonable basis. Floor area or annual value can be considered as the appropriate basis for such bifurcation. Interest expenditure relating to the let out floor can be claimed fully without any restriction and the interest attributable to the self- occupied floor shall be allowed up to Rs. 30,000 or 2,00,000, as the case may be. The analogy applicable to self occupied property equally applies to unoccupied property mentioned under clause (b) of sub-section of Sec. 23.

#### **4. House Self-occupied for a Part of the Previous Year and Let Out for the Part : Sec. 23 (2) (a) (ii)]**

If a single unit of property (house, flat or apartment) is self-occupied for few months and let out for the other months then fair rent of the property for the whole year shall be taken into account for determining the annual value. The fair rent for the whole year shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let-out during the previous year. Even in such case, property taxes and interest on loan for the whole year shall be allowed as deduction.

If a property is let for whole or any part of the previous year then such property shall be covered by the category let out property'. It cannot be brought under the category of self-occupied property or unoccupied property covered by Sec. 23(2). This is made clear by sub- section (3) of Sec. 23 which provides that the provisions of sub-section(2) shall not apply if the house is actually let during the whole or any

part of the previous year or any other benefit is derived by the owner from it. Therefore, such a property has to necessarily be governed by sub-section (1) of Sec. 23 and annual value shall be determined accordingly.

#### **5. More than One House Self-occupied [Sec. 23 (2) (b & c)]**

In case the owner occupies two or more houses for his own residential purpose, any two of such houses according to his choice is treated as self-occupied and its annual value is considered to be NIL and remaining self-occupied houses will be treated as DEEMED TO BE LET OUT and their annual value is ascertained as if it is let out. The amount of deduction u/s 24 (b) available on the interest paid on the housing loan for both the self occupied houses has been restricted to Rs. 2 lakh. Moreover, any unabsorbed loss in respect of such self occupied houses will not be allowed to be carried forward.

#### **6. House Reserved for Self-occupation [Sec. 23(3)]**

Where the assessee owns only one self-occupied residential house property which could not actually be occupied by him during the previous year for his employment, business or profession carried out at other place where he resides in a building not belonging to him, the annual value of such house will be taken as NIL, provided that such house is not actually let and no other benefit is derived there from by the owner. For such house no deduction is available u/s 24 except interest on funds borrowed for construction, acquisition, repairs or renovation of such property subject to a limit of Rs. 30,000 or Rs. 2,00,000, as the case may be. Hence, such property may show a loss up to Rs. 30,000 or Rs. 2,00,000, as the case maybe.

#### **Deductions in computation of Income from House Property u/s 24**

While computing the taxable income under the head income from house property, the following deductions may be claimed from the annual value of such property.

**(a) Standard Deduction :** A standard deduction at 30 per cent of the net annual value (i.e. gross annual value less municipal taxes) of the let out property is allowed from the annual value in respect of repairs expenses and collection charges of rent and other incidental expenses pertaining to house property. This deduction is allowed on notional basis and not on the basis of actual expenditure. It means this deduction

at 30 per cent of annual value can be claimed irrespective of the fact whether the actual expenditure on house property is more or less than 30 per cent of annual value.

**(b) Interest on Borrowings :** Interest on funds borrowed for purchase, construction, repairs or renovation of house property is allowed as deduction on DUE basis, hence the date of actual payment is immaterial. However, the interest on loans taken on security of the property for any other purpose (such as marriage or education etc.) is not allowable as deduction.

This deduction cannot be claimed on properties under construction. It commences from the year in which the construction or acquisition of the property gets completed. As such a special provision has been made for accumulated interest during the construction period. The assessee may claim the deduction of such accumulated interest in five equal instalments commencing from the year in which the construction or acquisition of such property is completed.

#### **Amounts not Deductible [Sec. 25]**

Any annual charge or interest on borrowings payable outside India on which no tax has been paid or deducted at source and in respect of which there is no person in India who may be treated as an agent, is not deductible from the annual value of the house property.

**Unrealised rent realised subsequently upto A. Y. 2001-02 [Sec. 25 A]:** In case the unrealised rent already allowed as deduction is realised subsequently from the tenant, it is treated as income from house property for the previous year during which it is realised, whether the assessee is the owner of the property in that year or not. But no deductions of any kind are allowed there from.

**Unrealised Rent of A. Y. 2002-03 onwards :** Deduction u/s 24 can be claimed. Arrears of rent received [Sec. 25 B]: Where the assessee is the owner of any house property which has been let out to a tenant and the assessee has received from such property any amount by way of arrears of rent, which has not been charged to income-tax for any previous year, the amount so received, after deducting 30 per cent of such amount for standard deduction shall be chargeable to tax as 'Income from House Property' of the previous year in which the rent is received, whether the assessee is the owner of that property in that year or not.

**Property owned by co-owners [Sec. 26]** :Where the property is owned by two or more persons and their respective shares in the property are definite and ascertainable, the share of each co-owner in the income from such property is computed as per above provisions and included in his total income of the previous year. Where such property is in the joint occupation of the co-owners, each co-owner is entitled to the relief provided u/s 23 (2) for self-occupation, whether for the whole year or for any part of the year. In case, the share of each co-owner is not definite and ascertainable, the income from such house property will be assessed under the status of Association of Persons and relief will be allowed for only one self-occupied house.

**Set off and carry forward of loss:** If the income computed under the head, 'Income from House Property', is a loss, such loss shall be set off against the Income of the assessee under the other heads of income in the same previous year. Thereafter, if there is a loss remaining unadjusted, it can be carried forward and set off in subsequent years, subject to a limit of 8 assessment years against income from house property.

### **2.2.2 Section 115BAC – the New Tax Regime**

The Budget 2020 introduces a new regime under section 115BAC giving individuals and HUF taxpayers an option to pay income tax at lower rates. The new tax regime system came in force from FY 2020-21 (AY 2021-22)

#### **The Eligibility Criteria for the New Tax Regime on Section 115BAC**

For the assessment year 2023-24, individuals and Hindu Undivided Families (HUFs) have the option to pay income tax based on the new tax regime rates, provided their total income for the relevant financial year meets the following conditions:

Income calculation is done without considering any deductions or exemptions mentioned below:

- All deductions under Chapter VI-A, except those specified in section 80CCD/80JJAA.
- Deductions specified in Section 35/35AD/35CCC.
- Clause (iia) of Section 57.

- Deductions specified in Section 24b.
- Clause (5)/(13A)/(14)/(17)/(32) of Section 10/10AA/16.
- Deductions specified in Section 32(1)/32AD/33AB/33ABA.
- The calculation is performed without offsetting any losses from previous assessment years resulting from the above deductions or losses from house property.
- The calculation does not consider any deductions or exemptions related to perquisites or allowances.
- The calculation is performed without claiming any depreciation as per clause (iia) of Section 32.
- Form 10IE is submitted on the income tax portal before filing ITR

### **Exemptions and deductions not claimable under the New Tax Regime**

The following are some of the major deductions and exemptions you cannot claim under the new tax regime:

- The standard deduction under section 80TTA/ 80TTB
- Professional tax and entertainment allowance on salaries
- Leave Travel Allowance (LTE)
- House Rent Allowance (HRA)
- Minor Child Income Allowance
- Helper allowance
- Children Education Allowance
- Other Special Allowance [Section 10 (14) ]
- Interest on housing loan on the self occupied property or vacant property (Section 24)
- Chapter VI-A deduction (Section 80C, 80D,80E and so on except Section 80CCD(2) and Section 80JJAA)
- Exemption or deduction for any other perquisites or allowances including food allowance of Rs. 50 per meal subject to 2 meals a day
- Employees (own) Contribution to NPS

- Donation to Political Party / Trust, etc
- Budget 2023 update- Deduction from family pension income up to FY 2022-2023  
(From FY 2023-2024, it is allowed as deduction)
- Budget 2023 update – Standard deduction of Rs. 50000 up to FY 2022-2023 (From FY 2023-2024, it is allowed as deduction)

### **2.2.3 House property loss under the new tax regime**

In the case of a self-occupied property, you cannot claim a deduction on interest for a housing loan under the new tax regime. The deduction of Rs 2 lakh allowed in the existing system is not available in the new tax regime. Also, you cannot set off the loss of Rs 2 lakh from house property from your salary income.

If you have let out house property, you can claim a deduction for interest paid on the housing loan. Note that the new tax regime restricts the deduction to the taxable rent received from the property against the old regime. In the new regime, you cannot set off the loss arising from the house property due to excess interest paid over the rental income. Also, you cannot carry forward the loss from house property to future years for set off

### **2.2.4 Practical Problems and Solutions**

#### **Problem 1.**

Mrs. Asha a resident individual owns a house in USA. Sh receives rent @ \$ 2000 pm. She paid municipal taxes of \$ 1500 during the financial year 2022-2023. She also owns two storied house in Mumbai, ground floor is used for her resident and first floor is let out at a monthly rent of Rs. 10000. Standard rent for each floor is Rs. 11000 pm. Municipal taxes paid for the house amount to Rs. 7500. Mrs. Asha had constructed the house by taking a loan from nationalized bank on 20-6-2019. She repaid the loan of Rs. 54000 including interest of Rs. 24000. The value of the dollar is to be taken as Rs. 70.

Compute total income from house property of Mrs. Asha. Consider....

- A) Does not opt to be taxed under section 115BAC
- B) Opt to be taxed under section 115BAC

**Solution**

**Computation of Income from house property of Mrs. Asha  
For The Assessment Year 2023-24**

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>Income from House Property</b>				
<b>1) Rent Received from Property in USA ( \$2000 X 12 X 70 )</b>	1680000		1680000	
Less : Municipal Taxes paid ( \$1500 x 70 )	105000		105000	
	1575000		1575000	
Less : Standard Deduction @ 30%	472500	1102500	472500	1102500
2) Gross Total Income				
<b>Gross annual value shall be higher of standard rent @ 11000 pm or actual rent i.e. 10000 pm</b>				
Therefore gross annual value	132000		132000	
Less : Municipal Taxes	3750		3750	
Net Annual Value	128250		128250	
Less : Standard Deduction @ 30%	(38475)		(38475)	
Less : Interest paid on loan	(12000)	77775	(12000)	77775
3) Self Occupied house				
Net Annual Value	NIL			Nil
Less : Interest paid on loan	12000	(12000)		Nil
<b>Income from House Property</b>		<b>1168275</b>		<b>1180275</b>

**Problem 2**

Mr. Raju owns a house in Bangalore construction of which was completed on 1/7/1999. Half portion is let out for residential purpose on a monthly rent of Rs. 8000. However, this portion remained vacant for three months (from 1/1/2023 to 31/3/2023) during the previous year 2022-2023.  $\frac{1}{4}$  of the portion is used by Mr. Raju for the purpose of his profession while the remaining  $\frac{1}{4}$  th portion is used for his own residence for the full year.

The other expenses regarding the house were

Particulars	Rs
Municipal Taxes	10000
Repairs	5000
Interest on loan for renovation of house	40000
Ground Rent	2000
Annual Charge	10000
Fire Insurance Premium	4000

Compute the taxable income from house property for the Assessment Year 2023-2024. Consider

- Does not opt to be taxed under section 115 BAC
- Opts to be taxed under section 115BAC

**Solution**

**Computation of Income from house property of Mr. Raju  
For the assessment year 2023-24**

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>a) Expected Rent (8000 x 12)</b>	96000		96000	
<b>Actual Rent Receivable (Excluding the period of Vacancy) ( Rs. 8000 x 9 )</b>	72000		72000	
Gross Annual Value as per dection 23 (1) shall be		72000		72000
Less : Municipal Taxes 50%		5000		5000
Net Annual Value		67000		67000
Less : Standard Deduction @ 30%	20100		20100	
Less : Interest 50%	20000	(40100)	20000	(40100)
<b>Income from Let out Property</b>		26900		26900
<b>b) 25% portion of Self Occupied</b>				



Annual Value	Nil		Nil	
Less: Interest 25%	10000	(10000)	Nil	Nil
<b>Income from house property</b>		<b>16900</b>		<b>26900</b>

Notes :

- 1) In absence of other information actual rent shall be taken as fair rent
- 2) 25% portion used for own business shall be computed under profit and gains from business and profession.

### Problem 3

Vikas Constructed a house property in Kolhapur consisting of two units on leasehold land. The construction was completed on 30/6/2006 and its municipal valuation was at Rs. 80000. He let out one of them for commercial purposes and was himself residing in the other. The self occupied portion was 2/5<sup>th</sup> of the house. Rent is fixed at Rs. 6000 per month. His income from other sources is Rs. 15000.

His expenses relating to the property for the previous year 2022-2023 were as under

Particulars	Rs
Municipal Taxes	6000
Ground Rent	1000
Fire Insurance	400
Collection Charges	2000
Interest on loan for	
i) Construction of house	30000
ii) Purchase of Car	20000

Calculate his income from house property. Assume Vikas

- a) Does not opt to be taxed under section 115 BAC
- b) Opts to be taxed under section 115BAC

**Solution**

**Computation of Income from house property of Mr. Vikas**  
**For the assessment year 2023-24**

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>a) Let out Unit</b>				
<b>Gross Annual Value higher of the following two</b>				
1)Municipal Value 3/5 of 80000) = 48000	48000		48000	
2)Actual Rent Received/Receivable ( Rs 6000 x 12) = 72000	72000	72000	72000	72000
Less Municipal Taxes 3/5 <sup>th</sup>		(3600)		(3600)
Net Annual Value		68400		68400
Less : Deduction under section 24				
<b>i)Standard Deduction @ 30%</b>	20520		20520	
ii)Interest ( 60%)	18000	(38520)	18000	(38520)
		29880		29880
<b>b)Self Occupied House</b>				
<b>Annual Value</b>		<b>Nil</b>		<b>Nil</b>
<b>Less : Interest</b>		<b>(12000)</b>		<b>Nil</b>
<b>Income from House Property</b>		<b>17880</b>		<b>29880</b>

**Problem 4**

A and his three brothers B, C and D are the equal owners of a house property consisting of 8 Flats. The four brothers are occupying one flat each for their residential purpose and the balance flats are let out for residential purpose. The actual rent received from the rented flats is Rs. 2500 pm per flat. Municipal taxes paid for the entire property is Rs. 32000. The construction of the property was completed on 31/8/1998.

The following expenses were incurred by them during the year ended 31/3/2023 in respect of the property

Particulars	Rs
Repair	20000
Fire Insurance Premium	5000
Interest on Money Borrowed for construction	130000
Ground Rent	2000
Collection Charges	5000

One of the flat remained vacant for 3 months. The other income of A, B, C and D was Rs. 50000, Rs. 30000 Rs. 70000 and Rs. 80000 respectively.

You are required to determine the income from house property for each of the coowners as well as their Gross Total Income for the Assessment Year 2023-2024.. Assume A:

- Does not opt to be taxed under section 115BAC
- Opts to be taxed under section 115 BAC

### Solution

#### Computation of Income from house property of Mr.A For the assessment year 2023-24

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>a) Let out Unit</b>				
<b>Gross Annual Value</b>				
Expected Rent ( 2500 x 4 x 12 )	120000		120000	
Actual Rent Received / Receivable				
( 2500 x 3 x 12)	90000		90000	
( 2500 x 1 x 9)	22500		22500	
	112500		112500	
As a owing to vacancy the actual rent received or receivable is less than the expected rent the gross annual value in this		112500		112500

case shall be actual rent received or receivable as per section 23 (1) c				
Less : Municipal Tax paid 50% of 32000		16000		16000
Net Annual Value		96500		96500
Less Deduction u/s 24				
i)Standard Deduction @ 30%	28950		28950	
	65000	93950	65000	93950
Income from Let Out portion		2550		2550
Share of each coowner		637		637
<b>b) Self Occupied Property</b>				
Annual Value		Nil		Nil
Less : Interest for each unit 1/4 <sup>th</sup> of (50% of 130000)	(16250)	(16250)	Nil	Nil
<b>Income of each co-owner from House Property</b>		<b>(15613)</b>		<b>637</b>

Total income of each co-owner

	Business Income	Property Income	Total Income
A	50000	(15613) / 637	34387 / 50637
B	30000	(15613) / 637	14387/30637
C	70000	(15613) / 637	54387/70637
D	80000	(15613) / 637	64387/80637

Note : In the absence of information, the actual rent has been taken as fair rent.

## 2.2.5 Check your progress-I

### (A) Objective Type Questions.

Fill in the blanks with most suitable word.

- If an assessee uses his own house property as a branch office of his business, the annual value of such house property is chargeable to tax as.....  
a) Income from Salary                      b) Income from house property

- c) Income from business                      d) None of the above
- 2. The deduction allowable from the annual value of self occupied house is.....
  - a) Interest on housing loan                      b) Standard deduction
  - c) Unrealised rent                                  d) None of the above
- 3. The annual value of self occupied house is.....
  - a) NIL    b) Gross annual value
  - c) Less municipal tax                              d) Fair Rental Value
- 4. Standard deduction for self occupied house is.....
  - a) NIL    b) 30 per cent of Annual Value
  - c) Rs. 1,50,000                                      d) Rs. 30000
- 5. Income under the head 'Income from house property' cannot be negative in case of.....
  - a) Self-occupied house property                      b) Let out house property
  - c) Partly let out and partly self-occupied      d) None of the above

**(B) State whether the following statements are True or False.**

- 1) Annual value means actual rent received less local taxes.
- 2) Rent derived by subletting the building is taxable under the head income from house property.
- 3) Income from house property is determined on the basis of annual value.
- 4) Income received from business of constructing house and letting them out is taxable under the head income from house property.
- 5) The annual value of a house which cannot be let out is zero.
- 6) Income from a house let out to an employee helpful in carrying on business efficiently is tax-free.
- 7) Rent from building held by an assessee as stock in trade is taxable under the head income from house property.
- 8) Unrealised rent of the past year can be deducted from the rent of P.Y. while computing gross annual value.

## **2.3 Profits and Gains of Business or Profession (Section 28 to 44 D)**

### **2.3.1 Introduction**

This is an important head of income which covers profits and gains of business, profession and vocation etc. maximum number of assesses are assessed for tax under this head and maximum tax revenue is collected on this head as a result this head gives rise e to numerous practical problems and court judgments.

Section 28 lays down and lists incomes which are taxable under this head while Section 29 lays down the procedure of computing incomes under this head. Section 30 to 43 D elaborates the various deduction which are allowable as well as disallowable under this head. Section 44 explains computation of income of insurance companies.

#### **Business: Sec. 2 (13)**

The business is defined as "any trade, commerce or manufacture or any adventure in the nature of trade commerce or manufacture, It is any real and organised activity carried on mainly with profit motive. Even a single transaction may be treated as an adventure in the nature of trade and profit there from may be taxed under this head.

#### **Profession**

Profession means an occupation requiring to use intellectual skill or manual skill or both. The examples are doctors, engineers, advocates, chartered accountants etc. It does not include production, purchase and sale of goods and services to earn profit. Professionals make use of their special knowledge and skills to solve the problems of common men and thereby earn the livelihood. Their prime objective is service and not the profit.

#### **Vocation**

Vocation is an activity or only a way of living for which one has special fitness. It does not involve any organized activity as in case of business. The examples are musicians, dancers, painters, singers etc. For income-tax purposes the technical difference between business, profession or vocation is of little importance as all of these are covered under the head 'Income from Business & Profession.'

### **Income Chargeable Under this Head: Sec. 28 (Basis of charge)**

Section 28 enumerates the incomes taxable under the head 'Income from Business & Profession' which are as follows:

1. **Profits and gains of business or profession :** The profits and gains of business or profession carried on by the assessee at any time during the previous year. The business may even be carried through the manager or any authorised person. But the assessee should be the legal as well as the beneficial owner of the business and not the benamidar. The income earned by even illegal business is taxable. But the expenses incurred in this behalf should be deducted from the profits of such illegal business.
2. **Compensation :** Any compensation or other payments due to or received by an assessee, for loss of agency or the modification of terms and conditions relating thereto, is taxable as business income.
3. **Income of trade or other associations :** The income derived by trade, professional or similar association, for specific services rendered for its members.
4. **Profit on sale of licence :** Any profit on sale of a licence granted under the Import and Export Control Act, 1947 is taxable under this head.
5. **Cash assistance against exports :** Any cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India.
6. **Duty of Customs or Excise :** Any duty of customs or excise repaid or repayable as drawback to any person against exports under relevant rules is taxable under this head.
7. **The value of perquisite :** The value of any benefit or perquisite, whether Convertible into money or not, arising from business or the exercise of a profession.
8. **Interest, salary, bonus, commission etc. received by a partner :** Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from such firm are taxable under this head in the hands of the partners.
9. **Receipts on Keyman Insurance Policy :** Any sum received under Keyman Insurance Policy including the sum allocated by way of bonus on such policy is also taxable as business income.

**10. Speculation Income :** Any income from speculation business is liable to tax under this head. But the profit from speculation business is shown separately. In case there is a loss in speculation business it should be set off only against the profit from any other speculation business.

The speculative, transaction means a transaction in which a contract for the purchase or sale of any commodity, including stock and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips.

**11. Receipts for not carrying any activity etc. :** Any sum whether received or receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business or not to share any know-how patent copy-right, trade-mark licence franchise or any other business or commercial right of similar nature or information or technique likely to assist in manufacture or processing of goods or provision of service.

**12.** Sum received by reason of transfer of capital asset claimed at 100% deduction u/s 35 AD (Excluding land, goodwill and financial assets.)

#### **Deemed Income from Business or Profession : Sec. 41**

The following receipts are deemed to be the income from business or profession and are taxable under this head.

**1. Recovery of loss or expenditure :** The amount received by the assessee in respect of a loss or expenditure allowed as deduction in the earlier years, is deemed to be the profit of the previous year in which it is received by the assessee, whether the business or profession in respect of which the deduction has been made is in existence in that year or not.

**2. Remission or ceasure of liability :** The amount of liability which was allowed as deduction in the earlier years if waived or ceased is deemed to be profit of the previous year during which it is waived by the creditor.

**3. Profit on sale of asset used for scientific research :** If a capital asset used for scientific research is sold without having been used for other purposes the least of the following is chargeable to tax as business income of the previous year in which sale took place:

(a) Sale proceeds together with the deduction allowed u/s 35, or



(b) The amount of deduction u/s 35.

If (a) above is more than (b) the difference between the two represents capital gain.

4. **Bad debts recovered:** The bad debts allowed as deduction in earlier years recovered in later years are deemed to be the profits of the previous year in which they are recovered whether the business is in existence or not.

5. **Withdrawal from special reserve:** Where any amount is withdrawn by a financial corporation etc. from the special reserve created and maintained by it shall be deemed to be the chargeable profits of the previous year in which such amount is withdrawn.

6. **Recovery after discontinuance of business:** The sums recovered of a business or profession which has been already discontinued will be deemed to be the income from business or profession in the previous year in which the recovery is done.

### **Computation of Income from Business or Profession Sec. 29**

The Income-Tax Law does not lay down any fixed formula or procedure (as in case of salaries or income from house property) for computing the income under this head. Section 29 of the Act merely states that income from business or profession shall be computed in accordance with the provisions of Sections 30 to 43 D. These sections elaborate the expenses allowable and not allowable and also the conditions and limits for the allowance of these expenses as deduction from revenue or business or profession.

In other words, for computation of income under this head, the profit from business or profession must be determined first in accordance with the generally accepted principles of accountancy. Finally, the adjustments in the light of provisions of Sections 30 to 40D should be made in order to ascertain the income from business or profession.

### **Deductions Expressly Allowable u/s 30 to 43 D**

Following deductions are expressly allowed as deductions while computing income from business or profession. There may be other loss or expenditure incurred by the assessee in course of his business or profession not falling in any of these section. Even then he is entitled for deduction of such expenses and losses on the

ground of ordinary principles of commercial practice, provided that it is not expressly disallowed under any other provisions of the Act.

**1. Rent, rates, taxes, repairs and insurance of buildings u/s 30 :** The payments made in respect of premises used by the assessee for his business or profession such as land revenue, local taxes, municipal taxes, rates, repairs (excluding the expenditure of capital nature) and insurance are allowable deduction. They are allowable deductions even though the assessee is a tenant of the premises provided he has agreed to meet all such expenses. The rent of premises is allowable if he is not the owner of the premises. If any part of the business premises is self-occupied by the assessee for residential purpose the reasonable proportion of above expenses as determined by the Assessing Officer is allowed as deduction.

**2. Repairs and insurance of machinery, plant and furniture u/s 31 :**

In respect of the machinery, plant, furniture used for business or profession the following deductions are allowable :

- (i) Current repairs to such assets. (excluding the expenditure capital nature)
- (ii) Insurance premium paid in respect of insurance against risk of damage or destruction of the asset.

**3. Depreciation u/s 32 :** Depreciation is allowed in respect of the following assets owned wholly or partly by the assessee and used for the purpose of his business or profession

- (a) Buildings, machinery, plant or furniture being tangible assets: and
- (b) Know-how, patents, copyright, trademarks, licences, franchises or any other business or commercial rights of similar nature being intangible assets acquired on or after 1-4-1998.

The depreciation is allowed as a deduction on the written down value in the case of any assets or any block of assets according to the prescribed rates and conditions. However, in case of assets of an industrial undertaking engaged in generation or distribution of power, the depreciation is allowed at the prescribed rates on the original cost of such assets to the undertakings as per the option exercised by it, instead of claiming depreciation on written down value.

4. **Tea development account, coffee development account and rubber development account : u/s 33 AB :** A tea grower / manufacturer assessee may deposit in a special account in NABARD or a scheme approved by Tea Board or Coffee Board or Rubber Board and claim deduction in respect of such deposit from the profits of business subject to a maximum ceiling of 40% of profits for the year.

5. **Site Restoration Fund u/s 33 ABA :** An assessee carrying on business of prospecting or extracting and producing petroleum or natural gas in India can make a deposit in a special account with State Bank of India or in Site Restoration Account approved by Ministry of Petroleum and Natural Gas and claim deduction in respect of such deposit subject to a maximum ceiling of 20% of the current profit.

6. **Reserve for shipping business u/s 33 AC :** Instead of this deduction a tonnage tax scheme is introduced w.e.f. A. Y. 2005-06.

7. **Expenditure on Scientific Research u/s 35 :** The following deductions are allowed in respect of expenditure on scientific research :

- (i) Any expenditure of revenue or capital nature related with the business. The depreciation cannot be claimed in respect of such capital assets if such deduction is claimed.
- (ii) Any sum paid to an approved college, university, research association or such other institution for use in scientific research. A weighted deduction of 175% of such sum is allowed.
- (iii) Any sum paid to an approved college, university, research association or any other institution for carrying on research in social science or statistical research. A weighted deduction of 175% of such sum is allowed.
- (iv) Any expenditure on scientific research on in house research and development facility by a company engaged in biotechnology or any other than specified in Eleventh Schedule. A weighted deduction of 200% is allowed in this clause.

8. **Acquisition of patents and copyrights u/s 35 A :** Any expenditure of capital nature incurred before 1-4-1998 on acquisition of patents or copyrights used for business. is allowed in equal annual installments for 14 years beginning with the previous year in which the expenditure is incurred.

9. **Telecom Licence Fees u/s 35 ABB :** Any capital expenditure incurred and actually paid by the assessee to acquire right to operate telecom services in India can be amortized over the period of licence. If this deduction is claimed he cannot claim depreciation on such expenditure.

10. **Expenditure on social or economic welfare of public u/s 35 AC:** Any expenditure incurred by assessee for financing of any eligible project for promoting the social and economic welfare or the uplift of the public is allowed as deduction. If the assessee is a company, it can on its own incur direct expenditure on such projects. If the expenditure is in nature of donation to approved institutions, the claim should be supported by certificate in the form of 58 A from the payee.

11. **Capital Expenditure for specified business u/s 35 AD:** 100% deduction of capital expenditure, excluding land, goodwill and financial instrument can be claimed. It is applicable to specified business viz.

- (a) Setting up or operating cold storage, transport facility for agricultural produce, meat and meal products, poultry, marine and dairy products etc.
- (b) Setting up or operating warehousing facility for agricultural produce.
- (c) Laying and operating a cross country natural gas, crude or natural gas pipeline.

12. **Payment to institutions carrying on rural development programmes : u/s 35 CCA :** The assessee is entitled for a deduction for payments made to:

- (i) National Fund for Rural Development.
- (ii) National Urban Poverty Eradication Fund.
- (ii) Any other approved institution with the object of training of persons for rural development programmes.

13. **Payments to institutions carrying on conservation of natural resources u/s 35 CCB :** The assessee is entitled for deduction in respect of the payments made to:

- (i) Approved institutions to be used for carrying out approved programme of conservation of natural resources or an approved programme of afforestation, or
- (ii) A notified fund of afforestation.

**14. Amortisation of certain preliminary expenses u/s 35 D:** An assessee being an Indian company or any resident person is entitled for a deduction in respect of preliminary expenses incurred in setting up of a new industrial unit or extension of an existing industrial unit. The conditions in this regard are :

- (i) The maximum amount eligible for deduction is restricted to 5% of the cost of project (or capital employed in the business). If the expenditure is incurred before 1-4-1998, the ceiling is 2.5% instead of 5%, (ii) The deduction is one fifth of the total preliminary expenses for a period of five consecutive years from the commencement of business. If the expenditure has been incurred before 1-4-1998, the deduction is one tenth of such expenditure for a period of ten consecutive years.

**15. Amortisation of expenditure on amalgamation or demerger Sec. 35 DD :** Any expenditure incurred by an Indian company on or after 1-4-1999 wholly and exclusively for amalgamation or demerger of an undertaking is allowed to be deducted at one fifth of such expenditure over a period of five years beginning with the previous year in which the amalgamation or demerger takes place.

**16. Amortisation of expenditure incurred under Voluntary Retirement Scheme Sec. 35 DDA :** Any expenditure incurred during P. Y. 2000-01 and subsequent years, by way of payment of any sum to an employee at the time of his voluntary retirement in accordance with schemes of voluntary retirement, 1/5th of the amount so paid will be allowed as deduction in the previous year of payment, and the balance will be deducted in equal installments for each of the four succeeding previous years. The deduction so allowed will not be allowed as deduction under any other provision of Act.

**17. Expenditure on prospecting of minerals etc. u/s 35 E:** An assessee, being an Indian company or any resident person, engaged in the operations relating to a prospecting or extraction or production of any minerals is qualified for a deduction of 1/10th of the specified expenditure over a period of 10 years. The expenditure incurred during the year of commercial production and any one or more of the four years immediately preceding the year would qualify for the deduction.

