
Compiled Summary of Income Tax Provisions**CONTENTS**

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Residential Status and Scope of Total Income [Sec 5 TO 9]

Residential Status of an Individual [Sec 6(1)]

An individual is resident in India if he satisfies any one of the following two conditions:

- i. He is in India for 182 days or more in the relevant previous year or
- ii. He is in India for 60 days or more during the relevant previous year and for 365 days or more during 4 years immediately preceding the previous year.

If he does not satisfy any one of the conditions above, he shall be non-resident.

Condition (ii) above is not applicable in following cases (means in following cases a person shall be resident of India only when he is in India for 182 days or more in the previous year):

- a. If Indian Citizen leaves India during the previous year for employment outside India or as a member of crew of an Indian Ship
- b. If Indian citizen or person of Indian origin visits India during previous year.

Other points:

- Residential status is determined for every year separately
- India includes territorial waters of India.
- Employment includes self-employment
- In computing the period of 180 days, the day of entry into India and the day of exit from India shall be included.
- Person of Indian origin is a person who himself or any of his parents or any of his grandparents was born in undivided India before 15th August 1947.
- After determining the residential status of individual/HUF, these persons are further checked whether they are ordinarily resident or not ordinarily resident.

An individual who is resident in India shall be resident and ordinarily resident (ROR) in India if he satisfies both the following conditions:

- i. He has been resident in India for at least 2 out of 10 previous years immediately preceding the relevant previous year
- And
- ii. He has been in India for 730 days or more during Z previous years immediately preceding the relevant previous year.

If he does not satisfy any or both of the above conditions, he shall be resident but not ordinarily resident (RNOR) in India.

Residential Status of HUF [Sec 6(2)]

A HUF is said to be resident in India when during that year control and management is situated wholly or partly in India. In other words it will be non-resident in India if no part of the control and management of affairs is situated in India.

Control and management lies at the place where decision regarding the affairs of the HUF are taken.

A resident HUF is said to be resident and ordinarily resident in India if the karta of the HUF satisfies both the following conditions:

- i. He has been resident in India for at least 2 out of 10 previous years immediately preceding the relevant previous year
- And
- ii. He has been in India for 730 days or more during Z previous years immediately preceding the relevant previous year.

If the karta of HUF does not satisfy any or both of the above conditions, then HUF shall be resident but not ordinarily resident in India.

Residential Status of Firms, AOP, BOI etc [Sec 6(2), 6(4)]

A Firm, AOP, BOI etc is said to be resident in India when during that year control and management is situated wholly or partly in India. In other words it will be non-resident in India if no part of the control and management of affairs is situated in India.

Control and management lies at the place where decision regarding the affairs of the firms etc are taken.

Residential Status of Companies[Sec 6(3)]

Indian Company is always resident in India

Foreign Company is resident in India if control and management of its affairs is situated wholly in India during relevant previous year i.e. if all the board meetings of the foreign company is held in India, then it shall be resident, otherwise non-resident.

Scope of Total Income/ Incidence of Tax [Sec 5]

Scope of total income is according to residential status of assessee.

1. Resident in India/ ordinarily resident in India

A person is assessable to tax in respect of income which

- i. Is received or deemed to be received in India by him or on his behalf
- ii. Accrues or arises or deemed to accrue or arise to him in India
- iii. Accrues or arises to him outside India

2. Resident but not ordinarily resident in India

A person is assessable to tax in respect of income which

- i. Is received or deemed to be received in India by him or on his behalf
- ii. Accrues or arises or deemed to accrue or arise to him in India
- iii. Accrues or arises to him outside India from a business controlled in or profession set up in India.

3. Non-resident in India

A person is assessable to tax in respect of income which

- i. Is received or deemed to be received in India by him or on his behalf
- ii. Accrues or arises or deemed to accrue or arise to him in India

Other points:

- Received in India means first receipt in India. If an income is received first outside India and then subsequently remitted to India, it shall be treated as received outside India.

- Past untaxed profits shall not be considered to be income of the current year in any case.

Particulars of Income	ROR	RNOR	NR
Income received or deemed to be received in India	Taxable	Taxable	Taxable
Income accrue or arises or deemed to accrue or arises in India	Taxable	Taxable	Taxable
Income earned outside India	Taxable	Taxable (only which is earned from a business/profession controlled from India)	Not Taxable

Income received or deemed to be received in India [Sec 7]

Income received in India: Any income which is received in India is liable to tax in India, whether the person receiving income is resident or non- resident. 'Received in India' means first receipt.

Income deemed to be received in India: Following incomes shall be deemed to be received in India even in the absence of actual receipt:

- Contribution by employer to recognized provident fund in excess of 12% of salary of employee
- Interest credited to RPF in excess of 9.5%
- Transferred balance from unrecognized PF to RPF
- Contribution by Government/Employer to notified pension scheme

Dividend Income [Sec 8]

Dividends from Indian company shall always be deemed to accrue or arise in India. However, as per Sec 10(34), such dividend is exempt in the hands of shareholder.

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

Following income shall be deemed to accrue or arise in India:

- Income from any property, asset or source of income in India

- ii. Income from the transfer of any capital asset situated in India
- iii. Any income from salary if it is payable for services rendered in India
- iv. Salary (not allowances) payable by the government of India to an Indian citizen for services rendered outside India
- v. Interest payable by
 - a. Government or
 - b. Resident in India if money is used by the borrower for the purpose of business or profession or earning any income from any source in India or
 - c. Non-resident in India if money is used by the borrower for the purpose of business or profession in India
- vi. Royalty payable by
 - a. Government or
 - b. Resident in India if services are utilized for the purpose of business or profession or earning any income from any source in India or
 - c. Non-resident in India if services are utilized for the purpose of business or profession or earning any income from any source in India
- vii. Fees for technical services payable by
 - a. Government or
 - b. Resident in India if services are utilized for the purpose of business or profession or earning any income from any source in India or
 - c. Non-resident in India if services are utilized for the purpose of business or profession or earning any income from any source in India
- viii. Income from a business connection in India
Any income which arises, directly or indirectly, from any activity or a business connection in India is deemed to be earned in India. If all business activities are not carried out in India, then only such part of income, as is reasonably attributable to the operations carried out in India, is taxable

Examples of business connection includes

- i. branch office in India,
- ii. agent of non-resident entering into contracts,
- iii. Subsidiary in India
- iv. maintaining stocks etc

However in case of non-resident, following shall not be treated as business connection in India:

- i. Purchase of goods in India for purpose of exports
- ii. Collection of news and views for transmission outside India by non-resident who is engaged in the business of running news agency or of publishing newspapers, magazines or journals
- iii. Shooting of films in India if
 - a. In case of individual – he is not a citizen of India
 - b. In case of Firm – none of the partner is citizen or resident of India
 - c. In case of company – none of the shareholder is citizen or resident of India

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Income under the head 'Salaries'

An income can be taxed under the head 'Salaries' only if there is a relationship of an employer and employee between the payer and the payee. The relationship of employer and employee shall be of master and servant. And this relation is said to exist only if there is control over the method of doing work of other person. A master is one who not only directs what and when a thing is to be done but how it is to be done, and the servant is bound to carry out the orders.

If there is no control over the method of doing work, then the relationship is said to be on principal to principal basis and the income is taxable under other heads.

Examples:

1. Lecturer of a College setting up the question paper and getting honorarium – This honorarium is taxable under the head 'Other Sources'
2. A Member of Parliament or state legislature is not a government employee and thus their remuneration is taxable under the head 'Income From Other Sources'
3. Any salary, bonus, commission or remuneration received by the partner of the firm is taxable under the head 'Profit and Gains of Business of Profession'.
4. Section 17(1) gives an inclusive definition of Salary which includes Basic Pay, Dearness Allowance, Commission, Wages, Pension, Gratuity, Leave Encashment and all other allowances.

Surrender of salary: Any salary surrendered by the employee to the Central Government, under the Voluntary Surrender of Salaries (Exemption from Taxation) Act, will not be included in his total income.

Tax Free salary: Tax free salary means employer himself pays the tax due on his employees. This tax is to be added to the salary of the employee.

Foregoing of salary: If an employee waive the right to receive his salary it will be considered as application of income and is taxable in his hands.

Basis of Charge [Section 15]

Following incomes shall be chargeable to income tax under the head 'Salaries':

1. Any salary due whether received or not
 2. Any salary received or allowed whether due or not
 3. Any arrears of salary not charged to tax in earlier years.
- If any salary paid in advance is included in the total income of any previous year, it shall not be included again in the total income of the previous when the salary becomes due.
 - Any salary, bonus, remuneration received by partner from its firm is not taxable under the head 'Salaries'. Instead such amount is taxable under the head PGBP.

Taxability of Allowances

Allowances are the payments given by the employer to the employee for some specific purpose and it is taxable subject to certain exemptions. Allowances are of three types:

1. Fully Taxable
2. Partly Taxable
3. Fully Exempt

Fully Taxable Allowances are:

- a) Dearness Allowance
- b) Overtime Allowance
- c) Medical Allowance
- d) City Compensatory Allowance
- e) Servant Allowance
- f) Family Allowance
- g) Project Allowance
- h) Non-practicing allowance
- i) Lunch/Tiffin Allowance
- j) Any other cash Allowance

Partly taxable allowances are:

1. House Rent Allowance (Section 10(13A), Rule 2A)
2. Specified Allowances (Section 10(14), Rule 2BB)

House Rent Allowance – Section 10(13A), Rule 2A

HRA is given by the employer to the employee for the specific purpose of taking house on rent. HRA is exempt to the extent of the least of the following:

1. Actual HRA received.
2. Rent Paid Less 10% of Salary.
3. 50% of the salary if house taken on rent is situated in metro cities else 40% of the salary.

Salary for the purpose of HRA includes:

1. Basic Pay
2. Dearness Allowance to the extent it forms part of salary for retirement benefits
3. Commission on Sales Turnover, if it has been paid as a certain percentage of Sales Turnover (As decided in Gestetner Duplicators Pvt Ltd (SC)).

Notes: Exemption in respect of HRA is based upon the following factors - Salary, Place of Residence, Rent Paid, HRA Received. If, during the year, there is change in any of the factors, then HRA exemption shall be separately calculated for that period.

Specified Allowances – Section 10(14), Rule 2BB

These allowances are of two types

1. Special allowance for performance of Official Duties [Section 10(14)(i)] – These allowances are exempt to the extent of amount received or amount spent whichever is less:

Allowance	Purpose
Travelling Allowance	Cost of travel on tour or on transfer of duty
Daily Allowance	Daily expenses on tour or on transfer
Conveyance Allowance	Conveyance in performing official duties
Helper Allowance	Helper engaged for the performance of official duty
Academic Allowance	For academic, research and training
Uniform Allowance	For uniform

2. Special Allowance to meet personal expenses. [Section 10(14)(ii)] – These allowances are exempt to the extent of amount received or the limit specified whichever is less:

Allowance	Exemption
Children Education Allowance	Rs. 100 pm per child for max 2 children
Hostel Expenditure Allowance	Rs. 300 pm per child for max 2 children
Transport Allowance	Rs. 800 pm but for handicapped employee- Rs. 1600

	pm
Tribal Area Allowance	Rs. 200 pm
Underground Allowance	Rs. 800 pm
Hill/ Border/ Remote Area Allowance	Rs. 300 pm to Rs. 7000 pm
Outstation Allowance to Transport Employees	70% of the allowance but max upto Rs. 10000 pm.

Fully Exempt allowances are:

1. Allowance given to Citizen of India, who is a Government Employee' rendering services outside India [Section 10(7)]
2. Allowances to High Court Judges
3. Sumptuary Allowance given to High Court and Supreme Court Judges
4. Allowance received by an employee of United Nation Organisation (UNO).

Deductions from Salary [Sec 16]**Entertainment Allowance [Section 16(ii)]**

The deduction of entertainment allowance is allowed only to the Government Employee and it is exempt to the extent of the least of the following:

1. Entertainment Allowance Received
2. 20% of Basic Pay
3. Rs. 5000

Professional Tax (Tax on Employment) – Section 16(iii)

Any amount paid (Whether due, advance or arrears) by the employee towards professional tax shall be allowed as deduction in the year of payment. If professional tax of employee is paid by the employer then first it shall be included in the gross salary of employees and then deduction shall be allowed under section 16(iii).

