

At a Glance

Residential Status at a Glance

Residential status at a glance

Assessee	Condition to be a Resident	Condition to be an Ordinarily resident
Individual	Assessee satisfies any one condition of sec. 6(1) i.e. a) He is in India in the previous year for a period of 182 days or more; or b) He is in India for a period of 60 days or more during the previous year and 365 days or more during 4 previous years immediately preceding the relevant previous year.	Assessee satisfies both the conditions of sec. 6(6) a) He has been resident in India in at least 2 out of 10 previous years immediately preceding the relevant previous year; <u>and</u> b) He has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year.
HUF	Management is wholly or partly situated in India	Karta satisfies both the conditions of sec. 6(6)
<u>Company</u>		
a) Indian Co.	Always resident	Not applicable
b) Other Co.	Management is wholly situated in India	
Firm	Management is wholly or partly situated in India	
AOP		
BOI		
Other person		

Incidence of Tax [Sec. 5]

Nature of Income	Tax incidence in the case of		
	Resident & ordinarily resident	Resident but not ordinarily resident	Non resident
Income received or deemed to be received in India.	Taxable	Taxable	Taxable
Income accrued or deemed to be accrued in India.	Taxable	Taxable	Taxable
Income accrued and received outside India from a business controlled in or profession set-up in India.	Taxable	Taxable	Not taxable
Income accrued and received outside India from a business controlled or profession set-up outside India.	Taxable	Not taxable	Not taxable

Income received in India: If the place, where the recipient gets the money (on first occasion) under his control, is in India, it is said to be income received in India.

Income deemed to accrue or arise in India [Sec. 9]

Following incomes are deemed to accrue or arise in India:

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1. Income from connection in India [Sec. 9(1)(i)]
 - Any business connection in India: Business connection shall include any business activity carried out through a person who, acting on behalf of the non-resident —
 1. has an authority to conclude contracts on behalf of the non-resident; or
 2. maintains in India habitually a stock to regularly delivers goods; or
 3. Habitually secures orders in India mainly for the non-resident.
 - Exceptions
 1. Business activity through a broker
 2. Business activity confined to purchase of goods
 3. Business activity of a news agency confined to collection of news, etc.
 4. Business activity confined to shooting
 - Any property/asset or source of income in India; or
 - The transfer of a capital asset situated in India.
2. Income chargeable under the head 'Salaries', if employee has worked in India
3. Income chargeable under the head 'Salaries' received from the Government by an Indian citizen for services rendered outside India
4. Income in form of dividend from an Indian Company
5. Income in form of interest if interest is paid by the Government or by the resident (if the loan is not used outside India) by a non resident (if the loan is used for the purpose of business or profession in India).
6. Income in form of royalty paid by the Government or by the resident (if the asset is not used outside India) by a non resident (if asset is used for the purpose of business or profession or for earning any income in India).
7. Income from technical service paid by the Government or by the resident (if the technique is not used outside India) or by a non resident (if the technique is used for the purpose of business or profession or for earning any income in India).

Agricultural Income at a glance

Meaning: Agricultural income means -

- a. Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes;
- b. Any income derived from such land by agricultural operations;
- c. Any income derived from such land by the cultivator by processing the agricultural produce raised or by the receiver of rent in kind by processing the agricultural produce received; so as to render it fit for sale in market.
- d. Any income derived from such land on sale made by the cultivator of the agricultural produce raised; or by the receiver of rent in kind of the agricultural produce received; without carrying on any process, other than the process required to render it fit for the market.
- e. Any income derived from a building subject to fulfillment of the following conditions a) The building should be occupied by the cultivator or receiver of rent in kind. b) The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes. c) The building should be used as dwelling house or store-house or other out building. d) The land is either situated in rural area or assessed to land revenue.

Agricultural activity means:

Basic Operation: It means application of human skill & labour upon the land, prior to germination. E.g. Tilling of land, sowing of seeds, planting, irrigation, etc.

Subsequent Operation: It means operations which fosters the growth and preserves the produce; for rendering the produce fit for sale in market; and which are performed after the produce sprouts from the land. E.g. pruning, cutting, harvesting, etc.