**18. Insurance u/s 36 (1), (i), (ii a), (ii b) :** The following deductions are allowed in respect of insurance :

- (i) Any premium paid in respect of insurance against the risk of damage, loss of stock or stores used in business or profession.
- (ii) Any premium paid by Federal Milk Co-operative Society on the life of cattle owned by the members of primary milk co-operative society affiliated to it.
- (ii) Any premium paid by the employer by cheque in respect insurance on health of his employee under an approved scheme of GIC.

19. **Bonus, commission to employees u/s 36 (1) (ii) :** Bonus or commission paid to employees for services rendered is allowed as deduction provided that it should not have been payable in lieu of profit or dividend.

20. **Interest on borrowed capital u/s 36 (1) (iii) :** Interest paid in respect of capital borrowed for business or profession is allowed as deduction. However, interest liable to tax which is payable outside India, is not allowable as deduction if no tax has been paid or deducted at source. From A. Y. 2004-05, the interest on a loan for a capital asset till the asset is put to use will not allowed as deduction. It will be eligible for depreciation.

21. **Employer's contribution to provident fund and superannuate funds u/s 36 (1) (iv):** The contribution paid by an assessee as an employer towards a Recognised Provident Fund or Approved Superannuation Fund to the extent of prescribed limits are allowed as deduction subject to conditions specified by the board.

22. **Contribution to Gratuity Fund u/s 36 (1) (v):** The contribution paid by an assessee as an employer towards an approved gratuity fund created exclusively for the benefit of his employees under an irrevocable trust is allowed as deduction.

23. **Loss of Animals u/s 36 (1) (vi) :** If the business or profession involves use of live animals (not as stock in trade) this deduction is allowed. If such animal dies or becomes permanently useless the loss arising there from is deductible.

24. **Bad Debts u/s 36 (1) (vii) 36 (2) :** The bad debts in respect of any debt or part thereof which are established to have become irrecoverable In the previous year are allowable as deduction under the following conditions :

- (i) The amount is written off as irrecoverable in the accounts of the assessee.

- (ii) The debt must have been taken into account in computing the income of the assessee in the previous year or any other earlier years.
- (iii) The debt should have been given in regular course of business in case the assessee is engaged in the business of money lending or banking.
- (iv) If debt is partly written off and any amount is ultimately recovered on such debt which is less than even reduced balance (i.e. original dues less bad debt written off) the deficiency shall be deductible in the previous year in which ultimate recovery is made.
- (v) When the debts have been written off as bad debts in the books of accounts of an earlier previous year but deduction was not allowed by Income Tax Officer (I.T.O.) for that year on the ground that it had not been established to have become a bad debt in that year, the same shall be allowed as deduction in the year in which such debt according to the I.T.O. becomes irrecoverable.

**25. Provision for bad debts (in case of banks) u/s 36 (1) (via):** A deduction in respect of provision for bad debts is allowed in respect of advances of banks and financial institutions as under :

- (i) A scheduled or non-scheduled bank : A deduction not exceeding 5% of 'Adjusted Total Income' and 10% of the aggregate average advances made by the rural branches computed in prescribed manner.

Notes : 1. 'Adjusted Total Income' means total income before making deductions under Chapter VI A and this deduction.

2. Rural branch means branches at places with population not exceeding 10,000 as per preceding census.

(ii) A foreign bank: A deduction not exceeding 5% of 'Adjusted Total Income'.

(iii) A public financial institution etc. : A public financial institution or a state financial corporation or state industrial investments corporation can claim a deduction not exceeding 5% of 'Adjusted Total Income'.

**26. Special Reserves for financial corporation u/s 36 (1) (viii) :** This deduction is allowable to :

- (a) An approved financial corporation engaged in the provision of long-term finance for industrial and agricultural development in India or development of infrastructure facilities in India.
- (b) An approved Indian public company engaged in the provision of long-term finance for construction or purchase of houses in India for residential purpose. Amount of deduction : The deduction is allowed in respect of amount transferred to special reserve account. The amount of deduction is limited to 40% of the total income. If the total of such reserves made from time to time exceeds twice the aggregate of paid up share capital and general reserves the deduction ceases :

**27. Family planning expenditure u/s 36 (1) (ix) :** Any bonafide expenditure incurred by a company to promote family planning among its employees is allowable deduction. The expenses of revenue nature can be deducted totally from the income. If any such expenditure is of capital nature one fifth of such expenditure per year is deductible for five years beginning with the previous year in which such capital expenditure is incurred. However, no depreciation will be allowable on such capital assets used for family planning. In case the profit of the company is insufficient to absorb such expenditure on family planning it may be carried forward as unabsorbed expenditure to the subsequent assessment years to set off against the future taxable profit.

#### **General Deductions: Sec. 37**

Section 37 is a residuary provision. The expenses not covered under Section 30 to 36 are covered by Section 37. According to Section 37 any expenditure other than those expressly allowed u/s 30 to 36 incurred by the assessee is allowed in computing the income under this head if:

- (i) the expenditure is not of capital nature.
- (ii) it is not in the nature of personal expenses of the assessee.
- (iii) it is incurred wholly and exclusively for the purpose of business or profession.
- (iv) it is incurred in the accounting year.
- (v) it should not be against the law i.e. the expenditure incurred which is prohibited by any law shall not be allowed under this section.



Following are the few examples of the general deductions.

1. Expenses incurred on purchase, sale and manufacture of goods.
2. Administration expenses of business.
3. Selling and distribution expenses of business.
4. Subscriptions to trade associations and organisation.
5. Expenses on training of employees.
6. Audit fees
7. Consultancy fees for sales tax and income-tax.
8. Telephone expenses including deposit under OYT scheme.
9. Profession tax.
10. Expenses on local festivals like Diwali.
11. Staff wellare expenses.
12. Expenses on opening ceremony.
13. Compensation paid to an employce on termination of his job in the interest of business.
14. Legal expenses.
15. Expenses incurred in defending the charge for damages.
16. Expenses and fees for income-tax proceedings.
17. Compensation to employees for injury sustained on duty.
18. Presents and gilts to employees.
19. Expenses of director on foreign business tours.
20. Security deposit for telex machine.
21. Premium on loss of profit policy.
22. Cash shortage in end of the day.
23. Commitment charges for unutilised loans.
24. Royalty for patents and copyrights.

25. Loss due to theft.
26. Loss on sale of investments.
27. Embezzlement of cash.
28. Directors' remuneration.
29. Expenses on registration of trade marks.
30. Expenditure on securing overdraft facilities for business.
31. Loss by white ants.
32. Sales tax and excise duty.
33. Demurrage paid to transporters.
34. Pension to employees on retirement.
35. Provision for sales-tax payable.

#### **Expenditure Expressly Disallowed [Sec. 40]**

The following amounts are not deductible from business or profession income:

**(i) In case of any Assessee u/s 40 (a)**

1. Interest, royalties, fees for technical services or any other expenses chargeable to tax payable outside India, or in India to a non-resident (not being a company or to a foreign company) on which no tax has been paid or deducted at source. Interest, commission, brokerage, professional fees, payments to contractors, subcontractors payable to resident also will not be allowed as deduction, if income-tax has not been deducted and paid before the due date of filing of return.
2. Securities Transaction tax are not deductible.
3. **Income-Tax** : Any tax levied on profits and gains of business or profession is not allowed.
4. **Wealth Tax** : Any tax paid under the Wealth Tax Act, 1957 is not allowed.
5. **Salaries payable outside India** : Salaries paid outside India or to a non-resident are not allowed unless income-tax has been paid or deducted at source.

6. **Contribution to P. F. :** Any contribution to a provident fund, if no arrangement is being made for deduction of tax at source.
7. Tax on perquisites paid by employer u/s 10 (10CC) is not deductible.

**(II) In Case of Firm u/s 40 (b)**

1. **Interest to partners :** In case of partnership firm interest payment to any partners, is allowed as a deduction if :
  - (a) such payment is authorised- as per the terms of the partnership deed.
  - (b) The interest does not exceed the amount calculated at the rate of 12 per cent simple interest.
2. **Remuneration to partners :** Any payment of salary, bonus, commission or remuneration to any partner is allowed as deduction if :
  - (a) the payment is made only to a working partner.
  - (b) the payment is authorised by and is in accordance with the terms of partnership deed.
  - (c) the total remuneration payable to all working partners does not exceed the following limits : In case of any firm

i	On the first Rs. 3,00,000 of the book profit or in case of a loss	Rs. 1,50,000 or 90% of the book-profit whichever is more
ii	On the balance of book profit	At 60% of such book profit.

The remuneration paid to the working partner of the firm in excess of above limit shall be disallowed. Moreover, the remuneration paid to a partner who is not a working partner, will be disallowed. For the purpose of the above 'book-profit' means the net profit as Shown in the profit and loss account computed in the manner laid down in Chapter IV-D without considering the deduction for remuneration as calculated above. Working partner means an individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner.

- (III) In Case of an Association of Persons : u/s 40 (ba) :** Any payment by way of interest. salary, bonus, commission or remuneration to the members by an

Association of Persons or Body of Individuals is disallowed as a deduction from the profit. Payments not deductible in certain circumstances u/s 40 A

**(I) Payments to certain persons or their relatives which are unreasonable:-**

Any expenditure incurred by the assessee whereby a payment is made to the 'specified persons' mentioned below and the assessing officer feels that such expenditure is excessive or unreasonable having regard to :

- (i) the fair market value of the goods, services or facilities for which the payment is made or,
- (ii) the legitimate needs of the business or profession of the assessee,
- (iii) the benefits accruing to him there from.

Then the payments to the extent treated as excessive will be disallowed, The 'specified persons' for the purpose of the provision are

**1. Where the assessee is**

- |                               |   |
|-------------------------------|---|
| (a) an individual             | - his relative                            |
| (b) a company                 | - its director or his relative            |
| (c) a firm                    | - its partner or his relative             |
| (d) a Hindu Undivided Family  | - a member of the family or his relative  |
| (e) an association of persons | - a member of association or his relative |

2. Any person having substantial interest in the business or profession of the assessee or any relative of such person i.e. A person carrying not less than 20% voting power or entitled to 20% or more of the profits at any time during the year is said to have substantial interest in business or profession.

**(II) Payments exceeding Rs. 20,000 made otherwise than by crossed cheques or drafts :**

Where the assessee incurs any expenditure in respect of which payment is made in sum exceeding Rs. 20,000, otherwise than by a crossed cheque or a crossed bank draft, then whole of such expenditure shall not be allowed as a deduction. To illustrate, if a business house purchases goods worth Rs. 1,00,000 in cash, 100% of such payment i.e. Rs. 1,00,000 will be disallowed and added in the income of the previous year during which the payment is made.

From 1-10-2009, the limit is raised to Rs. 35.000 for payments made to transporters. Further, if expenses are already incurred in earlier years and claimed on accrual basis, the payments in respect of which are made in the previous year in a sum exceeding Rs. 20,000 otherwise than by a crossed cheque or a crossed bank draft, then the deduction originally allowed in earlier year shall be deemed to have been wrongly allowed and assessing officer may re compute the income of such earlier years by rectifying it. However, this provision is relaxed under certain conditions and circumstances considering the availability of banking facilities. Business expediency and other relevant factors.

**(II) Provision of Gratuity-** No deduction shall be allowed in respect of any provision for payment of gratuity to employees, by whatever name called. However, the deduction shall be allowed in respect of following.

- (i) Provision made by an assessee by way of a contribution towards approved gratuity fund.
- (ii) Provision made for the purpose of payment of any gratuity that has become payable during the previous year.

**(IV) Contribution to Non-Statutory Funds-** No deduction shall be allowed to an assessee for contribution made as an employer to any fund other than recognised provident fund, approved superannuation fund or approved gratuity fund.

**(V) Disallowance of Unpaid Liability u/s 43 B-** In case of certain expenses deduction is allowed only if they are paid before the due date of filing of return. If they are shown as provision and paid late, they will be disallowed. However, the assessee can claim the deduction on payment basis in the subsequent year. The expenses are :

- 1. Any tax, cess, duty under any law.
- 2. Employers 'Contribution to Recognised P. F. or any other fund.
- 3. Bonus, Commission to employees.
- 4. Interest on loan from any financial institution.
- 5. Interest on ANY loan from any Scheduled Bank 2010-11.

The due dates for filing of return for A. Y. 2011-12 are :

- (i) Corporate and Taxed Audited assessee 30th Sept. 2011

(ii) For all other assesseees 31st July, 2011

### **Other Disallowed Payments/Expenses**

In addition to the expenses specifically disallowed u/s 40 and 40 A the other payments and expenses which are disallowed as business or profession expenses are in the normal course. are as follows :

1. PERSONAL EXPENSES / PAYMENTS OF OWNER OR PARTNERS
2. PERSONAL DRAWINGS OF OWNER OR PARTNERS
3. INCOME-TAX, WEALTH TAX AND OTHER TAXES ON INDIVIDUAL INCOME.
4. DONATIONS OF ANY SORT.
5. PENALTIES OR FINES OF ANY SORT FOR VIOLATION OF LAW.
6. ANY EXPENSES OF CAPITAL NATURE.
7. ANY PROVISIONS OR TRANSFERS TO RESERVES.
9. ANY CHARITY AND PERSONAL PRESENTS.
8. ANY PAYMENT BY A COMPANY TO A RETIRING DIRECTOR IN CONSIDERATION OF HIS SERVICE.

### **Other Important Provisions**

#### **1. Maintenance of Accounts by Certain Assesseees u/s 44 AA**

- (a) Every person carrying on legal, medical, engineering or architectural profession or the profession of accounting or technical consultancy or interior decoration or any other profession notified by board should maintain such books of accounts and other documents as may enable the assessing officer to compute the total income, if their gross receipts in the profession exceed Rs. 1,50,000 in any of the three years immediately proceeding previous year.
- (b) Every person carrying on a business or profession other than aforesaid professions must necessarily maintain such books of accounts and documents as may enable the assessing officer to compute the total income, if the income therefrom exceeds Rs. 1,20,000 or the total sales exceed Rs. 10 lakhs in any of the three years immediately preceding the previous year. In case of newly

established business, if the income or turnover is likely to exceed Rs. 1,20,000 or Rs. 10 lakhs as the case may be, the person will have to maintain books of accounts.

2. **Compulsory Audit of Accounts u/s 44 AB** - It is obligatory for a person to get his accounts audited before the 'specified date' and furnish the accountant's report as well as the audit report in prescribed form :

- (i) if the total sales or turnover or gross receipts in the business exceed Rs. 60 lakhs for the previous year, and
- (ii) if the gross receipts in the profession exceed Rs. 15 lakhs for the previous year.
- (iii) if the profit in case of certain businesses (such as civil construction or hiring of trucks or retail trade.) for the previous year is less than the presumptive limits (specified u/s 44 AD, 44 AE and 44 AF respectively)

'specified date' means : 30th September for all assesseees from A. Y. 2010-11. However, the provisions of compulsory audit shall not apply to the persons who derive income of the nature referred to in Sections 44 B, 44 BB, 44 BBA and 44 BBB.

**(I) Estimated Income Scheme of Assessment** - In order to minimise the undue harassment to tax-payers and simplify the computation of income from some typical business. estimated income scheme of assessment has been introduced. At present this method is applicable only in case of following businesses:

**(I) Estimated Income Scheme u/s 44 AD** - An assessee engaged in the business other than u/s 44 AE whose

gross receipts in the previous year do not exceed Rs. 60 lakhs can opt for the estimated income scheme of assessment. If he opts for the estimated income scheme, the income from such business shall be deemed to be 8 per cent of the total gross receipts during p. y. or a sum higher than is declared by him in his return of income.

- (a) Where the assessee opts this scheme, it will be deemed that he has already claimed allowable expenses u/s 28 to 38 including depreciation and the written down values of his assets will be calculated accordingly.
- (b) Such assesseees are neither required to maintain books of accounts nor they are liable for tax audit in respect of such business. The scheme is, however, optional

hence if the assessee claims that the profits from such business are lower than the deemed profit, he has to maintain the accounts and get those audited to establish his claim.

- (c) Scheme available for individual HUF, firm (excluding limited liability partnership) only.
- (d) No need to pay advance tax, if the scheme is opted for.

**(II) Estimated income scheme for business of plying, hiring or leasing of trucks and goods carriage u/s 44 AE** - An assessee engaged in the business mentioned above owning not more than ten goods carriages can opt for an estimated income scheme of assessment. The scheme is not available to assessee running vehicles obtained by hiring them. If he opts for the scheme, the income from such business will be deemed to be :

- (i) **For heavy vehicles** : Rs. 5,000 per vehicle per month or part of a month during which such heavy goods vehicle is owned by him in the previous year an amount higher than the aforesaid amount as declared by him in his return.
- (ii) **For other vehicles** : Rs. 4,500 per vehicle per month or part of a month during which it was owned by the assessee in the P. Y. or an amount higher than the aforesaid amount as declared by him in his return. The conditions (a) and (b) mentioned in (1) above apply in this case also.

### **Computation of the Profits and Gains of Business or Profession**

#### **(A) When profit and loss account or Income and Expenditure is given**

- (a) Net profit or net loss shown by Profit and Loss A/c or surplus or deficit shown by Income and Expenditure A/c is taken as the basis (or starting point) for computation. Net loss or deficit, if any, is to be shown as negative profit.
- (b) Add all the items fully or partly disallowable which are debited to Profit and Loss A/c or Income and Expenditure A/c. Also add the depreciation debited by the accountant. (if not as per the income-tax rules.)
- (c) Deduct all the items which are non taxable as business or profession income shown on the credit side of the Profit and Loss A/c or Income and Expenditure Alc. Also deduct the depreciation as per the



### 2.3.2 New Tax Regime

#### **Deductions are not allowed against business income under the new regime**

Deductions and exemptions not allowed against business income :

- Additional depreciation under section 32
- Investment allowance under section 32 AD
- Sector-specific business deductions under section 33AB and 33ABA
- Expenditure on scientific research under section 35
- Capital expenditure under section 35 AD
- Exemption under section 10AA for SEZ units

#### **Unabsorbed depreciation and business loss under the new tax regime**

In the case of a business income, an individual or HUF cannot claim set-off of the brought forward business loss or unabsorbed depreciation.

The deductions are not available under the new regime to the extent they relate to deductions/exemptions withdrawn.

### 2.3.3 Practical Problems and Solutions

#### **Problem 1**

Calculate the taxable profit of the assessee for the assessment year 2023-2024 from the particulars given below..

Particular	Rs
Profit for the previous year 22-23	1370000
Before allowing the following amounts	
i) Amount given to approved and notified Research Institute for conducting scientific research (research not related to the business of the assessee)	80000
ii) Cost of land acquired for constructing research laboratory	200000
iii) Cost of building and plant and machinery required for research	1200000
iv) Amount given as salary to staff engaged in research (relating to a field related to assessee's own business during 2020-2021 (Business	90000

started on 1-4-2022). The amount is certified by the prescribed authority	
v) Salary given to staff engaged in research within the premises during 2022-2023	120000

Compute his business income for the assessment year 2023-2024 assuming...

- Does not opt to be taxed under section 115 BAA
- Opts to be taxed under section 115 BAA

### Solution

Computation of business income				
Particulars	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>Net as per Profit and Loss Account</b>		1370000		1370000
Less Revenue Expenses				
i) Amount given to approved Research Institute for Scientific Research				
(80000 x 100%)	80000			
ii) Salary given to staff engaged in scientific research related to assesses field (research started before commencement)	90000		90000	
iii) Salary given to staff engaged in research during 2022-2023	120000	290000	120000	210000
		1080000		1160000
<b>Less : Capital Expenses</b>				
i) Cost of Land	Not Allowed		Not Allowed	
ii) Cost of Building and plant and machinery	1200000	1200000	1200000	1200000
Unsubscribed capital expenditure on research carried forward		120000		40000

## Problem 2

Sujay gives you the following particulars for the year ended 31/3/2023

Particulars	Rs
Net Profit as per Profit and Loss Account (Without allowing the following items)	520000
Capital expenditure on family planning	70000
Lump sum consideration for purchase of technical know how developed in government laboratory	120000
Entertainment Expenditure	40000
Expenditure on acquisition of patent right	80000
Expenditure on advertisement paid in cash	25000
Provision for GST	60000
He paid rs 30000 on 27/6/2023 and Rs. 12000 on 1/11/2023	
Due date of filing of return is 31/7/2023	
Amount paid to Delhi University a notified institution for an approved research programme in the field of social sciences not connected with his business	60000

Assume

- a) Does not opt to be taxed under section 115 BAA
- b) Opts to be taxed under section 115 BAA

## Solution

### Computation of Business Income

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>Net Profit as per Profit and Loss Account</b>		520000		520000
<b>Less : Allowed Expenses</b>				
Capital Expenditure on Family Planning (allowed only to companies)	Nil		Nil	
Depreciation on technical know and patents acquired during				

the year assuming put to use or 180 days or more	50000		50000	
Entertainment Expenditure Allowed	40000		40000	
Advertisement Expenditure in cash - disallowed 100%	Nil		Nil	
Amount paid to Delhi University for social science research (Rs. 60000 x 100%)	60000		Nil	
Payment of GST before due date of filing of return	30000	180000	30000	120000
<b>Taxable Business Profit</b>		340000		400000
<b>Working Note</b>				
Block of intangible asset				
Opening WDV		Nil		Nil
Addition during the year		120000		120000
Technical Known How Patent		80000		80000
		200000		200000
Less Depreciation 25%		50000		50000
<b>WDV</b>		150000		150000

### Problem 3

Sahadev who is carrying on a business whose accounts have been subject to tax audit regularly, submits his profit and loss account for the year ending 31/3/2023

Particulars	Rs.	Particulars	Rs.
Office Expenses	25600	Gross Profit	523,600
Audit Fees	32000	Sundry Receipt	11,000
Legal Expenses	18000	Customs duties recovered from the government (earlier not allowed deduction)	22,000
Depreciation on machinery	24000	Bad Debts recovered (Earlier allowed as deduction)	6,000
Bonus to staff	45000	Gift from son	30000
Salary to Staff	84000		
Contribution to an approved	24000		

gratuity fund			
Outstanding liability in respect of GST	24000		
Rent Payable to railways	120000		
General Expenses	36000		
Net Profit	160000		
	592600		592600

### Other Relevant Particular

1. Bonus payable to employees according to the payment of Bonus Act, 1965, comes to Rs. 40000.
2. Depreciation on machinery shown in the profit and loss account is calculated according to the income- tax provisions.
3. General expenses include payment of Rs. 12000 to an approved and notified education institute for the purpose of carrying on research in social sciences. The research is, however, not related to the business of the assessee.
4. During the previous year 2022-23 Sahadev also makes a capital expenditure of Rs. 25000 for the purpose of carrying on a scientific research related to his business. This expenditure is, however, not recorded in the profit and loss account.
5. Outstanding liabilities in respect of GST is paid as follows : Rs. 5000 on 11/4/23, Rs. 3000 on 5/5/2023, Rs.6000 on 30/6/23 and balance on 10/11/23.
6. Audit fee of Rs. 32000 was credited on 31/3/2023. No tax has been deducted at source.
7. Outstanding liability in respect of rent payable to railways is paid as follows: Rs. 90000 on 15/6/23 and balance on 14/12/23.

Compute his income from business for the assessment year 2023-2024. Assume the due date of filing return of income is 31 October. Assume Sahadev

- a) Does not opt to be taxed under section 115BAC
- b) Opts to be taxed under section 115bac

### Computation of Business Income

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>Net Profit</b>		160000		160000
<b>Less : Item credited to Profit and Loss A/C but not treated as income</b>				
i) Customs duties recovered	22000		22000	
ii) Gift from son	30000	52000	30000	52000
		<b>108000</b>		<b>108000</b>
Add : 1) Expenses disallowed : Outstanding liability for GST not paid before filing the return (31/10/2023) disallowed u/s 43B (24000-14000)	10000		10000	
2) Outstanding liability of rent payable to railway not paid before filing the return is. 31/10/2023 disallowed u/s 43B	30000		30000	
3) 30% Audit fee as tax has not been deducted at source [Section 40(a)(ia)]	9600		9600	
4) Payment to notified education institute		49600	12000	61600
		<b>157600</b>		<b>169600</b>
<b>Less : Capital expenditure incurred on scientific research related to business but not debited to Profit and Loss Account</b>		25000		25000
<b>Business income being total Income</b>		<b>132600</b>		<b>144600</b>

Notes

- 1) Bonus paid to staff is fully deductible
- 2) Capital expenditure on scientific research related to business is fully deductible u/s 35

**Problem 4**

Following is the Receipt and Payments Account of Mr. Rajiv Shukla a practicing Chartered Accountant in Kolhapur for the year ended 31/3/2022

<b>Receipts</b>	<b>Rs</b>
Audit Fees	5680000
Consultation Fees	40000
Appellate Tribunal Appearance	25000
Miscellaneous receipt	20000
Interest on Government Securities (Gross)	8000
Rent Received for House No.1	24000
Presents from clients	10000
<b>Payments</b>	
Stipend to article clerks	512000
Office Expenses	224000
Office Rent	318000
Salaries and Wages	2020500
Printing and Stationery	4000
Subscription to C.A. Institute	1500
Purchase of Books for professional purposes	15000
Travelling Expenses	5000
Interest on Bank Loan	12000
Donation to National Defence Fund	5000

**Other Information**

1. Loan from bank was taken for the construction of the second house in which he lives. Municipal value of this house is Rs. 18000 and the local taxes Rs. 1800 p.a. 1/4th the travelling expenses are not allowable.

Compute professional income and income from house property for the assessment year 2023-2024 assuming 50% of the books which were annual publication were purchased in August 2022 and balance 50% in February 2023 Mr. Rajiv Shukla

- a) If he does not opt for section 115BAC
- b) If he opts for section 115BAC

### Computation of Income from Profession

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
<b>Gross Receipts</b>				
<b>Audit Fee</b>	5680000		5680000	
Consultation fee	40000		40000	
Appellate Tribunal Appearance	25000		25000	
Miscellaneous receipts	20000		20000	
Presents from clients	10000	5775000	10000	5775000
<b>Payments</b>				
Stipend	512000		512000	
Office Expenses	224000		224000	
Office Rent	318000		318000	
Salary and Wages	2020500		2020500	
Printing and Stationary	4000		4000	
Subscription to C.A.Institute	1500		1500	
Depreciation on Books on Rs.7500 @ 40%	3000		3000	
Depreciation on Books on Rs.7500 @ 20%	1500		1500	
Travelling Expenses	3750	3088250	3750	3088250
<b>Income from Profession</b>		<b>2686750</b>		<b>2686750</b>
<b>Income from House Property -I</b>				
Rent Received	24000		24000	
Less Standard Deduction @ 30%	7200	16800	7200	16800
Loss from self-occupied (House-II)		(-) 12000		Nil
<b>Income From House Property</b>		<b>4800</b>		<b>16800</b>



**Problem-5**

The following is the Receipts and Payments Account of a medical practitioner for the year ending 31/3/2023.

Receipts	Rs	Payments	Rs
Balance b/d	160000	Clinic rent	24000
Visiting Fees	140000	Staff Salary	120000
Consultation Fees	160000	Rent and Taxes	6000
Sale of Medicines	40000	Electricity and water	7000
Operation Theater Rent	25000	Purchase of Medical Books	20100
Interest on Fixed Deposit with bank (Gross)	13000	Purchase of Surgical Equipments	40000
Dividends from UTI	10000	Motor car expenses	24000
Sale of surgical equipment	36000	Medical Association membership	4000
		Life Insurance Premium	10000
		Audit Fees	14000
		Staff Welfare Expenses	3000
		Diwali Expenses	2000
		Entertainment Expenses	8400
		Medicines Purchased	26000
		Balance C/d	275500
	584000		584000

**Other Information**

1. A cash payment of Rs. 15000 was given to him by a patient in appreciation of his medical service but was not accounted for in the books of account.
2.  $\frac{1}{4}^{\text{th}}$  of motor-car expenses relate to his personal use, depreciation on motor car allowable under the Income Tax Act is Rs. 9000 for professional use.
3. Audit fees include Income Tax appeal expenses of Rs. 12000.
4. The Rate of depreciation on surgical equipment is 15%. The written down-value of equipment brought forward from earlier year was Rs. 26000. He sold

equipments for Rs. 36000 during the current year. The new surgical equipment were purchased on 1/11/22

5. His taxable income from house properties was Rs. 300,000
6. Opening and closing stock of medicines were Rs. 10000 and Rs. 15000 respectively.

**Compute his income from the assessment year 2023-2024 assuming that.**

- a) He does not want to opt for presumptive scheme u/s 44 ADA
- b) He has opted for presumptive scheme u/s 44ADA

**Assume**

1. Does not opt to be taxed under section 115BAC
2. Opt to be taxed under section 115BAC

**Solution a (i)**

Particulars	Rs	
Visiting and consultation fees ( Rs. 140000 + 160000 )		300000
Sale of medicines and operation theatre rent ( Rs. 40000 + 25000)		65000
Cash receipts from patient		15000
Gross Professional Receipts		380000
Less : Expenses		
Rent	24000	
Salary	120000	
Electricity and Water	7000	
Rent / Taxes	6000	
Books depreciation 40%	8040	
Association Membership Fees	4000	
Audit Fees	14000	
Staff welfare Expenses	3000	
Diwali Expenses	2000	
Depreciation on Car	9000	
Depreciation on Equipments	2250	
Entertainment Expenses	8400	

Cost of Medicines ( 10000+ 26000 – 15000)	21000	
Motor Car Expenses (24000 – 1/4 <sup>th</sup> of Rs. 24000)	18000	246690
Income from profession		133310
Income from House Property		300000
Income from other sources (Interest on FDR)		13000
Dividend from UTI		10000
Gross Total Income		456,310
Less : Deduction u/s 80C (LIP)		10,000
Total Income		446,310
a) Deduction u/s 80 C shall not be allowed if he opts for section 115 BAC. Total income shall be Rs. 446310		
Computation of depreciation on Equipment's		
WDV as on beginning of the year		26000
Add : Cost of equipment purchased		40000
		66000
Less : Sale proceeds of equipment		36000
		30000
Depreciation @ 7.5% as used for less than 180 days		2,250

### Solution (b)

#### Computation of Income from Profession

Particulars	Does not opt to be taxed u/s 115BAC	Opt to be taxed u/s 115BAC
	Rs	Rs
<b>Income from Profession</b>		
50% of gross receipts from profession i.e. 50 %of Rs. 380000	190000	190000
Income from House Property	300000	300000
Income from Other Sources (Interest on FDR)	13000	13000

Dividend from UTI	10000	10000
Gross Total Income	513000	513000
Less : Deduction u/s 80C (LIP)	10000	Nil
Total Income	503000	513000
Written down value of equipment as on 1/4/2022 after deemed depreciation	21750	21750

### 2.3.3 Check your progress-II

#### (A) State true or false

- 1) Bad debts previously allowed is taxable business income.
- 2) If a lottery agent wins a lottery prize on the tickets held by him as a stock in trade. The prize money is chargeable to tax under the head profits and gains from business'.
- 3) A business house cannot claim deduction for donations u/s 80G .
- 4) Salary paid to an engineer for installation of new plant and machinery in the factory is disallowed as business expenditure.
- 5) Compensation received for breach of contract for supply of raw materials is taxable as business income.
- 6) Unexplained investments and deposits are not taxable income.
- 7) Brokerage paid for raising a business loan is allowable business Expenditure.
- 8) Expenses of suit filed against another firm for breach of patent rights of the firm is inadmissible business expenditure.
- 9) Loss of cash being the collections from customers robbed from the clerk of the firm on the way, while running to the firm is allowable business expenditure.
- 10) Deposit of Rs. 10.000 paid under 'O.Y.T. scheme for getting a new telephone is in admissible business expenditure .
- 11) Rs. 60,000 paid for goodwill for getting business office space is admissible business expenditure.
- 12) Any income from illegal business is not taxable.