Retirement Benefits

Gratuity – Section 10(10)

For the purpose of computation of exemption of gratuity under section 10(10), the employees are divided into three categories:

1. Government employees and Employees of Local Authorities – Section 10(10)(i)

Entire Amount of Gratuity is Exempt.

2. Employees covered under Payment of Gratuity Act, 1972 [Section 10(10)(ii)]

Any gratuity received by such employees is exempt to the least of the following:

- a. Amount of Gratuity actually received
 - b. 15 days salary for every completed year of service or part thereof in excess of six months. (In case of an employee who is employed in seasonal establishment , exemption shall be 7 days wages for each season)
 - c. Rs. 10,00,000/-
- Salary for this purpose means salary of the month preceding the month of retirement and shall include only basic salary and dearness allowance (in full).
- To compute 15 days salary, number of days in a month will be taken as 26 working days.
- Therefore, to calculate the 15 days salary, the monthly salary shall be divided by 26 and multiplied by 15.

3. Exemption of Gratuity received in case of Other Employees [Section 10(10)(iii)]

Any gratuity received by any other employees shall be exempt to the least of the following:

- a. Amount of Gratuity actually received
- b. Half month's average salary for every completed year of service. (In case of an employee who is employed in seasonal establishment , exemption shall be 7 days wages for each season)
- c. Rs. 10,00,000/-

Salary for this purpose means salary as calculated in case of House Rent Allowance i.e. it includes basic pay, dearness allowance (if it form parts of retirement benefits) and commission as a fixed percentage of sales turnover. Further, it will be average of the last ten months preceding the month of retirement.

Commuted Pension [Section 10(10A)]

Pension is a periodical payment but certain employers may also allow an employee to forego a portion of the pension and receive a lump sum amount which is called commutation of pension.

Treatment of commuted pension is:

- Commuted Pension received by the Government Employees or employees of local authorities or employees of statutory corporation is fully exempt under section 10(10A)(i).
- In case of other employees, exemption shall be allowed to the extent of commuted value of 1/3 of pension but if the employee is not getting any gratuity, exemption shall be allowed up to commuted value of 50% of pension.

Leave Salary [Section 10(10AA)]

If any employee has surrendered the leave allowed to him and has received some payment in lieu thereof, such amount is called leave salary.

Leave encashment to an employee while he continues to be in service with the same employer is fully taxable under section 17(1).

If any employee has encashed his accumulated leave at the time of retirement or resigning, taxability shall be as follows:

1. Leave Salary received at the time of retirement/resigning by the government employees is fully exempt. [Section 10(10AA)(i)]
2. In case of other employees, leave encashment of accumulated leave at the time of retirement/ resignation shall be exempt to the extent of the least of the following:
 - a. Leave Encashment actually received
 - b. 10 months average salary
 - c. Leave at the credit (in months) * average salary
 - d. Rs. 3,00,000

Salary for the above purpose is same as calculated for the exemption of House Rent Allowance. Average Salary is to be calculated on the basis of the salary for 10 months immediately preceding the retirement.

Leave at the Credit Means:

Leave Entitlement (Maximum one month per completed year)

Less: Leave Availed

Less: Leave Encashed

Leave at the Credit

Retrenchment Compensation [Section 10(10B)]

Compensation received by a workman at the time of his retrenchment is exempt to the extent of the least of the following:

1. Actual amount received
2. Amount computed under Industrial Disputes Act, 1947 (15 days average pay for every completed year of service or part thereof in excess of 6 months)
3. Rs. 5,00,000.

Voluntary Retirement [Section 10(10C)] Rule 2BA

Compensation received or receivable by the employee on voluntary retirement is exempt to the least of the following:

- a. Actual amount received
- b. Rs. 5,00,000
- c. Three months salary for each completed year of service
- d. Last drawn salary multiplied by the balance months of service left before the date of his retirement.

Salary for the above purpose is same as calculated for the exemption of House Rent Allowance.

Provident Fund

Statutory Provident Fund – [Section 10(11)]

Statutory Provident Fund is mainly meant for Government/Semi Government Employees, university/ educational institutions or other specified institutions. Employer contribution and interest from this fund is fully exempt. Further, employee contribution to this fund is allowed as deduction under section 80C.

Recognised Provident Fund – [Section 10(12)]

- Employer's contribution is exempt to the extent of 12% of employee salary and excess over it is taxable.
- Interest on provident fund is exempt upto 9.5% pa and excess over it is taxable.
- Deduction under section 80C is allowed for employee contribution.
- Repayment from RPF is exempt under certain conditions.

Unrecognised Provident Fund

- Employer's contribution and interest on provident fund is not taxable every year but repayment from unrecognized provident fund is fully taxable (except the employee's contribution)
- No deduction under Section 80C
- Interest on employee contribution received at the time of repayment from URPF is taxable under the head sources.

Public Provident Funds

- Any member of the public, whether in employment or not, may contribute to this fund. It is a scheme where there is assessee contribution only.
- Deduction under section 80C is allowed upto Rs. 1,00,000/- per year
- Interest from PPF is fully exempt under section 10(11)

Approved Superannuation Fund [Section 10(13)]

These funds are established under trust by the employer for the purpose of paying pension to the employee on their retirement/ death etc.

- Contribution by the employer is exempt up to Rs. 1,00,000 per year per employee
- Interest on accumulated balance is exempt from tax.
- Deduction is allowed under section 80C for employee contribution.
- Repayment from this fund is exempt under certain conditions.

Perquisites [Sec 17(2)]

For the purpose of taxability, perquisites can be divided into following categories:

- A. Perquisites taxable in the hands of all employees
- B. Perquisites taxable in the hands of specified employees
- C. Perquisites exempt up to certain limits
- D. Tax free perquisites

A. Following perquisites are taxable in the hands of all employees:

1. Rent free accommodation or accommodation at concessional rent
2. Any sum paid by the employer in discharging the monetary obligation of the employee, which otherwise would have been paid by the employee
3. Sweat Equity Shares
4. Contribution to an approved superannuation fund
5. Any other benefit as prescribed.

1. Rent Free Accommodation (RFA) or Accommodation at concessional rent [Rule 3(1)]

a) In case of Government Employees:

- Perquisites Value for RFA shall be the license fee as determined by Govt rules.

b) In case of Other Employees:

- If the accommodation is owned by the employer, then RFA value shall be

Population of the city	RFA Value
> 25 Lakhs	15% of salary
10 Lakhs > <= 25 Lakhs	10% of salary
<= 10 Lakhs	7.5% of salary

- If the accommodation is taken on lease/rent by the employer, then RFA Value shall be lower of
 - 15 % of Salary or
 - Actual rent paid/payable by the employer

In case of (a) and (b) above:

- Perquisites value shall be reduced by the amount, if any, recovered from the employee.
- In case of furnished accommodation, 10% of the actual cost of assets shall be added to the perquisite value of RFA
- If such furniture is taken on rent by the employer, then hire charges of such furniture shall be added to the perquisite value of RFA.

c) Accommodation provided in hotel

- Perquisite value shall be lower of
 - 24 % of salary or
 - Actual charges borne by the employer
- Such perquisites value shall be reduced by the amount, if any, recovered from the employee.

Exemption from RFA of hotel: There shall be no perquisite value of hotel if

- Such accommodation is provided for not more than 15 days AND
- It was provided on the transfer of the employee

d) Accommodation provided in two houses on transfer

- In case of transfer of employees from one place to another, perquisite value shall be calculated for only 1 house
- However, after 90 days, perquisite value shall be calculated for both the house

2. Monetary obligation of employee

Any sum paid by the employer in discharging the monetary obligation of the employee, which otherwise would have been paid by the employee

3. Sweat Equity Shares

Perquisite value of Specified security or sweat equity shares shall be the:

Fair Market Value of the shares on the date on which option is exercised by the employee as reduced by the amount recovered from the employee

4. Contribution to an approved superannuation fund

Contribution by the employer to an approved superannuation fund to the extent it exceeds Rs. 100000, is perquisite in the hands of employees.

5 . Any other benefit or amenities provided [Rule 3(7)]**[Rule 3(7)(i)] Interest Free Loan**

Perquisite value in this case shall be the interest on loan provided to the employee or any member of his household by the employer or by any person on employer's behalf

- Interest means SBI Rate of interest on 1st day of relevant PY.
- Interest shall be calculated on the maximum outstanding monthly balance
- Any interest recovered from the employee shall be reduced from the perquisite value
- Member of his household include spouse, children and their spouses, parents, servants and dependents.

Exceptions: No perquisite value of interest free loan if:

- Loans in aggregate do not exceed Rs. 20000 or
- Loan is for medical treatment of specified diseases

[Rule 3(7)(ii)] Value of travelling, touring, accommodation or any other expenses on holiday

Perquisite value shall be:

- Any expenditure incurred by the employer on travelling, touring etc of employees or any member of his household on their holiday.
- However, when any member of his household accompany the employee on official tour, expenditure related to such member of household shall be taxable
- When the official tour is extended as vacation, expenses on such extended period of stay are taxable.

[Rule 3(7)(iii)] Value of free food or non-alcoholic beverages.

Perquisite value shall be the actual amount incurred by the employer.

Exceptions:

- Tea or snacks provided during working hours
- Free meals at remote area or an offshore installation
- Free meals at office premises or through paid vouchers upto Rs. 50 per meal. Excess over it shall be taxable.

[Rule 3(7)(iv)] Value of gift, voucher or token

Perquisite value shall be the value of gift etc received by the employee or member of his household, from the employer.

Exceptions:

- Gifts to the extent it does not exceed Rs. 5000. Excess over it shall be taxable.

[Rule 3(7)(v)] Expenses on Credit Cards

Perquisite value shall be the actual expenditure incurred by the employer.

However, if such expenditure is wholly and exclusively for official purpose, then there shall be no perquisite value subject to certain conditions.

[Rule 3(7)(vi)] Expenses in Clubs/ Club membership

Perquisite value shall be the actual expenditure incurred by the employer.

However, if such expenditure is wholly and exclusively for official purpose, then there shall be no perquisite value subject to certain conditions.

No perquisite value for use of health club, sports or similar facilities.

[Rule 3(7)(vii)] Use of moveable assets

Perquisite value shall be:

- 10% p.a of the actual cost or
- rent/hire charges borne by the employer

No perquisite value in case of use of laptop, computers, telephone etc.

[Rule 3(7)(viii)] Transfer of any moveable assets

Perquisite value shall be the actual cost to the employer as reduced by certain percentage of cost for each completed year of use by the employer.

<u>Assets</u>	<u>Depreciation</u>	<u>Dep Method</u>
Computers and electronic items	50%	WDV
Motor Cars	20%	WDV
Any other Assets	10%	SLM

[Rule 3(7)(ix)] Any other benefit/amenity provided by the employer.

Perquisite value shall be the cost to employer as reduced by the amount recovered from the employee.