Activity	Whether treated as agricultural activity or not
Mere Basic Operation	Agricultural activity
Mere Subsequent Operation	Not an agricultural activity
Subsequent operation together with basic operation	Agricultural activity

Treatment of Partly Agricultural & Partly Non-Agricultural Income

Growing & manufacturing tea: 60% is agricultural income and 40% is non-agricultural income.

Growing & manufacturing rubber: 65% is agricultural income and 35% is non-agricultural income.

Growing & manufacturing coffee:

- If coffee grown and cured by the seller: 75% is agricultural income and 25% is non-agricultural income.
- If coffee grown, cured, roasted and grounded by the seller: 60% is agricultural income and 40% is non-agricultural income.

Any other case: In such case, assessee will prepare two statements of income, i.e., one for agro-business and another for non agro-business and for computing agricultural income, the market value of any agricultural produce, which is utilised as raw material in such business, is to be treated as revenue for agro-business and deductible expenditure for non agro-business.

Tax treatment of Agro Income / Impact of agricultural income on tax computation

Conditions

1. The assessee is an individual, HUF, a BOI, an AOP, or an artificial juridical person.

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2. The assessee has non-agricultural income exceeding exempted limit of income.
3. The agricultural income of assessee exceeds Rs.5000.

Treatment

- Step 1: Compute income tax on total income of assessee including Agro-income.
Step 2: Compute income tax on (Agricultural income + Maximum exempted limit)
Step 3: Tax liability before rebate & surcharge = (Tax as per step 1) - (Tax as per step 2)

Salaries at a glance

1. Salary means any payment by the employer to employee.
2. Basis of charge: Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
3. Basic Salary: Fully taxable in all cases.
4. Dearness Allowance (DA) or Dearness Pay (DP): Fully taxable in all cases.
5. Fees: Fully taxable in all cases.
6. Commission: Fully Taxable.
7. Bonus: Contractual bonus is taxable as bonus whereas voluntary bonus is taxable as perquisite.
8. Gratuity
 - Gratuity received during continuation of service is fully taxable in the hands of all employees.
 - Gratuity received at the time of termination of service by Government employee is fully exempted.
 - Gratuity received at the time of termination of service by non-government employee, covered by the Payment of Gratuity Act shall be exempted to the minimum of the following: (a) Actual Gratuity received (b) Rs.350000; and (c) $\frac{15}{26} \times \text{Completed year of service} \times \text{Salary p.m.}$
Completed year of service consider any fraction in excess of 6 months.
 - Gratuity received at the time of termination of service by non-government employee not covered under the Payment of Gratuity Act shall be exempted to the minimum of the following: (a) Actual Gratuity received; (b) Rs.350000; and (c) $\frac{1}{2} \times \text{Completed year of service} \times \text{Average Salary p.m.}$
Completed year of service ignores any fraction of the year.
 - Gratuity received after death of employee is exempted.
9. Leave Salary Encashment
 - Leave salary during continuation of service is fully taxable in hands of all employees.
 - Leave salary received by Government employee is fully exempted.
 - Leave salary received by non-Government employee shall be exempted to the minimum of the following: (a) Actual amount received as leave salary (b) Rs.300000/- (c) $10 \times \text{Average salary p.m.}$ (d) $\{(1 \times \text{completed year of service}) - \text{leave actually taken in terms of month}\} \times \text{average salary p.m.}$
Completed year of service ignores any fraction of the year.
 - Leave salary paid to the legal heir of deceased employee is not taxable as salary.
10. Pension [Sec. 17(1)(ii)]
 - Uncommuted pension is fully taxable in the hands of all employees
 - Commuted pension received by a Government employee is fully exempt from tax.