## **2.4 Capital Gains**

### **2.4.1 Introduction and Concepts**

#### **Basis of Charge u/s 45**

Any profit or gain arising from the transfer of a capital asset is chargeable to tax under the head 'Capital Gains' in the previous year in which such transfer took place, provided it is not exempt under Sections 54 to 54 H. Thus, the tax liability in respect of capital gains arises if the following conditions are fulfilled :

- (i) There should be a capital asset of an assessee.
- (ii) It should be transferred by him during the previous year.
- (iii) The profit should result from such transfer:
- (iv) Such profit should not be exempt from act under Sections 54, 54B, 54D, 54EA, 54EC, 54F, 54G & 54 H.

For the better understanding of the chargeability of capital gains, therefore, the meaning of the following terms should be clear :

(A) Capital Assets, (B) Transfer, and (C) Exemptions u/s 54.

#### **(A) Capital Assets**

Capital asset means the property of any kind held by an assessee whether or not connected with his business or profession. Such property may be fixed or circulating, movable or immovable, tangible or intangible. The following assets are however, excluded from the definition of 'Capital Assets'.

- (a) Any stock in trade, consumable stores or raw materials held for the purpose of business;
- (b) Personal effects of the assessee, that is to say movable property including wearing apparel and furniture held for personal use by the assessee or any member of his family dependent on him. (However, jewellery is treated as a capital asset, even though it is meant for personal use of the assessee.)
- (c) Agricultural land in India not being situated in an urban area.
- (d) 6 1/2 % Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980 issued by Central Government.

- (e) Archaeological collections, drawings, paintings, sculptures and any work of art even though these assets are personal effects.
- (f) Special Bearer Bonds, 1995, and
- (e) Gold Deposit Bonds, 1999

### **Short-term and Long-term Capital Assets**

Short-term capital asset refers to a capital asset held by an assessee for not more than 36 months, immediately prior to the transfer. The criteria of 36 months has been reduced to 24 months in case of immovable property being land, building and house property. However, following are some exceptional assets which are treated as short-term capital assets if they are held by the assessee for not more than 12 months.

- (a) Shares in a company, units of U.T.I, units of mutual fund u/s 10 (23D) (whether quoted or not)
- (b) Securities such as debentures, Government securities listed on recognised stock exchanges.

The assets other than short-term capital assets referred above are regarded as, long-term capital assets'

### **(B) Transfer of Capital Asset**

"Transfer" in relation to a capital asset includes sale, exchange or relinquishment of the asset or the extinguishment of any rights therein or the compulsory acquisition thereof under any law. It also includes conversion of capital asset into stock-in-trade.

**(i) Transfer when complete and effective :** Capital gains is taxable in the previous year in which capital asset is transferred. Following are the rules to ascertain the moment of transfer in case of various assets :

**(a) Immovable property when documents are registered :** Title to immovable property will pass only when the conveyance deed is executed or registered.

**(b) Immovable property when documents are not registered :** Even if the documents are not registered, the title to the immovable property is considered to be transferred if the following conditions are satisfied :

- (i) There should be contract in writing.

(ii) The transferee has paid consideration or is willing to perform his role in the contract; and

(iii) The transferee should have taken possession of the property.

**(ii) Transactions not included in transfer u/s 46 & 47 :** For the purpose of Section 45, the following are some transactions are not considered as transfers, hence the capital gains arising there from are not taxable :

1. Distribution of capital assets in kind by a company to its shareholders on liquidation.
2. Distribution of capital assets in kind by H.U.F. to its members on partition.
3. Any transfer of a capital asset under a gift or an irrevocable trust
4. Any transfer of a capital asset by a company to its wholly owned Indian subsidiary company.
5. Any transfer of a capital asset by a wholly owned subsidiary company to its Indian holding company.
6. Any transfer of a capital asset by the amalgamating company to an Indian amalgamated company in the scheme of amalgamation.
7. Any transfer by a shareholder of shares held by him in the amalgamating company, in consideration of the allotment to him of any shares in the Indian amalgamated company.
8. Any transfer in a demerger of a capital asset by the demerged company to resulting company provided the resulting company is an Indian company.
9. Any transfer of shares held in an Indian company by a demerged foreign company to the resulting foreign company if some conditions are fulfilled.
10. Any transfer of a capital asset being any work of art, archaeological, scientific or art collection, book manuscript, drawing, painting, photograph or print to the Government or a University or any notified institution.
11. Any transfer by way of conversion of bonds or debentures, debenture stock or deposit certificate of a company into shares or debentures of that company. Foreign currency convertible bonds, when converted will not be treated as transfer.

12. Any transfer of membership of a recognised stock exchange in India by a person (other than a company) made on or before 31-12-1998 to a company in exchange of shares allotted by that company to the transferor.
13. Any transfer of land of a sick industrial company (under an approved scheme) where such industrial company is being managed by its workers' co-operative and where the transfer is made during the period commencing from the previous year in which the company was duly declared as sick ending with the period during which the entire net worth of the company becomes equal to or exceeds the accumulated losses.
14. Transaction of reverse mortgage under any notified scheme will not be treated as transfer.

### Computation of Capital Gains

Computation of capital gains depends upon the type of capital asset transferred i.e. short-term capital asset or long-term capital asset. Capital gain arising on transfer of short-term capital asset is short-term capital gain whereas the capital gain on transfer of long-term capital asset is called long-term capital gain.

Following formats illustrate the mode of computation of capital Gain

#### Computation of Short-Term Capital Gain

Full value of consideration received or accrued on transfer of short-term capital asset		XXXX
Less: (1) Cost of acquisition of the asset	XXXX	
(2) Cost of improvement of the asset	XXXX	
(3) Expenditure incurred on transfer borne by assessee	<u>XXXX</u>	<u>XXXX</u>
Short-term capital gain		XXXX
Less : Exemptions u/s 54B, 54D & 54G (if any)		<u>XXXX</u>
<b>Taxable short-term capital gain</b>		<b>XXXX</b>



### Computation of Long-Term Capital Gain

Full value of consideration received/accrued on transfer of long term capital asset		XXXX
Less : Indexed cost of acquisition	XXXX	
Indexed cost of improvement	XXXX	
Expenditure incurred on transfer borne by assessee	<u>XXXX</u>	<u>XXXX</u>
Long-term capital gain		XXXX
Less :Exemption u/s 54, 54B, 54D, 54EA, 54EB, 54F and 54G		<u>XXXX</u>
<b>Taxable long-term capital gain</b>		<b>XXXX</b>

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The explanation of important terms in the format for the computation of capital gains is as under :

**(i) Full value of consideration :**It refers to the money or money's worth received by the transferer in lieu of the asset he parts with. The expression 'full value' means the whole price without any deduction whatsoever.

**(ii) Expenditure on transfer :** It refers to the expenditure incurred Which is necessary to effect the transfer e.g. brokerage, commission paid for securing the purchaser, cost of stamps, registration fees borne by the vendor, incidental travelling expenses, litigation expenses in order to claim enhancement of compensation awarded in case of compulsory acquisition.

**(iii) Cost of acquisition :** Cost of acquisition of an asset refers to the value for which it was acquired by the assessee. Expenses of capital nature for acquiring the title to the property or asset are includable in the cost of acquisition.

It should be noted that interest on money borrowed to purchase asset is part of actual cost of asset.

**Notional cost of acquisition:** In the following cases the cost of acquisition is taken at a notional figure :

Cost to the previous owner u/s 49 () : In cases where capital asset becomes the property of assessee under some specific modes of transfer, the cost to the previous owner is deemed to be the cost of acquisition. These specific modes of transfers are :

- (a) acquisition of property on any distribution of asset on total partial partition of Hindu Undivided Family.
- (b) acquisition of property under a gift or will.
- (c) acquisition of property :
  - by succession, inheritance or devolution, or
  - on distribution of assets of a firm, association of persons
  - on any distribution of assets on liquidation of a company, or
  - under a transfer to a revocable or an irrevocable trust, or
  - on any transfer, by wholly owned Indian subsidiary company from its holding company, or
  - on any transfer, by an Indian holding company from its wholly owned subsidiary, or
  - on any transfer in the scheme of amalgamation.
- (d) acquisition of property by a H.U.F. where one of its members has converted self occupied property into joint family property after 31 December, 1969.

**Cost of acquisition being the fair market value as on 1st April, 2001 u/s 55 (2) :**

Where capital asset is acquired by the assessee or the previous owner (by mode referred to u/s 49 (1) above) before 1st April, 2001, the cost of acquisition will be taken as the actual cost or fair market value on 1st April, 2001, whichever is beneficial to the assessee.

**(iv) Cost of Improvement u/s 55 (1) (b):** (i) In relation to a capital asset being goodwill of a business or -a right to manufacture, produce or process any article or thing, cost of improvement is taken to be nil.

(ii) in relation to any other capital asset :

- (a) where the capital asset became the property of the assessee (or the previous owner) before 1st April, 2001, cost of improvement means all expenditure of capital nature incurred in making addition or alteration to the capital asset on or after 1st April, 2001 by the assessee (or previous owner).

- (b) In other cases cost of improvement means all expenses of capital nature incurred in making any additions or alterations to the capital asset by the assessee after he acquires it.

#### **2.4.2 Check your Progress-III**

##### **(A) Objective Type Questions.**

Fill in the blanks with most suitable word.

1. The capital asset includes ....  
a) car in case of car dealer                      b) Jewellery  
c) Rural Agricultural Land                      d) None of the above.
2. Assets excluded from the definition of capital asset are.....  
a) Stock in trade                                      (b) Personal effects;  
c) Rural Agricultural Land                      (d) All the above
3. Capital gain of Rs. 2,50,000 on sale of self generated goodwill shall be....  
(a) Long-term capital gain                      (b) Short-term capital gain;  
(c) Nil    (d) Depends upon facts of the case.

##### **(B) State True or False**

- 1) Transfer of capital assets includes sale or exchange of such asset.
- 2) Capital gain arising on sale of agricultural land is taxable.
- 3) If a financial asset is held for more than 12 months it becomes long- term capital asset.
- 4) A Profit from sale of motor car meant for personal use is not taxable.
- 5) Difference between the written down value of a capital asset and its sale proceeds is a capital gain or a capital loss.
- 6) Capital gain accruing to a person dealing in investments as a business activity is chargeable to tax under the head 'Income from business or profession.
- 7) If the total gross income including capital gain does not exceed Rs. 60,000 than whole capital gain is tax-free.
- 8) A transfer by way of gift cannot be treated as a 'Transfer' and hence capital gains arising out of it cannot be treated as a capital gain.
- 9) If a block of asset has a negative balance, it is taken as short-term capital gain.

10) Ornaments are capital assets for capital gain.

11) In case of self generated assets like goodwill cost of acquisition is treated NIL.

## **2.5 Income from other sources**

### **2.5.1 Introduction and Concept**

The head 'Income from other sources' as the very name suggests is residuary head. It covers all the incomes of the assessee which are neither excluded from total income nor covered under the earlier four heads of income viz. salary, house property, business or profession and capital gain

Section 56 specifies the incomes taxable under this head. Sections 57 and 58 indicate the deductions which are admissible and inadmissible ascertaining the income under this head.

#### **(A) Income taxable under the head Income from Other Sources' u/s 56 :**

##### **1. General u/s 56 (i)**

Income of every kind which is not exempt from income-tax under the and which does not fall under any other head is taxable under the head 'Income from other Sources.' Thus, the characteristic features of incomes which are chargeable under this head are :

- (a) **It must be an income** : It means that the receipt should be a revenue in nature and not of a capital nature.
- (b) **It must not be an exempt income** : It means the incomes which are exempt u/s 10 of income-tax cannot be shown under this head.
- (c) **It must not fall under any of the other four heads of income viz.** : (i) salaries (ii) house property income, (iii) income from business or profession or (iv) capital gains.

It is difficult to give an exhaustive list of such incomes taxable under the head 'Income from other sources.' However, following are some examples of such incomes.

- (i) Interest on bank deposits, deposits with companies, personal loans given, National savings certificates, securities issued by foreign governments, Indira Vikas Patra & Kisan Vikas Patra.

- (ii) Director's fees.
- (iii) Income from royalty.
- (iv) Rent from subletting of house property.
- (v) Family pension.
- (vi) Remuneration or fees received by a college teacher etc, for examination work.
- (vii) Ground rent received.
- (vii) Income from undisclosed source.
- (x) Casual income in excess over the exempted limits.
- (x) Salary or pension received by MP, MLA and MLC.
- (xi) Income from agriculture from land situated in foreign country
- (xii) Income from leasehold property.
- (xii) Insurance commission received by insurance agents.
- (xiv) Any fees, commission or remuneration received from a person other than the employer.
- (xv) Incomes derived from markets, ferries fisheries etc.

## 2. Specific u/s 56 (ii)

Following incomes are specifically taxable under this head.

- (a) **Dividends** : Dividend is the income arising out of the ownership of shares. The dividends declared by the co-operatives companies etc.
- (b) **Winning from lotteries** etc. : Any winning from lotteries, crossword puzzles, horse race, card games or any other forms of gambling or betting is treated as income from other sources.
- (c) **Interest on securities** : Income by way of interest on debentures or Government securities will be taxable under the head income from business or profession' if such securities are held as stock in trade. In any other case, it will be taxable as income from other sources. The assessee may claim a reasonable amount of collection charges for realizing such interest.. He can also claim a deduction in respect of interest on funds borrowed, if any, for purchase of such securities.

- (d) **Hire charges of machinery, plant, furniture etc. :** If an assessee is not carrying the business of letting on hire the machinery, plant or furniture, the hire charges received by occasional letting out of such item are taxable under the head income from other sources.
- (e) **Inseparable rent of buildings :** If an assessee lets out on hire a building along with the other assets like machinery, furniture, plant etc. the inseparable rent received for such set of assets is taxable under the head 'Income from other sources'.
- (f) **Contributions from employees for funds :** Any contributions received by the assessee from his employees as contributions to any provident fund or superannuation fund or any other fund set up for the welfare of, is treated as 'Income from other source' if it is not taxable as 'Income from business or profession'.
- (g) **Keyman Insurance Policy amount :** Any sum received by an assessee, under Keyman Insurance Policy including bonus thereon, is taxable under the head 'Income from other sources' if it is not taxable under the head 'salary or 'Income from business or profession'.
- (h) **Any sum of money received by an individual or HUF as gift 56 (2) (v) :** Any amount received by an individual or HUF without consideration is taxed aggregate during the P.Y. is upto Rs. 50,000 it is not taxable. Any immovable property transferred without consideration, whose stamp duty value (SDV) exceeds Rs. 50,000, the SDV will be taxed in the hands of recipient. If any movable property is transferred without consideration and its aggregate fair market value (FMV) exceeds Rs. 50,000, the FMV will be taxed in the hands of the recipient. Any movable property is transferred without adequate consideration and the difference between the FMV and the actual consideration is more than Rs. 50,000, such difference will be income in the hands of the recipient. Also it is not taxable if the gift is received.
- (a) from a relative.
  - (b) on an occasion of marriage of an individual.
  - (c) under will or due to inheritance.
  - (d) in contemplation of death of the payer.

- (e) from any local authority.
- (f) from any fund foundation, university etc. u/s 10 (23C).
- (g) from any trust registered u/s 12 AA.

Relative for this purpose include spouse, brother, sister, brother or sister of spouse, brother or sister of the parents, any lineally ascendant or descendent if individual or his/her spouse and spouses of any of the above.

## **(B) Deductions from Income from Other Sources u/s 57**

In computation of income from other sources following deductions are allowable :

### **1. In case of interest and dividends**

- (i) **Reasonable collection charges** : Any reasonable amount paid by Way of commission or remuneration to a banker or any other person for he purpose of realising such dividends or interest on behalf of the assessee.
- (ii) **Interest on borrowings** : Any interest on loans taken for the purpose of purchasing shares or securities.

**Notes :** (a) The collection charges or interest on borrowings . stated above pertaining to dividends and interest on securities which exempt from tax u/s 10 (33) or 10 (15) respectively, are not allowable as deduction.

(b) The above deductions are not allowable to a foreign company

### **2. In case of income from letting machinery, plant, furniture with or without buildings**

Following deductions are allowable:

- (i) Current repairs to buildings.
- (ii) Insurance premium paid for buildings, machinery & furniture.
- (iii) Repairs to plant, machinery, furniture.
- (iv) Depreciation on buildings, plant, machinery, furniture.
- (v) Any other expenditure (not being in the nature of capital expenditure) incurred exclusively for earning such income.

3. **In case of contributions from employees for funds** - Such contributions receivable from the employees credited by the assessee to the employees relevant fund account on or before due date is allowed as deduction.

4. **In case of family pension** - A standard deduction at 1/3rd of such family pension or Rs. 15,000, whichever is less, is allowed as deduction.

5. **In case of commission received by insurance agents etc.**

Where the total commission inclusive of bonus commission of LIC agents is less than Rs. 60,000 per year and the clear account of expenses incurred by them is not available, the deductions allowable are :

- (i) 50% of the first year commission and 15% of the renewal commission.
- (ii) Where separate figures of first year and renewal commission are not available, 33 1/3% of the total of first year and renewal commission.

The ad hoc deduction as calculated in (i) (ii) above shall be subject to the ceiling limit of Rs. 20,000.

**Note :** The bonus commission, if any, received by the agent, if any, is however fully taxable and no ad hoc deduction is allowable for the same.

It should be noted that if the total commission inclusive of bonus, commission of an agent exceeds Rs. 60,000 during the previous year the ad hoc deduction stated above is not allowable.

In case of the agents of UTI & Mutual Funds notified u/s 10 (23D) and agents of specified securities shall be eligible for an ad hoc deduction to National Savings Certificates, Post Office Time Deposits & Recurring of 50% of the commission received by them. The specified securities refer Deposit tAccounts; P.O. Monthly Income Account Scheme, Social Securities Certificates, KisanVikasPatra, P.P.F. Accounts and Retirement Scheme of Govt. Employees.

6. **In case of any other income**

Any expenditure which is neither of personal nor of capital nature and incurred exclusively to earn the income chargeable under the head 'Income from other source' is allowed as a deduction.



**(C) Amounts not deductible from Income from Other Sources' u/s 58**

Following amounts are not allowable as deduction for calculating income from other sources.

- (i) Personal expenses of the assessee.
- (ii) Interest payable outside India, unless income-tax has been paid thereon or deducted at source from it.
- (iii) Salary payable outside India, unless the tax has been paid or deducted at source from such salary.
- (iv) Any amount of wealth-tax paid by the assessee.
- (v) Expenditure covered u/s 40A like payment to a relative or payment exceeding Rs. 20,000 in cash etc.
- (vi) No deduction is allowed in computing income by way of winning from lotteries, cross-word puzzles, horse race, card games, gambling, betting etc.
- (vii) In case of a company any remuneration to a director or his relative etc. being excessive is disallowed.

**(D) u/s 14 A**

Any expenditure to earn income, that does not form part of total income is not deductible for domestic dividends no related expenses can be claimed.

**Interest on Securities****Deduction of Tax at Source u/s 193**

According to Section 193 of the Income-tax Act any person while paying income by way of interest on securities' has to deduct income-tax at source at the rates in force' on the total amount of interest to remit the same to the Government Treasury on behalf of security holder within the prescribed time. Then he has to issue a certificate to the security holder regarding such deduction of tax at source so that the security holder may claim the credit for the same during his individual assessment.

The term 'at the rate in force' referred above means the rate specified for tax deduction by the Financial Act of the year in which such deduction is to be made.

It should be noted that no tax is to be deducted at source from the interest payments on following securities :

- (i) 4% National Defence Bonds 1972.
- (ii) 4% National Defence Loan 1972.
- (iii) National Development Bonds.
- (iv) 7 years National Savings Certificates (iv issue)
- (v) Debentures issued by public sector company or co-operative society or any other authority notified by Central Government.
- (vi) 6 1/2% Gold Bonds or 7% Gold Bonds 1980.
- (vii) Securities of Central or State Government notified by the Central Government.
- (viii) Listed Debentures of a company in which public are substantially interested.
- (ix) Interest paid to an individual by an account payee cheque.
- (x) Interest paid by the company to such individual not exceeding Rs. 2,500.

### **2.5.2 Check your Progress-IV**

#### **(A) State true or false**

- 1) Salary or pension received by MP, MLA and MLC is shown under the head 'Income from other source.
- 2) Insurance commission received by an insurance agent is chargeable to income-tax under the head 'income from profession'.
- 3) Family pension received is chargeable under the head 'income free salaries'.
- 4) Person who is the holder of security on due date of interest, is the person who is liable to pay tax on such interest.
- 5) When the rate of interest on less-tax commercial securities is given grossing up is not necessary to find out gross interest.
- 6) No TDS is deducted from Government securities.
- 7) If the net interest received on tax-free commercial securities is given no grossing up is necessary to ascertain gross interest.
- 8) Directors fees received is income from business.

9) Income from lottery prize is not subject to any exemption.

## **2.6 Summery**

### **Income from House Property:**

Income from House Property refers to the rental income earned by an individual from a property they own. This could be a house, apartment, office space, or any other building. The income is calculated after deducting the municipal taxes paid and a standard deduction of 30% of the net annual value. If the property is self-occupied, no tax is applicable on the rental value.

### **Income from Business and Profession:**

Income from Business and Profession includes profits and gains derived from carrying on a business or profession. It encompasses income earned by self-employed individuals, entrepreneurs, and professionals such as doctors, lawyers, architects, etc. The income is calculated after deducting all business-related expenses, depreciation, and allowable deductions. Different accounting methods, such as cash or accrual, can be used based on the nature of the business.

### **Capital Gains:**

Capital Gains refer to the profits earned by selling capital assets like property, stocks, mutual funds, or jewelry. Capital Gains are categorized into short-term and long-term gains based on the holding period of the asset. Short-term gains (assets held for less than 2 years) are taxed at applicable slab rates, while long-term gains (assets held for 2 years or more) are taxed at a lower rate with indexation benefit. Certain investments, like Equity Linked Savings Schemes (ELSS) and certain agricultural assets, enjoy exemptions under capital gains tax.

### **Income from Other Sources:**

Income from Other Sources includes all income that doesn't fall under the above categories. This can include interest income from savings accounts, fixed deposits, winnings from lotteries or game shows, gifts received, and income from investments in products like bonds. The income is added to the total income of the individual and taxed as per the applicable income tax slab rates.

## 2.7 Terms to remember

### **Income from House Property:**

**Annual Value:** The potential rent that a property can earn annually, which is used as the basis for calculating income from house property.

**Municipal Value:** The value of the property as determined by the local municipal authorities for the purpose of levying municipal taxes.

**Fair Rental Value:** The reasonable amount of rent that a property can fetch in the open market.

**Standard Deduction:** A deduction of 30% from the net annual value, which accounts for repair and maintenance expenses.

**Self-Occupied Property:** A property in which the owner resides and does not earn rental income.

### **Income from Business and Profession:**

**Revenue:** The total income earned by a business from its primary activities before deducting any expenses.

**Expenses:** The costs incurred by a business in the process of generating revenue. These can include salaries, rent, utilities, and other operational costs.

**Profit:** The positive difference between revenue and expenses, indicating the financial gain earned by a business.

**Depreciation:** A reduction in the value of assets over time due to wear and tear, used to calculate taxable income.

**Amortization:** The process of spreading the cost of an intangible asset over its useful life for taxation purposes.

### **Capital Gains:**

**Capital Asset:** Any property owned by an individual, including real estate, stocks, bonds, and jewelry.

**Short-Term Capital Gains:** Profits earned from the sale of capital assets held for less than a specified period (usually 2 years), taxed at normal slab rates.

**Long-Term Capital Gains:** Profits earned from the sale of capital assets held for a specified period (more than 2 years), often taxed at a lower rate with indexation benefits.

**Cost of Acquisition:** The original cost of acquiring a capital asset, including purchase price and related expenses.

**Indexation:** Adjusting the purchase price of an asset for inflation, used to calculate long-term capital gains tax.

**Income from Other Sources:**

**Interest Income:** Earnings generated from interest-bearing accounts, fixed deposits, loans, or bonds.

**Gifts and Inheritance:** Money or assets received from family, friends, or acquaintances, subject to taxation under certain circumstances.

**Winnings and Prizes:** Money received from lotteries, game shows, or gambling, often taxable as income from other sources.

**Dividends:** Payments made by corporations to their shareholders from profits, usually taxed at a special rate.

## **2.8 Answers to check your progress**

### **Answers to check your progress-I**

(A) Fill in the blanks

**Answer -** 1-c, 2-a, 3- a, 4-a, 5-d

(B) State True or False

**True -** 3, 4, 5, 6, 7

**False -** 1, 2, 8

### **Answers to check your progress-II**

(A) State True or False

**True -** 1, 2, 4, 5, 7, 10

**False -** 3, 6, 8, 9, 11, 12

### **Answers to check your progress-III**

(A) Fill in the blanks

Answers - 6-b, 7-c, 8-b

(B) State True or False

True - 1, 2, 3, 6, 8, 9, 10, 11

False - 4, 5, 7

### **Answers to check your progress-IV**

(A) State True or False

True - 1, 4, 5, 6, 9

False - 2, 3, 7, 8

## **2.9 Exercise**

### **(A) Short Answer type questions**

1. How do you treat unrealised rent while ascertaining income from house property?
2. What is the unrealised rent of house property ?
3. What is a composite rent ?
4. What is 'annual value' of house property
5. What deductions can be claimed from net annual value of house property ?
6. How to ascertain gross annual value of let out property ?
7. Give two illustrations of property income exempt from tax.
8. What is Profession'?
9. What are the deductions available to the assessee u/s 36 of the Act ? (Any four deductions)
10. What are the provisions in the Act in respect of deduction for expenditure on scientific research u/s 35 ?
11. State the provisions regarding expenditure on promotion of family planning by a business house ?
12. State any five expenses which are inadmissible as business expenditure

13. How do you treat expenditure incurred by a business house on acquisition of know how ?
14. What is a long-term capital asset ?
15. What is short-term capital gain ?
16. What do you mean by capital gain ?
17. Give four examples of capital gains.
18. What is 'Indexed cost of acquisition' ?
19. Distinguish between short-term capital gain and long-term capital gain.
20. Give four examples of capital loss.
21. Why is cost of acquisition indexed while ascertaining long-term capital gain ?

**(B) Essay Type Questions.**

1. How do you determine income from house property under the income-tax Act, 1961 ?
2. What is annual value ? Explain in brief how the annual value is determined in the computation of income from house property ?
3. Discuss briefly the specific deductions allowed while computing income from house property.
4. Define the terms 'Business', 'Profession' and 'Vocation'.
5. What are the incomes chargeable under the head business or profession u/s 28 ?
6. Explain the deemed incomes from business or profession u/s 41.
7. What are the deductions expressly disallowed in computing the income from business or profession
8. Define Capital gains' and state the conditions to be fulfilled for charging capital gains to tax.
9. Define capital asset and distinguish between short-term and long-term capital gains.
10. What are the incomes taxable under the head 'Income from other sources'?
11. What deductions are allowable while computing 'Income from other sources'?
12. Give the list of any ten incomes taxable under the head 'Income from other sources' ?
13. What are the amounts not deductible as 'Income from other sources' ?

**(C) Write short notes on :**

- (a) Unrealised rent
- (b) Vacancy adjustment
- (c) Annual Value of let out property
- (d) House reserved for self-occupation
- (e) Cost of acquisition.
- (f) Cost of improvement.
- (g) Cost inflation index
- (h) Long-term capital assets
- (i) Indexed cost of acquisition.
- (j) Grossing up of interest on securities.
- (k) Amounts not deductible under the head income from other sources.
- (l) Government securities.

**2.10 References**

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## **Unit-3**

### **Deductions Under Chapter VI A Computation of Total Income and Liability (of individual Only)**

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- 3.0 Objectives
- 3.1 Introduction
- 3.2 Presentation of Subject Matter
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  - 3.2.4 Computation of Total Income and Tax Liability of an Individual
- 3.3 Check Your Progress
- 3.4 Summary
- 3.5 Terms to Remember
- 3.6 Answer to Check your Progress
- 3.7 Exercise
- 3.8 References for Further Study

### **3.0 Objectives**

After studying this unit, students will be able ---

- ❖ To understand deduction u/s 80C to 80U.
- ❖ To learn theory and computation of Total Income and Liability of Individual.

### **3.1 Introduction**

Income tax department with a view to encourage savings and investments among the taxpayers have provided various deductions from the taxable income under chapter VIA deductions as per income tax act, 1961. Income tax deductions under chapter VI A are a significant tax-saving opportunity where taxpayers can claim deductions on certain investments, expenses, and contributions made during

the financial year. Deductions from 80C TO 80U are beneficial for the taxpayers to reduce their tax liability. The deductions can be subtracted from a taxpayer's gross income in order to reduce the amount of income that is subject to taxation. The purpose of these deductions is to encourage saving, industrialization, foreign earnings and to assist tax payers in meeting their essential expenditure.

## **3.2 Presentation of Subject Matter**

### **3.2.1 Deductions from Gross Total Income**

Total income Available to Individuals. The deduction benefit which is received due to investment these are the deduction in respect of certain payments. Deduction in respect of income received when income received to the assessee.