B. Following perquisites are taxable only in the hands of specified employees:

1. Use of Motor Car
2. Services of Sweeper, gardener, watchman, or personal attendant
3. Use of gas, water, electricity
4. Free or Concessional Educational Facilities to any member of employees household
5. Free or concessional journey given to the transport employees and their family members

Definition of Specified Employees [Sec 17(2)(iii)]

- Director of the company or
- Employee of the company carrying not less than 20% voting power in the company
- Employee having salary of Rs. 50000 or more. Salary includes all taxable monetary payments reduced by the deduction allowed u/s 16

1. Use of Motor Car [Rule 3(2)]

Car Owned by or hire charges paid by	Car used for	Perquisite Value	
Employer	<i>Exclusively for Official Purpose</i>	NIL (If specified documents are maintained)	
	<i>Exclusively for Private Purpose</i>	Actual Expenses incurred by the employer + 10%pa of Actual Cost of Car or hire charges	
	<i>For both official and private purpose</i>	Expenses borne by employer	<i>Upto 1.6 ltr</i> Rs. 1800pm+Rs 900(Driver)
			<i>Above 1.6ltr</i> Rs. 2400pm+Rs 900(Driver)
		Expenses borne by employee	<i>Upto 1.6 ltr</i> Rs. 600 pm+Rs. 900(Driver)
			<i>Above 1.6ltr</i> Rs. 900 pm+Rs 900(Driver)
Employee	<i>Exclusively for Official Purpose</i>	NIL (If specified documents are maintained)	
	<i>Exclusively for Private Purpose</i>	Actual Expenses incurred by the employer	
	<i>For both official and private purpose</i>	Expenses borne by employer	<i>Upto 1.6 ltr</i> Actual Exp (-) Rs. 1800 pm (-) Rs. 900(Driver)
			<i>Upto 1.6 ltr</i> Actual Exp (-) Rs. 2400 pm (-) Rs. 900(Driver)
		Expenses borne by employee	NIL

2. Services of Sweeper, gardener, watchman, or personal attendant [Rule 3(3)]

Perquisite Value shall be actual cost to the employer

3. Use of gas, water, electricity [Rule 3(4)]

Conditions	Perquisite Value
Supply is made from <u>resources owned by the employer</u>	<u>Manufacturing cost per unit</u> incurred by the employer
In any other case	<u>Amount paid</u> by the employer to the outside agency

4. Free or Concessional Educational Facilities to any member of employees household [Rule 3(5)]

Conditions	Perquisite Value
In Educational institutions <u>owned and maintained by employer</u>	Fees <u>charged by similar institution</u> in same or near locality
In any other educational institution <u>by reason of employee being in employment of that employer</u>	Fees <u>charged by similar institution</u> in same or near locality

However, perquisite value shall be nil, if the cost of education provided to the children of the employee does not exceed Rs. 1000 pm per child.

5. Free or concessional journey given to the transport employees and to any member of his household [Rule 3(6)]

Conditions	Perquisite Value
Employees of <u>Airline or Railways</u>	<u>Nil</u>
<u>Other</u> Transport employees	Amount <u>charged to other public</u>

C. Following perquisites are exempt up to certain limits for all employees

1. Leave Travel Concession or Assistance (LTC/LTA)
2. Medical facilities

1. Leave Travel Concession or Assistance (LTC/LTA) [Sec 10(5)]

LTC or LTA is allowed for travel fare of employees and his family for travelling to any place in India

Journey	Exemption limit
Journey by <u>air</u>	<u>Economy fare</u> of national carrier by the <u>shortest route</u>
Journey by <u>any mode other than air</u> and if such places are connected by rail	<u>First AC Rail fare</u> by the <u>shortest route</u>
If Places are <u>not connected by rail</u>	If <u>recognized public transport system exists</u> then <u>1st class or deluxe class fare</u>
	Otherwise, <u>amount equivalent to first AC rail fare</u>

- Exemption for LTC is allowed only for two children. However, this rule will not apply in respect of children born before 1.10.1998 and also in case of multiple births after one child.
- Also, assessee can claim exemption in respect of any two journeys in a block of 4 years. Block of 4 year starts from calendar years 1986-1989.
- In respect of un-availed LTC of previous block of years, he can claim the exemption of first journey in the calendar year immediately succeeding the end of previous block.
- Family includes spouse, children, dependant parents, dependant brothers and sisters.

2. Medical Facilities of employee or his family [proviso to Sec 17(2)]

a. Medical treatment in India

Medical Treatment	Exemption Limit
Any Treatment in a <u>hospital Maintained by the employer</u> or by the <u>Government</u> or by any <u>local authority</u> or in any <u>hospital approved by government</u> , or in any <u>hospital approved by CIT for specified disease</u>	<u>Fully</u> Exempt (<u>Whether incurred or reimbursed</u> by employer)
Health insurance premium	<u>Fully</u> Exempt (<u>Whether incurred or reimbursed</u> by employer)
Treatment in <u>any other hospital</u>	<u>Rs. 15000</u>

b. Medical treatment outside India

Facilities	Exemption Limit
Expenses on <u>medical treatment</u>	As permitted by <u>RBI</u>
Expenses on <u>stay abroad</u> with <u>one</u> attendant	As permitted by <u>RBI</u>
Expenses on <u>travel of patient with one attendant</u>	Fully exempt if GTI <u>does not exceed Rs. 2,00,000</u> (Excluding such travel expenses)

3. Tax free perquisites

- Expenses on telephone incurred by the employer on behalf of the employee
- Rent free official residence provided to Supreme Court Judges, High Court Judges, Official of Parliament, Union Minister, or to a leader of opposition in Parliament

- Amount given by the employer to employee's child as scholarship is exempt u/s 16
- Perquisites provided outside India by the Government to its employees, who are Indian Citizen and posted outside India is exempt u/s 10(7)
- Use by the employee or any member of his household of laptops and computers of employer
- Conveyance facility provided to an employee to cover the journey between office and residence
- Use of Health Club, sports and similar facilities
- Premium paid by the employer on an accident policy affected by him on his employee
- Refreshment provided by the employer to the employees during working hours

Other Points

Relief when salary is paid in advance or arrears [Sec 89(1)]

Step 1: Calculate tax payable of the previous year in which the arrears/ advance is received on

- a) Total income inclusive of additional salary
- b) Total income exclusive of additional salary

The difference between (a) and (b) is the tax on additional salary included in the total income

Step 2: Calculate tax payable of the every previous year to which the additional salary relate

- a) On Total income including additional salary of that particular previous year
- b) On Total income exclusive of additional salary

Calculate the difference between (a) and (b) for every previous year to which the additional salary relates and aggregate the same.

Step 3: The excess between the tax on additional salary as calculated under step 1 and 2 shall be the relief admissible under Section 89(1). If the tax calculated in step 1 is less than tax calculated in step 2, the assessee need not apply for relief.

Profits in lieu of Salary [Sec 17(2)]

These payments are included under the head salary:

- ***Terminal Compensation:*** Compensation to assessee from his employer in connection with termination of his employment or modification of its terms and conditions.
- ***Payment from unrecognized provident fund:*** Any payment received from URPF, is taxed as 'profits in lieu of salary'. Interest on employee contribution is taxed as 'Income from Other Sources'
- ***Payment under Keyman Insurance Policy:*** Any amount, including bonus, due to or received by an employee under such policy.
- ***Amount received before joining or after cessation:*** Any amount due to or received by an assessee from any person before his joining or after cessation of his employment with that person.

Income From House Property [Sec 22 – 27]

How to compute the income chargeable under the head income from house property?

- | | |
|--|-------|
| 1. Gross Annual Value (GAV) | ----- |
| 2. Less: Taxes borne by the owner and
paid to the local authority | ----- |
| 3. Net Annual Value (1-2) (NAV) | ----- |
| 4. Less: Deductions u/s 24 | |
| a. Statutory Deductions @ 30% Of NAV | ----- |
| b. Interest on borrowed capital | ----- |
| Income under the head House property (3-4) | ----- |

Charging Section – Section 22

The **annual value** of the property consisting of **any buildings or lands appurtenant thereto** of which the **assessee is the owner** shall be chargeable to income tax under the head 'Income from House Property'.

However, there shall be not any income under this head if such property is used by the assessee for the purposes of any business or profession, carried on by him, the profits of which are chargeable to tax.

- Even if the assessee has the business of letting out of house property, still rental income of building is taxable under the head House Property.
- Assessee shall be the owner, otherwise income will be charged u/h other sources (eg. Subletting)
- If any person has let out any house property for a purpose which is supplementary to the business/profession of the assessee, then such rental income will form part of PGBP. e.g. a school letting out a part of its building to the bank, residential quarters let out to employees.

Annual Value – Section 23

The annual value of any property shall be deemed to be higher of:

- a. The sum for which the property might reasonably be expected to let from year to year i.e. expected rent. [Expected Rent is higher of Fair rental value and Municipal Value, but it cannot exceed Standard Rent]
- b. Actual rent received or receivable
- c. Where the property is **let and was vacant** during the whole or any part of the previous year and **owing to such vacancy**, the actual rent received or receivable is **less** than expected rent, then the annual value shall be actual rent received or receivable.

Deductions under section 24**Sec 24(a) - Statutory Deduction**

- Deduction shall be allowed @ 30% of NAV, while computing income from house property

Sec 24(b) – Interest on borrowed capital

- Interest on loan taken for purchase, construction, renovation, repairs, addition, and alteration etc of house property is allowed as deduction without any limit and it is allowed from the financial year in which acquisition, construction etc is completed.
- Interest for pre-construction period is allowed in five equal annual installments starting from the year in which such construction is completed.
- Interest on loan taken to repay the original loan is also allowed if the original loan was taken for the purpose specified above.

In order to compute income from house property, house property shall be divided into following categories:

1. Houses which are let out throughout the year
2. Houses which are partly let out and partly vacant or vacant throughout the year.
3. House which is self occupied
4. Houses which are partly let out and partly self-occupied and may or may not be vacant
5. More than one house which are self occupied
6. House property divided into different portions

1. Houses which are let out throughout the year

- Annual value shall be taken as higher of Expected Rent and Actual rent received/ receivable.
- Statutory deductions @ 30% u/s 24(a) and deduction of interest on borrowed capital shall be allowed.

2. Houses which are partly let out and partly vacant or vacant throughout the year

- Annual value shall be taken as higher of expected rent and actual rent received/ receivable
- Statutory deductions @ 30% u/s 24(a) and deduction of interest on borrowed capital shall be allowed.

However, where the property is **let and was vacant** during the whole or any part of the previous year and **owing to such vacancy**, the actual rent received or receivable is **less** than expected rent, then the annual value shall be actual rent received or receivable.

3. House which is self occupied

- NAV shall be Nil
- No statutory deduction u/s 24(a)
- Interest Deduction u/s 24(b) allowed up to a limit of Rs. 30000.
- However, interest deduction can be allowed up to Rs. 150000 if following conditions are satisfied:
 - Loan taken after 01-04-1999
 - Loan taken only for purchase or construction (not for repairs etc)
 - Purchase/ construction completed within 3 years from the end of the year in which loan was taken.
 - Assessee has submitted a certificate confirming the amount of interest.

4. Houses which are partly let out and partly self-occupied and may or may not be vacant

- Gross Annual value shall be computed as the house is let out throughout the year.

5. More than one house which is self occupied.

- Net Annual value of any one house shall be computed as the house is self occupied and interest is allowed up to Rs. 30000/150000.
- And Gross Annual Value of other house shall be computed as it is let out throughout the year and GAV shall be expected rent of whole year. Statutory Deductions @ 30% and interest deduction (without any limit) is allowed.

6. House property divided into different portions

- If any house is divided into different portions, in such cases, every portion is considered to be a separate house and income shall be computed accordingly.

Interest on loan taken from outside India – Section 25

Interest on loan, payable outside India shall be allowed as deduction only if

- Tax has been deducted at source and such tax has been paid or
- The person receiving the interest income has an agent in India as per Sec 163

Unrealized Rent

Unrealized rent is that part of the rent which the owner cannot realize and it shall not form part of rent receivable subject to fulfillment of following conditions (Rule 4):

- a. Assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the assessing officer that legal proceedings would be useless.
- b. Assessee should get the house vacated from defaulting tenant including any other house occupied by same tenant
- c. The tenancy should be a bonafide tenancy.

Recovery of Unrealized Rent (Section 25AA)

Unrealized rent subsequently recovered by the assessee shall be deemed to be income from house property, whether or not the assessee is the owner of the property in the year of recovery.

No deduction shall be allowed from this amount.

Special provisions for arrears of rent received – Section 25B

Arrears of rent received in previous shall be chargeable to tax whether or not the assessee is the owner of that property during the previous year, however statutory deduction @30% shall be allowed from this amount.

Property owned by co-owners– Section 26

If property is co-owned by two or more persons, then the share of each such person shall be included in his income.

If the property is self-occupied by co-owner, each of the co-owner shall be entitled to the deduction of Rs. 30000/150000.

Deemed Ownership – Section 27

As per Section 22, Income under the head House Property is taxable in the hands of its owner however under certain situations, income is taxable in the hands of some other person referred to as deemed owner.