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- Commuted pension received by an employee who also received gratuity: $\frac{1}{3}$ of total pension commuted shall be exempted.
 - Commuted pension received by an employee who does not receive gratuity: $\frac{1}{2}$ of total pension commuted shall be exempted.
11. Voluntary Retirement Compensation: Compensation received at the time of voluntary retirement shall be exempted to the minimum of the following (a) Actual amount received as per guidelines; or (b) Rs.500000 provided following conditions are satisfied – (i) Compensation is not received from Individual, HUF or Firm. (ii) Voluntary Retirement Scheme (VRS) framed in accordance with prescribed guidelines i.e. a) Scheme must be applicable to all employees who have either completed age of 40 years or has completed 10 years of service b) Scheme must be framed to reduce the number of employees c) Vacancy caused is not to be filled up d) Retiring employee is not employed in another company or concern belonging to the same management e) Compensation does not exceed - 3 months salary for each completed year of service; or salary for balance month of service left. Benefit under 10(10C) can be claimed once in the life of assessee.
- 12. retrenchment compensation**
11. Annuity [Sec. 17(1)(ii)]: Fully taxable
12. Salary received in lieu of notice period: Fully taxable
13. Profits in lieu of salary [Sec. 17(3)]: Fully taxable

ALLOWANCES

14. House rent allowance (HRA): Minimum of the following is exempted from tax: (a) Actual HRA received (b) 50%/40% of salary (c) Rent Paid – 10% of Salary
15. City Compensatory Allowance/Tiffin Allowance/Medical Allowance/Servant Allowance: Fully taxable.
16. Entertainment Allowance: Fully taxable, irrespective of actual expenditure incurred.
17. Government employee can claim deduction u/s 16(ii)
18. Children Education Allowance: Minimum of the following is exempted – (a) Rs.100 per month per child (to the maximum of two children) (b) Actual amount received.
19. Children Hostel Allowance: Minimum of the following is exempted – (a) Rs.300 per month per child (to the maximum of two children) (b) Actual amount received
20. Truck Driver's Allowance: Minimum of the following shall be exempted: (a) 70% of allowance (b) Rs.6000 p.m.
21. Transport Allowance: Minimum of the following shall be exempted (a) Actual amount received; or (b) Rs.800 p.m. (in case of blind and orthopaedically handicapped employee Rs.1600 p.m.)
22. Allowance to Government employees outside India: As per sec. 10(7), any allowance or perquisite allowed outside India by the Government to an Indian citizen for rendering services outside India is wholly exempt from tax.
23. Any other allowance for which there is no specific provision shall be fully taxable.
24. In case of following allowances deduction is allowed to the extent of actual expenditure: Travel or transfer Allowance, Daily Allowance, Conveyance Allowance, Helper / Assistant Allowance, Professional Development Allowance/ Research Allowance, Uniform Allowance
25. allowance used partly for office partly for personal purpose

PERQUISITES

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26. Rent-free accommodation in hands of Government employee is taxable to the extent of licence fee.
27. Rent-free accommodation in hands of other employees is taxable as under -
- Populated city: Rent payable by employer or 20% of salary, whichever is lower.
 - Non-populated city: 15% of salary (if house is owned by employer); Rent paid or payable by the employer or 20% of salary, whichever is lower. (if house is hired by employer)
28. Valuation of rent-free furnished accommodation = [Value of accommodation + Value of furniture being {10% of original cost (if owned by employer) or Hire charge paid by employer}].
29. Valuation of accommodation provided at concessional rent: Value of Rent free accommodation as usual - Rent payable by employee to employer for the above facility.
30. Insurance premium payable by employer shall be fully taxable
31. Specified employee means (a) A director employee (b) An employee who has 20% or more voting power in the employer company (c) An employee whose aggregate salary from all employers together exceeds Rs.50000 p.a.
32. Manufacturing cost or hire charge of gas, electricity or water facility shall be taxable
33. Free education to family of employee

Case	Taxable Value
Institution owned by the employer	Child: Notional cost subject to an exemption of Rs.1000 p.m. per child. Other family member: Notional cost of such facility
Institution not owned by the employer by reason of his being in employment.	
Reimbursement	Actual reimbursement shall be taxable.