#### **Investments that Qualify for Deductions under Section 80C**

The following are the investments that qualify for deductions under Section 80C of the Income Tax Act:

1. PPF (Public Provident Fund)
2. EPF (Employee Provident Fund)
3. Voluntary Provident Fund
4. Five-Year Post Office Time Deposit
5. ELSS (Equity Linked Savings Scheme)
6. Five-Year Tax Saving Bank Fixed Deposit
7. NSC (National Savings Certificate)
8. SCSS (Senior Citizens Savings Scheme)
9. Unit Linked Insurance Plan
10. Sukanya Samriddhi Scheme
11. Infrastructure Bonds
12. NABARD Rural Bonds

Expenses that Qualify for Tax Deductions under Section 80C

❖ **The following are the expenses that qualify for tax deductions under Section 80C of the Income Tax Act:**

Premium payments made towards Life insurance policies

Tuition fees for children's education

Repayment of principal amount on home loan

Registration fees and stamp duty for house property

Tax Deductions under Section 80C

Section 80C of the Income Tax Act provides provisions for tax deductions on a number of payments, with both individuals and Hindu Undivided Families eligible for these deductions. Eligible taxpayers can claim deductions to the tune of Rs. 1.5 lakh per year under Section 80C, with this amount being a combination of deductions available under Sections 80 C, 80 CCC and 80 CCD.

**Income tax deductions under Section 80C to 80U**

Some of the popular investments which are eligible for this tax deduction are mentioned below.

1. Payment made towards life insurance policies (for self, spouse or children)
2. Payment made towards a superannuation/provident fund
3. Tuition fees paid to educate a maximum of two children
4. Payments made towards construction or purchase of a residential property
5. Payments issued towards a fixed deposit with a minimum tenure of 5 years
6. This section provides for a number of additional deductions like investment in mutual funds, senior citizens saving schemes, purchase of NABARD bonds, etc.

**Subsections under Section 80C**

Section 80C has an exhaustive list of deductions an individual is eligible for, which have led to the creation of suitable sub-sections to provide clarity to taxpayers.

**Section 80CCC:** Section 80CCC of the Income Tax Act provides scope for tax deductions on investment in pension funds. These pension funds could be from any insurer and a maximum deduction of Rs. 1.5 lakh can be claimed under it. This deduction can be claimed only by individual taxpayers.

**Section 80CCD:** Section 80CCD aims to encourage the habit of savings among individuals, providing them an incentive for investing in pension schemes which are notified by the Central Government. Contributions made by an individual and his/her employer, both are eligible for tax deduction, subject to the deduction being less than 10% of the salary of the person. Only individual taxpayers are eligible for this deduction.

**Section 80CCD (1):** All individuals who have subscribed to the National Pension Scheme (NPS) will be eligible to claim tax benefits under Section 80 CCD (1) up to the limit of Rs.1.5 lakh. In addition to that, an exclusive tax deduction for investments of up to Rs. 50,000 in NPS (Tier I account) can be availed by the subscribers under Section 80 CCD (1B).

**Section 80CCF:** Open to both Hindu Undivided Families and Individuals, Section 80CCF contains provisions for tax deductions on subscription of long-term infrastructure bonds which have been notified by the government. One can claim a maximum deduction of Rs. 20,000 under this Section.

**Section 80CCG:** Section 80CCG of the Income Tax Act permits a maximum deduction of Rs. 25,000 per year, with specified individual residents eligible for this deduction. Investments in equity savings schemes notified by the government are permitted for deductions, subject to the limit being 50% of the amount invested.

#### ❖ **Tax Deductions under Section 80D**

Section 80D of the Income Tax Act permits deductions on amounts spent by an individual towards the premium of a health insurance policy. This includes payment made on behalf of a spouse, children, parents, or self to a Central Government health plan.

An amount of Rs. 15,000 can be claimed as a deduction when paid towards the insurance for spouse, dependent children, or self, while this amount is Rs 30,000 (Union Budget 2017) if the person is over the age of 60 years.

On February 1, 2018, Finance Minister Arun Jaitley presented the Union Budget 2018 with a few changes in the tax deductions applicable for senior citizens. Under Section 80D, the income tax deduction limit for senior citizens has been increased to Rs. 50,000 for medical expenditure.

Both individuals and Hindu Undivided Families are eligible for this deduction, subject to the payment being made in modes other than cash.

### **Subsections under Section 80D**

Section 80D is further subdivided into two sub-sections, offering clarity on the benefits available to taxpayers.

**Section 80DD:** Section 80DD provides provisions for tax deductions in two cases, with the permitted deduction being Rs. 75,000 for normal disability and Rs 1.25 lakh if it is a severe disability. This deduction can be claimed in case of the following expenditures.

On payments made towards the treatment of dependents with disability

Amount paid as premium to purchase or maintain an insurance policy for such dependent

The permitted deduction is Rs. 75,000 for normal disability and Rs. 1.25 lakh for a severe disability. Both Hindu Undivided Families and resident individuals are eligible for this deduction. The dependant, in this case can be either a spouse, sibling, parents or children.

**Section 80DDB:** Section 80DDB can be utilised by HUFs and resident individuals and provides provisions for deductions on the expense incurred by an individual/family towards medical treatment of certain diseases. The permitted deduction is limited to Rs. 40,000, which can be increased to Rs. 60,000 (Union Budget 2015) if the treatment is for a senior citizen. The deduction under Section 80DDB for senior citizens and very senior citizens has been increased to Rs.1 lakh in Union Budget 2018.

### **❖ Tax Deductions under Section 80E**

Under Section 80E of the Income Tax Act has been designed to ensure that educating oneself doesn't become an additional tax burden. Under this provision, taxpayers are eligible for tax deductions on the interest repayment of a loan taken to pursue higher education.

This loan can be availed either by the taxpayer himself/herself or to sponsor the education of his/her ward/child. Only individuals are eligible for this deduction, with

loans taken from approved charitable organizations and financial institutions permitted for tax benefits.

### **Subsections of Section 80E**

Section 80EE: Only individual taxpayers are eligible for deductions under Section 80EE, with the interest repayment of a loan taken by them to buy a residential property qualifying for deductions. The maximum deduction permitted under this section is Rs. 3 lakhs.

### **❖ Tax Deductions under Section 80G**

Section 80G encourages taxpayers to donate to funds and charitable institutions, offering tax benefits on monetary donations. All assesses are eligible for this deduction, subject to them providing proof of payment, with the limit of deductions decided based on a few factors.

100% deductions without any limit: Donations to funds like National Defence Fund, Prime Minister's Relief Fund, National Illness Assistance Fund, etc. qualify for 100% deduction on the amount donated.

100% deduction with qualifying limits: Donations to local authorities, associations or institutes to promote family planning and development of sports qualify for 100% deduction, subject to certain qualifying limits.

50% deduction without qualifying limits: Donations to funds like the PMs Drought Relief fund, Rajiv Gandhi Foundation, etc. are eligible for 50% deduction.

50% deduction with qualifying limit: Donations to religious organisations, local authorities for purposes apart from family planning and other charitable institutes are eligible for 50% deduction, subject to certain qualifying limits.

The qualifying limit refers to 10% of the gross total income of a taxpayer.

### **Subsections of Section 80G**

Under Section 80G has been further subdivided into four sections to simplify understanding.

**Section 80GG:** Individual taxpayers who do not receive house rent allowance are eligible for this deduction on the rent paid by them, subject to a maximum deduction equivalent to 25% of their total income or Rs. 2,000 a month. The lower of these options can be claimed as deduction.

**Section 80GGA:** Tax deductions under this section can be availed by all assesseees, subject to them not having any income through profit or gain from a business or profession. Donations by such members to enhance social/ scientific/ statistical research or towards the National Urban Poverty Eradication Fund are eligible for tax benefits.

**Section 80GGB:** Tax deductions under this section can be availed by Indian Companies only, with the amount donated by them to a political party or electoral trust qualifying for deductions.

**Section 80GGC:** Under this section, funds donated/contributed by an assessee to a political party or electoral trust are eligible for deduction. Local authorities and artificial juridical persons are not entitled to the tax deductions available under Section 80GGC

#### ❖ **Tax Deductions under Section 80 IA**

Section 80 IA provides an avenue for all taxpaying assesseees to claim tax deductions on the profits generated through industrial activities. These industrial undertakings can be related to telecommunication, power generation, industrial parks, SEZs, etc.

#### **The following subsections are related to Section 80-IA**

**Section 80-IAB:** Section 80 IAB can be used by SEZ developers, who can claim tax deductions on their profits through development of Special Economic Zones. These SEZs need to be notified after 1/4/2005 in order for them to be eligible for tax deductions.

**Section 80-IB:** Provisions of section 80-IB can be used by all assesseees who have profits from hotels, ships, multiplex theatres, cold storage plants, housing projects, scientific research and development, convention centres, etc.

**Section 80-IC:** Section 80 IC can be used by all assesseees who have profits from states categorised as special. These include Assam, Manipur, Meghalaya, Himachal Pradesh, Uttaranchal, Arunachal Pradesh, Mizoram, Tripura and Nagaland.

**Section 80-ID:** All assesseees who have profits or gain from hotels and convention centres are eligible for deduction under this section, subject to their establishments being located in certain specified areas.

Section 80-IE: All assesses who have undertakings in north-East India are eligible for deductions under this Section, subject to certain conditions.

#### ❖ **Tax Deductions under Section 80J**

Section 80J of the Income Tax Act was amended to include two subsections, 80JJA and 80 JJAA

**Section 80 JJA:** Section 80 JJA relates to deductions permitted on profits and gains from assesses who are in the business of processing/treating and collecting bio-degradable waste to produce biological products like bio-fertilizers, bio-pesticides, bio-gas, etc. All assesses who deal with this are eligible for deductions under this section. Such assesses can claim deduction equivalent to 100% of their profits for 5 successive assessment years since the time their business started.

**Section 80 JJAA:** Deductions under Section 80 JJAA can be claimed by Indian companies which have profits from the manufacture of goods in factories. Deductions equivalent to 30% of the salary of new full time employees for a period of 3 assessment years can be claimed. A chartered accountant should audit the accounts of such companies and submit a report showing the returns. Employees who are taken on a contract basis for a period less than 300 days in the preceding year or those who work in managerial or administrative posts do not qualify for deductions.

#### ❖ **Tax Deduction under Section 80LA**

Deductions under Section 80LA can be availed by Scheduled Banks which have offshore banking units in Special Economic Zones, entities of International Financial Services Centres and banks which have been established outside India, in accordance to the laws of a foreign nation.

These assesseees are eligible for deductions equivalent to 100% of the income for the first 5 years, and 50% of income generated through such transactions for the next 5 years, subject to the rules of the land.

Such entities should have relevant permission, either under the SEBI Act, Banking Regulation Act or registration under any other relevant law.

#### ❖ **Tax Deduction under Section 80P**

Section 80P caters to cooperative societies, offering tax deductions on their income, subject to certain conditions. 100% deduction is permitted to cooperative



societies which have incomes through cottage industries, fishing, banking, sale of agricultural harvest grown by members and milk supplied by members to milk cooperative societies.

Cooperative societies which are involved in other forms of business are eligible for deductions ranging between Rs 50,000 and Rs 1 lakh, depending on the type of work they are involved in.

Deductions which can be claimed by all cooperative societies are listed below.

Income which a cooperative society makes by renting out warehouses

Income derived through interest on money lent to other societies

Income earned through interest from securities or properties

#### ❖ **Tax Deduction under Section 80QQB**

Section 80QQB permits tax deductions on royalty earned from sale of books. Only resident Indian authors are eligible to claim deductions under this section, with the maximum limit set at Rs. 3 lakhs. Royalty on literary, artistic and scientific books are tax deductible, whereas royalties from textbooks, journals, diaries, etc. do not qualify for tax benefits. In case of an author getting royalties from abroad, the said amount should be brought into the country within a specified time period in order to avail tax benefits.

#### ❖ **Tax Deduction under Section 80RRB**

Patent owners are given tax breaks under Section 80RRB, which also grants tax relief to residents who receive royalties from their patent as income. If the patent is registered after March 31, 2003, royalty payments up to Rs. 3 lakh can be deducted. Those who get royalties from overseas must bring those funds into the nation within a certain time frame in order to be qualified for tax deductions on those royalties.

#### ❖ **Tax Deduction under Section 80TTA**

**Deductions under Section 80TTA** can be claimed by Hindu Undivided Families and Individual taxpayers. This section permits deductions to the tune of Rs 10,000 every year on the interest earned on money invested in bank savings accounts in the country.

### ❖ Tax Deduction under Section 80U

Only resident individual taxpayers with disabilities are eligible to claim tax deductions under Section 80U. A maximum deduction of Rs.75,000 per year is available to anyone who have been declared Persons With At Least 40% Disability by the pertinent medical authorities. If they meet certain requirements, those with severe disabilities are eligible for a maximum deduction of Rs.1.25 lakh. Autism, mental retardation, cerebral palsy, and other conditions are among the disabilities that qualify for tax advantages.

Summary of Tax Deductions Available under Section 80C to 80U

Section	Who can claim	Deduction	Allowed Maximum Limit (A.Y.2023-24)
80C	Individual & HUF	Against expenses like tuition fees of children, repayment of home loan principal, etc. and investments like ELSS, PPF, NSC, etc.	1,50,000
80CCC	Individual	For payment made towards annuity pension plan/fund	1,00,000
80CCD	Central Govt. or other EMPLOYEE	<b>Against any amount paid towards a pension scheme under Central Government (Assesses's Contribution to National Pension Scheme )(NPS)</b>	1,50,000
80CCF	Individual & HUF	For investments in Infrastructure bonds	20,000
80D	Resident & HUF	On premiums paid for health insurance policies	1,00,000
80DD	Resident & HUF	Against expenses incurred for taking care of disabled dependent relative	1,25,000
80DDB	Resident & HUF	On expenses made for specific diseases	1,00,000
80E	Individuals	For payment towards interest on education	No

		loan	maximum limit
80EE	Individuals	<b>Against interest payments of home loan (Residential House Property)</b>	50,000
80EEA	Individuals	Home loan taken between April 1 2019, and March 31, 2020	50,000
80EEB	Individuals	For interest payable on purchase of electric vehicles between April 1 2019, and March 31 2032, with a loan	1,50,000
80G	All Assessee	On donations to various charitable funds and institutions etc.	50-100% of the amount donated
80GG	Individuals	Against house rent allowance	5000 per month
80GGA	Individuals	Donation to certain funds charitable institutions	50% of donation or 100%
80GGB	All Assessee	For contribution or donation made towards a political party by an Indian company	No maximum limit
80GGC	All Assessee	Against contribution or donation made towards a political party by an individual	10% of gross total income
80IA	All assessee	Tax deductions are available for organizations that are engaged in the development /maintenance/operation of industrial parks, infrastructure facilities, power plant reconstruction, telecommunication services and distribution of natural gas.	The total profit generated for 10 consecutive years
80J	Individuals	Tax deduction facilities for new industrial establishments, hotels and cruises in certain cases	1,50,000
80LA	Individuals	Against transactions of an assessee made through offshore banking or International	1,50,000

		Financial Service Centers (IFSC)	
80P	Individuals	Tax deductions on certain income involved in specific activities of a co-operative society	1,00,000
80QRB	Resident	Tax deduction benefits from the royalty earned from the sale of books	3,00,000
80RRB	Resident	Tax deduction on royalty payments	.3,00,000
80TTA	Individual &HUF	Against Interest earned from savings accounts	10,000
80TTB	Individual &Senior	On interest income from deposits for senior citizens	Rs.50,000
80U	Resident	Deductions available for taxpayers with disabilities	1,25,000

### **Deductions in respect of certain Incomes**

Deductions under Chapter VIA in respect of INCOMES are allowed from Section 80-IA to 80U

Section	Nature of income	Who can claim
80-IA	Deduction in respect of Profit and Gains from Industrial Undertaking or Enterprises engaged in infrastructure Development [Section 80IA]	All assessee
80-IAC	Special Provision in respect of Eligible Business of Eligible Start Up [Section 80-IAC] [W.e.f. A.Y. 2017-18]	Companies/LLPS
80-IB	<b>Deduction in respect of Profit &amp; Gain from certain Industrial Undertaking other than Infrastructure Development Undertaking [Section 80-IB]</b>	All Assessee
80-IBA	Deduction in respect of Profits and Gains from Housing Projects [Section 80-IBA]	All Assessee
80-IC	Deduction in respect of Profits and Gains of Certain Undertaking or Enterprises in certain Special Category States. [Section 80-IC]	All Assessee

80-JJA	Deduction In Respect Of Profit And Gains From Business Of Collecting And Processing Of Bio-Degradable Waste	All Assessee
80-JJAA	Deduction In Respect Of Employment Of New Employees [Section 80-JJAA] w.e.f. A.Y. 2017-18	All Assesse
80-LA	Deduction in respect of certain incomes of Offshore Banking Units and International Financial Services Centre Deduction in respect of income of Co-operative Societies	All assessee
80QQB	Deduction in respect of Royalty Income etc of authors of certain books other than text book	All assessee
80RRB	Deduction in respect of royalty of patents	
80TTA	Deduction in respect of interest on deposits in saving banks account with bank post office deduction up to Rs.1000	All assessee
80 TTB	Deduction for interest on fixed deposit	All assessee
80 U	Deduction in case of a person with disability	All assessee

### 3.2.2. Computation of Total (Taxable) Income

Computation of Total Taxable Income

Particulars	Rs.	Rs.
1. Income from salary		
i) Basic salary	****	
ii) Taxable allowances	****	
iii) Value of Perquisites	****	
Gross Salary	****	
(-) Deductions u/s 16		
i) Standard Deduction	****	
ii) Entertainment Allowance	****	
iii) Professional Tax	****	

<b>Income from salary</b>		****
2. Income from House Property		
i) Self occupied property		
Annual Value	****	
(-)Interest on loan	****	
<b>Loss from self occupied property(I)</b>	****	
ii) Income from let or deemed let out property		
Gross Annual Value	****	
(-) Municipal value	****	
Net Annual Value	****	
(-) Deductions u/s24		
a) Standard deduction 30% of NAV	****	
b)Interest on loan	****	
<b>Income From let out property(II)</b>	****	
Income from House property( I + II )		****
3) Income from business or profession		
Profit as per Profit and Loss Account	****	
(+) Expenses debited profit and loss account but not allowed (in admissible expenses)	****	
income taxable as business income but not credited to P&L a/c	****	
(-) Expenses allowed but not debited to P & La/c	****	
(i) Income not taxable as business income but credited to P&L a/c	****	
Income from business / Profession		****
4) Capital Gain		
(i) Short term capital gain	****	
(ii) Long term capital gain	****	
(-)Deduction u/s 54	****	

Long term capital gain		****
5) income from other sources		
Gross Total income (1+2+3+4+5)		****
(-) Deductions allowed u/s 80C to 80U		****
6) Total income/Taxable income (rounded off)		****
7) Tax on total income		****
8) Less Tax Rebate u/s 87A ( if applicable)		****
9) Tax payable after rebate		****
10) (-) Surcharge ( if applicable)		****
11) (+)Health and Education Cess at 4% on tax and surcharge		****
12) Gross Tax Liability		****
13) Less Relief u/s 89(f applicable)		****
14) Total tax liability		****

#### ❖ **Income Tax Slab F.Y. 2022-23 (A.Y. 2023-24)**

The calculation of income tax in India is based on income tax slabs and rates for the application financial year (FY) and assessment year (AY). The income slabs for FY 2022-23 were announced as a part of the Union Budget 2022-23.

Assessee should select tax regime based on which he will be paying less income tax.

It is important to note that investment deductions are available only in Old Tax Regime.

New Tax Regime does not allow you to claim any investment deductions to save income tax. This is because new tax regime are reduced tax slab rates.

This means that Standard Deductions of Rs. 50,000 is only available in Old Tax Regime, and not in New Tax Regime.

The income tax slab rates for FY 2022-23 (AY 2023-24) are the same as income tax slabs and rates in FY 2021-22 (AY 2022-23). The income tax slab rates for FY 2022-23 (AY 2023-24), considered the types of taxable income in India and some of the key differences in the slab rates between the new and the old tax regime.

Income Tax Slab Rates of the A.Y. 2023-24 for Individuals below 60 Years, NRIs and HUFs

Now let us take a look at the income tax slabs for FY 2022-23 (A.Y. 2023-24) under both tax regimes for resident individuals aged less than 60 years, Hindu Undivided Family (HUF) and Non-Resident Indians (NRI) with income in India:

OLD TAX REGIME VS NEW TAX REGIME SLAB RATES

Below is the table showing Old and New Tax Slab Rates for F.Y. 2022-23:

Taxable Income	Old Tax Regime (F.Y2022-23) (A.Y.-2023-24)
Rs.0 to Rs.250000	Nil (Exempt)
Rs.250001 Laks to Rs. 500000	5%
Rs. 500001 to Rs.1000000	20%
Above Rs.1000001	30%

Age above 60 to 80 years

Taxable Income	Old Tax Regime (F.Y2022-23) (A.Y.-2023-24)
Rs. 0 to 300000	Nil
300000 to 500000	5%
500000 to 1000000	20%
Above 1000000	30%

Age above 80 years

Taxable Income	Old Tax Regime (F.Y2022-23) (A.Y.-2023-24)
Rs. 0 to 500000	Nil
500000 to 1000000	20%
Above 1000000	30%



### New Tax Regime

Taxable Income	New Tax Regime (F.Y2022-23) (A.Y.-2023-24)
Rs.0 to Rs.250000	Nil (Exempt)
Rs.250001 Laks to Rs. 500000	5%
Rs. 500001 to Rs.750000	10%
750001 to 1000000	15%
1000001 to 1250000	20%
1250001 to 1500000	25%
Above 1500000	30%

Below are the income tax calculation of Rs.5,00,000 salary (Old and New regime)

Particulars	Old Regime	New Regime
salary	Rs.5,00,000	Rs.5,00,000
Standard deduction	Rs.50,000	Rs.0
Taxable Income	Rs.4,50,000	Rs.5,00,000
5% slab between s.250000 to taxable income	10,000	12500
Tax rebate under section 87A	10000	12500
Income Tax	Nil	Nil

If the assessee has yearly taxable income is Rs.5,00,000 or below 5,00,000. He applied for old or new tax regime. As per income tax act assessee is eligible for the rebate under section 87A. The amount of rebate u/s 87A is Rs.12,500.

Assessee will be eligible for Tax Rebate u/s 87A when his taxable income is below Rs. 5 lacks in FY 2022-23. This is achievable by making investments under various sections. Tax Rebate u/s 87A will be allowed in both Old and New Tax Regime.

Example The Net Taxable Income of assessee is equals Rs. 5 Lacks in F.Y. 2022-23.

Based on Old and New Tax Slab Rates, he is liable to pay Rs. 12,500 as Income Tax based on his Net Taxable Income.

But we also have Tax Rebate u/s 87A which provides us a maximum rebate of Rs. 12,500, thus making our Income Tax = Rs. 0.

Calculation of taxable income of an assessee if total salary income is Rs.700000

Particulars	New Regime
salary	Rs.7,00,000
Standard deduction	Rs.0
Taxable Income	Rs.7,00,000
5% slab between s.3,00,000 to 6,00,000 i.e. 5% of 3,00,000 is taxable income=15,000 On remaining Rs.1,00,000 in the slab of 6 lakh to 9 lakh i.e 10% of 1,00,000=10,000 Total tax Rs. 25,000	25,000
Tax rebate under section 87A	25,000
Income Tax	Nil

Under 87A the rebate is Rs. 25,000 so the tax liability of the assessee is nil. Income Tax Slabs in AY 2023-24 (F.Y .2022-23) for Super Senior Citizens

#### **Cess:**

For FY 2022-23 – Health and education cess is 4% of the sum of total income tax and surcharge

Basic Exemption limit for senior citizens (age of 60 years or more but up to 80 years)

For FY 2022-23 is Rs.2.5 lakh

Basic Exemption limit for super senior citizens (age of 80 years or more) For FY 2022-23 is Rs.5 lakh

#### **Example:**

Rohit's total taxable income for FY 2022-23 is Rs 8,00,000 under the old tax regime. How will the tax slabs be applied to him?

Tax Slabs	old tax regime.(A.Y.2023-24)
Income up to Rs 2,50,000	Nil
Income between Rs 2,50,000 – Rs 5,00,000	5% of (Rs 5,00,000 – Rs 2,50,000) = Rs 12,500
Income between Rs 5,00,000 – Rs 8,00,000	20% of (Rs 8,00,000 – Rs 5,00,000) = Rs 60,000
Total	Rs 72,500
Education Cess (4% on the sum of total income tax)	Rs 2,900
Tax payable	75400

Old tax regime v/s New tax regime (For financial year 2023-24)

In the financial year 2023-24 the standard deduction Rs. 50,000 is allowed

Particulars		Old tax Regime	New Tax Regime
Total salary		25,00,000	25,00,000
Standard deduction	50,000		50,000
Deduction u/d 80C	1,50,000		
NPS	50,000		
Home Loan Interest	2,00,000		
Health Insurance (self)	25,000		
Senior Citizen Parents(Health Insurance /Medical Expenses)	50,000		
Total deduction		5,25,000	
Net Salary		19,75,000	24,50,000
Income Tax + Cess		4,21,200	4,52,400

#### ❖ Income Tax Slab

Income tax is simply the tax you need to pay on income during a financial year. In India, the income tax system is progressive in nature i.e. if you have low income, you pay lower tax and if you have high income, you pay tax at a higher rate.

In order to determine the rate at which income tax needs to be paid, the Government of India has introduced income tax slabs and applicable rates. The income tax slab specifies a range within which a pre-determined rate of taxation is applicable. Based on the income tax slab a taxpayer falls in, the applicable income tax rate is identified which is used to calculate the income tax liability for the applicable fiscal.

Currently Indian tax payers can choose between 2 different tax regimes – the old tax regime and the new tax regime. The income tax slabs and rates for FY 2022-23 (AY 2023-24) are different and based on whether the tax payer has chosen the new or the old tax regime to compute tax liability for the fiscal.

#### ❖ **Surcharge on Income Tax in AY 2023-24**

Taxpayers in the high income group with net taxable income exceeding 50 lakhs in assessment year 2023-24 i.e. financial year 2022-23, have to pay a surcharge on their income tax computed based on the income tax slab rates for FY 2022-23. The applicable rate of surcharge is as follows for FY 2022-23

As you can see, subsequent to the Budget 2023 announcement of tax slab rates for AY 2024-25, the number of slabs available under the new tax regime has decreased to 5 from the current 6 in AY 2023-24. Additionally, Budget 2023 has also increased the income tax rebate limit for individuals opting for the new tax regime to Rs. 7 lakh for FY 2023-24 from the current FY 2022-23 rebate limit of Rs. 5 lakh. However, none of the above changes are applicable if you opt for the old tax regime in FY 2023-24 i.e. AY 2024-25.

Net Taxable Income (AY 2023-24)	Rate of Surcharge on Income Tax (%)
Rs. 50 lakh to Rs 1 crore	10
Rs. 1 crore to Rs. 2 crore	15
Rs. 2 crore to Rs. 5 crore	25
Rs. 5 crore and above	30

### **3.2.3 Tax Liability Under Regular Old Tax Regime v/s Alternative New Tax Regime**

#### **A) Old Tax Regime**

Under the old structure of taxation, the assessee can claim the deduction, exemptions, and allowances with which they can have proper tax planning and save taxes.

The existing tax structure is convoluted. Despite the high tax rates, there are several strategies to lower your tax obligation. The government has provided Indian taxpayers approximately 70 exemptions and deduction choices through the addition of sections to the Income Tax Act throughout the years, allowing them to reduce their taxable income and hence pay less tax.

Some exemptions are included in your income, such as the House Rent Allowance (HRA) and Leave Travel Allowance (LTA). The deductions allow you to lower your tax obligation by investing, saving, or spending on specific items. Section 80C is the most popular and generous deduction, allowing you to reduce your taxable income by up to Rs.1.5 lakh. Besides that, there are several more exemptions and deductions most widely available for the taxpayers.

#### **❖ Advantages of Opting for the Old Tax Regime**

The old income tax regime instilled a savings culture in individuals over time by requiring investments in specific tax-saving instruments. It leads to saving for future events such as marriage, schooling, home purchase, medical, etc.

#### **Limitations of Opting for the Old Tax Regime**

In Spite of having many advantages, the old tax structure has its limitations too. The limitations of the old tax regime are as follows:

- The investment lock-in period hurts liquidity.
- Current level of consumption owing to committed amount of investments.
- There are a limited number of tax-saving investments available.
- Evidence retention of deductions claimed is a hassle.
- Not advantageous for taxpayers with nil or lower transactions eligible for tax deductions

## **B) New Tax Regime**

New regime has six tax slabs, each having a lower rate on income up to Rs.15 Lakhs. Multiple exemptions and deductions are not available due to the varying income slabs and tax rates. There are benefits and drawbacks to new regime.

The new tax scheme differs from the previous tax regime as below:

1. The number of tax slabs has expanded under the new system, which reduced rates in the range of Rs.15 lakh brackets.
2. In the new regime, all the exemptions and deductions that taxpayers used in the old regime will be unavailable.

### **❖ Advantages of opting for New Tax Regime**

The benefits of new tax structure are as follows:

1. The present tax regime is still in effect and the taxpayer has the option of choosing between the old and new tax regimes that best fit your needs. The government has not imposed any penalties for failing to convert to the new tax regime.
2. The new tax regime allows taxpayers to invest their money without any preconceived limitation. There are no mandatory rules and regulations governing your investment pattern under the new program.
3. With numerous tax slabs, you, the taxpayer, will fall into the one that best matches your annual income

### **❖ Limitations of Opting for the New Tax Regime**

The disadvantages of the new tax structure are as follows:

- There is no exemptions so, the assesses total taxable income will be larger than it was under the previous tax system.

### **❖ Old vs New Tax Regime**

Both the new and old income tax slabs. The slabs have their benefits and drawbacks. It all depends on whether you want to claim deductions and exemptions under the new tax slab, which includes a variety of income levels and rates. Deductions and exemptions are available under the old tax slab. Before you submit your taxes, you should do a comparative evaluation and assessment under both tax

systems. You can use Income Tax calculator and know the net tax payable under each of the regimes. This way you can plan your taxes ahead and invest accordingly. The calculator also suggests which regime is suitable for you.