1. In the case of gift to spouse or minor child (except minor married daughter), transferor shall be deemed as owner.
 - Exception: If the house property has been transferred to the spouse under an agreement to live apart.
2. Holder of impartible estate is deemed as owner of all the properties comprised in that estate.
3. If any House Property is owned by any Company or Co-operative Society etc and such income has been allotted to any member of the company/society, in such cases, such member shall be the deemed owner.
4. A person who is allowed to take or retain the possession of any building or part thereof in part performance of the contract of the nature referred to in section 53A of the Transfer of Property Act shall be deemed owner.
5. The lessee of a building in case building is leased out for not less than 12 years, is deemed as owner.

Composite Rent – [Rent for House property + other facilities/ services + letting of P&M, Furnitures]

- Charges for other facilities shall be split up, then Rental Income of House Property shall be computed under the head House Property and rental charges for facilities is to be computed under PGBP or other sources.
- If the letting of property is separable from the letting of other assets then rental income of house property shall be computed under the head income from house property and rental income of other assets shall be computed under the head PGBP or other sources. However, if the composite rent is inseparable, it shall be taxed under the head PGBP or Other Sources.

Income from House Property is not charged to Income Tax in following cases

- Income from farm building
- Property held for charitable purposes
- Property used for own business/ profession
- Self occupied house
- One Palace of an ex-ruler
- House property owned by local authority/ registered trade union.

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Profit and Gains of Business or Profession [Sec 28 to 44D]

Charging Section – [Sec 28]

The following incomes shall be chargeable to tax under the head 'Profits and gains of business or profession'

- i. Profits and gains of any business carried on by the assessee at any time during the previous year
- ii. Any compensation or other payment due to or received by:
 - a. Any person, who manages the whole of the affairs of the company, for termination of his management or modification of terms relating thereto
 - b. Any person, for termination of agency or modification in the terms of agency
 - c. Any person, for transferring management of any business in government under any law
- iii. Export Incentives: Sale of Import license, Cash assistance against Export, Duty Drawback, profit on transfer of DEPB Scheme, Profit on transfer of Duty Free Replenishment Certificate
- iv. Value of any benefit or perquisite arising during the course of business or profession
- v. Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from such firm.
- vi. Consideration for not carrying out any activity in relation to any business or for not sharing any know-how, patent, copyright, trade-mark, licence, franchise etc. Transfer of such rights shall be chargeable under the head "Capital Gains"
(Exceptions: Any sum received from the multilateral fund of the Montreal Protocol on substances that deplete the Ozone Layer shall not be taxable)
- vii. Any sum received under a Keyman insurance policy including bonus
- viii. Any sum on transfer of capital assets if the whole of the expenditure on such asset has been allowed deduction u/s 35AD

Expl . 2 - Where speculative transactions are of such a nature as to constitute a business, the business shall be deemed to be distinct and separate from any other business.

How to Compute Income under head PGBP – [Sec 29]

Income, referred to in Section 28, shall be computed in accordance with the provisions contained in Sec 30 to 43D

Expenses for Buildings - [Sec 30]

Where any building is used for the purposes of business or profession, following expenses are allowed:

- a) Where the premises are occupied by the assessee:
 - i) As a tenant – Rent + Cost of repairs incurred by him
 - ii) As a owner – current repairs (no Capital Expenditure)
- b) Municipal taxes, land revenue etc.
- c) Insurance of premises

Expenses for Plant & Machinery, Furniture - [Sec 31]

Where any plant or furniture is used for the purposes of business or profession, following expenses are allowed:

- i) Current Repairs (No capital expenditure)
- ii) Insurance Expenses

Depreciation- [Sec 32]

Wherein an asset is owned, wholly or partly, by the assessee and used for the purpose of his business or profession, the depreciation shall be allowed. It is mandatory to claim depreciation even if assessee does not want to claim it.

Depreciation shall be allowed:

- 1) In the case of an undertaking engaged in generation or generation and distribution of power – Prescribed percentage of Actual Cost (Sec 32(1)(i))
- 2) In the case of block of assets – Prescribed percentage on WDV (Sec 32(1)(ii))

Sec 2(11) defines 'block of assets' – a group of assets falling within a class of assets comprising tangible assets (Buildings, machinery, plant or furniture) or intangible assets in respect of which the same percentage of depreciation is prescribed.

WDV of block of assets, for the purpose of charging depreciation, shall be:

- 1. WDV at the beginning of PY
- 2. Add the actual cost of asset acquired during the year
- 3. Deduct the money received (including insurance claims) in respect of asset sold or discarded.
- 4. Resultant figure will be the WDV on which depreciation shall be charged.

As per Rule 5(1) and Appendix 1 of Income Tax Rules, Depreciation rates are as follows:

Major Head	Minor Head	Rates
Buildings	Used mainly for residential purposes except hotels and boarding houses	5%
	Other Buildings	10%
	Temporary Erection such as wooden structures	100%
Furniture and fittings	Furniture and fitting including electrical fittings	10%
Machinery and Plant	Plant & Machinery (Other than those mentioned below)	15%
	Motor Cars (Other than those used in business of running them on hire)	15%
	Aero planes - Aero engines	40%
	Motor buses/lorries/taxis used in a business of running them on hire	30%
	Moulds used in rubber and plastic goods industries	30%
	Pollution Control equipments	100%
	Machinery and plant used in semi conductor industry	30%
	Life saving medical equipment	30%
	Containers made of glass or plastic used as refills	50%
	Computers including computer Software	60%
	Rollers used in Rolling mill rolls, Flour Mill, Sugar Works	80%
	Energy Saving Devices/ Renewal Energy Devices	80%
	Annual publications owned by the assessee carrying on a profession and books owned by a library	100%
	Books, other than annual publications, owned by assessee carrying on a profession	60%
	Books (Other than those mentioned above)	15%
	Ships	20%
Intangible Assets	Patent, copyright, trademark, goodwill, franchises etc.	25%

50% of Depreciation – Second Proviso to Sec 32

Where any asset is acquired by the assessee and is put to use for less than 180 days in that previous year in which it was acquired, then depreciation shall be restricted to 50% of the normal depreciation. If the asset is acquired in one year and put to use in another year then full depreciation shall be allowed in that year even if the asset is put to use for less than 180 days.

Capital Gain/Loss on sale of assets

Case 1: Wherein all the assets falling in a block of assets are sold during the year or the block of asset ceases to exist.

If the sale price is greater than WDV (Including asset purchased during that year) then there will be short term capital gain, else short term capital loss.

Case 2: where a part of block is sold and the sale consideration of the assets sold exceeds the value of the block, then such excess shall be STCG. There will be Nil value of block of assets and no depreciation will be charged.

Depreciation in case of assets of an undertaking engaged in generation or generation and distribution of power

Such undertakings shall charge depreciation on SLM basis i.e. prescribed percentage on the actual cost of asset. However, they have an option to charge the depreciation at WDV basis, but this option must be exercised before the due date of furnishing the return of income for the AY relevant to the PY in which it begins to generate power. Such option, once exercised shall be final and shall apply to all the subsequent assessment years.

Wherein the depreciation in case of such undertaking has been charged on SLM basis and such assets have been sold etc. then:

1. If the amount received is less than the actual cost minus depreciation allowed till date, such deficit shall be written off as terminal depreciation.

2. If the amount received is more than the actual cost minus depreciation allowed till date, then such excess shall be divided into two parts:

i) Balancing Charge: Sec 41(2)- Least of the following shall be chargeable to income – tax as income of the business of the PY as balancing charge

- a) Difference between money received and actual cost minus depreciation
- and
- b) Depreciation allowed in the past years in respect of such asset,

ii) Capital Gain: Amount received in excess of the actual cost of asset shall be treated as Capital Gains (LTCG/STCG).

Proportionate Depreciation – Fifth Proviso to Sec 32

Where, in previous year, there is a succession/ transfer/ amalgamation/ demerger of a proprietorship/ firm/ HUF/Company etc, then depreciation shall be apportioned between successor and predecessor in the ratio of the number of days for which asset were used by them.

So, firstly depreciation shall be calculated as no conversion have taken place and thereafter depreciation is divided among them in the ratio of the number of days for which asset were used by them.

Additional depreciation on new machinery or plant – Sec 32(1)(iia)

In the case of new machinery or plant (other than ships or aircraft), which has been acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing, additional depreciation of 20% of actual cost of machinery/plant shall be allowed.

No deduction shall be allowed in respect of used machinery, machinery used in office premises or residential accommodation, office appliances, motor vehicles etc.

Carry forward and Set-Off of unabsorbed depreciation [Sec 32(2)]

- The current year depreciation is deductible from the income of business.
- If any balance is left due to income from business being insufficient, it can be set off from any source under any head of income (except salary) in the same previous year.
- If there is still balance left over, it will be treated as unabsorbed depreciation and would be carried forward and added to the current year depreciation of that year and so on for the succeeding years.

Sec 43(1) - Actual Cost

Actual cost means the actual cost of the asset to the assessee, reduced by the cost met by any other person.

Interest incurred before the commencement of production can be capitalized as a cost of the fixed asset for which loan was taken. Interest on loan taken for acquiring a capital asset after such asset is first put to use has to be claimed as deduction u/s 36(1)(iii).

Explanation to Section 43(1)	Asset Particulars	Actual Cost for the purpose of charging depreciation.
Explanation 1	Asset is used in the business after it ceases to be used for Scientific Research	Actual Cost of the asset as reduced by the deduction allowed u/s 35(1)(iv)
Explanation 2	Asset acquired by way of gift or inheritance	Actual cost of the asset as reduced by depreciation allowed to the previous owner
Explanation 3	Old Asset transferred and AO is Satisfied that such transfer is to	Actual cost shall be determine by the AO with the previous approval of JCIT

	reduce the tax liability	
Explanation 4	Asset transferred and re-acquired	Least of : (a) Original Actual cost of the asset as reduced by depreciation allowable to him (b) actual price at which it is re-acquired
Explanation 4A	Used Asset acquired by the person to lease back to the seller (Previous user of asset)	Actual Cost shall be the same as WDV in the books of seller before selling it
Explanation 5	Building used for personal purposes now brought into use for business	Actual cost of the building as reduced by the depreciation allowable as if the building was used for business since its acquisition.
Explanation 6, 7, 7A	Asset transferred by the Holding Company to 100% subsidiary company or vice versa or under amalgamation/demerger and transferee company is an Indian Company	Actual cost to the transferee shall be taken to be same as it would have been if the transferor continues to hold it.
Explanation 8	Interest after the asset is put to use	Actual cost shall not include the interest pertaining to the period after the asset is first put to use.
Explanation 9	Asset on which excise duty has been levied	Actual cost shall not include the amount of excise duty on which Cenvat credit has been taken
Explanation 10	Asset acquired with the help of Other person	Actual cost as reduced by the amount met by any other person
Explanation 11	Asset acquired by non-resident outside India and brought by him in India for use in business	Actual cost as reduced by the depreciation allowable since the date of its acquisition
Explanation 12	Asset acquired under the scheme of corporatization of Stock Exchange	Actual cost shall be the same, had there been no corporatization.
Explanation 13	Asset on which deduction is allowed/allowable u/s 35AD	Actual cost shall be Nil.

Tea/Coffee/Rubber Development Account – [Sec 33AB]

An assessee carrying on a business of growing and manufacturing tea or coffee or rubber in India is allowed a deduction to extent of the least of the following:

- a) Amount Deposited or
- b) 40% of the profit as computed under the head of PGBP before making this deduction.

However, to claim the deduction amount shall be deposited within 6 month from the end of previous year or before the due date of furnishing return of Income whichever is earlier and it shall be deposited with:

- a) NABARD in a special account maintained by the assessee under a scheme approved by Tea/Coffee/Rubber board
- b) Deposit Account under a scheme framed by Tea/Coffee/Rubber board with the previous approval of Central Government

Other Conditions:

- Amount deposited can be withdrawn by the assessee for the purpose specified in scheme
- Accounts shall be audited by CA
- Deduction granted earlier shall be withdrawn in case any asset acquired in accordance with the scheme is transferred before the expiry of 8 years from the PY in which it was acquired.