34. Valuation of perquisite in respect of free domestic servants shall be actual cost to the employer.
35. Perquisite in respect of interest free loan or concessional rate of interest shall be taxable in the hands of all employees as per the SBI rate of interest if aggregate amount of loan exceeds Rs.20000. However, any interest paid by the employee to the employer shall be reduced from the above computed value.
36. Valuation of perquisite in respect of use of movable assets shall be 10% of the original cost of such asset (If asset is owned by the employer) or charges paid or payable by the employer (If asset is hired).
37. Valuation of the perquisite in respect of movable assets sold by an employer to its employee shall be "the written down value – sale price". The written down value shall be calculated considering the rate of depreciation for Electronic items 50%(WDV), Motor-car 20%(WDV) and for other items 10% (SLM).
38. Medical facility in India -
- Medical facility in a Government hospital or hospital maintained by the employer is exempted.
 - Reimbursement of medical expenses in a hospital, which is approved by the CCIT, for the prescribed diseases is fully exempted.
 - Group medical insurance obtained by the employer for his employees is fully exempted.
 - Reimbursement of any insurance premium paid by the employee is fully exempted.
 - Reimbursement of medical bill whether for employee or for his family is exempted up to Rs.15000
39. Medical facility provided outside India: Medical expenditure, cost of stay abroad (for patient + one caretaker) is exempted to the extent permitted by the RBI. Cost of travel (for patient + One care taker) is exempted only when GTI of the employee does not exceed Rs.200000 p.a.

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40. Income tax paid by employer on behalf of employee on income, being non-monetary perquisite, is exempted perquisite.
41. If an employee goes on travel (on leave) with his family and traveling cost is reimbursed by the employer, then such reimbursement is fully exempted for 2 journey in a block of 4 years.
42. Provident Fund

Particulars	SPF	RPF	URPF	PPF
Employer's Contribution	Not taxable	Exempted upto 12% of Salary	Not taxable	NA
Employee's Contribution	Eligible for deduction u/s 80C	Eligible for deduction u/s 80C	Not eligible for deduction u/s 80C	Eligible for deduction u/s 80C
Interest	Not Taxable	Exempted @ 9.5% p.a.	Not Taxable	Not taxable
Lump sum	Not Taxable	Not Taxable if employee retires after 5 years of service or due to inability to work. Otherwise it shall be taxable as URPF	Employer's contribution or interest thereon is taxable as salary. Interest on employee's contribution taxable as income from other sources	Not Taxable

43. Transferred balance: On conversion of URPF to RPF, taxable amount is all sums comprised in the transferred balance that would have been liable to income tax if the recognition of the fund had been in force from the date of institution of the fund.
44. Entertainment allowance is allowed as deduction u/s 16(ii) in hands of Government employee to the minimum of following – a) Actual entertainment allowance b) Rs.5000 c) 20% of Basic Salary.
45. Tax on employment or professional tax shall be allowed as deduction u/s 16(iii) on cash basis, whether paid by employee or by employer (on behalf of employee) from gross taxable salary.

Salary means.....

Gratuity (covered by the Payment of Gratuity Act)	(Basic + DA) last drawn
Gratuity (not covered by the Payment of Gratuity Act)	(Basic + DA forming part of retirement benefit + Commission as a fixed percentage on turnover) being average of last 10 months preceding the month of retirement
Leave encashment	(Basic + DA forming part of retirement benefit + Commission as a fixed percentage on turnover) being average of last 10 months immediately from the day of retirement.
Voluntarily retirement	(Basic + DA forming part of retirement benefit + Commission as a fixed percentage on turnover) last drawn
Rent Free Accommodation	(Basic + DA forming part of retirement benefit + Commission as a fixed percentage on turnover+ Bonus + Fees + Any other taxable allowance + Any other monetary benefits excluding perquisite)
Specified employee	(Basic + DA + Commission as a fixed percentage on turnover + Bonus + Fees + Any other taxable allowance + Any other monetary benefits – Deduction u/s 16)
Entertainment Allowance	Basic only
For any other purpose not mentioned above	(Basic +DA forming part of retirement benefit + Commission as a fixed percentage on turnover)