### Problem No.1

Mr. Vipul, who earns a salary of Rs. 40 lakh each year. The HRA deduction is Rs. 50,000. He uses a combination of EPF and ELSS mutual funds to utilize Section 80C limit of Rs. 1.5 lakh. He also purchased health insurance for which he paid a Rs. 25,000 premium (self and spouse) and Rs. 50,000 (senior citizen – parents), which he claims as a tax deductible under Section 80D. He also invested an extra Rs. 30,000 in NPS to save even more taxes from his income. Vipul also claimed a tax-free Leave Travel Allowance sum of Rs. 25,000.

Let's see if the old vs new tax regime- which will put more money in his pocket.

### Illustration on Income Tax Calculation (Old vs New Tax Regime)

Particulars	Old Tax Regime (Rs.)	New Tax Regime (Rs.)
Annual Income	40,00,000	40,00,000
Less: Standard Deduction	50,000	50,000
Less: Section 80C (EPF +LIC+ Tuition Fees, etc)	150,000	Nil
Less: Interest on housing loan	50,000	Nil
Less: Health Insurance- self and spouse- parents (if senior citizen)	25,000+50,000	Nil
Less: Leave Travel Allowance	25,000	Nil
Less: New Pension Scheme 80CCD (1B)	30,000	Nil
Total (Deduction & Exemption)	3,80,000	Nil
Net Taxable Income (Annual Income – Total deductions & exemptions)	36,20,000	39,50,000

**Total Tax Payable as per Old Regime**

Income Tax Slabs (Rs.)	Old Tax Rates	Tax(Old) (Rs.)
0 – 2,50,000	0%	₹0
2,50,000 – 5,00,000	5%	₹12,500
5,00,000 – 7,50,000	20%	₹50,000
7,50,000 – 10,00,000	20%	₹50,000
10,00,000 – 12,50,000	30%	₹75,000
12,50,000 – 15,00,000	30%	₹75,000
15,00,000 & above	30%	₹636,000
<b>Total taxes</b>		<b>₹898,500</b>
Add: Higher Education Cess @4%		₹35,940
<b>Total tax payable</b>		<b>₹934,440</b>

**Total Tax Payable as per New Regime (AY 2023-24)**

Income Tax Slabs (Rs.)	New Tax Rates	Tax (New) (Rs.)
0 – 3,00,000	0%	₹0
3,00,000 – 6,00,000	5%	₹15,000
6,00,000 – 9,00,000	10%	₹ 30,000
9,00,000 – 12,00,000	15%	₹45,000
12,00,000 – 15,00,000	20%	₹60,000
Above 15,00,000	30%	₹7,35,000
<b>Total taxes</b>		<b>₹8,85,000</b>
Add: Higher Education Cess @4%		₹35,400
<b>Total tax payable</b>		<b>₹9,20,400</b>

So, you can see here the new tax regime turns out to be better. Opting for the new tax regime instead of the old regime will result in lower taxes by Rs 14,040.



### Deductions and Exemptions Allowed Under the Old and New Tax Regime

Particulars	Old Tax Regime	New tax Regime (until 31st March 2023)	New Tax Regime (from 1st April 2023)
Income level for rebate eligibility	₹5,00,000	₹5,00,000	₹7,00,000
Standard Deduction	₹50,000	—	₹50,000
Effective Tax-Free Salary income	₹5,50,000	₹5,00,000	₹7,50,000
Rebate u/s 87A	₹12,500	₹12,500	₹25,000
HRA Exemption	Yes	No	No
Leave Travel Allowance (LTA)	Yes	No	No
Other allowances including food allowance of Rs 50/meal subject to 2 meals a day	Yes	No	No
Standard Deduction (Rs 50,000)	Yes	No	Yes
Entertainment Allowance and Professional Tax	Yes	No	No
Perquisites for official purposes	Yes	Yes	Yes
Interest on Home Loan u/s 24b on: <b>Self-occupied or vacant property</b>	Yes	No	No
Interest on Home Loan u/s 24b on: <b>Let-out property</b>	Yes	Yes	Yes
Deduction u/s 80C (EPF   LIC   ELSS   PPF   FD   Children's tuition fee etc)	Yes	No	No
Employee's (own) contribution to NPS	Yes	No	No
Employer's contribution to NPS	Yes	Yes	Yes
Medical insurance premium – 80D	Yes	No	No
Disabled Individual – 80U	Yes	No	No
Interest on education loan – 80E	Yes	No	No

Interest on Electric vehicle loan – 80EEB	Yes	No	No
Donation to Political party/trust etc – 80G	Yes	No	No
Savings Bank Interest u/s 80TTA and 80TTB	Yes	No	No
Other Chapter VI-A deductions	Yes	No	No
All contributions to Agniveer Corpus Fund – 80CCH	Yes	Did not exist	Yes
Deduction on Family Pension Income	Yes	Yes	Yes
Gifts upto Rs 5,000	Yes	Yes	Yes
Exemption on voluntary retirement 10(10C)	Yes	Yes	Yes
Exemption on gratuity u/s 10(10)	Yes	Yes	Yes
Exemption on Leave encashment u/s 10(10AA)	Yes	Yes	Yes
Daily Allowance	Yes	Yes	Yes
Conveyance Allowance	Yes	Yes	Yes
Transport Allowance for a specially-abled person	Yes	Yes	Yes

### 3.2.4 Computation of Total Income and Tax Liability of an Individual

A) Tax Liability of an Individual Under Regular (Old) Tax Regime. And new regime

Let's take an example. Assuming a person has a gross total income of ₹ 14,50,000 per annum from all sources of income.

The basic difference between the old tax regime and the new tax regime is not only the rates but the availability of deductions across age groups.

If the person is under 60 years, income tax will be calculated as under:

Example of Old regime (A.Y.2023-24)

Particulars	Old Regime (A.Y.2023-24)	New Regime (A.Y.2023-24)
Gross Total Income	14,50,000	14,50,000
Total Deduction	2,77,500	0
Taxable Income	11,72,500	14,50,000
Tax on Total Income	1,64,250	1,75,000
Surcharge	0	0
Health & Education Cess	6,570	7,000
Total Tax Payable	1,70,820	182000

For a person between the Age of 60 to 80 years, income tax will be calculated as below

Particulars	Old Regime (A.Y.2023-24)	New Regime (A.Y.2023-24)
Gross Total Income	14,50,000	14,50,000
Total Deduction	2,77,500	0
Taxable Income	11,72,500	14,50,000
Tax on Total Income	1,61,750	1,75,000
Surcharge	0	0
Health & Education Cess	6,570	7,000
Total Tax Payable	1,68,220	1,82,000

For a person above the age of 80 years, income tax will be calculated as below:

Particulars	Old Regime (A.Y.2023-24)	New Regime (A.Y.2023-24)
Gross Total Income	14,50,000	14,50,000
Total Deduction	2,77,500	0
Taxable Income	11,72,500	14,50,000
Tax on Total Income	1,51,750	1,75,000
Surcharge	0	0

Health & Education Cess	6,070	7,000
Total Tax Payable	1,57,820	1,82,000

Note: This is assuming the following deductions for income taxed under the old regime. If a person opts to pay tax under the new regime, none of these deductions would be available

- 1) Standard deduction of ₹ 50,000 under Section 16
- 2) Deduction under Section 80C of ₹ 1,50,000 and under Section 80CCD(1B) of ₹ 50,000 (used for investments in NPS)
- 3) Deduction of ₹ 25,000 for Mediciam premium under Section 80D

#### **B) Practical problems based on old tax regime**

##### **Problem No.1**

Mr. Amar Sathe has given the following particulars of his income and saving for the financial year ending on 31-3-2023 (New tax regimes not exercised)

- 1) Gross salary Rs. 5,03,000
- 2) Profit from business Rs.1,71,300
- 3) Interest on Government Securities Rs.3800
- 4) Dividends received from an Indian Company Rs. 5,600
- 5) Income from House Property Rs.15,000
- 6) He paid professional tax Rs. 2,500
- 7) He paid Rs.10,200 for Life insurance Premium deposited in public Provident Fund Rs.10,000 invested Rs.5,000 in National Saving Certificates and made Deposit for 5 years in Bank Term deposit Scheme 2006 with SBI-Rs. 50,000
- 8) He paid health insurance premium for himself and his family Rs. 21,000 and for mother (70 years) Rs. 18,000 and incurred medical expenditure on father (senior citizen) Rs. 35,000.

Compute the Income Tax Liability of Mr. Prakash Mohite for the A.Y. 2023-24. (Old Regime)

Computation of Taxable Income and Tax Liability of Mr. Prakash Mohite for the A.Y. 2023-24. (Old Regime)

Particulars	Rs.	Rs.
A) Income from Salary		5,03,000
Gross salary		
(Less) Deductions u/s 16(i)		
(i) Standard deduction	50,000	
(ii) Professional Tax	2,500	(-)52,500
<b>Income from Salary</b>		<b>4,50,500</b>
(B) Income from House Property		15,000
C) Income from Business		1,71,300
D) Income from other sources		
Interest on Government securities	3,800	
Dividend From Indian Co(Taxable w.e.f. 1-4-2020 )	5,600	9,400
<b>Gross Total income (A+B+C+D)</b>		<b>6,46,200</b>
(Less) Deductions u/s 80		
i)Qualifying savings (u/s80C)(Note.1)	75,200	
ii)Health Insurance Premium	71,000	(-)1,46,200
<b>Total Income</b>		<b>5,00,000</b>
<b>Tax on total Income</b>		
Income up to Rs. 2,50,000		Exempted
On Rs. 2,50,001 to 5,00,000		12,500
(-) Tax rebates u/s 87 .As Total income does not exceeds Rs. 5,00,000 (Rs. 12,500 or Tax payable whichever is less)		(-)12,500
Tax liability		000000

Note No.1. Qualifying amount for deduction u/s 80C-LIP Rs.10,200 + PPF Rs.10,000 + N.S.C.Rs.5000 + T.D. in SBI Rs.50,000=Rs.75,200

Note No.2.Premium and expenditure incurred- Health premium of mother Rs.18000, Medical expenditure on father (senior citizen) Rs. 35,000 total Rs.53000 Aggregate

deduction to any individual allowed Rs. 50,000. Total deduction allowed u/ 80D =50,000+21,000=71,000

Problem No.2.

Mr. Ashish had received the following incomes during the year ending 31<sup>st</sup> March, 2023 (He is not exercised the new tax regime )

1. Basic salary Rs. 35,000 p.m.
2. D.A.(Part of retirement benefit)Rs. 10000 p.m.
3. H.R.A. Rs. 10,000 p.m.
4. Transport Allowance Rs. 2,000 p.m.
5. He paid Professional tax Rs. 2,500 p.a.
6. He is staying at rented house in Pune for which he paying a rent of Rs. 17,000P.M.
7. During the year he sold his investment in shares of a company with in two months for Rs. 1,50, 000. He had purchased it for Rs. 90,000 on 1<sup>st</sup> July 2020.
8. He contributed Rs.5,500 p.m. towards R.P.F. His employer also made similar contribution.
9. He deposited Rs.50,000 in P.P.F.
10. He paid L. I.C. premium of Rs. 25,000 on his own policy and Rs.10,000 for the policy of his wife.
11. He received interest on his R.P.F. balance at 10% p.a. Rs. 26,000 and on F.D.R. in Bank of Maharashtra. Rs.7,000
12. He received income from Lottery . Net (after TDS at 30%) Rs. 52,500
13. His employer deducted Rs.20,000 as income tax from his salary.

Compute the Taxable Income and tax liability of Mr. Ashish for the A.Y.2023-24

Computation of Taxable Income and Tax Liability of Mr. Ashish for the A.Y. 2023-24. (Old Regime)

Particulars	Rs.	Rs.
A) Income from Salary		
Basic salary (35,000*12)		4,20,000
D.A. (Part of retirement benefit)(10,000*12)		1,20,000

H.R.A.(10,000*12)	1,20,000	
(-) Exempted from tax(note No.2)	(-)1,20,000	Nil
Transport allowance (2000*12)		24,000
Employers contribution to R.P.F. (5500*12)	66,000	
(-) Exempted from tax at 12% of salary ( note .1)	(-)64,800	1,200
Interest on R.P.F.@10%	26,000	
(-) Exempted from tax @ 9.5%	(-)24,700	1,300
<b>Gross salary</b>		<b>5,66,500</b>
(-) Deductions u/s 16		
(i) Standard deduction	50,000	
(ii) Professional Tax	2,500	(-)52,500
<b>Income from salary</b>		<b>5,14,000</b>
<b>B)Short term capital gain on shares (150000-90000)</b>		<b>60,000</b>
C) income from other sources		
i) interest on F.D.R.	7,000	
ii) Income from Lottery Gross(52,500*100)/7	75,000	82,000
<b>Gross Total income(A+B+C)</b>		<b>6,56,000</b>
(-)Less short term capital gain (shares )+( Lottery) (6,00,00+75,000)		1,35,000
Gross Total income without STCG and Lottery		5,21,000
<b>(-) Deductions u/s 80</b>		
1)Qualifying saving u/s 80C (note no.2)		1,50,000
Total income without STCG and Lottery		3,71,000
(+)STCG (Shares)+(Lottery) (60,000+75,000)		1,35,000
Total taxable income		5,06,000

**Tax on total income**

Particulars		
On income from lottery at 3% on Rs.75,000		22,500
On S.T.C.G. on equity shares at 15% on Rs. 60,000		9,000
On Balance of Rs.3,71,000		
Up to Rs.2,50,000	Exempted	
On balance Rs.1,21,000(3,71,000-2,50,000) at 5%	6,050	6,050
Tax		37,500
(-) Tax Rebates u/s 87 A(Total income exceeds Rs. 5,00,000)		NA
Total		37,550
(+) Health and Education Cess at 4%		1,502
Total		39,052
(-) TDS Rs. 22,500 from Lottery + Rs. 2,00,000 from salary		(-) 43,500
Total tax refundable		(-) 3,448

**Salary for Contribution to RPF**

Particulars	Rs
Basic salary	4,20,000
D.A.(Enter for retirement benefit)	1,20,000
	5,40,000
12% of 5,40,000= 64,800	

**HRA exemption u/s 10(13A)**

Salary for HRA = Basic salary (4,20,000) + D.A (enter for retirement benefit) (1,20,000) = 5,40,000 = 10% of 5,40,000 = 54,000

Particulars	Rs	Rs
HRA Received		1,20,000
(-) Least of the following		



HRA Received	1,20,000	
Rent paid – 10% of salary (1,70,000*12)-54,000=2,04,000-54,000	1,50,000	
40% of salary(40% of 5,40,000)	2,16,000	
Least of the above exempted		1,20,000
H.R.A		Nil

Note no.3

Qualifying amount for deduction u/s 80C= L.I.P. + R.P.F. + P.P.F. = 35,000 + 66,000 + 50,000 = 1,51,000 (maximum Rs. 1,50,000)

### 3.2.5 Alternative (New) Tax Regime

#### Practical problems on New Tax Regime

Problem No.3.

Mr Ajay Patel a resident individual has given the following information for the year ended 31-3-2023.

- 1) Net salary per month (after deduction of I.T. Rs. 3000 and P.T.Rs.225 p.m.) 19,275
- 2) Commission Rs. 48,000 p.a.
- 3) Bonus Rs. 40,000 p.a.
- 4) Education allowance p.a. (for two sons and one daughter studying in school) Rs. 6,000
- 5) Employer's contribution to R.P.F. Rs.38,400
- 6) Free car (1650cc) facility for office and private purpose and expenses are paid by the employer Rs. 25,000
- 7) Share of profit (from firm Rs.36,000 and HUF Rs.30,000)
- 8) Income from business Rs.15,200
- 9) L.T.C.G.on sale of equity shares S.T.T.A. is paid Rs. 1,05,200
- 10) He received the following :
  - a) Interest on bank term deposit Rs. 25,000

- b) Interest on company deposit Rs.7,000
- c) Interest on personal saving bank account Rs.2,500
- d) Maturity claim of LIC Rs.60,000

11) His savings and investments are as follows-

- a) Contribution to R.P.F. Rs. 30,000
- b) Payment of L.I.C. premium Rs. 12,000
- c) Medical insurance premium on the health of dependent father (Age 65 years ) Rs.17,000
- d) Repayment of Higher education loan Rs. 47,000
- e) Repayment of self-occupied housing loan (Including Interest of Rs. 28,500) Rs.58,700

Compute his total income and of tax liability for A.Y. 2023-24. He has exercised the option of new taxation regime u/s 115 BAC

Computation of taxable income and tax liability of Mr. Ajay Patel for A.Y.2023-24

Particulars	Rs.	Rs.
a) Income from salary		
Salary $(19,275+3,000+225)*12$		2,70,000
Commission fixed		48,000
Bonus		40,000
Education allowance	6,600	
(-) Exemption (Not allowed)	---	6,600
Employers contribution to R.P.F.	38,400	
(-)Exempted up to 12% of salary of Rs. 270000	(-)32,400	6,000
Motor Car (1650cc) $(2,400*12)$		28,800
Gross Salary		3,99,400
(-) Deductions u/s 16		
(i)Not Applicable under new taxation regime	N.A.	-----
Income From Salary		<b>3,99,400</b>

Income from Self Occupied House Property (S.O.H.P.)		
Annual Value		Nil
(-)Deduction u/s 24		
1.Standard Deduction	N.A.	
2.Interest on Loan	28,500	(-) 28,500
Loss from Self Occupied House Property (S.O.H.P.) (Not applicable for set off)		<b>(-) 28,500</b>
(C) Income from Business		
1.Income from Business (self)	15,200	
2.Profit from firm and HUF. (Exempted)	-----	
Income from Business		<b>15,200</b>
(D ) Capital Gain (L.T.C.G.) on sale of equity shares		1,05,200
(E) Income from Other Sources		
1. Interest on postal saving bank account	2,500	
2.Interest on Bank Deposits +Co-operative .Deposit(25,000+7,000)	32,000	34,500
3.Maturity Claim of LIC ( Exempted)	Exempted	
Gross Total Income(A+B+C+D+E)		5,54,300
(-) Less L.T.C.G on sale of equity shares		(-) 1,05,200
Gross Total Income Without L.T.C.G.		4,49,100
<b>Deductions u/s 80 C</b>		
1.Qualifying savings ( u/s 80 C – LIP+R.P.F.+Housing Loan Principal)(N.A.)		Nil
Taxable Income without L.T.C.G.		4,49,100
(+) Add L.T.C.G.		1,05,200
Total Taxable Income		5,54,300
Tax on Total Income Rs. 554300		
i)On L.T.C.G. on Equity shares in excess of Rs. 100000 at 10% i.e. on Rs. 5200 at 10%		520

ii) On balance of Rs.4,49,100 (5,54,300-1,05,200) Up to Rs. 2,50,000	Exempted	
On balance (4,49,100-2,50,000)= 1,99,100 (5% of 1,99,100) = 9,955	9,955	9,955
		10,475
(-) Tax rebates u/s 87A Max. Rs. 12,500 (w.e.f. A.Y.2020-21)( Excluding Tax Payable on LTCG on equity share /units of M.F.)		(-) 9,955
		520
(+) Health and Education Cess at 4%		(+) 21
		541
(-) Tax Deducted at Source (3,000*12)		(-) 36,000
Tax Refundable		(-) 35,459

Note :1. Repayment of higher education loan (principal) does not qualify for deduction. Only interest on loan taken for higher education is allowed for deductions u/s 80E (N.A. under new taxation regime)

2. Interest on bank saving a/c and postal saving a/c upto Rs.10,000 is allowed for deduction u/s 80 TTA.(w.e.f.2013-14) (N.A. under new taxation regime)

Problem No.4.

Mrs. Poonam is working as an accountant in IDBI Bank Pune. She has furnished the following details of her income for the year 2022-23.

- 1) Basic salary Rs.70,000 p.m.
- 2) D.A.Rs.14,000 p.m.
- 3) Bonus Rs.1,00,000
- 4) Entertainment Allowance Rs. 1,200 p.m.
- 5) Transport allowance (for coming to office and going back her residence) Rs. 2,000 p.m. and leave Travel concession Rs. 52,500.
- 6) Received house Rent allowance Rs.3000 p.m. from the employer but she paid the of Rs. 5,000 p.m.

- 7) Personal Medical bills of Rs. 25,000 were reimbursed by the employer.
- 8) Her contribution to recognised provident fund is Rs.88,000 and the employer contributes an equal amount.
- 9) The interest credited to R.P.F. account at 12% p.a. Rs.18,000.
- 10) Income from business Rs.90,000
- 11) A house property in Mumbai Has been let out at Rs.15,000 p.m. One month rent could not receive due to vacancy. She paid Municipal Tax Rs.14,000 and Rs.12,000 as free insurance premium
- 12) Interest on bank deposit received Rs.13,000
- 13) Interest on Government securities Rs.15,000
- 14) Income from units of U.T.I . Rs.10,000
- 15) She Paid donation to the donation Children Fund Rs.5,000.
- 16) She paid to Notified Units for Mutual Fund (Equity Lined Saving Scheme)Rs. 30000
- 17) She paid L.I.P. Rs. 20000 tuition fees for her son Rs. 60000 Interest on loan taken for higher education of her son Rs. 15000
- 18) Professional Tax paid Rs. 3500 p.a.
- 19) Mrs Poonam has exercised the new taxation regime u/s 115 BAC. Compute the total income and tax payable by Mrs. Poonam for A.Y. 2023-24.

Computation of Taxable Income and tax liability of Mrs. Pooman for A.Y.2023-24

Particulars	Rs.	Rs.
A) Income from salary		
Basic salary (70,000*12)		8,40,000
D.A. (Rs.14,000*12)		1,68,000
Bonus		1,00,000
Transport Allowance (2000*12) (Exemption N.A)		24,000
Leave travel concession		52,500
Entertainment allowance (1200*12)		14,400

House Rent allowance (3000*12)	36,000	
(-) Exempted from tax (N.A.)	-----	36,000
Reimbursement of medical bill	25,000	
(-) Exempted from tax (N.A.)	-----	25,000
Employers contribution to R.P.F.	88,000	
(-) Exempted from tax up to 12% of salary (8,40,000)	1,00,800	----
Interest credited to R.P.F. account at 12%	18,000	
(-) exemption from tax at 9.5% (On employees share only i.e.50%)(14250/2)	7,125	10,875
Gross Salary		12,70,775
Deductions u/s 16 N.A. under New Taxation Regime		---
Income from salary		12,70,775
B) Income from House Property (Note .1)		1,05,700
C) Income from Business		90,000
D) Income from other sources		
i) Interest on Govt. Securities	15,000	
ii) Interest from Units of U.T.I. Taxable w.e.f. 1-4-2020	10,000	
iii) Interest on bank deposits	13,000	38,000
Gross Total Income (A+B+C++D)		1,504,475
(-)Deductions u/s80		
i)Qualifying saving (u/s 80c)-LLP+R.P.F.+ Tuition Fees +ELSS=(N.A)		
ii)Interest paid on education loan (Sec.80E)(N.A.)		
iii)Donation to National Children Funds (u/s/80G) at 100% (N.A.)		Nil
Total Income		15,04,475
Tax on total income		

Up to Rs 2.5 lakh=Nil		Exempted
Rs 2,50,001 to Rs 5 lakh=5%		12,500
Rs 5,00,001 to Rs 7.5 lakh=10%		25,000
Rs 7,50,001 to Rs 10 lakh=15%		37,500
Rs 10,00,001 to Rs 12.5 lakh=20%		50,000
Rs 12,50,001 to Rs 15 lakh=25%		62,500
Over Rs. 15 lakh=30% ( i.e.on balance of Rs. 4475 at 30%)		1,343
		1,88,843
(+) Health and Education cess at 4%		(+)7,554
Total tax payable		1,96,367

**Problem No.5.** Mr Principal Rajesh Retired on 31st March 20200 at the age of 60 years. From the following information given by him, compute his taxable income and tax liability for the Assessment Year 2023-24. (He is not exercised the new taxation regime u/s 115 BAC)

1. Income from pension Rs.600000 (after deduction of standard deduction)
2. He purchased affordable first residential house on 1st May 2021 for Rs. 45 Lakhs, with a loan of Rs.35 Lakhs at 9.5% rate of interest from SBI on 15th June 2021. Total interest paid and accrued up to 31st March 2023 was Rs.302500.
3. He has income from other sources Rs.350000
4. He deposited Rs. 150000 in PPF account and paid Rs.30000 by cheque as premium on mediclaim policy.
5. He paid Rs.20,000 as interest on loan taken for higher education of his son.

Computation of Taxable income and Tax liability of Mr. Principal Rajesh for A.Y.2023-24

Particulars	Rs.	Rs.
A) Income from salary : ( Pension)( after deduction of Standard Deduction)		6,00,000

B) Loss from self-occupied Property (Interest on loan maximum allowed)		-2,00,000
C) Income from other sources		3,50,000
<b>Gross Total Income</b>		<b>7,50,000</b>
<b>(-) Deduction u/s 80</b>		
i) Qualifying saving u/s 80 C (PPF)	1,50,000	
ii) Interest on loan for higher education (sec 80E)	20,000	
iii) Mediciclaim Insurance Policy (Sec.80D)	30,000	
iv) Interest on loan (first affordable residential house property) (Sec 80 EEA(Note no.1))	1,02,500	3,02,500
Total taxable income		4,47,500
Up to Rs.3,00,000 = Exempted	Nil	
Rs.3,00,000 to Rs.5,00,000=5% (i.e. On the balance of Rs.1,47,500 = 5%)	7,375	
<b>Total</b>	<b>7,375</b>	
(-) Tax rebate u/s 87 A (Income does not exceeds Rs. 500000)	7,375	
<b>Tax liability</b>		<b>000</b>

Working note no. 1. This deduction is allowed over and above the limit of Rs. 2,00,000 provided for self-occupied house property u/s 24 of the income tax Act. All the conditions u/s 80 EEA are satisfied. (Maximum interest allowed u/s 80 EEA is Rs. 1,50,000)

NOTE : All the calculations of deductions and determination of gross total income as well as tax liability are made as per provisions of A.Y. 2023-24.

### 3.3 Check Your Progress:

#### A) Multiple Choice Questions

- The maximum amount which can be donated in cash for claiming deduction u/s 80G for PY 2022-23 is \_\_\_\_\_.  
a. 5,000                      b. 10,000                      c. 1,000                      d. 2,000.
- Rajan, a resident Indian, has incurred INR 15,000 for medical treatment of his dependent brother, who is a person with severe disability and has deposited INR



- 20,000 with LIC for his maintenance. For A.Y.2023-24,Rajan would be eligible for deduction under section 80DD of an amount equal to \_\_\_\_\_
- a) INR 15,000      b) INR 35,000      c) INR 75,000      d) INR 1,25,000
3. Mr. Shiva made a donation of INR 50,000 to PM Cares Fund and INR 20,000 to Rajiv Gandhi Foundation by cheque. He made a cash donation of INR 10,000 to a public charitable trust. The deduction allowable to him under section 80G for A.Y.2023-24 is \_\_\_\_\_
- a) INR 80,000      b) INR 70,000      c) INR 60,000      d) INR 35,000
4. Mr.Anuj is a businessman whose total income (after allowing deduction under Chapter VI-A except under section 80GG) for A.Y. 2023-24 is INR 5,95,000. He does not own any house property and is staying in a rented accommodation in Patna for a monthly rent of INR 9,000. Deduction u/s 80GG for A.Y. 2023-24 is \_\_\_\_\_.
- a) INR 48,500      b) INR 1,48,750      c) INR 60,000      d) INR 1,08,000
5. Gross total income of Arpita for P.Y. 2022-23 is Rs. 6,00,000. She had taken a loan of Rs. 7,20,000 in the financial year 2019-20 from a bank for her husband who is pursuing MBA course from IIM, Kolkata. On 02.04.2022, she paid the first instalment of loan of Rs. 1,45,000 including interest of Rs. 65,000. Her total income for A.Y. 2023-24. is-----
- a) Rs. 6,00,000      b) Rs. 5,35,000      c) Rs. 4,90,000      d) Rs. 5,55,000
6. Mr. Pulkit, aged 45 years, paid health insurance premium in lump sum of Rs. 90,000 for three years on 01-05-2022. The amount of deduction allowable to him for A.Y. 2023-24 is -----
- a) Rs. 90,000      b) Rs. 30,000      c) Rs. 25,000      d) Nil
7. Deduction in respect of contribution for annuity plan to certain pension fund u/s 80CCC is allowed to \_\_\_\_\_
- a. Any Assessee      b. Individual Assessee only  
c. Individual or HUF      d. Individual who is resident
8. Deduction u/s 80DDB shall be allowed for medical treatment of specified disease of \_\_\_\_\_.

- a. Any dependant relative
  - b. Any dependant handicapped relative
  - c. The Assessee himself or any dependant relative (Resident only)
  - d. The Assessee himself or any dependant relative (Resident or Non-resident)
9. Deduction allowed u/s 80U to individual who has disability of 40% - 80% is \_\_\_\_\_.
- a. INR 30,000                      b. INR 75,000                      c. INR 1,25,000                      d. Nil
10. Deduction u/s 80JJAA is limited to \_\_\_\_\_.
- a. 50% of Additional Employee Cost incurred in the PY or INR 5 Lakhs whichever is lower
  - b. 50% of Additional Employee Cost incurred in the PY
  - c. 30% of Additional Employee Cost incurred in the PY or INR 3 Lakhs whichever is lower
  - d. 30% of Additional Employee Cost incurred in the PY
11. A person with the age of ..... or more is considered as a super senior citizen as per Incometax Act.
- a. 56                                      b. 60                                      c. 80                                      d. 85 42.
12. The minimum exceptional limit of income is.....
- a. 250,000                              b. 200,000                              c. 300,000                              d. 500,000
13. Rebate of Income tax is defined as per section .....
- a. 81A                                      b. 87A                                      c. 81C                                      d. 87C.
13. The Health and Educational Cess is charges at the rate of .....
- a. 2%                                      b. 1%                                      c. 4%                                      d. 5%.
14. Municipal tax is a deduction from-----
- a. Gross annual value                                      b. Net annual value
  - c. Standard rent    d. Fair rent

15. Deduction allowed u/s 80U to individual who has disability of 40% - 80% is

- 
- a. INR 30,000      b. INR 75,000      c. INR 1,25,000      d. Nil

B) State True or False

1. Deduction u/s 80GGA, 80GGB and 80GGC shall be allowed to the extent 100% of the donation/contribution so made-
2. Maximum deduction allowed u/s 80TTB in a PY shall be 50000 and it is allowed to Resident senior citizen
3. Deduction is not allowed u/s 80U to individual who has disability of less than 40%.
4. The deduction under section 80QQB in respect of royalty income of authors of certain books is subject to a maximum limit of INR 3,00,000
5. . Deduction in respect of contribution for annuity plan to certain pension fund u/s 80CCC is allowed to Individual Assessee only
6. The maximum amount of deduction that can be claimed under Section 80C of the Income Tax Act is Rs.1.5 lakh.
7. Based on the Union Budget 2023-24, the gross tax revenue has increased by 10.4% from the revised estimates of FY 2022-23.
8. The new tax regime allows taxpayers to invest their money without any preconceived limitation
9. Under the old structure of taxation, the assessee can claim the deduction, exemptions, and allowances.
10. In case of donation u/s 80GGA, the maximum amount of donation in cash allowed is INR 2,000.