Site Restoration Fund– [Sec 33ABA]

An assessee, carrying on a business of prospecting for or extraction or production of petroleum or natural gas in India and in relation to which Central Government has entered into an agreement with such assessee, is allowed a deduction to extent of the least of the following:

- a) Amount Deposited or
- b) 20% of the profit as computed under the head of PGBP before making this deduction.

However, to claim the deduction amount shall be deposited before the end of previous year:

- a) With SBI in a special account as per the scheme approved by the Ministry of Petroleum and Natural Gas
- b) In site restoration account in accordance with the deposit scheme framed by the ministry.

Other Conditions:

- Amount deposited can be withdrawn by the assessee for the purpose specified in scheme
- Accounts shall be audited by CA
- Deduction granted earlier shall be withdrawn in case any asset acquired in accordance with the scheme is transferred before the expiry of 8 years from the PY in which it was acquired.

Expenditure on Scientific Research [Sec 35]

Sec 35(1) – Following deductions shall be allowed

- i. **100%** of revenue expenditure for research related to business.
However, expenditure relating to 3 years preceding the date of commencement of business shall be allowed in the year in which business is commenced subject to:
 - a) Prior Expenditure shall be allowed only for salary to research staff and materials used in research
 - b) Prior expenditure allowed to the extent certified by prescribed authority.
- ii. **175%** of any sum paid to Scientific Research Association or to a approved university, college or other institution to be used for scientific research
- iii. **125%** of any sum paid to be used for Scientific Research to a Company registered in India, whose main object is scientific research and development. Such company shall be approved by the prescribed authority.
- iv. **125%** of any sum paid for social science or statistical research to a research association or to a approved university, college or other institution
- v. **100% of Capital expenditure (Except Land)** for research related to business.
However, capital expenditure relating to 3 years preceding the date of commencement of business shall be allowed in the year in which business is commenced

Sec 35(2AA) – Deduction shall be allowed @ **200%** of any sum paid to National Laboratory or a university or IIT with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved by the prescribed authority

Sec 35(2AB) – Deduction @ **200%** of any expenditure (except land and building) shall be allowed to Company engaged in any manufacturing business (except the articles specified in Eleventh Schedule) on in house scientific research and development facility approved by the prescribed authority. No deduction after 31-03-2012.

Unabsorbed Scientific Research Expenses have same treatment as that of Unabsorbed Depreciation and thus can be carried forward infinitely.

Expenditure for obtaining license to operate telecommunication services [Sec 35ABB]

Expenditure incurred for obtaining license to operate telecommunication services shall be allowed in equal installments starting from the year in which payment is made (or in the year in which business is commenced, whichever is earlier) and ending with the year in which license is about to expire.

On sale of such licenses, excess over the book value of the license shall be divided into two parts

- i. Excess over the actual cost of license shall be the Capital Gains and
- ii. Balance shall be the income u/h PGBP.

Expenditure on eligible projects and schemes [Sec 35AC]

Deduction is allowed for any expenditure by way of payment to a public sector company, local authority or to an association/ institution approved by the national committee for carrying out any eligible projects or schemes for promoting the social and economic welfare of or the uplift of the public as the Central Government may specify.

Deduction in respect of expenditure on specified business [Sec 35AD]

100% deduction is allowed for capital expenditure (Except land, goodwill and financial instrument) to an assessee who is carrying on any of the following specified business (with effect from):

- i. Setting up and operating a cold chain facility (wef 01-04-2009)
- ii. Setting up and operating a warehousing facility for storage of agricultural produce (wef 01-04-2009)
- iii. Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network (wef 01-04-2007)
- iv. The business of building and operating anywhere in India, a new hotel of two-star or above category (wef 01-04-2010)
- v. Building and operating, anywhere in India, a hospital with at least 100 beds for patients (wef 01-04-2010)
- vi. Developing and building a housing project under a scheme for slum redevelopment and rehabilitation. (wef 01-04-2010)

- vii. Developing and building a housing project under a scheme for affordable housing (wef 01-04-2011)
- viii. Production of fertilizer in India (Also for expansion). (wef 01-04-2011)

In case the expenditure is incurred prior to the commencement of business and the amount is capitalized in the books of the accounts, the expenditure incurred shall be allowed in the year of commencement of business.

For claiming the deduction, business is not to be setup by splitting up, reconstruction, transfer etc.

Expenditure by way of payment to associations and institutions for carrying out rural development programmes [Sec 35CCA]

For a person carrying on business/profession, following payment shall be allowed as 100 % deduction:

- i. To an association having the object of undertaking of any approved rural development program
- ii. To an association engaged in training of persons for implementing rural development program
- iii. To national fund for Rural Development set up by the CG
- iv. To national urban poverty eradication fund set up by CG

Amortization of Certain Preliminary Expenses [Sec 35D]

Expenditure incurred before the commencement of business or for extension/ new unit is allowed as deduction for eligible expenditure to an Indian Company or non-corporate resident assessee.

Eligible expenses:

- 1) Expenditure incurred in connection with
 - a. Preparation of feasibility report
 - b. Preparation of a project report
 - c. Conducting market survey or any other necessary survey
 - d. Engineering services relating to the business
- 2) Legal charges for drafting of agreement between the assessee and any other person
- 3) Expenditure towards drafting, printing of MOA/AOA, Co registration fees, issues of shares/ debentures and any other expenditures as may be prescribed

Quantum of Deduction

Deduction is allowed in 5 equal installments beginning with the previous year of commencement of new business/unit and accounts shall be audited for the year in which such expenses were incurred.

Maximum Limit

- i. Indian Company – 5% of cost of project (Actual cost of Fixed Assets) or capital employed (Paid up capital + reserves + long term borrowings) whichever is higher
- ii. Others - 5% of cost of project

This limit to be checked as on the last day of PY in which business/new unit was commenced

Amortization of expenditure in case of amalgamation or demerger [Sec 35DD]

Deduction is allowed in 5 equal annual installments (Starting from the year in which amalgamation/ demerger takes place) to an Indian Company towards expenditure incurred wholly and exclusively for the purpose of amalgamation or demerger.

Amortization of expenditure incurred under Voluntary retirement scheme [Sec 35DDA]

Deduction is allowed in 5 equal annual installments (Starting from the year in which payment is made) to an assessee towards payment made to an employee under Voluntary Retirement Scheme.

Deduction for expenditure on prospecting etc., for certain minerals [Sec 35E]

Deduction is allowed to an Indian Company or to a non-corporate resident assessee who are engaged in any operations relating to prospecting for, or extraction or production of specified minerals.

Steps to compute allowable deduction:

- i. Aggregate the expenditure incurred during the year of commercial production and expenditure incurred during 4 years prior to the first year.
- ii. Such aggregate expenditure is allowed as deduction in 10 equal annual installments starting from the year in which production started.
- iii. However, deduction in first year or any subsequent year shall not exceed the income of that year and balance will be carried forward to next year.
- iv. No deduction allowed after 10 years from the start of commercial production.

Other Deductions [Sec 36]

Sec 36(1)(i) – Insurance premium of Stocks – premium paid in respect of insurance of Stocks

Sec 36(1)(ia) – Insurance Premium of Cattle – premium paid by federal milk co-operative society towards an insurance on the life of cattle owned by a member.

Sec 36(1)(ib) – Insurance on health of employees – premium paid by employer by any mode of payment other than cash on health of employees

Sec 36(1)(ii) – Bonus or commission to employees – any sum paid to an employee as bonus or commission for services rendered provided such sum is not paid in place of profit.

Sec 36(1)(iii) – Interest on borrowed capital – interest paid on capital borrowed for business or profession. Interest on borrowing for acquisition of an asset for extension of business shall not be allowed as deduction until the asset is put into use.

Sec 36(1)(iv) – Employer's contribution to a recognized Provident Fund or Approved Superannuation fund – any sum paid by an assessee as an employer by way of contribution towards a recognized provident fund or approved superannuation fund.

Sec 36(1)(iva) – Employer's contribution towards a pension scheme – any sum paid by an assessee as an employer by way of contribution towards a pensions scheme to the extent it does not exceed 10% of the salary of the employee.

Sec 36(1)(v) – Employer's contribution to an approved gratuity fund – any sum paid by an assessee as an employer by way of contribution towards approved gratuity fund created by him for the exclusive benefits of his employees.

Sec 36(1)(va) – any sum received from employee towards certain welfare schemes to be deposited before due date – Sum received from employee towards EPF,ESI etc shall be deposited on or before the due date to be allowed as deduction.

Section 36(1)(vi) – Allowance in respect of dead or permanently useless animal – difference between the actual cost and any realization shall be allowed as deduction

Section 36(1)(vii) – Bad Debts – Amount of bad debt which has been written off as irrecoverable in the books of account shall be allowed as deduction. It shall not include any provision for bad debt.

Section 36(1)(viii) – Bad Debts of banks/financial institutions – Provisions for bad and doubtful debt is allowed as deduction in the case of banks and financial institutions. However, such deduction cannot exceed:

1. 7.5% of the total income (before Chapter VIA deduction) in case of Scheduled Bank/Non-Scheduled Bank/ Co-operative Bank and
2. 5% in case of Foreign Bank, Financial institutions etc.

Section 36(1)(viii)- Amount taken to Special reserve created and maintained by special entity

– Deduction is allowed to the extent of 20% of the profits, from eligible business, carried to the reserve maintained by specified entity.

However, where the aggregate of the amount carried to such reserve account exceeds twice the amount of paid up share capital and general reserves, excess amount are not deductible.

Eligible business: business or providing long term finance for industrial/ agricultural/ infrastructure facility/ housing in India.

Specified Entity: Banks, Co-operative Bank, Finance Corporation, housing finance co

Section 36(1)(ix) – Expenditure on promoting family planning amongst employees

Expenditure incurred by company for the purpose of promoting family planning amongst employees is deductible. Capital Expenditure shall be allowed in 5 equal annual installments starting from the year in which such expenditure is incurred.

Where the profits of the business are not sufficient to absorb any expenditure on family planning, the balance shall be unabsorbed expenditure and shall have same treatment as of unabsorbed depreciation.

Section 36(1)(xv) – Securities Transaction Tax – STT Paid is allowed as deduction if the income arising from such taxable securities transactions is included in the income u/h PGBP.

General Deductions [Section 37(1)]

Any Expenditure not being in the nature of Capital Expenditure or personal expenses, laid out wholly or exclusively for the purposes of business or profession shall be allowed as deduction.

However, any expenditure incurred for any purpose which is an offence or prohibited by law shall not be allowed as deduction.

Advertisement to political parties [Section 37(2B)]

No deduction shall be allowed for expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet and the like published by a political party.

Assets partly used for business [Sec 38]

Where any building, machinery, plant or furniture is not exclusively used for the purposes of the business or profession, deduction of expenses shall be allowed on proportionate basis as the Assessing Officer may determine.

Expenses which are not allowed as deduction [Sec 40]**In the case of any assessee [Sec 40(a)],**

- i. Sec 40(a)(i) - Any interest, royalty, fees for technical services or other sum chargeable under Income Tax Act which is payable outside India or to a non resident and on which tax has not been deducted or deducted but not paid before 30th April of next year. If, subsequently tax has been deducted and paid, expenses shall be allowed in the year in which such tax has been paid.
- ii. Sec 40(a)(ia) - Any interest, commission or brokerage, rent, royalty, fees for professional/ technical services, payment to a resident contractor on which tax has not been deducted or deducted but not paid before the due date of Sec 139(1). If, subsequently tax has been deducted and paid, expenses shall be allowed in the year in which such tax has been paid.
- iii. Any payment of Income tax or Wealth Tax
- iv. Sec 40(a)(iii) - Any payment of salary payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted
- v. Any payment to a provident fund or other fund, unless assessee has made effective arrangements to secure that tax shall be deducted at source from any payment made by the fund to the employee
- vi. Any tax actually paid by the employer on non-monetary perquisites provided to the employee

In the case of a partnership firm [Sec 40(b)]

- i. Any payment of salary, bonus, commission or remuneration to any partner who is not a working partner.