### 3.4 Summary

Chapter VI A of the Income Tax Act, 1961 contains specifics regarding some of the most popular deductions. The assessee can claim to reduce the annual taxliability. However, Chapter VI A deductions can only be claimed upon fulfilling certain conditions like making specific tax saving investments or expenditures like payment of tuition fees, home loan principal, life insurance and health insurance premium, etc.

The various tax saving options available under Chapter VI A of the Income Tax Act and how it can help to optimize annual tax planning efforts.

The Income Tax law instructs us how to calculate an income tax liability. In simple terms, you add up the different components of income, then deduct any reliefs and allowances. You then calculate the tax due on each component and total these up.

The new tax regime does not allow any deductions. It's helpful for individuals who have not made too many investments, since the tax amount is lower. Here, individuals do not have to work out their taxable income. They simply need to understand which tax bracket they fall under and they can calculate their tax liability with ease.

Every individual who earns more than the basic exemption limit must file their Income Tax Returns (ITR). Even if their taxable income is less than the exemption limit, they need to file a nil return.

### 3.5 Terms to Remember

**Deduction:** Deductions consist of all those items which are allowed to be deducted from the gross total income of an assessee.

**Chapter VIA-** Chapter VIA of the income Tax Act 1961 provides for certain deductions which can be claimed by an assessee in computing his total income.

**Tax Regime:** Tax regime refers to the set of rules, regulations, and policies established by a government to govern the collection, assessment, and administration of taxes within a particular jurisdiction

**Old tax Regime :** The tax system that existed before the implementation of the new regime is the old tax regime.

**New Tax Regime:** A new tax regime was introduced in Budget 2020 wherein the tax slabs were altered, and taxpayers were offered concessional tax rates.

**Children Education Allowance:** Fixed education allowance received from the employer is tax exempt upto Rs. 100 per month per child upto a maximum of 2 children. **Hostel Expenditure Allowance:** Allowance paid for hostel facilities is exempt from tax upto Rs. 300 per month per child upto a maximum of 2 children.

**The term RPF:** It is defined under Section 2(38) to mean a provident fund which is recognized by the PCCIT/CCIT/PCIT/CIT in accordance with the rules contained in Part A of Fourth Schedule, and includes a provident fund established under a scheme framed under the EPF Act[2]

**Gross Total Income:** Gross total income (GTI) refers to the total income earned by an individual during a financial year before claiming any deductions, exemptions, or allowances. It includes income from all sources, such as salary, business or profession, capital gains, house property, and other sources, without any deductions.

**Standard Deduction:** Standard Deduction u/s Section 16 of Income Tax Act, 1961. It provides deductions for the standard deduction, entertainment allowance, and professional tax. Through this deduction, a salaried taxpayer can lower his/ her taxable salary income chargeable to tax.

**Gross Annual Value:** Gross Annual Value is the income earned from the real estate or an immovable property. The income can be in the form of rent gained from residential and commercial properties. The section 23 of Income Tax Act states that income earned from property must be taxed.

**Income from Salary or Pension :** Any income or earning, taxable allowances, and even any profit you have made from your salary is taxable. It means that the pension you receive on retirement is taxable. The income obtained from salary and pension is part of the computation of taxable income.

**Income from Businesses :** It is calculated from the presumptive (Read more about Presumptive Taxation) and actual income of a business or profession. However, it is only done after adjustments to the deductions are made.

**Income from House Property :** Individuals owning more than one housing property or have properties on rent have to pay income tax on that income.

Income tax is levied based on the rent amount, which you receive. Any net income or loss generated under this will be included or removed from the income of the other properties.

**Income from Betting, Lottery, etc. :** Anything earned through such activities are taxable and are added to the total income of a person. They are taxed separately. These types of income fall under an entirely different category, which has a different tax rate.

**Income from Capital Gain :** Income from selling certain assets like properties, gold, mutual funds units, stocks are taxable. Based on what type of asset and how long a person has owned and made profits on it, it will be classified as long-term or short-term capital gain.

### 3.6 Answer to Check your Progress

**A) Answer to check your progress-1**

1-d, 2-d, 3-c, 4-a, 5-b, 6-c, 7-b, 8-c, 9-b, 10-d, 11-b, 12-b, 13-c, 14-a, 15-b

**B) Answer to check your progress-2**

1-T, 2-T, 3-T, 4-T, 5-T, 6-T, 7-T, 8-T, 9-T, 10-T

### 3.7 Exercise-

Practical problem

**Problem No.1.**

Mr. Agarwal aged 40 years and a resident in India, has a total income of INR 4,50,00,000, comprising long term capital gain taxable under section 112 of INR 55,00,000, short term capital gain taxable under section 111A of INR 65,00,000 and other income of INR 3,30,00,000. Compute his tax liability for A.Y.2022-23. Assume that Mr. Agarwal has not opted for the provisions of section 115BAC.

**Problem. No. 2.** Mrs Aruna is a lecturer in Pune College. From the following information given by her for the year ending 31-3-2023, compute the taxable income and tax liability for the A.Y. 2023-24.

1. Gross salary including basic pay D.A., HRA. (Taxable part ) Rs. 6,05,300
2. Remuneration for examiner ship from Pune university Rs.4,000
3. Royalty from book on Income Tax Rs. 16,300
4. House Rent Rs. 60,000. From it she paid Rs, 6,000 municipal tax and Rs. 15,000 for interest on loan taken for construction of house . Rent fro April and May 2023 if Rs. 10,000 is received in advance.
5. Interest on government securities Rs. 4,000
6. Interest on deposits with reliance company Rs.2,600
7. Paid tuition fees of her son studding in M.B.A. class Rs. 60,000 (including development fees of Rs.10,000)

8. Contribution to recognised provident fund Rs. 11,000
9. Deposited in PPF amount of Rs 10,000
10. Municipal insurance premium on the health of dependent mother (aged 67) Rs. 15,500
11. Donation to approved charitable institution Rs. 5,000 and books to approved trust u/s 80G Rs. 15,000
12. Professional Tax Rs. 2,700 and income tax Rs. 22,000 is deducted from her salary
13. She has not exercised the new taxation regime u/s 115 BAC

**Problem No. 2.**

From the following profit and loss account of Mr. Satish Malu ascertain his income from business and total income for the assessment year 2023-24.

Particulars	Rs.	Particulars	Rs.
To Salary	90,000	By Gross profit	2,24,000
To General Expenses	10,000	By Bad debts (Not allowed earlier by Assessing officer due to the lack of evidence)	4,000
To Advertisement	28,000	By Rent from H.P	36,000
To Interest on proprietors capital	4,000	By Interest on Post office Savings Bank Account.	4,000
To Interest on bank loan	9,000		
To Provision for Bad debts	4,000		
To fire insurance premium (on house property)	200		
To Depreciation	8,000		
To provision for GST	20,000		
To Advance Income -Tax	4,000		
To donation to Central	2,000		

Library			
To Corporation –tax on H.P.	1,000		
To Motor car expenses	2,000		
To Income tax	15,000		
To stationery	3,800		
To Net profit	65,000		
Total	2,66,000	Total	2,66,000

Other information:

1. Advertisement includes one big Neon-sign of Rs. 22000. As per income tax rule the rate of depreciation is 15%.
2. General expenses include Rs.600 given to a poor student to enable him to pursue his studies.
3. Depreciation is in excess by Rs.3000
4. Motor car expenses include Rs. 600 for personal purpose
5. Central library is an approved institution.
6. Salary includes proprietor's salary of Rs. 1000 p.m.
7. Mr Malu paid L.I.P. of Rs. 32000 on his own policy of Rs. 300000

(Answer-Total income Rs.101600)

P.no.3.Mrs. Desai is a professor in the Pune college, form the following information given by her for the year ending 31-3-2023, compute the taxable income and tax liability for the A.Y. 2023-24.

1. Gross salary including –basic pay ,D.A. and HRA(taxable part ) Rs. 605300,.
2. Remuneration for examinership from Pune University Rs.4000
3. Royalty form book on Income –Tax Rs.16300
4. House Rent Rs. 60000. From it she paid Rs.6000 municipal tax and Rs.Rs. 15000 for interest on loan taken for construction of house. Rent for April and May 2023 of Rs.10000 is received in advance.
5. Interest on government securities Rs.4000
6. Interest on deposit with Reliance Company Rs.2600



7. Paid tuition fees of her son studying in M.B.A. classes Rs. 60000(including development fee Rs.10000).
8. Contribution to recognised provident fund Rs. 11000.
9. Deposited in PPF account Rs. 10000
10. Medici claim insurance premium on the health of dependent mother (aged 67 years) Rs.15500.
11. Donation to approved charitable institutions. 5000 and books to approved trust u/s 80G Rs. 15000
12. Professional Tax Rs.2700 and income tax Rs.22000 is deducted from her salary.
13. She has not exercised the new taxation regime u/s 115BAC

(C) Broad Questions/long Answers

1. Explain the deduction u/s 80C to 80U
2. Explain the computation of total income of an individual

(D) Short Notes:

1. Computation tax slab under old regime
2. Computation of tax slab under new regime
3. Surcharge on Income Tax in AY 2023-24

### 3.8 Reference for Further Study.

1. Income Tax Act -1961-Taxman
2. Income Tax Rules -1991- Taxman
3. Students Guide to Income Tax-Vinod Sunghania
4. Direct Tax Laws-Dinkar Pagare
5. Direct tax law & Accounts- Dr. S. K. Mehrotra and S. P. Goyal, S. S. Kulkarni



**Unit-4**  
**Clubbing of Income, Set-off and Carry Forward of Loss, E-Filing of  
Return, E-Payment of Tax**

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- 4.0 Objectives
- 4.1 Introduction
- 4.2 Presentation of Subject Matter
  - 4.2.1 Section-I : Clubbing of Income
  - 4.2.2 Section-II : Set-off and Carry Forward of Losses
  - 4.2.3 Section-III : E-Filing of Returns, E-Payment of Tax
- 4.3 Summary
- 4.4 Terms to Remember
- 4.5 Answers to Check your progress
- 4.6 Exercise
- 4.7 Reference for further study

**4.0 Objectives:**

After Studying this Unit you will be able to:

1. Understand Meaning of Clubbing of Income.
2. Various Provisions relating to Clubbing of Income.
3. Understand Provisions relating to Set-off and Carry Forward of Losses.
4. How to Prepare and File ITR.
5. E- Payment of Tax.

## **4.1 Introduction**

Income is often divided into several categories: salary income, income from business or profession, income from property, capital gains, and other forms of income. These several sources are the first to be taken into account when calculating taxable income and each one is subject to different laws and regulations. Income from Salary refers to earnings from wages or employment, whereas Income from Business or Profession refers to earnings from self-employment or professional services. When personal assets are sold, capital gains are realized, and residual income that doesn't fit within the preceding categories is covered by income from other sources. Chapter VIA of the Income Tax Act, which is made up of numerous provisions like 80C, 80D, 80G, and others, allows for deductions. These deductions provide taxpayers the option to deduct certain expenses, such investments, from their taxable income.

We comprehended the ideas covered above in the previous unit. This lesson covers the definition of "clubbing of income," laws relating to clubbing of income, as well as the terms "set-off," "carry forward of losses" and "set-off losses." Additionally, we cover how to prepare and submit an income tax return electronically as well as how to pay taxes electronically. In this unit, we are learning about these components.

There are three sections covered in this unit. Section I is the clubbing of income. Section II deals with set off and carry forward of losses. Section III is concerned with the electronic filing of income tax returns and the electronic payment of taxes.

## **4.2 Presentation of Subject Matter**

### **Section 1**

#### **4.2.1 Clubbing of Income**

The term "clubbing of income" refers to a tax law provision wherein one person's income is legally considered to be another person's income and is subsequently taxed in that person's hands. This method aims to stop people from shifting their income to another person—often a relative—who has a reduced tax responsibility in order to avoid paying taxes. The concept tries to make sure that the individual who actually earns the income cannot avoid paying taxes by sending money to a relative. Giving money to children as a present, transferring assets

carelessly, or directing money to a spouse are examples of frequent events. Different jurisdictions have different clubbing laws with different restrictions and exceptions. By eliminating tax evasion through income transfer, this method provides fair and equitable taxes.

Usually, an assessee is required to pay tax only on the income earned by him. However, sometimes, when some other person's income is also taxed in the hands of the assessee, this is known as clubbing of income. Clubbing of income also called as income of other persons included in assessee's total income.

#### **4.2.1.1 Basics of Clubbing**

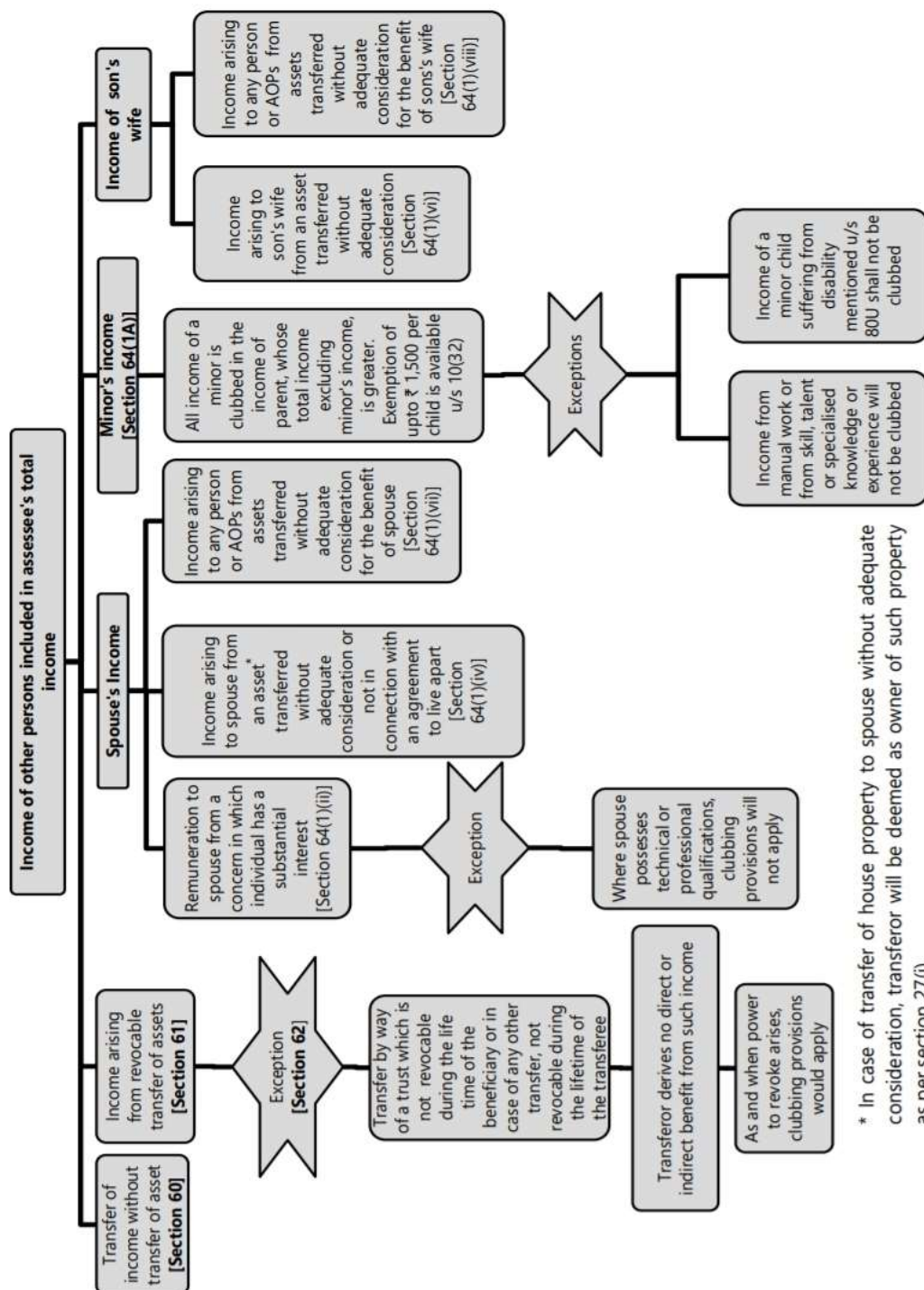
- 1) The income shall first be computed in the hands of the recipient, and any expenses incurred in connection with such revenue shall be permitted in accordance with the rules of the Act, before the net income is clubbed. For example, a standard deduction u/s 24(a) from income from home property should be permitted in the hands of the beneficiary, and the net income shall thereafter be clubbed.
- 2) If the clubbed income is deductible under Section 80 C, the assessee from whom the income is clubbed is entitled to the deduction.
- 3) Clubbed should be created in the same Head in which such person acquired it.
- 4) Negative income is also considered.
- 5) Clubbing provisions are essential.

#### **4.2.1.2 Provisions of Clubbing of Income**

Sections 60 to 64 of the Income Tax Act of 1961 deal with clubbing of income. The Income Tax Act of India provides the framework for the grouping of income rules. These laws ensure that income cannot be changed or transferred in order to escape tax responsibility or take advantage of reduced tax brackets. These rules promote the values of justice and equality in the taxation system by allocating income to its proper owner, whether via transfers of assets or income itself. Understanding these parts is essential for taxpayers and tax professionals to comply with the law and negotiate the complexity of income taxes while preserving openness and honesty.

In short, high-income individuals may redirect their earnings to their spouse or young children in order to avoid taxation.

The following image gives the overview of Sections 60 to 64 of the Income Tax Act.



\* In case of transfer of house property to spouse without adequate consideration, transferor will be deemed as owner of such property as per section 27(i).

Source: [https://www.icai.org/post.html?post\\_id=18481](https://www.icai.org/post.html?post_id=18481)

### **Section 60: Transfer of income without transfer of assets**

- If any person transfers the income from any asset without transferring the asset itself, such income is to be included in the total income of the transferor.
- It is immaterial whether the transfer is revocable or irrevocable and whether it was made before the commencement of this Act 1961 or after its commencement.

#### **Illustration: 1.**

Mr. Vishal has transferred earnings from a warehouse to his son via a fully registered deed, but has not transferred the warehouse itself. Who will be charged with the rental income from the warehouse?

#### **Solution:**

Section 60 specifically provides that where revenue from an asset is transferred without the asset itself being transferred, such income is included in the transferor's total income. As a result, the rental revenue from the warehouse will be clubbed in Mr. Vishal's hands.

#### **Illustration: 2.**

Mr. A, an individual taxpayer, owns a commercial property that generates rental income of ₹5,00,000 per annum. In an attempt to reduce his tax liability, Mr. A decides to assign the right to receive this rental income to his friend, Mr. B, for a nominal consideration. Mr. A continues to retain ownership of the property, but the rental income is now received by Mr. B.

#### **Solution:**

According to Section 60 of the Income Tax Act, if an individual transfers the right to receive income from an asset without transferring the asset itself, the transferred income is still taxable in the hands of the transferor. In this case, Mr. A assigned the right to receive the rental income from the property to Mr. B, while retaining ownership of the property itself.

As per Section 60, the rental income of ₹5,00,000, despite being received by Mr. B, will be clubbed with Mr. A's income and taxed as his income. This is because the essence of the transaction is to avoid tax liability by shifting the income without transferring the underlying asset.

In this scenario, even though Mr. B is receiving the rental income, the tax provisions ensure that the income is attributed to Mr. A for taxation purposes. This prevents individuals from attempting to split or shift income to evade taxes without transferring the actual asset.

Note:

It's essential to note that the provisions of the Income Tax Act are comprehensive. Each case may have unique circumstances, and the application of the law depends on the specific facts and details. Consulting a tax professional or advisor is recommended for accurate interpretation and application of tax provisions.

The above illustration is provided for educational purposes and does not constitute legal or financial advice. Taxation laws can be complex and subject to change. Consult a qualified tax professional for advice tailored to your specific situation.

#### **Section 61 : Income Arising from Revocable Transfer of Assets.**

The meaning of the term revocable transfer has been given in Section 63. Simply stated, revocable means cancelable. All income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transfer.

**Illustration No. 3 :** Mr. X and individual taxpayer, owns a residential property that generates rental income of ₹ 3,00,000 per annum. To minimize his tax liability, Mr. X decides to transfer the property to his adult son, Mr. Y, with the condition that the transfer can be revoked at any time. Despite transferring the property, Mr. X retains the power to revoke the transfer and regain ownership.

**Solution :** According to Sec. 61 of the I.T. Act, if an individual transfers an asset to another person with the power to revoke the transfer, any income arising from that asset is still taxable in the hands of the transferor. In this case, even though Mr. X has transferred the residential property to his son, the fact that he can revoke the transfer means that the income generated from the property will still be attributed to Mr. X for taxation purposes.

#### **Section 62: Exceptions**

Where Clubbing Provisions are Not Attracted Even in Case of Revocable Transfer

Following two cases are the exceptions to the rule that incomes arising from revocable transfers are taxed in the hands of the transferor:

1. A transfer by way of trust, which is not revocable during the lifetime of the beneficiary; and
2. Any other transfer, which is not revocable during the lifetime of the transferee. In the above cases, the income from the transferred asset is not includible in the total income of the transferor, provided the transferor derives no direct or indirect benefit from such income.

If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the lifetime of the beneficiary or transferee, as the case may be.

As and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.

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

#### **Illustration No.4**

Mr. A, an individual taxpayer, owns a commercial property that generates rental income of ₹4,00,000 per annum. In an attempt to transfer the income to his minor daughter, Miss B, Mr. A makes a revocable transfer of the property to her.

#### **Solution:**

Section 62 of the Income Tax Act provides certain exceptions to the clubbing provisions even in the case of a revocable transfer. One such exception pertains to income earned by a minor child from manual work or technical skill. If the income of a minor child is a result of their own manual work or technical skill, it is not clubbed with the income of the parent who has made the revocable transfer.

#### **Section 64(1)(ii): Income by Way of Remuneration from a Concern in which the Individual has Substantial Interest**

Income of spouse is taxable in the hands of the assessee if following conditions are satisfied:



1. Income should be in the nature of Salary, Bonus, and Commission (Remuneration).
2. Such remuneration should be received from a concern where assessee along with relative is having substantial interest

**Exception:** If remuneration is received by spouse because of some technical and professional qualification, and such remuneration is attributable to such qualification, then the above provision is not applicable.

Note: Where both husband and wife are having substantial interest in a concern and both receive remuneration from that concern, then remuneration is included in the hands of that spouse whose total income is higher before clubbing remuneration.

#### Illustration No.5

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹7,00,000 & ₹4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2023-24, assuming that they do not opt for section 115BAC. Will your answer be different if Mrs. A was qualified for the job?

#### Solution

Computation of Total Income of Mr. A and Mrs. A for A.Y. 2023-24

Particulars	Mr. A	Mrs. A
Mrs. A Salary Income of Mrs. A (₹30,000 × 12)	360000	
Less: Standard Deduction	50000	
Income from Salaries	310000	
Add: Other Income	700000	400000
<b>Total Income</b>	<b>1010000</b>	<b>400000</b>

If Mrs. A was qualified for the job, then clubbing provisions would not attract. In such case, Salary income of ₹3,60,000 after standard deduction of ₹50,000, i.e., ₹3,10,000 will be taxed in the hands of Mrs. A only. Therefore, total income of Mrs. A would be ₹3,10,000 + ₹4,00,000 (other income) = ₹7,10,000.

Note: Mr. A has substantial interest in X (P) Ltd. since his voting power is more than 20%. Since his wife is earning from that concern without being qualified, such income shall be clubbed in the hands of Mr. A.

#### **Illustration No.6**

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹3,44,000 without any qualification in accountancy. Mr. B also receives ₹30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2023-24.

#### **Solution**

#### **Computation of Total Income of Mr. B and Mrs. B for A.Y. 2023-24**

<b>Particulars</b>	<b>Mr. B</b>	<b>Mrs. B</b>
Income from Salaries		
Salary Income of Mrs. B	344000	
	344000	
Income from House Property		
Net Annual Value (Rs. 6000 p.m)		72000
Less : Standard Deduction		21000
Income from House Property		50400
Interest on Securities	30000	
Income from other Sources (C)	30000	
<b>Total Income</b>	<b>374000</b>	<b>50400</b>

Note: Mr. B has substantial interest in X (P) Ltd. since his voting power is more than 20%. Since his wife is earning from that concern without being qualified, such income shall be clubbed in the hands of Mr. B.

#### **Section 64(1)(iv): Income Arising to the Spouse from an Asset Transferred Without Adequate Consideration**

If any individual transfers assets to his/her spouse without consideration or for inadequate consideration, then income from such asset is received by spouse, but tax on such income is paid by transferor (assessee).

Notes: 1. The above provision is applicable only if the relationship of husband-wife exists at the time of transfer of asset as well as at the time of generating the income.

2. The above provision is not applicable if asset is transferred in connection with agreement to live apart.

3. If a house property is transferred by individual to his spouse or minor child without consideration or for inadequate consideration, the individual is treated as deemed owner as per section 27.

4. Natural love and affection may be a good consideration, but it is not adequate consideration.

5. Where an asset transferred is converted into some other form, income derived from such converted asset shall also be clubbed. For example, if I gift some money to my wife, and she buys shares from them, and then sells them, and thereby earns capital gains. This capital gains will be clubbed with me only. I'll have to pay tax on such capital gains.

6. If the asset transferred is sold, then capital gain is treated as income and shall be clubbed. 7. All the clubbing provisions are not applicable to second generation income, i.e., income from accretion of transferred asset.

For example, if I gift some money to my wife, and she invests it in FD, then the interest on such FD will be clubbed in my hands. However, when that interest is further invested, the interest earned on that interest will be taxed in the hands of my wife only.

### **Section 64(1)(vii): Transfer of Assets for the Benefit of Spouse**

If any individual transfers any asset to any person without consideration or for inadequate consideration for the benefit of spouse, then income from such asset is received by any person (transferee), but tax on such income shall be paid by transferor.

#### **Clubbing of Income Arising to Son's Wife**

We'll be studying this topic under three categories:

1. Income arising to son's wife from the assets transferred without adequate consideration by the father-in-law or mother-in-law [Section 64(1)(vi)]
2. Transfer of assets for the benefit of son's wife [Section 64(1)(viii)]

**Section 64(1)(vi): Income Arising to Son's Wife from the Assets Transferred Without Adequate Consideration by the Father-in-Law or Mother-in-Law**

- Asset transferred without adequate consideration: Where an asset is transferred, directly or indirectly, by an individual to his or her son's wife without adequate consideration, the income from such asset is to be included in the total income of the transferor.
- Asset transferred invested in the business:
  - For this purpose, where the assets transferred directly or indirectly by an individual to his or her son's wife are invested by the transferee in the business, proportionate income arising from such investment is to be included in the total income of the transferor.
  - If the investment is in the nature of contribution of capital, the proportionate interest receivable from firm will be clubbed with the income of the transferor.

Such proportion has to be computed by taking into account the value of the aforesaid investment as on the first day of the previous year to the total investment in the business or by way of capital contribution in a firm as a partner, as the case may be, by the transferee as on that day.

**Section 64(1)(viii): Transfer of Assets for the Benefit of Son's Wife**

If any individual transfers any asset to any person without consideration or for inadequate consideration for the benefit of son's wife, then income from such asset is received by any person (transferee), but tax on such income shall be paid by transferor.

**Illustration 7**

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹36,000 per annum shall be utilized for the benefit of her son's wife. Mrs. Kasturi claims that the amount of ₹36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

### **Solution**

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor individual. Therefore, income of ₹36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case. The contention of Mrs. Kasturi is, hence, not valid in law.

### **Section 64(1A): Clubbing of Minor's Income**

Income of minor child is taxable in hands of parent whose income is more before clubbing minor's income. However, in the following 3 cases, minor's income is taxable in the hands of minors only:

1. Income due to skill and talent
2. Income due to manual work
3. Minor suffering from disability

Notes:

1. While including minor's income in the hands of parent, parent is eligible for exemption u/s 10(32) of ₹1,500 p.a. per child.
2. Once minor's income is clubbed in the hands of one parent, it will continue to be clubbed with that parent only in subsequent years. However, assessing officer may change after giving opportunity of being heard.
3. Where the marriage of parents does not subsist, the income of minor shall be included in the income of that parent who maintains the minor child in the relevant previous year.
4. Clubbing provisions are applicable even in respect of income of minor married daughter.
5. Child includes stepchild as well as a legally adopted child.
6. If a house property is transferred by a parent to a minor child (other than a minor married daughter), without consideration or for inadequate consideration, then the transferor parent shall be treated as the deemed owner of such house

property as per section 27. Therefore, clubbing provisions would not get attracted and hence benefit u/s 10(32) shall also not be applicable.

7. However, if the house property is transferred by a parent to his or her minor married daughter, without consideration or for inadequate consideration, then, section 27(i) is not attracted. In such a case, the income from house property will be included u/s 64(1A) in the hands of that parent, whose total income before including minor child's income is higher; and benefit of exemption u/s 10(32) can be availed by that parent in respect of the income so included.

#### **Section 64(2): Asset Transferred to HUF by Member**

If any individual transfers any asset to his HUF without consideration or for inadequate consideration, then income from such asset is received by HUF, but taxable in the hands of transferor (member). After partition of HUF, income from such asset received by Spouse shall be clubbed in the hands of transferor.

**Deemed Incomes** : section 68 and 69 specify certain amount which are deemed as income of assessee its included in taxable income they are : cash credit Sec. 68, unrecorded investments sec. 69, unrecorded and unexplained money sec.69A, under recorded investment, money, bullion etc.69B, unexplained expenditure sec.69C.