- ii. Any payment of remuneration/ interest, to a partner, which is not in accordance with the terms of partnership deed.
- iii. Any payment of interest to partner to the extent it exceeds the amount calculated at the rate of 12% PA.
- iv. Any payment of remuneration to a working partner to the extent payment to all partners exceeds aggregate amount calculated as hereunder:

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

Book profits means income under the head PGBP after adding back the remuneration payable to all partners if such amount has already been debited.

Sec 40(ba) – any payment of interest/ salary/ bonus, commission or remuneration made by AOP/BOI to its members is not allowable as deduction.

Expenses or payments not deductible in certain circumstances [Sec 40A]

Sec 40A(2) – Payments made to relatives or close associates

Where the assessee incurs any expenditure, payment of which has been or is to be made to specified persons and the Assessing Officer is of the opinion that such expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities etc, then such excessive or unreasonable expenditure shall not be allowed.

Specified person means relative, partner, director or person having substantial interest or relative of any of such persons.

Sec 40A(3) – Payments made by any mode other than account payee cheque/ draft

Where an assessee incurs any expenditure in respect of which payments made to a person in a day, otherwise than account payee cheque/ draft, exceeds Rs. 20000, whole of the expenditure shall be disallowed.

The above limit is Rs. 35000 in case of payment to transport operator.

Exceptions – Rule 6DD of Income Tax Rules

- i. Payment made to RBI/ SBI/ Banks/ Co-operative Bank/ LIC

- ii. Payment made to Government
- iii. Payment made through Bank e.g. RTGS/NEFT/ECS/LC/Credit Card etc
- iv. Payment made to the cultivator or producer of agricultural, forest, animal husbandry or other products
- v. Payment made for purchase of products manufactured without aid of power in cottage industry
- vi. Payment is required to be made on a date on which the banks were closed on account of holiday or strike
- vii. Payment of gratuity, retrenchment compensation to an employee or his legal heirs if his salary does not exceed Rs. 50000.

Sec 40A(7) – Disallowance in respect of provision for gratuity

No deduction is allowed for provision of gratuity. However, deduction shall be allowed if the amount of gratuity has become payable and he has deposited the amount in approved/recognized gratuity fund.

Sec 40A(9) – Disallowance in respect of contribution to funds

No deduction shall be allowed in respect of any sum paid towards setting up or formation of any fund, trust, society etc for any other purpose which is not approved or recognized.

Profits chargeable to tax – Deemed Profits [Sec 41]

[Sec 41(1)] – Recovery against any allowance or deduction allowed earlier

Where any allowance or deduction is allowed in any year in respect of loss, expenditure or trading liability and subsequently the assessee or successor recovers any amount, it shall be charged to tax under the head PGBP irrespective of the fact the assessee is continuing with the same business or not.

[Sec 41(2)] – Balancing Charge –Undertaking engaged in generation or generation and distribution of power

Where any asset on which depreciation has been claimed by such units is transferred and the sale price exceeds the written down value of such asset then the least of the following shall be taxable u/h PGBP:

- i. Difference between the actual cost and WDV
- ii. Difference between aggregate of money payable and WDV

Excess of sale price over the actual cost shall be taxable as capital gain.

[Sec 41(3)] – Sale of capital assets earlier used for scientific research

Where any asset, which is used only for scientific research, is transferred, then the least of the following shall be taxable u/h PGBP

- i. Sale proceeds
- ii. Deduction claimed u/s 35

Excess of sale proceeds over the actual cost of scientific asset shall be taxable as capital gain.

[Sec 41(4)] – Recovery of Bad debts

Where a deduction has been allowed in any year in respect of bad debt, and if subsequently any amount has been recovered out of such bad debts, such recovery shall be charged to tax u/s PGBP.

[Sec 41(4A)] – Amount withdrawn from special reserve

Where a deduction has been allowed in respect of any special reserve created and maintained under section 36(1)(viii), by certain financial institutions etc, any amount subsequently withdrawn from such reserve shall be deemed to be the profits and gains of business or profession.

Certain deductions to be only on actual payment [Sec 43B]

In respect of following expenditures, deduction is allowed only if the amount has been actually paid before the due date as specified in Sec. 139 (1).

- Any tax, duty, cess or fee, by whatever name called, under any law for the time being in force
- Employers contribution to provident fund, superannuation fund, gratuity fund etc
- Sum payable to an employee as bonus or commission

- Interest on loan from any scheduled bank, public financial institution, state financial corporation
- Payment of leave encashment to employee

Maintenance of accounts by certain persons carrying on profession or business. [Sec 44AA]

For person carrying on specified professions:

Person carrying on specified professions are required to maintain such books of accounts and other documents as may enable the Assessing office to compute taxable income.

However such persons are required to maintain prescribed books if the gross receipts of the profession exceed Rs. 1,50,000 in all the preceding 3 years or if the profession is newly setup, gross receipts exceed Rs. 1,50,000 in that year.

Specified professions – Legal, Medical, Engineering, Architectural, Accountancy, Interior Decoration, CA, CS, Information Technology, other Notified persons

Prescribed books – Cash book, ledger, journal, copies of bill.

For person carrying on non-specified professions:

Person carrying on business or profession (other than above) are required to maintain such books of accounts and other documents as may enable the Assessing office to compute taxable income.

Above requirement of maintenance of books of account applies only if total income exceeds Rs. 1,20,000 or total sales/receipts exceeds Rs. 10,00,000 in any one of three years preceding the previous year. In case of newly setup, if the limit is crossed in that year, then such persons are required to maintain books of accounts.

For both specified and non-specified business/profession, books and documents is to be maintained for 6 years from the end of relevant previous year.

Sec 271A prescribes penalty of Rs. 25,000 for non-compliance with Section 44AA

Audits of accounts of certain persons carrying on business or profession. [Sec 44AB]

Sec 44AB mandates compulsory audit of accounts in following cases:

- In the case of business – if total sales or gross receipts of business exceeds Rs. 60,00,000
- In case of profession – if gross receipts exceeds Rs. 15,00,000
- In case of persons whose business is covered u/s 44AE, 44BB, 44BBB and if he claims that his income from the said business is lower than the deemed profits and gains computed under that section
- In case of person whose business is covered u/s 44AD and claims that income from such business is lower than 8% of the turnover and his income exceeds the maximum amount chargeable to income tax

Such persons shall get his accounts audited by a Chartered Accountant before 30th September and furnish such report before that date.

If accounts are required to be audited under any other law, there is no such requirement for additional audit. However, audit report has to be furnished in the form prescribed.

Special provision for computing profits and gains of business on presumptive basis.[Sec 44AD]

Individual/HUF/Partnership Firm carrying on business (Except covered u/s 44AE) can compute their income on presumptive basis i.e. atleast 8% of the turnover if the turnover is less than Rs. 60 lakhs.

No other deduction/allowance is allowed from the income so computed. However, in case of partnership firm, salary and interest paid to partner is allowed.

If the assessee claims his income to be lower than 8% of the turnover and his total income exceeds the maximum amount which is not chargeable to tax, then he is required to maintain books of accounts as per Sec 44AA and get them audited u/s 44AB.

Computing profits and gains of business of plying, hiring or leasing goods carriages.[Sec 44AE]

Any assessee carrying on business of plying, hiring or leasing goods carriages and if he does not own more than 10 goods carriages is allowed to compute his income in the following manner:

- For heavy goods vehicle – Rs.5000 for every month or part of month and
- For other goods vehicle – Rs. 4500 for every month or part of month

No other deduction/allowance is allowed from the income so computed. However, in case of partnership firm, salary and interest paid to partner is allowed.

If the assessee claims his income to be lower than as computed above, then he is required to maintain books of accounts as per Sec 44AA and get them audited u/s 44AB.

Computing profits and gains of business of shipping, operation of aircraft [Sec 44B, 44BBA]

A non-resident engaged in the following business shall compute his income in the following manner:

Section	Nature of Business	% of 'Amount'
Sec 44B	Shipping Business	7.5%
Sec 44BBA	Operation of Aircraft	5%

'Amount' refers to the sum earned in India or received in India.

Computing profits and gains of business of providing services for exploration of mineral oils, civil construction in turnkey power projects [Sec 44BB, 44BBB]

A non-resident engaged in the following business shall compute his income in the following manner:

Section	Nature of Business	% of 'Amount'
Sec 44BB	Providing services, machinery for production etc of Mineral Oils	10%
Sec 44BBB	Construction of power project	10%

'Amount' refers to the sum earned in India or received in India.

If the assessee claims his income to be lower than as computed above, then he is required to maintain books of accounts as per Sec 44AA and get them audited u/s 44AB.

Income under the head 'Capital Gain' [Sec 45 to 55]

Basis of Charge – Section 45(1)

Any profits or gains arising from the transfer of a capital asset effected in the previous year, shall be chargeable to income-tax under the head 'Capital Gains'

It shall be deemed to be the income of the previous year in which the transfer took place unless such gain is exempt u/s 54, 54B, 54D, 54EC, 54F, 54G, 54GA.

Definition of Capital Asset – Section 2(14)

It means property of any kind held by the assessee, whether or not connected with his business or profession, but does not include:

- 1) Stock in trade
- 2) Personal effects i.e. movable property (including wearing apparel and furniture), held for personal use by the assessee or any member of his family dependant on him. However, following assets are treated as capital assets:
 - i. Jewellery,
It includes ornaments made of gold, silver or platinum or any other precious metal, precious or semi-precious stones
 - ii. Archaeological collections
 - iii. Drawings
 - iv. Paintings
 - v. Sculptures or
 - vi. Any work of art
- 3) Agricultural land in India which is not situated in Urban area i.e. rural agricultural land
Rural agricultural land means an agricultural land in India
 - if situated in any area which is comprised within the jurisdiction of a municipality and its population should be less than 10000 or
 - Situated atleast 8 km away from the limits of municipality.
- 4) Gold Deposits Bonds issued under Gold Deposit Scheme, 1999

Transfer of Capital Assets - Section 2(47)

Transfer in relation to capital asset includes:

- i. Sale, exchange or relinquishment of the asset
- ii. Extinguishment of any rights therein
- iii. Compulsory acquisition thereof under any law
- iv. In a case where the asset is converted by the owner thereof into stock in trade, such conversion
- v. The maturity or redemption of zero coupon bonds
- vi. Any transaction involving the allowing of the possession of any immovable property in part performance of a contract referred in section 53A of the Transfer of Property Act' 1882
- vii. Allotment under a house building scheme of society, company or other association

Types of Capital Assets and Capital Gains

Long Term Capital Asset- Sec 2(29A) – It means a capital assets which is not short term capital asset. i.e. Capital Asset is held by an assessee for more than 12/36 months, as the case may be.

Long Term Capital Gain- Sec 2(29B) – Gain arising on the transfer of Long term Capital Assets is Long Term Capital Gain

Short Term Capital Asset- Sec 2(42A)- A capital asset held by an assessee for not more than 36 months immediately preceding the date of its transfer.

However, the following assets shall be treated as short-term capital assets if they are held for not more than 12 months immediately preceding the date of transfer.

- i. Equity or preference shares held in a company
- ii. Any other security listed in a recognized stock exchange in India
- iii. Units of UTI or Mutual Fund
- iv. Zero Coupon Bonds
Zero coupon bonds means notified bond issued by any infrastructure capital company or public sector company or schedule bank in respect of which no benefit is receivable before maturity.