#### **Check your progress-1**

##### **A) Objective type question**

- i) When does clubbing of income occur under the Income Tax Act?
  - a) When two individuals jointly earn income
  - b) When income is earned from a business
  - c) When income is transferred without adequate consideration to a spouse or minor
  - d) When income is earned from investments
- ii) Which of the following individuals is NOT subject to clubbing of income provisions?
  - a) A parent transferring income to a minor child
  - b) A spouse receiving income from assets transferred by the other spouse
  - c) A minor child earning income through manual work or technical skills

- d) A relative receiving income from assets transferred by an individual
- iii) Under which section of the Income Tax Act are clubbing provisions related to income from assets transferred without transferring the underlying asset?
  - a) Section 60    b) Section 61    c) Section 62    d) Section 63
- iv) What is the primary purpose of clubbing of income provisions?
  - a) To encourage joint investments among family members
  - b) To simplify tax calculations for individuals with multiple sources of income
  - c) To prevent tax evasion through the transfer of income without transferring the underlying asset
  - d) To enable individuals to split income for better tax planning
- v) In the context of clubbing of income, what is the significance of a "revocable transfer"?
  - a) A transfer of income to a charitable organization
  - b) A transfer of income to a spouse
  - c) A transfer of income with the power to revoke the transfer
  - d) A transfer of income from a minor child to a parent

**B) Fill in the blanks**

- i) Under Section 64(1)(ii) of the Income Tax Act, income earned by an individual's spouse from a concern in which the individual has a substantial interest is \_\_\_\_\_ with the individual's income.
- ii) Section 60 of the Income Tax Act deals with the transfer of income without transferring the underlying \_\_\_\_\_.
- iii) According to Section 62, exceptions to clubbing provisions arise when a minor child earns income through their own manual work or \_\_\_\_\_ skills.
- iv) The primary purpose of clubbing of income provisions is to prevent \_\_\_\_\_ evasion by attributing income to its rightful owner.

- v) Section 61 of the Income Tax Act pertains to income arising from a \_\_\_\_\_ transfer of assets, where the transfer can be revoked.

## **Section 2**

### **4.2.2 Set-off and Carry Forward of Losses**

#### **4.2.2.1 Introduction**

The term "set off and carry forward of losses" is a crucial part of taxation and accounting because it allows firms and individuals to balance losses incurred in one financial year against earnings or gains achieved in another. This method reduces the impact of losses on a taxpayer's total financial condition and tax burden. Set off refers to the practice of balancing losses in one source of income against money received in another within the same financial year. In other words, if a person or company has multiple sources of income and one of them causes a loss, the loss can be subtracted from the money that comes from a different source. This minimizes total taxable income and, as a result, lowers the tax.

Sometimes, the entire amount of losses sustained in a single financial year exceeds the income received in that year, or there is insufficient money from other sources to compensate for the losses. Many jurisdictions' tax regulations allow for the "carry forward" of unabsorbed losses to subsequent financial years in these situations. Carrying forward losses implies that losses that could not be fully offset against income in the current year can be carried over and offset against income in later years. This allows enterprises and individuals to make better use of their losses and minimize tax liabilities in future profitable years.

#### **4.2.2.2 Provisions for Set off or carry forward and set off of losses**

The provisions for Set off or carry forward and set off of losses are contained in section 70 to 80 of Income Tax Act and it involves the following three steps.

- Step 1: Inter source / intra head adjustment. i.e. same head adjustment.
- Step 2: Inter head adjustment in the same assessment year at the time of aggregation of income of various heads.
- Step 3: Carry forward of loss to the subsequent assessment year to claim it as set off if it could not be set off under Step 1 and Step 2.



#### **4.2.2.3 Meaning of intra-head adjustment**

Intra-head adjustment refers to the process of offsetting losses incurred within a specific head of income against income earned from other sources within the same head of income.

#### **4.2.2.4 Restrictions while making intra-head adjustment of loss**

- 1) Speculative business loss cannot be set off against any other head of income it can be set off against only speculative business.
- 2) Long-term capital loss cannot be set off against any other head of income it can be set off against long-term capital gain. However, short-term capital loss can be set off against long-term or short-term capital gain.
- 3) No loss can be set off against income from winnings from lotteries, crossword puzzles, race including horse race, card game, and any other game of any sort or from gambling or betting of any form or nature.
- 4) Loss from the business of owning and maintaining race horses cannot be set off against any income other than income from the business of owning and maintaining race horses.
- 5) Loss occurred from specified under section 35AD business cannot be set off against any other income except income from specified business.

#### **4.2.2.5 Meaning of inter-head adjustment**

Inter-head adjustment refers to the process of offsetting losses incurred under one head of income against gains or income earned under another head of income within the same assessment year.

#### **4.2.2.6 Restrictions to be kept in mind while making inter-head adjustment of loss [As amended by Finance Act, 2023]**

- 1) Firstly the taxpayer has to make intra-head adjustment.
- 2) Speculative business loss cannot be set off against any other income head. However, non-speculative business loss can be set off against income from speculative business.
- 3) Capital gains loss cannot be set off against other heads of income.

- 4) No loss can be set off against income from winnings from lotteries, crossword puzzles, race including horse race, card game, and any other game of any sort or from gambling or betting of any form or nature.
- 5) Loss occurred from business of owning and maintaining race horses cannot be set off against any other income.
- 6) Section 35AD business loss cannot be set off against any other income.
- 7) Loss occurred from business and profession cannot be set off against income from salaries.
- 8) House property loss shall be allowed to be set-off against any other head of income only Rs. 2,00,000 for any assessment year.
- 9) Unabsorbed loss shall be allowed to be carried forward for set-off in subsequent years as per the existing provisions of section 71B.

#### **4.2.2.7 Carry forward of unadjusted loss for adjustment in next year**

Many times it may happen that after making intra-head and inter-head adjustments, still the loss remains unadjusted. Such unadjusted loss can be carried forward to next year for adjustment against subsequent year(s)' income. Separate provisions have been framed under the Income-tax Law for carry forward of loss under different heads of income.

#### **4.2.2.8 Provisions under the Income-tax law in relation to carry forward and set off of business loss other than loss from speculative business**

If loss of any business/profession (other than speculative business) cannot be fully adjusted in the year in which it is incurred, then the unadjusted loss can be carried forward for making adjustment in the next year. In the subsequent year(s) such loss can be adjusted only against income charged to tax under the head "Profits and gains of business or profession"

Loss under the head "Profits and gains of business or profession" can be carried forward only if the return of income/loss of the year in which loss is incurred is furnished on or before the due date of furnishing the return, as prescribed under section 139(1).

Such loss can be carried forward for eight years immediately succeeding the year in which the loss is incurred.

Above provisions are not applicable in case of unabsorbed depreciation (provisions relating to unabsorbed depreciation are discussed later)

Loss from business specified under section 35AD cannot be set off against any other income except income from specified business (section 35AD is applicable in respect of certain specified businesses like setting up a cold chain facility, setting up and operating warehousing facility for storage of agricultural produce, developing and building a housing projects, etc.). Such loss can be carried forward for adjustment against income from specified business for any number of years.

Loss from business specified under section 35AD can be carried forward only if the return of income/loss of the year in which loss is incurred is furnished on or before the due date of furnishing the return as prescribed under section 139(1).

Loss from the business of owning and maintaining race horses cannot be set off against any income other than income from the business of owning and maintaining race horses. Such loss can be carried forward only for a period of 4 years.

If loss of any speculative business cannot be fully adjusted in the year in which it is incurred, then the unadjusted loss can be carried forward for making adjustment in the next year. In the subsequent year(s) such loss can be adjusted only against income from speculative business (may be same or any other speculative business).

Loss from speculative business can be carried forward only if the return of income/loss of the year in which loss is incurred is furnished on or before the due date of furnishing the return, as prescribed under section 139(1).

Such loss can be carried forward for four years immediately succeeding the year in which the loss is incurred.

Above provisions are not applicable in case of unabsorbed depreciation of speculative business (provisions relating to unabsorbed depreciation are discussed later).

#### **4.2.2.9 Provisions under the Income-tax Law in relation to carry forward and set off of house property loss**

If loss under the head “Income from house property” cannot be fully adjusted in the year in which such loss is incurred, then unadjusted loss can be carried forward to next year.

In the subsequent years(s) such loss can be adjusted only against income chargeable to tax under the head “Income from house property”.

Such loss can be carried forward for eight years immediately succeeding the year in which the loss is incurred.

Loss under the head “Income from house property” can be carried forward even if the return of income/loss of the year in which loss is incurred is not furnished on or before the due date of furnishing the return, as prescribed under section 139(1).

#### **4.2.2.10 Provisions under the Income-tax law in relation to carry forward and set off of capital loss**

If loss under the head “Capital gains” incurred during a year cannot be adjusted in the same year, then unadjusted capital loss can be carried forward to next year.

In the subsequent year(s), such loss can be adjusted only against income chargeable to tax under the head “Capital gains”, however, long-term capital loss can be adjusted only against long-term capital gains. Short-term capital loss can be adjusted against long-term capital gains as well as short-term capital gains.

Such loss can be carried forward for eight years immediately succeeding the year in which the loss is incurred.

Such loss can be carried forward only if the return of income/loss of the year in which loss is incurred is furnished on or before the due date of furnishing the return, as prescribed under section 139(1).

#### **4.2.2.11 Meaning of unabsorbed depreciation, unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on promoting family planning amongst the employees**

Apart from several other deductions, while computing income chargeable to tax under the head “Profits and gains of business or profession” a person is allowed to claim deduction on account for depreciation, capital expenditure incurred by him on scientific research and capital expenditure incurred by a company for promoting family planning amongst its employees.

If the income of the year in which these expenses are incurred falls short of these expenses, then the unabsorbed expenses can be carried forward to next year in the form of unabsorbed depreciation or unabsorbed capital expenditure on scientific

research or unabsorbed capital expenditure on promoting family planning amongst the employees.

#### **4.2.2.12 Provisions under the Income-tax Law relating to set off of unabsorbed depreciation, unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on promoting family planning amongst the employees**

Depreciation is first deducted from the income chargeable to tax under the head “Profits and gains of business or profession”. If such depreciation could not be fully adjusted against such income chargeable to tax in that previous year, the unabsorbed portion shall be added to the amount of depreciation for the following year and shall be deemed to be the part of depreciation for that year (similar treatment would be given to other allowances as mentioned above). However, in the case of set off, following order of priority is to be followed:

- 1) First adjustments are to be made for current scientific research expenditure, family planning expenditure and current depreciation.
- 2) Second adjustment is to be made for brought forward business loss.
- 3) Third adjustments are to be made for unabsorbed depreciation, unabsorbed capital expenditure on scientific research or on family planning.

#### **4.2.2.13 Carry forward of loss in case of change in the constitution of business**

Generally, the person incurring the loss is only entitled to carry forward the loss to be adjusted in subsequent year(s). However, in certain cases of reconstitution of the business like amalgamation, demerger, conversion of proprietary firm into company or conversion of partnership firm into company, etc., the reconstituted entity is entitled to carry forward the unadjusted loss of predecessor entity (provided that conditions specified in this regard are satisfied).

#### **4.2.2.14 Provisions relating to carry forward of loss in case of retirement of a partner from a partnership firm**

Section 78 contains provisions relating to carry forward and set off of loss in case of change in constitution of a partnership firm due to death or retirement of a partner (i.e. when a partner goes out of firm by retirement or death). In such a case, the share of loss attributable to the outgoing partner cannot be carried forward by the firm.

Restriction of section 78 is applicable only in case of loss and is not applicable in case of adjustment of unabsorbed depreciation, unabsorbed capital expenditure on scientific research or family planning expenditure.

#### **4.2.2.15 Special provisions relating to carry forward and set-off of losses in case of change in shareholding of certain companies**

Section 79 of the Income-tax Act, 1961 provides for carry forward and set-off of losses where a change in shareholding has taken place in a previous year in case of following companies:-

- 1) In case of a company, being a company in which the public are not substantially interested but not being an eligible start-up as referred to in section 80-IAC, no loss incurred in any year prior to the previous year in which change in shareholding has taken place shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than 51% of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than 51% of the voting power on the last day of the year or years in which the loss was incurred
- 2) In case of a company, being a company in which the public are not substantially interested and an eligible start-up as referred to in section 80-IAC, the loss incurred in any year prior to the previous year in which change in shareholding has taken place, shall be allowed to be carried forward and set off only if all the shareholders of the company who held shares carrying voting power on the last day of the previous year in which the loss was incurred, continue to hold shares on the last of the current year. Further, the loss should have been incurred during the period of 10 years beginning from the year in which the company is incorporated.

However, to facilitate ease of doing business in case of an eligible start-up, the Finance (no.2) Act, 2019 has amended section 79 to provide that loss incurred, by the closely held eligible start-up, shall be allowed to be carried forward and set off against the income of the previous year on satisfaction of either of the two conditions specified above, i.e., continuity of 51% shareholding or continuity of 100% of original shareholders.

However, the provisions of section 79 shall not apply in following cases. In other words, there shall be no restriction on carry forward and set-off of losses if

- a) the change in shareholding takes place consequent upon the death of a shareholder or on account of transfer of shares by way of gift to any relative of the shareholder making such gift; or
- b) the assessee is a subsidiary of a foreign company and the foreign holding company is amalgamated or merged with another foreign company subject to condition that 51% shareholders of the amalgamating or demerged foreign company continue to be the shareholders of the amalgamated or the resulting foreign company.
- c) the change in shareholding take place in the previous year pursuant to approved resolution plan under the Insolvency and Bankruptcy Code, 2016 after affording a reasonable opportunity of being heard to the jurisdictional Principal CIT or CIT.
- d) A company, and its subsidiary and the subsidiary of such subsidiary, where:
  - i. National Company Law Tribunal (NCLT), on a petition moved by the Central Govt., has suspended the board of directors of such company and has appointed new directors.
  - ii. Change in shareholding has taken place in a previous year pursuant to a resolution plan approved by the NCLT.
- e) Change in the shareholding has taken place during the previous year on account of relocation referred to in the Explanation to clauses (vii ac) and (vii ad) of section 47.

#### **4.2.2.16 Change in shareholding due to strategic disinvestment**

With effect from Assessment Year 2022-23, The Finance Act, 2022 has introduced one more situation wherein the provisions of section 79 shall not apply. It has been provided that the section 79 shall not apply to an erstwhile Public Sector Company (PSU), subject to condition that the ultimate holding company of such erstwhile PSU, immediately after completion of the strategic disinvestment, continues to hold, directly or through its subsidiary or subsidiaries, at least 51% of the voting power of such PSU in aggregate.

However, this relaxation shall cease to apply from the previous year in which the ultimate holding company ceases to hold, directly or through its subsidiary or subsidiaries, 51% of the voting power of the erstwhile public sector company. If the relaxation ceases to apply in any previous year, the provisions of section 79 shall apply for such previous year and subsequent previous years.

The erstwhile public sector company shall have the same meaning as assigned to it in clause (ii) of the Explanation to clause (d) of section 72A(1). [As amended by Finance Act, 2023] No set-off of loss against undisclosed income discovered during search The Finance Act, 2022 has inserted a new section 79A to the Income-tax Act to restrict set off of losses consequent to search, requisition and survey. It has been provided that in case the total income of any previous year of an assessee includes any undisclosed income detected as a result of:

- (a) Search initiated under section 132; or
- (b) A requisition made under section 132A; or
- (c) A survey conducted under section 133A other than under section 133A(2A)

Then, no set-off of any loss, whether brought forward or otherwise, or unabsorbed depreciation, shall be allowed against such undisclosed income while computing the total income of the assessee for such previous year.

*Meaning of undisclosed income*

For this provision, the 'undisclosed income' means:

- (a) Any income of the previous year represented, either wholly or partly, by any money, bullion, jewelry or other valuable article or thing or any entry in the books of account or other documents or transactions found in the course of a search under section 132 or a requisition under section 132A or a survey under section 133A other than under section 133A(2A), which has:
  - not been recorded on or before the date of search or requisition or survey in the books of account or other documents maintained in the normal course relating to such previous year; or
  - not been disclosed to the Commissioner before the date of search or requisition or survey, as the case may be.



Any income of the previous year represented, either wholly or partly, by any entry in respect of an expense recorded in the books of account or other documents maintained in the ordinary course relating to the previous year which is found to be false and which would not have been found to be so, had the search not been initiated or the survey not been conducted or the requisition not been made.

The provisions of section 79A is effective from Assessment Year 2022-23

#### 4.2.2.17 Order of Set of Losses at a Glance

Section	Types of Loss	Set off against	Carry forward for
71B	House property loss	House property	8 years
72	Business/Profession loss	Business/Profession	8 years
73	Speculative Business loss	Speculative Business	8 years
74	a) Short term capital loss	Short term or Long term capital gain	8 years
	b) Long term capital loss	Long term capital gain	8 years
74A	Owning & Maintaining Horses race	Owning & Maintaining Horses race	4 years

#### Illustration No. 8

Mr. Vikas Submits the following details of his income for the assessment year 2023-24:

Particular	Amount
Income from Salary	6,00,000
Loss from let out house property	(-) 80,000
Income from Sugar business	1,00,000
Loss from iron ore business b/f (discontinued in P.Y.2018-19)	(-) 2,40,000
Short term capital loss	(-) 1,20,000
Long term capital gain	80,000
Dividend	10,000

Income received from lottery winning (Gross)	1,00,000
Winning from card games (Gross)	12,000
Agricultural income	40,000
Short term capital loss u/s 111A	(-) 20,000
Interest on FD	10,000

Calculate Gross total income and losses to be carry forward.

**Solution:**

**Computation of Gross total income of Mr. Vikas for the AY 2023-24**

Particular	Amount	Amount
<b>Income from Salary</b>		
Salary Received	6,00,000	
Less Loss from House Property	(80,000)	5,20,000
<b>Profit and Gain from Business &amp; Profession</b>		
Income from Sugar Business	1,00,000	
Less: Loss from Iron Business (2,40,000)	(1,00,000)	NIL
(Balance 2,40,000-1,00,000=1,40,000 is carry forward for Next AY)		
<b>Income From Capital Gain</b>		
Long term capital gain	80,000	
Less : Short term capital gain (1,20,000)	80,000	NIL
(Balance 1,20,000-80,000=40,000 is carry forward for Next AY)		
<b>Income from other sources</b>		
Dividend	10,000	
Wining Lottery (Gross)	1,00,000	
Wining from card game (Gross)	12,000	
FD Interest	10,000	1,32,000
<b>Gross total income</b>		<b>6,52,000</b>

**Note: Carry Forward losses for next AY**

- |                                     |          |
|-------------------------------------|----------|
| 1. Loss from Iron Business          | 1,40,000 |
| 2. Short term capital gain          | 40,000   |
| 3. Short term capital loss u/s 111A | 20,000   |

**Illustration 9**

Mr. X submits the following particulars pertaining to the A.Y.2023-24

Particular	Amount
Income from Salary	8,00,000
Loss from self-occupied property	(-) 1,40,000
Loss from let-out property	(-) 3,00,000
Business loss	(-) 2,00,000
FD Interest received	1,60,000

Compute the total income of Mr.X for the A.Y.2023-24, assuming that he does not opt for the provisions of section 115BAC.

**Solution:**

**Computation of total income of Mr. for the A.Y.2023-24**

Particulars	Amount	Amount
Income from Salary	8,00,000	6,00,000
<b>Less : Loss from house property of 4,40,000 to be restricted up to 2 lakh u/s 71(3A)</b>	(-) 2,00,000	
<b>Balance loss Rs.2,40,000 to be carry forward</b>		NIL
Income from Other source (FD Interest)	1,60,000	
Business loss of 2,00,000	(-)1,60,000	
<b>Balance Business loss Rs.40,000 to be carry forward</b>		6,00,000
<b>Gross total income</b>		
Less: Deduction under chapter VI-A		NIL
<b>Total income</b>		<b>6,00,000</b>

Notes: i) Gross total income includes salary income 6,00,000 after adjusting loss from house property income. Balance loss 2,40,000 carry forward to next A.Y. for set off against income from house property of that year..

ii) Business loss of 2,00,000 is set off against bank interest of Rs. 1,60,000 and remaining business loss of Rs. 40,000 will be carried forward as it cannot be set off against salary income.

### Illustration 10

During the previous year 2023-23, Mr.Y has the following income and the brought forward losses:

Particular	Amount
Short term capital gain on sale of shares	3,00,000
Long term capital loss of A.Y. 2021-22	(1,92,000)
Short term capital loss of A.Y.2022-23	(74,000)
Long term capital gain u/s 112	1,50,000

What is the capital gain taxable in the hands of Mr. Y for the A.Y. 2023-24?

### Solution:

Computation of Capital gains of Mr. Y for the A.Y. 2023-24

Particular	Amount	Amount
Short term capital gain on sale of shares	3,00,000	2,26,000
Less: Brought forward short term capital loss AY2022-23	74,000	
Long term capital gain	1,50,000	NIL
Less : B/f long term capital loss of AY 2021-22	(1,50,000)	
Rs.1,92,000 set off to the extent of Rs. 1,50,000 (Note)		
<b>Taxable short-term capital gain</b>		<b>226000</b>

Note: Long term capital gain cannot be set off against short term capital gain. Hence, the unadjusted long term capital loss of AY 2021-22 of Rs. 42000 (192000-150000) can be carried forward to the next year to be set-off against long term capital gains of that year.

## Check your progress: 2

### A) Objective type question

- i) While making intra-head adjustment, loss from the business of owning and maintaining race horses can be set off against..... only.
  - a) Income from winnings from lotteries
  - b) Income from crossword puzzles
  - c) Income from business of owning and maintaining race horses
  - d) Income from card gam
- ii) However, if loss under the head "Income from house property" cannot be fully in the Year in which such loss is incurred, then unadjusted loss can be carried forward for..... years immediately succeeding the year in which the loss is incurred.
  - (a) 2                      (b) 5                      (c) 8                      (d) 10
- iii) What does the term "set off of losses" refer to in taxation?
  - a) Transferring losses to another taxpayer
  - b) Deducting losses from one source of income against profits from another source within the same financial year
  - c) Ignoring losses for tax purposes
  - d) Increasing the tax liability due to losses
- iv) What is the primary purpose of the "set off and carry forward of losses" concept?
  - a) To encourage tax evasion by businesses
  - b) To discourage businesses from making profits
  - c) To provide relief to taxpayers by mitigating the impact of losses on tax liability
  - d) To create complex tax structures for accounting purposes

v) The process of adjustment of loss from a source under a particular head of income against income from other source under the same head of income is called.....

- |                          |                          |
|--------------------------|--------------------------|
| a) Inter-head adjustment | b) Intra-head adjustment |
| c) Carry forward of loss | d) Clubbing of income    |

**B) State True/False**

i) While making intra-head adjustment of loss, short-term capital loss cannot be set off against long-term capital gain.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

ii) The concept of "set off and carry forward of losses" is relevant only for individuals and not applicable to businesses.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

iii) The "set off" of losses allows taxpayers to deduct losses from one source of income against profits from another source within the same financial year.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

iv) Carrying forward losses means that losses that could not be fully set off against income in the current year can be canceled out in the following year.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

v) There are usually no limitations or restrictions on the type of losses that can be carried forward for offsetting against future profits.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

vi) The time period for which losses can be carried forward is determined solely by the taxpayer's preference and is not influenced by tax regulations.

- |         |          |
|---------|----------|
| a) True | b) False |
|---------|----------|

### Section – 3

## E-Filing of Returns, E- Payment of Tax

### 4.2.3 E-filing of ITR

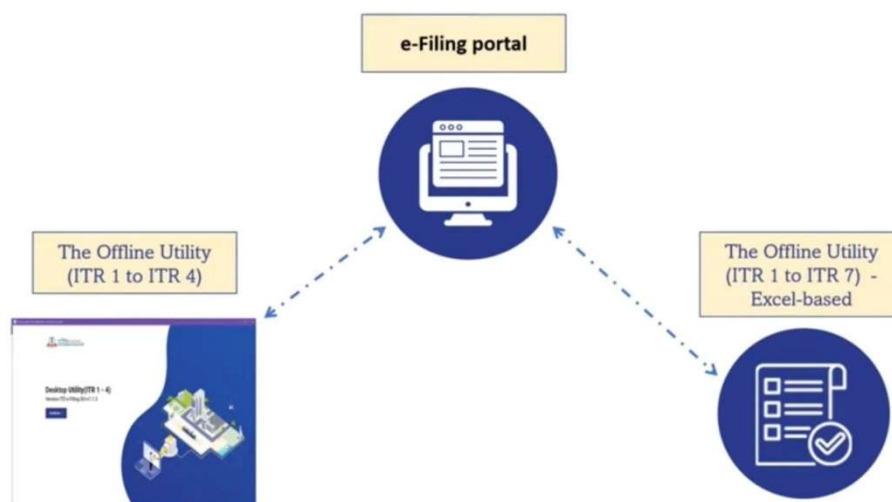
#### 4.2.3.1 Introduction:

E-filing of Income Tax Returns (ITR) has changed the tax filing process, making it more effective, simple, and accessible to taxpayers. It includes electronically submitting tax declarations and necessary financial information to the tax authorities via approved internet portals. This digital revolution has sped up the process by reducing paperwork, decreasing mistakes, and speeding up reimbursements.

E-filing has various benefits, including real-time data validation, rapid acknowledgement receipts, and speedier return processing. Taxpayers can select from many kinds of ITR forms, each of which responds to a different sort of income and financial activity. The procedure enables individuals, organizations, and entities to appropriately record their income, claim deductions, and reveal assets and liabilities.

#### 4.2.3.2 How to Prepare and File ITR.

You can file your Income Tax Return (ITR) either directly on the e-filing portal or you can download the offline utility, prepare your income tax return, and then upload it on the e-filing portal.



Source: [www.incometax.gov.in](http://www.incometax.gov.in).

#### 4.2.3.3 Pre –requisites of prepare and file E-Filing of Returns

- 1) Registered User
- 2) Valid PAN

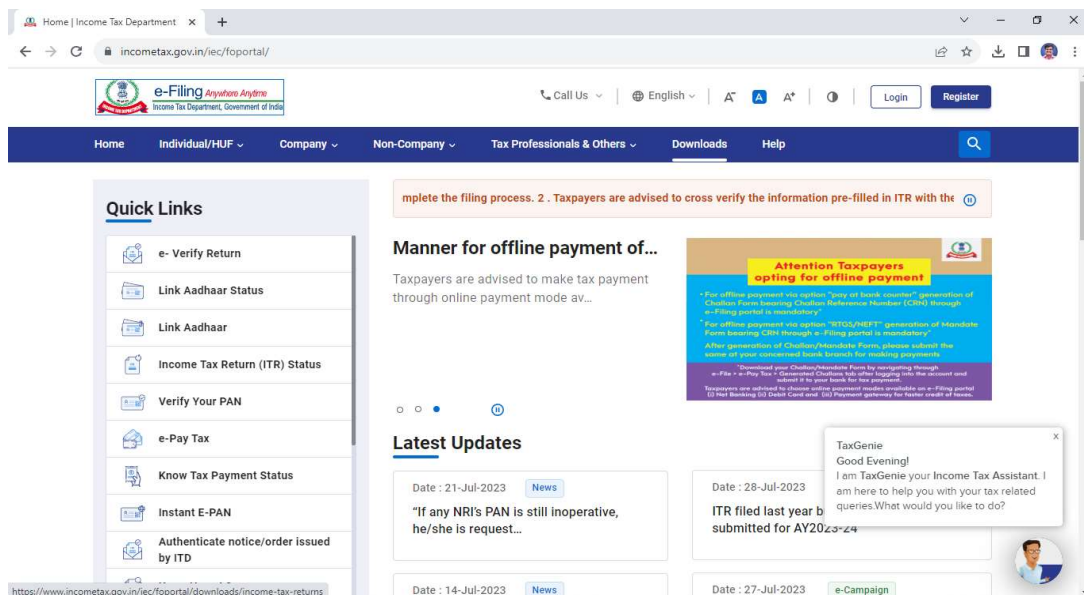
Taxpayers are advised to use JAVA utility for running offline utility up to AY.2020-2021. For AY 2023-2024, Taxpayers may use either Excel utility (for ITR-1 to 7) or HTML common offline utility 9 for ITR-1, 2, 3 and 4)

#### 4.2.3.4 System Requirements for E-Filing of Returns

- A) Java Utilities: Microsoft Windows 7/8/10, Linux and Mac OS 10.x with JRE (Java Runtime Environment) Version 8 with the latest updates. JRE can be downloading from <http://www.oracle.com/technetwork/java/javas/downloads> this website.
- B) In order to run the Excel Utilities you should have the required version of Macro enabled MS Office Excel version 2007/2010/2013 on Microsoft Windows 7/8/10 with .Net Framework (3.5& above).

#### 4.2.3.5 How to Prepare and File ITR (Offline Utility)

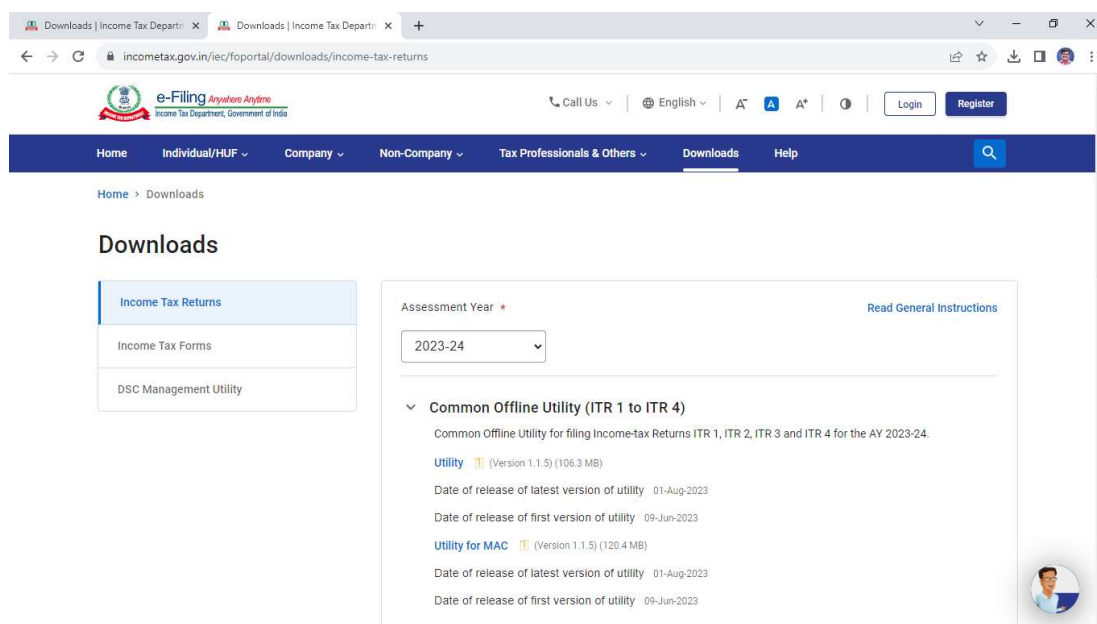
**Step 1:** Without logging in to the e-Filing portal, you can download the relevant offline utility Go to the e-filing portal homepage. Click on **Downloads**. Install it on your computer and proceed to Step 2.