Short Term Capital Gain- Sec 2(42B) – Gain arising on the transfer of Short term Capital Assets is Short Term Capital Gain

Transactions not regarded as transfer [Section 47]

There shall be no capital gain on the following transactions:

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- i. Distribution of its assets by the company on liquidation not regarded as transfer in the hands of the company [Sec 46]
 - ii. Distribution of its assets on total or partial partition of HUF
 - iii. Transfer of Capital Asset under a Gift, Will or an irrevocable trust
 - iv. Transfer of an asset by a holding company to subsidiary company or vice versa provided the subsidiary company is a wholly owned subsidiary and the transferee company is an Indian Company
 - v. Transfer in a scheme of amalgamation of capital asset by the amalgamating company to the amalgamated company, if the amalgamated company is an Indian Company
 - vi. Transfer of shares held in a Indian Company by the amalgamating foreign company to the amalgamated foreign company provided atleast 25% of the shareholders of amalgamating company continues to remain the shareholders of amalgamated company and such a transfer does not attract capital tax in the country in which such amalgamating company is incorporated.
 - vii. Transfer under scheme of amalgamation, capital asset by the banking company to the banking institution
 - viii. any transfer of a capital asset by the demerged company to the resulting company, if the resulting company is an Indian company;
 - ix. any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerged foreign company to the resulting foreign company, if the shareholders holding not less than 75% in value of the shares of the demerged foreign company continue to remain shareholders of the resulting foreign company and such transfer does not attract tax on capital gains in the country, in which the demerged foreign company is incorporated
 - x. any transfer in a business reorganisation, of a capital asset by the predecessor co-operative bank to the successor co-operative bank;
 - xi. any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by him in the predecessor co-operative bank if the transfer is made in consideration of the allotment to him of any share or shares in the successor co-operative bank.
 - xii. any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company if the transfer or issue is made in consideration of demerger of the undertaking
 - xiii. any transfer by a shareholder, in a scheme of amalgamation, of a capital asset being a share or shares held by him in the amalgamating company, if the transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company, and the amalgamated company is an Indian company
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- xiv. any transfer of a capital asset, being notified bonds/GDRs of an Indian Company or bonds/shares of a public sector company purchased in foreign currency made outside India by a non-resident to another non-resident;
- xv. 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 the National Museum, National Art Gallery, National Archives or any such other public museum or institution
- xvi. any transfer by way of conversion of bonds or debentures, debenture-stock or deposit certificates in any form, of a company into shares or debentures of that company
- xvii. any transfer of a capital asset, being land of a sick industrial company, made under a scheme prepared and sanctioned under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986) where such sick industrial company is being managed by its workers' co-operative
- xviii. Transfer of capital assets on conversion of a firm into company if
- a. All assets/liabilities of firm become the assets/liabilities of the company
 - b. All partners become shareholder in the ratio of their capital account
 - c. Partner receives only shares as consideration
 - d. Partners have at least 50% voting power for at least 5 years
- xix. Transfer of capital assets by a private company or a unlisted public company to LLP or any transfer of shares held in the company by a shareholder as a result of conversion of the company if
- a. All assets/liabilities of company become the assets/liabilities of the LLP
 - b. All shareholders of the company become partners of LLP and their capital contribution and profit sharing ratio are in the same proportion as their shareholding
 - c. Shareholder receives only share in profit and capital contribution in LLP
 - d. Profit sharing ratio of shareholders shall not be less than 50% for 5 years
 - e. Total sales, turnover or gross receipts does not exceed Rs. 60 Lakhs in any of the 3 preceding financial years
- xx. Transfer of Capital asset on conversion of sole proprietary concern into a company
- a. All assets/liabilities of sole-proprietary concern become the assets/liabilities of the company
 - b. Sole proprietor receives only shares as consideration
 - c. Sole proprietor have at least 50% voting power in the company for at least 5 years
- xxi. Any transfer of capital asset in a transaction of reverse mortgage scheme.
As per Section 10(43), any loan amount received whether in lump sum or in installment under reverse mortgage scheme shall not be included in total income.
-

Computation of Capital Gains [Section 48]**Short Term Capital Gains**

Full Value of Consideration	-----
Less: a. Cost of Acquisition (COA)	-----
b. Cost of Improvement (COI)	-----
c. Expenditure incurred wholly or exclusively	-----
in connection with such transfer	-----
Short Term Capital Gain	-----

Long Term Capital Gains

Full Value of Consideration	-----
Less: a. Indexed Cost of Acquisition (ICOA)	-----
b. Indexed Cost of Improvement (ICOI)	-----
c. Expenditure incurred wholly or exclusively	-----
in connection with such transfer	-----
Long Term Capital Gain	-----

Indexed COA means:

$$\text{COA} \times \frac{\text{Cost inflation index (CII) for the year in which asset is transferred}}{\text{CII for the first year in which asset was held by the assessee.}}$$

Or

$$\text{CII of the year beginning on 1-4-1981 whichever is later.}$$

Indexed COI means:

$$\text{COI} \times \frac{\text{CII for the year in which asset is transferred}}{\text{CII for year in which improvement take place}}$$

Full Value of Consideration: means Sale Consideration received/accrued on transfer

Cost of Acquisition: means the amount which the assessee has paid or incurred for acquisition of the asset.

Assets acquired before 1-04-1981: if assessee has acquired any capital asset before 01-04-81, in such cases, cost of acquisition shall be price at which it was purchased or its fair market value, at the option of the assessee.

Other Points:

- However, if there is any cost of improvement before 01-04-81, it shall be ignored in all cases.
- No deduction shall be allowed in respect of any sum paid on account of Securities Transaction Tax.
- No indexation is allowed in case of bond or debenture (except capital indexed bonds).

Cost of acquisition [Sec 55]

Type of Capital Asset	Cost of acquisition to the assessee
Goodwill of a business, tenancy rights, route permits, loom hours, right to carry on business, patents, copyrights or trademark	If purchased – Purchase Price If Self generated – COA shall be Nil Option of FMV on 01-04-1981 not allowed (COI for goodwill of a business, right to carry on business or manufacture any article – Nil)
Right Shares Bonus Shares	COA - Amount actually paid COA – Nil (FMV as on 1-4-81 allowed)
Capital asset becoming property of the assessee by any of the modes specified in Section 49(1) i.e gift, will etc..	COA of previous owner or FMV as on 01-04-1981 if previous owner acquired before 01-04-1981
Capital asset becoming the property of the assessee on distribution by the company on liquidation	FMV of the asset as on the date of distribution
Share/Stock of company becoming property of assessee by consolidation, conversion etc of share/ stock	COA of corresponding shares or stock which has been converted/ consolidated etc.

Cost of Acquisition with reference to certain modes of acquisition [Sec 49]

Mode of acquisition of Capital asset	Cost of acquisition(COA) to the assessee- [Sec 49]	Period of holding (POH) – [Explan to Sec 2(42A)]
Transactions referred to(ii) to (v), (vii), (viii), (x), (xviii) to (xx) of Sec 47 (described above)	COA to previous owner	POH of previous owner is also included
Shares of amalgamated company in amalgamation	CAO of shares of amalgamating company	POH shall include period prior to amalgamation
Shares or debentures on conversion of debentures or debentures stock	Cost of corresponding debentures or debenture stock	POH shall not include period prior to conversion
COA of sweat equity shares	FMV as taken for value of perquisites	POH shall be reckoned from the date of allotment/transfer
COA of right of partner on conversion of company to LLP	COA of shares in company	-----
COA of shares of resulting company on demerger	Given below (*1)	POH shall include period prior to demerger
COA of property received as gift as per Sec 56(2)(vii)	Value as per Sec 56(2)(vii)	

*1 COA of shares in demerged company X Net book value of the assets trf in demerger
Net worth of demerged co before demerger

Computation of capital gain in case of depreciable assets [Sec 50]

In case of depreciable assets, COA and COI is aggregate of

- WDV of the block of assets at the beginning of the year and
- Actual cost of any asset falling within that block acquired during the year

There can be short term capital gain from the transfer of depreciable assets in following cases:

- When entire block of depreciable asset is transferred:** Difference between the full value of consideration and COA/COI shall be short term capital gain or loss, as the case may be.
- When part of the block of depreciable asset is transferred:** There can be short term capital gain if full value of consideration exceeds COA/COI.

As per Sec 50A, COA in case of depreciable assets of electricity companies shall be the actual cost at which such was acquired.

Computation of capital gain in case of slump sale [Sec 50B]

As per Sec 2(42C), 'Slump Sale' means the transfer of one or more undertakings for a lump sum consideration without determining the values of the individual assets and liabilities.

Profits from slump shall be LTCG if the undertaking is owned by the assessee for more than 36 months, else STCG.

COA and COI for the purpose of slump sale - > Net worth of the undertaking transferred.

Net worth of the undertaking shall be the aggregate value of total assets as reduced by the value of liabilities as appearing in the books of account.

Aggregate value of total assets shall be:

- | | | |
|--|----|------------|
| i. In case of depreciable assets | -> | WDV |
| ii. In case of capital assets, the whole of the expenditure of which is allowed u/s 35AD | -> | NIL |
| iii. In case of other Assets | -> | Book Value |

Other points:

- CA report certifying that the net worth has been computed correctly, to be attached with return of income
- No benefit of indexation allowed in case of slump sale.
- Revaluation of asset shall be ignored

Computation of capital gain in real estate transactions [Section 50C]

In case of transfer of immovable property, if value determined by "Stamp Valuation Authority" (SVA) for payment of stamp duty is more than sale consideration declared by the assessee then the value assessed by the SVA shall be treated as full value of consideration for the purpose of capital gains.

In short, in case of transfer of immovable property, full value of consideration for the purpose of capital gains shall be higher of:

- Sale consideration declared by the assessee
- Value determined by the SVA for the purpose of stamp duty

However, where the assessee claims before any Assessing Officer that the value assessed by the SVA is higher than the FMV of such immovable property (and the value so assessed by the SVA has not been disputed in any appeal before any authority or court) then the

Assessing Officer may refer the valuation of capital assets to the valuation officer. In such cases sale consideration shall be lower of the following:

- i. Value determined by valuation officer
- ii. Value determined by the SVA for the purpose of stamp duty

Treatment of Advance Money received [Sec 51]

If any advance money, in relation to any capital asset, is received and forfeited by the assessee then the amount so forfeited shall be deducted from COA/FMV/WDV of such asset.

Other Points:

- Advance money forfeited by the previous owner shall not be taxed in the hands of any person
- Advance money forfeited by the previous owner shall not be deducted from COA etc.
- As per Supreme Court, if advance money forfeited is more than the COA/FMV, then cost shall become nil and excess shall not be taxable

Insurance claim on account of damage/ destruction of capital asset [Sec - 45(1A)]

Where any person receives any money or other assets under insurance from an insurer on account of damage/destruction of any capital asset, then money received or FMV of the asset received shall be the full value of consideration of such asset.

Conversion of Capital Asset into Stock-in-Trade[Sec -45(2)]

Where the capital asset is converted into stock-in-trade, it will be treated as transfer and capital gains will be computed in the previous year in which such conversion take place by taking the FMV of such asset as full value of consideration.

However, tax shall be paid in the year in which such converted stock-in-trade is sold.

Transfer of securities by Depository [Sec 45(2A)]

Transfer by depository of any securities results in capital gains in the hands of beneficial owner of such securities. And for this purpose, COA and period of holding of any security held in demat form shall be determined on FIFO basis.

Transfer of Capital Asset by partner/member to Firm/AOP/BOI [Sec 45(3)]

Transfer of capital asset by the partner/member to firm/AOP/BOI is taxable in the hands of partner/member and for this purpose full value of consideration shall be the **amount recorded in the books of the firm.**

Distribution of Capital Asset on dissolution of Firm [Sec 45(4)]

Transfer of capital asset by the firm/AOP/BOI on dissolution of firm etc to partner/member is taxable and for this purpose full value of consideration shall be the **FMV of the asset.**

Capital Gain on Compulsory Acquisition of Asset [Sec 45(5)]

Where a capital asset is compulsorily acquired under any law then capital gain shall be taxable in the year in which such compensation or part thereof is first received by the assessee.

Subsequently, if any increased compensation is received, it shall be taxable in the year in which such amount is received. For increased compensation, COA/COI shall be nil and whole of the amount of increased compensation received shall be taxable as capital gain. However any expenses incurred on realization of increased compensation may be deducted as expenses on transfer.

If a person die before the receipt of enhanced compensation, then it shall be taxable in the hands of legal heirs under the head other sources.

As per Sec 10(37), any income from the transfer of urban agricultural land shall be exempt in the hands of individual/HUF if:

- i. It is compulsorily acquired under any law and
- ii. Such land was being used for agricultural purposes by such HUF or individual or his parents, during two years immediately preceding the date of transfer.

Capital Gain on distribution of assets by companies in liquidation [Sec 46]

As per Sec 46(1), distribution of the assets of company to its shareholder on its liquidation, is not regarded as transfer and thus not taxable in the hands of company.