Source: [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in).



In the download section you have to required relevant Assessment year and download Common offline Utility (ITR 1 to ITR 4) it is download to your download section of computer. Ones it's installed you double click on utility to land on the home page. Now you can click to continue for filing ITR.



**Step 1a:** Alternately, you can download the offline utility after logging in to the e-Filing portal, and clicking **e-File > Income Tax Returns > File Income Tax Return > Select the current AY and Mode of Filing (Offline)**. Then, click **Download** under the Offline Utility option.

**Step 2:** Install and open the offline utility. If previously installed, the utility version will get updated when you are connected to the internet (in case of version updates). Click **Continue**.

**Step 3:** You will be taken to the **Income Tax Returns** page, where you will see the following tabs and their contents:

- **Returns** - All your ITRs (based on the AY) are present here. You can start filing a new return from here, by clicking **File Returns**.
- **Draft Version of Returns** – If you wish to edit a partially filled ITR draft, click **Edit** on the relevant draft from the **Draft Version of Returns** tab.

- **Pre-filled Data** – All the pre-filled JSON files downloaded from e-Filing (with details such as PAN, Name, Last import, and AY) are present here. By clicking **File Returns** on the relevant JSON, you can start your return filing process with the pre-filled data available.

**Note:**

- JSON is a file format used when downloading or importing your pre-filled return data into the offline utility, and is also used when generating your prepared ITR in the offline utility.
- Refer to section **4.4 File, Preview and Submit Income Tax Returns** to learn the return filing process in the offline utility

**Step 4:** Under the **Returns** tab, click **File Returns** on the ITR for the relevant AY to start with the ITR filing process.

**Note:**

- Click **File Returns** from the **Returns** tab to start filing a fresh return.
- If you have already downloaded / imported your pre-filled data into the offline utility, you can start filing your return by clicking **File Returns** from the **Pre-filled Data** tab.

#### **4.2.3.6 Download Pre-Filled Data (JSON)**

**Step 1:** After you click File Returns under the Returns tab, you will arrive on this page. Click Download Pre-filled Data and click Continue.

**Step 2:** Enter your **PAN**, select the **Assessment Year** as 2021-22, and click **Proceed**.

**Step 3:** You will get a message warning you that the details saved against your PAN will be discarded if you continue with a new filing. Click **Yes**.

**Step 4:** You will be taken to the **Login** page, where you can log in to e-Filing through the Offline Utility itself.

**Step 5:** Post login, you will see your pre-filled data downloaded for the PAN and AY you entered. Click **File Return**

Then, you will be taken to the page where you need to select your status (Individual / HUF / Other), to continue with the filing process.

#### 4.2.3.7 Import Pre-Filled Data (JSON)

**Step 1:** After you click **File Returns** under the **Returns** tab, you will arrive on this page. Click **Import Pre-filled Data** and click **Continue**.

**Step 2:** Enter your **PAN**, select the **Assessment Year (AY)** as 2021-22, and click **Proceed**.

**Step 3:** Click **Yes** if you want to proceed.

**Step 4:** Click **Attach file**, select the pre-filled data (JSON file) which you downloaded from the e-Filing portal and saved on your computer.

**Step 5:** Once the JSON is uploaded, click **Proceed**, and the system will validate the JSON file imported.

**Step 6:** Once the validation is successful, you will see details of pre-filled data downloaded. Click **File Return**. You can pre-fill all the data from the imported JSON, and proceed to file your return. You will be taken to the ITR form selection page.

Then, you will be taken to the page where you need to select your status (Individual / HUF / Other), to continue with the filing process.

#### 4.2.3.8 Import Draft ITR filled in online mode

**Step 1:** After you click **File Returns** under the **Returns** tab, you will arrive on this page. Click **Import draft ITR filled in online mode**, and click **Continue**.

**Note:** If you have a partially filled ITR in online mode and wish to change the mode of filing to offline, the **Import draft ITR filled in online mode** enables you to do that.

**Step 2:** Click **Attach file**, select the draft ITR JSON which you previously downloaded from the e-Filing portal and saved on your computer.

**Note:** You can download the draft online ITR JSON by clicking **Download JSON** from the **Return Summary** page on the e-Filing portal. You can arrive at this page by clicking:

1. **e -File > Income Tax Returns > File Income Tax Return**
2. Then, select the **AY > Mode of Filing (Online) > Resume Filing**

**Step 3:** Once the JSON is uploaded, click **Proceed**.

**Step 4:** Click **Yes** if you want to proceed.

Then, you will be taken to the starting page of your ITR form to continue with the filing process.

#### **4.2.3.9 File, Preview and Submit Income Tax Returns**

**Step 1:** After downloading or importing your pre-filled data and clicking **File Return**, you will arrive on this page. Select the **status** applicable to you, and click **Continue**.

**Step 2:** You have two options to select the type of income tax return:

- **Help me decide which ITR Form to file:** Click **Proceed**. Once the system helps you determine the correct ITR, you can proceed with filing your ITR.

**I know which ITR Form I need to file:** Select the applicable income tax return form from the dropdown and click **Proceed with ITR**.

**Step 3:** Once you have selected the ITR applicable to you, note the list of documents needed, and click **Let's Get Started**.

**Step 4:** Select the applicable reason(s) as to why you're filing the income tax return, and click **Continue**.

**Step 5:** In each section of your ITR (Refer to the **Instructions to File ITR** issued by **CBDT** for details on how to fill the ITR):

- Review the pre-filled data downloaded / imported
- Edit your pre-filled data (if necessary)
- Enter your remaining / additional details

After completing and confirming all the sections of the form, click **Proceed**.

**Step 6:** On the **Confirm Your Return Summary** page, you will be shown a summary of your tax computation based on the details you provided.

**a) In case there is a tax liability:**

If there is tax liability payable based on the computation, you will get the **Pay Now** and **Pay Later** options at the bottom of the page.

**Note:**

- It is recommended to use the **Pay Now** option. Carefully note the **BSR Code** and **Challan Serial Number** and enter them in the details of payment.
- If you opt to **Pay Later**, you can make the payment after filing your income tax return, but there is a risk of being considered as an assessee in default, and liability to pay interest on tax payable may arise.

**b) In case there is no tax liability (No Demand / No Refund), or if you are eligible for a refund:**

If there is no tax liability, or if there is a refund based on your tax computation, you will get the option to directly preview your return. Click **Preview Return**.

**Step 7:** On the **Preview and Submit your return** page, click the declaration checkbox, enter the required details. Click **Proceed to Preview**.

**Note:** If you have not involved a tax return preparer or TRP in preparing your return, you can leave the textboxes related to TRP blank.

**Step 8:** On the **Preview and Submit Return** page, click **Proceed to Validation**.

**Step 9:** The system will run validation checks on your return. The list of errors, if any, will be shown on the **Preview and Submit your Return** page. You will have to go back and correct errors in your form if there are validation errors. If not, you will get a message about successful validation.

On successful validation, click **Proceed to Verification** to complete the return filing process.

**Note:** If you click **Download JSON**, the JSON of your prepared and validated return is saved on your computer. You can upload it on the e-Filing portal later, or submit it from the offline utility (elaborated in the steps below).

**Step 10:** When you click **Proceed to Verification**, you will be taken to the **Login** page through the utility. Log in using your e-Filing user ID and password.

**Step 11:** Post login through the Offline Utility, you will get the option to upload your return. Click **Upload Return**.

**Step 12:** Click **OK**.

**Step 13:** On the **Complete your Verification** page, select your preferred option, and click **Continue**.

**It is mandatory to verify your return, and e-Verification (recommended option - e-Verify Now) is the easiest way to verify your ITR – it is quick, paperless, and safer than sending a signed physical ITR-V to CPC by post.**

**Note:**

- Refer to the How to e-Verify user manual to learn more.
- If you select **e-Verify Later**, you can submit your return, however, you will be required to e-Verify your return within 120 days of filing of your ITR.
- If you select **Verify via ITR-V**, you need to send a signed physical copy of your ITR-V to Centralized Processing Center, Income Tax Department, Bengaluru 560500 by normal / speed post within 120 days.
- Please make sure you have pre-validated your bank account so that any refunds due may be credited to your bank account.
- Refer to the My Bank Account user manual to learn more.

**Step 14:** If you clicked **e-Verify Now**, you will be taken to the **e-Verify** page to e-Verify your return.

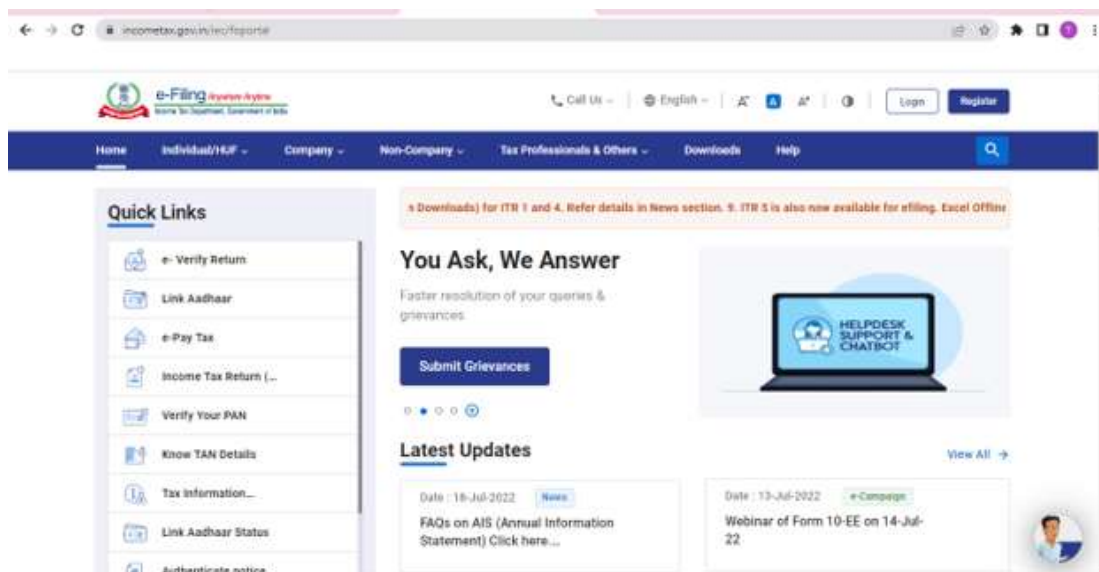
On successful e-Verification of the ITR, a success message is displayed along with a Transaction ID and Acknowledgement Number. You will also receive a confirmation message on the email ID and mobile number registered on the e-Filing portal.

#### **4.2.3.10 How to Prepare and File ITR (Online Mode)**

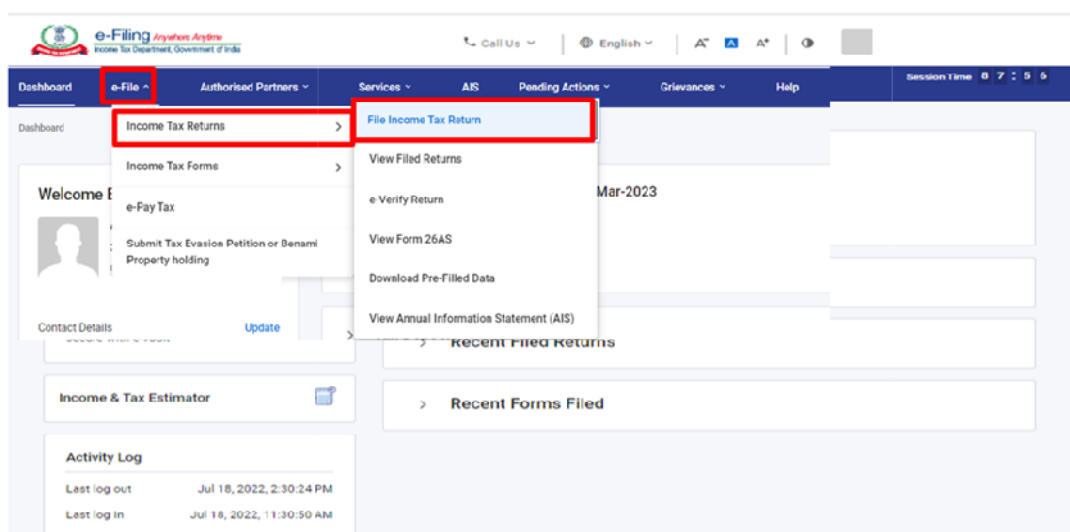
Ref. ([www.incometaxindia.gov.in](http://www.incometaxindia.gov.in).)

Follow the below steps to file and submit the ITR through **online mode**:

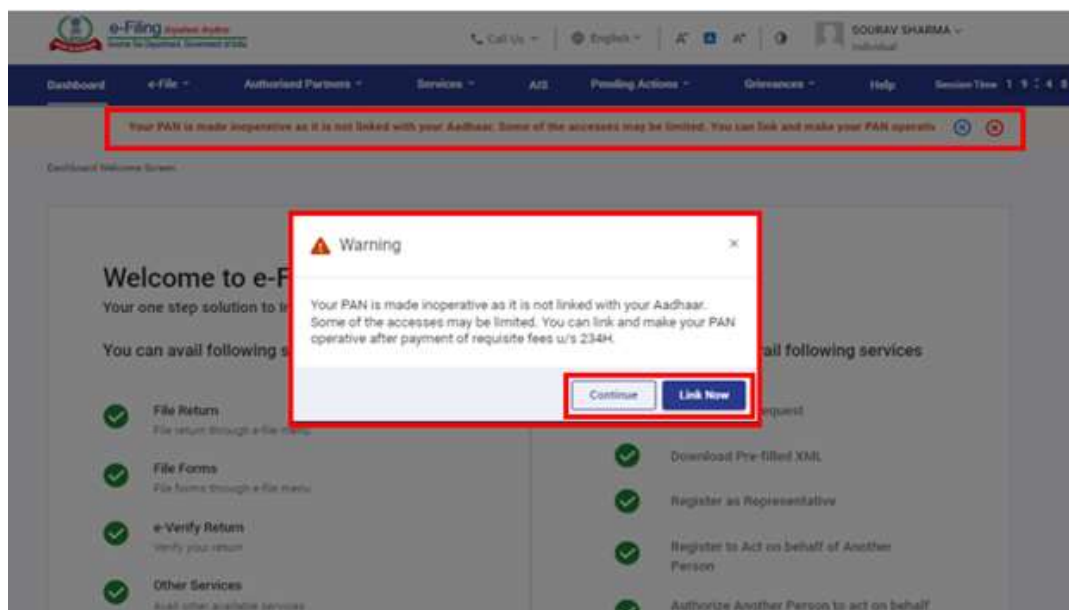
**Step 1:** Log in to the e-Filing portal using your user ID and password.



**Step 2:** On your **Dashboard**, click **e-File > Income Tax Returns > File Income Tax Return**.



**Note:** If your PAN is inoperative, you will get a warning message that your PAN is inoperative as its not linked with the Aadhaar. You can click on **Link Now** button to link PAN with the Aadhaar otherwise click **Continue**.



**Step 3:** Select **Assessment Year** as **2023–24** and **Mode of filing** as **Online**, then click **Continue**.

The screenshot shows the "Income Tax Return (ITR)" form. The "Select Assessment year" dropdown is set to "2023-24 (Current A.Y.)". The "Select Mode of Filing" section has "Online (Recommended)" selected with a radio button, and "Offline" is unselected. A note below states: "Note: The user can select type of ITR applicable Later". At the bottom, there are "Back" and "Continue" buttons, with the "Continue" button highlighted by a red border. An information box on the right states: "Information: If you select offline mode, you will need to upload the ITR form prepared using offline utility in the next step".

**Step 4:** In case you have already filled the Income Tax Return and it is pending for submission, click **Resume Filing**. In case you wish to discard the saved return and start preparing the return a fresh, click **Start New Filing**.



The screenshot shows the 'Income Tax Return' page on the e-Filing portal. The header includes the e-Filing logo, language options (English), and user profile (Individual). The navigation bar contains links for Dashboard, e-File, Authorised Partners, Services, AIS, Pending Actions, Grievances, and Help. The session time is 2:5:08.

**Income Tax Return**

Resume Filing will help you start from the point you paused last time. Any update to the profile information will not be reflected in case of resume filing.

It's suggested to start new filing 30 minutes after the changes done to the profile information. Saved draft will be deleted in case user selects to start new filing.

**You have saved draft of Income Tax Return pending for submission**

ITR ITR-1	Last Draft saved date May 22, 2023 02:01:39	A.Y. 2023-24	<b>Resume Filing</b>
--------------	---	-----------------	----------------------

**To file a fresh Income Tax Return**

Income Tax Return is the form in which tax payer files information about his income and tax thereon to the Income Tax Department.

**Start New Filing**

[< Back](#)

**Step 5:** Select **Status** as applicable to you and click **Continue** to proceed further.

The screenshot shows the 'Please select the status applicable to you to proceed further' page. The header and navigation bar are consistent with the previous page. The session time is 2:6:56.

**Please select the status applicable to you to proceed further**

Based on your last year's data we have pre-selected a status applicable to you. You may change the status if it is not applicable to you.

☒ Individual ☐ HUF ☐ Others

[< Back](#) [Continue >](#)

**Step 6:** You have two options to select the type of Income Tax Return:

- If you know which ITR to file, select the ITR form; else

- If you are not sure which ITR to file, you may select Help me decide which ITR Form to file and click Proceed. Here the system helps you determine the correct ITR, then you can proceed with filing your ITR.

**Note:**

- In case you are not aware which ITR or schedules are applicable to you or income and deductions details, your answers in response to a set of questions will guide in determining the same and help you in correct / error free filing of ITR.
- In case you are aware of the ITR or schedules applicable to you or income and deduction details, you can skip the questions.

**Step 7:** Once you have selected the ITR applicable to you, note the list of documents needed and click **Let's Get Started**.

**Step 8:** Select the checkbox applicable to you regarding reason for filing ITR and click **Continue**.

**Step 9:** In case you wish to opt for New Tax Regime, select **Yes** in the **Personal Information** section. Please note the pop-up information that certain deductions and exemptions are not available in the new tax regime. Review your pre-filled data and edit it if necessary. Enter the remaining / additional data (if required). Click **Confirm** at the end of each section

**Step 10:** Enter/ Edit your income and total deductions details in the different sections. After completing and confirming all the sections of the form, click **Proceed**.

Step 10a: In case there is a tax liability

After clicking on total tax liability, you will be shown a summary of your tax computation based on the details provided by you. If there is tax liability payable based on the computation, you will get the **Pay Now** and **Pay Later** options at the bottom of the page.

**Note:**

- It is recommended to use the **Pay Now** option.

- If you opt to **Pay Later**, you can make the payment after filing your Income Tax Return, but there is a risk of being considered as taxpayer in default, and liability to pay interest on tax payable may arise.

**Step 10b: In case there is no tax liability (No Demand / No Refund) or if you are eligible for a Refund**

Click **Preview Return**. If there is no tax liability payable, or if there is a refund based on tax computation, you will be taken to the **Preview and Submit Your Return** page.

**Step 11:** If you click on **Pay Now**, you will be redirected to e-pay Tax service. Click **Continue**.

Note:

- You will be taken to **e-Pay Tax** page on the portal for making tax payment after you click **Continue**. Refer to e-Pay Tax user manuals to learn more.

Step 12: After successful payment through e-Filing portal, a success message is displayed. Click **Back to Return Filing** to complete filing of ITR.

**Step 13:** Click **Preview Return**.

Step 14: On the Preview and Submit Your Return page, select the declaration checkbox and click Proceed to Preview.

Note: If you have not involved a tax return preparer or TRP in preparing your return, you can leave the textboxes related to TRP blank.

Step 15: Preview your return and click Proceed to Validation.

**Step 16:** Once validated, on your **Preview and Submit your Return** page, click **Proceed to Verification**.

Note: If you are shown a list of errors in your return, you need to go back to the form to correct the errors. If there are no errors, you can proceed to e-Verify your return by clicking Proceed to Verification.

Step 17: On the Complete your Verification page, select your preferred option and click Continue.

**It is mandatory to verify your return, and e-Verification (recommended option – e-Verify Now) is the easiest way to verify your ITR – it is quick, paperless, and safer than sending a signed physical ITR-V to CPC by speed post.**

**Note:** If your PAN is inoperative, you will see a warning message in pop-up that PAN of the taxpayer is inoperative as it is not linked with Aadhaar.

You can link PAN with Aadhaar by clicking on **Link Now** option otherwise click **Continue**.

**Note:** In case you select **e-Verify Later**, you can submit your return, however, you will be required to verify your return within 30 days of filing of your ITR.

**Step 18:** On the e-Verify page, select the option through which you want to **e-Verify** the return and click **Continue**.

**Note:**

- Refer to How to **e-Verify** user manual to learn more.
- If you select **Verify via ITR-V**, you need to send a signed physical copy of your ITR-V to Centralized Processing Center, Income Tax Department, Bengaluru 560500 by speed post within 30 days.
- Please make sure you have pre-validated your bank account so that any refunds due maybe credited to your bank account.
- Refer to **My Bank Account** user manual to learn more.

Once you e-Verify your return, a success message is displayed along with the Transaction ID and Acknowledgement Number. You will also receive a confirmation message on your mobile number and email ID registered on the e-Filing portal.

#### **4.2.3.11 E- Payment of Tax**

E-Payment of Tax, also known as Electronic Payment of Tax, is a contemporary and easy means of settling tax payments using digital platforms. It transforms the traditional tax payment method by allowing taxpayers to pay their bills safely and effectively through the internet. This technology removes the need for physical transactions, resulting in less paperwork, more transparency, and increased accuracy. Depending on the jurisdiction, E-Payment of Tax includes a variety of taxes, including income tax, sales tax, property tax, and others.

Taxpayers can begin payments using specific government websites or permitted third-party platforms. This method not only streamlines the procedure but also provides a variety of payment alternatives, including credit cards, debit cards, net banking, mobile wallets, and electronic financial transfers. The use of strong encryption and security mechanisms guarantees that sensitive financial information is protected during the transaction. Tax e-payment supports prompt compliance while reducing the likelihood of mistakes, fines, and delays. As digital infrastructure improves, more governments throughout the world are implementing this strategy to build a more efficient and user-friendly tax ecosystem.

#### **4.2.3.12 Types of Income Tax Challan**

Income tax challans are forms used for making tax payments to the government. These challans help in specifying the nature of payment, the type of tax, and other relevant details. As of my last update in September 2021, here are some common types of income tax challans used in India:

1. Challan No. ITNS 280: This challan is used for payment of Income Tax (Income tax on companies, Self-Assessment Tax, Tax on Regular Assessment, etc.). It's commonly used by individuals and businesses to pay income tax liabilities.
2. Challan No. ITNS 281: This challan is used for depositing Tax Deducted at Source (TDS) and Tax Collected at Source (TCS). Employers and other entities responsible for deducting taxes from payments make use of this challan to remit the deducted amounts to the government.
3. Challan No. ITNS 282: This challan is used for making payments of Securities transaction tax, Hotel Receipts Tax, Interest Tax, Expenditure Tax, Wealth Tax Gift Tax, and Estate Duty etc.
4. Challan No. ITNS 283: This challan is used for making payment of Banking Cash Transaction Tax (BCTT) and Fringe Benefit Tax (FBT).
5. Challan No. ITNS 284: This challan is used for making payment of Income Tax on companies, Income Tax other than companies..
6. Challan No. ITNS 285: This challan is used for depositing the sum by an assessee as an appeal against a demand notice issued by the Assessing Officer under the Income Tax Act.

7. Challan No. ITNS 286: This challan is used for making payment under the Income Declaration Scheme.
8. Challan No. ITNS 287: This challan is used for Other Taxes on Income and Expenditure i.e .Payment under PMGKY Pradhan Mantri Garib Kalyan Yojana, 2016.

**Please note that these challan numbers and purposes might have changed or evolved. It's recommended to refer to the official website of the Income Tax Department of India or consult with a tax professional for the most up-to-date information on income tax challans.**

#### **4.2.3.13 Steps of E- Payment of Tax**

##### **Step-1**

To pay your taxes online, go to <https://www.protean-tinpan.com/services/e-payment>:

##### **Step-2**

Choose the appropriate challan, such as ITNS 280, ITNS 281, ITNS 282, ITNS 283, ITNS 284 or Form 26 QB demand payment (only for TDS on property sale).

##### **Step-3**

Enter the PAN / TAN (as applicable) and other necessary challan data such as the accounting head under which payment is made, the taxpayer's address, the bank through which payment is to be made, and so on.

##### **Step-4**

When you submit your data, a confirmation box will appear. If the PAN / TAN is valid according to the ITD PAN / TAN master, the entire name of the taxpayer will be presented on the confirmation screen.

##### **Step-5**

Following validation of the data entered, the taxpayer will be sent to the bank's net-banking site.

##### **Step-6**

The taxpayer must log in to the net-banking site using the user id and password issued by the bank for net-banking purposes and input payment information on the bank's website.

### **Step-7**

After a successful payment, a challan counterfoil with the CIN, payment information, and bank name from whence the e-payment was made will be shown. This counterfoil serves as proof of payment.

**It's important to note that the specific steps might vary based on the country, jurisdiction, and the platform used for e-payment. Security is a top priority, so ensure that you are using authorized and secure platforms for your e-payment transactions. Always follow the guidelines provided by the Income tax department or relevant authority for a smooth and error-free e-payment process.**

### **Check your progress: 3**

#### **A) Select the most appropriate answer for each of the following questions:**

- I) What is E-filing of Income Tax Returns (ITR)?
  - A) Filing tax returns by physically visiting a tax office.
  - B) Filing tax returns through an electronic platform.
  - C) Filing tax returns through a postal service.
  - D) Filing tax returns through a tax consultant.
- II) What is the main advantage of E-filing of ITR?
  - A) It requires no documentation.
  - B) It is more expensive than traditional filing methods.
  - C) It provides faster processing and quicker refunds.
  - D) It can only be done by tax professionals.
- III) What is E-payment of Tax?
  - A) Paying taxes in cash at a bank branch.
  - B) Sending a check to the tax department for payment.
  - C) Paying taxes electronically through digital platforms.
  - D) Paying taxes through barter trade.

- IV) Which of the following payment methods is commonly used for E-payment of Tax?
- A) Sending cash by mail.
  - B) Using carrier pigeons for payment transfer.
  - C) Credit/debit cards, net banking, and mobile wallets.
  - D) Writing a personal check and sending it to the tax department.
- V) What is the benefit of E-payment of Tax?
- A) It incurs higher transaction costs.
  - B) It only supports one specific payment method.
  - C) It encourages timely tax compliance and reduces errors.
  - D) It requires physical presence at a government office.

### **4.3 Summary:**

"Clubbing of Income, Set-off and Carry Forward of Losses, E-Filing of Returns, and E-Payment of Tax" are all fundamental parts of the taxation system that individuals, as well as businesses, must grasp to maintain compliance and maximize their tax responsibilities.

1. Clubbing of income: The inclusion of money received by one person in the tax assessment of another person is referred to as clubbing of income.
2. Loss Set-off and Carry-forward: Taxpayers frequently face circumstances in which their income from one source is inadequate to offset losses incurred from another. In such circumstances, tax regulations allow losses to be written off against taxable income, lowering the overall tax burden. Furthermore, if the losses are not entirely offset in a particular year,
3. E-Filing of Returns: E-filing of tax returns is electronically transferring income and financial information to tax authorities using web platforms.
4. E- Tax Payment: E-payment of taxes entails sending tax payments to the government electronically. This strategy simplifies the payment process, minimizes paperwork, and assures secure and speedy transactions.



## 4.4 Terms to Remember

### Clubbing of Income

Income clubbing occurs when the income of two or more people is regarded as the income of a single person for tax purposes. This might result in a larger tax burden for the individual whose income is being combined.

**Set Off:** A set off of losses lets a person or organization lower their taxable income for the current year by balancing it against their losses for the current year. This helps to reduce overall tax liability for that year.

**Carry Forward:** If losses cannot be fully offset against income in the current year, they can be carried over into subsequent years. These carried-forward losses can be used against future income to minimize the tax burden.

**Intra-head adjustment:** If a taxpayer incurs a loss from any source under a certain head of income in any year, he may offset that loss against income from any other source coming under the same head.

### Inter-head adjustment

After making any necessary intra-head adjustments, the next step is to make any necessary inter-head adjustments. If a taxpayer has a loss under one head of income and income under another, he can adjust the loss from one head against the income from the other. For example, a loss under the head of house property can be adjusted against salary income.

**E-File portal:** You may file your income tax return immediately on the e-filing site or download the offline utility, create your income tax return, and then upload it to the e-filing portal.

**E-Payment of Tax:** Electronic Payment of Tax is a contemporary and easy technique of settling tax bills using digital platforms.

## 4.5 Answers to check your progress

### Answers to check your progress-1

A) I - c,      II - c,      III - d,      IV - c,      V - c

B) i-clubbed, ii- asset, iii- technical, iv- tax, v- revocable

**Answers to check your progress: 2**

**A) I- c, II- c, III- b, IV- c, V- b**

**B) i- b, ii- b, iii- a, iv- b, v- b vi) - b**

**Answers to check your progress: 3**

- I) Answer : B) Filing tax returns through an electronic platform.
- II) Answer: C) It provides faster processing and quicker refunds.
- III) Answer: C) Paying taxes electronically through digital platforms.
- IV) Answer: C) Credit/debit cards, net banking, and mobile wallets.
- V) Answer: C) It encourages timely tax compliance and reduces errors.

**4.6 Exercises**

**Write Short Notes**

- 1. Clubbing of income
- 2. Intra- Source and Inter- Head adjustments
- 3. Provisions regarding set off and carry forward of losses?
- 4. Set off and carry forward of losses
- 5. E-filing of ITR
- 6. E-payment of tax

**4.7 Further Reading:**

- 1) Systematic Approach to Income Tax By Girish Ahuja & Dr. Ravi Gupta, Bharat Law house Pvt. Ltd. New Delhi.
- 2) A Simple Approach to Income Tax By Dr. P. M. Hirekar, Phadake Prakashan, Kolhapur.(A. Y. 2023/24)
- 3) Finance Act. Amendments 2023 Published by Income Tax Department.
- 4) Intermediate Course (CA) Study Material (Modules 1&3) Paper 4 Taxation Published by ICAI May 2023.