But, asset received by the shareholders in the course of liquidation of company, is taxable in the hands of shareholder. Full value of consideration for this purpose shall be the FMV of the assets received as reduced by deemed dividend u/s 2(22)(c).

If these assets are subsequently sold by the shareholders then the COA of these assets shall be FMV of assets as on date of distribution without deducting deemed dividend.

Capital Gain on buy-back of shares [Sec 46A]

When company buy-back its own shares, then consideration received by the shareholder is considered to be Full Value of consideration and capital gain is computed accordingly in the hands of shareholder.

Reference to the Valuation Officer [Sec 55A]

Assessing officer may, with a view to ascertain the FMV of capital asset, refer its valuation to valuation officer in the following cases:

i. If the report of the registered valuer is attached:

If the assessing officer is of the opinion that the value of the asset, as claimed by the assessee which is in accordance with the estimate made by a registered valuer, is less than its FMV.

ii. In other cases:

If AO is of the opinion that the FMV of the asset exceeds the value claimed by the assessee and the difference between the two is more than 15% of the value claimed by the assessee or more than Rs. 25000.

Withdrawal of Exemption in certain cases [Section 47A]

Exemption granted under Sec-47 shall be withdrawn if conditions specified therein are not followed.

In the case of transfer of assets from holding company to subsidiary company or vice versa

Where at any time before the expiry of eight years from the date of transfer of a capital asset, such capital asset is converted into stock in trade or the holding company ceases to hold the 100% share of subsidiary company.

In such cases, capital gains exempt from tax earlier shall be deemed to be the income of Transferor Company in the year in which such transfer of asset took place.

In the case of succession of proprietorship/ firm by company

If conditions laid down in Sec-47 are not complied with then the capital gains arising from the transfer of capital asset shall be charged in the hands of the successor company in the year in which such conditions are not complied with.

In the case of succession of company by LLP

If conditions laid down in Sec-47 are not complied with then the capital gains arising from the transfer of capital asset shall be charged in the hands of the successor LLP in the year in which such conditions are not complied with.

Also, profit and gains arising from the transfer of shares, not taxed earlier, shall be charged to tax in the hands of the shareholder of the predecessor company in the year in which such conditions are not complied with.

Capital Gain in case of transfer of shares/debentures by non-residents**[Proviso 1 to Sec 48]**

In case of a non-resident assessee, any capital gain arising from the transfer of shares/debentures of an Indian company bought in foreign currency shall be computed in the following manner and no indexation is allowed:

Cost of acquisition, expenses of transfer, full value of consideration shall be converted into the same foreign currency with the average rate of TT buying and TT selling.

Capital gain so computed in foreign currency shall be converted into Indian rupees at the TT buying rate on the date of transfer of capital asset.

Exemption of LTCG to non-resident Indian on transfer of foreign exchange assets [Sec 115F]

Where a non-resident Indian transfers any Long term foreign exchange assets (Shares/ Debentures of Indian Co, CG Securities, NSC etc) then he can claim an exemption in respect of LTCG if he has invested the net consideration in any of the foreign exchange assets within 6 months.

Exemption shall be calculated in following manner, but is limited to LTCG:

LTCG X $\frac{\text{Amount Invested}}{\text{Net Consideration}}$

Exemption granted u/s 115F shall be withdrawn if such asset is transferred or converted into money within 3 years from the date of its acquisition.

Exemption of LTCG arising from sale of shares and units [Sec 10(38)]

LTCG from equity shares or unit of an equity oriented mutual fund, is exempt provided

- i. the shares/units are sold through recognized stock exchange or units are sold to mutual funds and
- ii. STT is paid

Tax on STCG arising from sale of shares and units [Sec 111A]

STCG from equity shares or units of equity-oriented mutual fund shall be taxable @ 15% if:

- i. the shares/units are sold through recognized stock exchange or units are sold to mutual funds and
- ii. STT is paid

An equity oriented mutual fund means a fund where more than 65% of the total proceeds of funds are invested in equity shares of domestic companies.

Miscellaneous Points:

- Tax Rates on LTCG from listed securities, Units of UTI/Mutual Funds, Zero Coupon Bonds
 - 20% - With indexation
 - 10% - Without indexation.

Exemption from LTCG on Residential House Property [Sec 54]

Any LTCG arising to an individual/HUF from the transfer of residential house property shall be exempt if such capital gain is invested in the

- i. purchase of another residential house property within 1 year before or 2 years after the transfer or
- ii. construction of residential house property within 3 years from the date of such transfer

Exemption Withdrawn: However, if house so purchase/constructed is transferred within 3 years from the date of its acquisition, then Capital Gain exempted earlier shall be reduced from the Cost of Acquisition of new asset.

Capital Gain Account Scheme: The amount of capital gain which is not utilized by the assessee for purchase/construction of the new house shall be deposited under the CGAS, before the due date of furnishing the return.

If, the amount under CGAS is not utilized within 3 years from the date of transfer of original asset, such amount shall be charged to Tax as LTCG.

Exemption from Capital Gain on Agricultural Land [Sec 54B]

Any Capital Gain (STCG or LTCG) arising to an individual from the transfer of urban agricultural land shall be exempt if:

- i. such agricultural land was used by the assessee or his parents for atleast a period of 2 years preceding the date of transfer AND
- ii. such capital gain is invested in the purchase of another agricultural land within 2 years from the date of transfer

Exemption Withdrawn: However, if agricultural land so purchased is transferred within 3 years from the date of its acquisition, then Capital Gain exempted earlier shall be reduced from the Cost of Acquisition of new asset.

Capital Gain Account Scheme: The amount of capital gain which is not utilized by the assessee for purchase/construction of the new asset shall be deposited under the CGAS, before the due date of furnishing the return.

If, the amount under CGAS is not utilized within 2 years from the date of transfer of original asset, such amount shall be charged to Tax as Capital Gain (STCG or LTCG).

Exemption from Capital Gain on Land/Buildings of industrial undertakings [Sec 54D]

Any Capital Gain (STCG or LTCG) arising to an industrial undertaking from any Land and Buildings shall be exempt if:

- i. Such transfer is due to compulsory acquisition under any law AND

- ii. Such land and buildings was used by the assessee for the purpose of his business for at least 2 years preceding the date of transfer AND
- iii. Such capital gain is invested in the purchase/construction of another land/buildings to be used for industrial undertaking within a period of 3 years from the date of receipt of compensation.

Exemption withdrawn: However, if new assets so purchased/constructed are transferred within 3 years from the date of its acquisition, then Capital Gain exempted earlier shall be reduced from the Cost of Acquisition of new asset.

Capital Gain Account Scheme: The amount of capital gain which is not utilized by the assessee for purchase/construction of the new asset shall be deposited under the CGAS, before the due date of furnishing the return.

If, the amount under CGAS is not utilized within 3 years from the date of transfer of original asset, such amount shall be charged to Tax as Capital Gains (STCG or LTCG).

Exemption from LTCG if invested in certain bonds [Sec 54EC]

Any LTCG from any capital asset arising to any assessee shall be exempt if the assessee has invested the capital gain in the long term specified assets within 6 months from the date of transfer.

Exemption Withdrawn: However, if the bonds so purchased are transferred or converted into money within 3 years from the date of its acquisition, then Capital Gain exempted earlier shall taxed as LTCG of that previous year in which such transfer or conversion of bonds take place.

- Long Term Specified Assets are bonds redeemable after 3 years issued by NHAI and RECL.
- The investment in one financial year in these bonds cannot exceed Rs. 50 Lakhs.

Exemption from LTCG on transfer of assets other residential house [Sec 54F]

Any LTCG arising to an individual/HUF from the transfer of any capital asset, other than the residential house property, shall be exempt in proportion to the net sales consideration invested in

- i. purchase of another residential house property within 1 year before or 2 years after the date of transfer or

- ii. construction of residential house property within 3 years from the date of such transfer

The above exemption shall be available only when the assessee does not own more than 1 residential house (other than the new house) on the date of transfer of such asset.

Quantum of deduction:

Long Term Capital Gain	X	<u>Amount invested in new house</u>
		Net Sale Consideration

Exemption granted earlier u/s 54F shall be treated as long term capital gain in the following cases:

- i. if the new house so purchased/constructed is transferred within 3 years from the date of its acquisition
- ii. if another residential house is purchased within 2 years or constructed within 3 years from the date of transfer.

Capital Gain Account Scheme: The amount of capital gain which is not utilized by the assessee for purchase/construction of the new asset shall be deposited under the CGAS, before the due date of furnishing the return.

If, the amount under CGAS is not utilized within 3 years from the date of transfer of original asset, such amount (proportionate exemption) shall be charged to Tax as LTCG.

Exemption from Capital Gain on shifting of industrial undertakings [Sec 54G]

Any Capital Gain (STCG or LTCG) arising to an industrial undertaking from the transfer of assets being machinery or plant or land or building (i.e. Fixed Assets other than furniture & fixture) shall be exempt if:

- i. Such transfer is due to shifting of industrial undertaking from an urban area to any other area AND
- ii. Such capital gain is invested within 1 year before or 3 years after the date of transfer, for the purchase of new P&M, Land/Building, expenses on shifting, and other expenditure as specified by CG.

Exemption Withdrawn: However, if new assets so purchased/constructed are transferred within 3 years from the date of its acquisition, then Capital Gain exempted earlier shall be reduced from the Cost of Acquisition of new asset.

Capital Gain Account Scheme: The amount of capital gain which is not utilized by the assessee for purchase/construction of the new asset shall be deposited under the CGAS, before the due date of furnishing the return.

If, the amount under CGAS is not utilized within 3 years from the date of transfer of original asset, such amount shall be charged to Tax as Capital Gains (STCG or LTCG).

Exemption from Capital Gain on shifting of industrial undertakings to SEZ [Sec 54GA]

Any Capital Gain (STCG or LTCG) arising to an industrial undertaking from the transfer of assets being machinery or plant or land or building (i.e. Fixed Assets other than furniture & fixture) shall be exempt if:

- i. Such transfer is due to shifting of industrial undertaking from an urban area to SEZ
AND
- ii. Such capital gain is invested within 1 year before or 3 years after the date the transfer for the purchase of new P&M, Land/Building, expenses on shifting, and other expenditure as specified by CG.

Exemption withdrawn: Same as Sec 54G

Capital Gain Account Scheme: Same as Sec 54G

Income From Other Sources [Sec 56 TO 59]

Charging Section – [Sec 56(1)]

Income which is *not exempt* and which *cannot be taxed under any other head of income* is taxable under the head 'Income from Other Sources'

Specific incomes included under this head – [Sec 56(2)]

- *Dividends,*
- Winning from *lotteries, crossword puzzles, races, card games, gambling or betting* of any form,
- *Interest* on securities, compensation or on enhanced compensation
- Income from *letting* of machinery, plant or furniture
- Sum received under a *keyman insurance policy* including bonus.
- *Gift* Received by an individual or an HUF. (Described later in this chapter)
- Where a firm or a *private company receives shares of closely held company*, without consideration or for inadequate consideration, FMV of which exceeds Rs. 50000 or FMV of which exceeds inadequate inconsideration by Rs. 50000, the aggregate of such sum shall form part of income.

Other incomes which are normally included under this head

- Income from *sub-letting* of a house property by a tenant
- *Casual income*
- *Insurance commission*
- *Family pension*
- *Interests* on bank deposits

Deemed Dividend [Sec 2(22)]

Dividend includes disbursements by the company to the shareholders, to the extent of accumulated profits, whether capitalized or not:

- a) Any distribution by a company if such distribution *reduces company' assets*

- b) Distribution of debenture/ deposit certificates to shareholder and bonus shares to preference shareholders
- c) Distribution of accumulated profits at the time of liquidation except to preference shareholders
- d) Distribution of accumulated profits on reduction of share capital to preference shareholders
- e) Any advance/loan by a closely held company to
 - a. an equity shareholder, or to any person on behalf of such equity shareholder, who holds not less than 10% voting power.
 - b. Any concern in which such shareholder is having not less than 20% voting power or 20% profit sharing
 - Such advance/loan shall be considered to be dividend in the hands of shareholder but only to the extent of accumulated profits excluding capitalized profits.
 - If any such advance/loan has been repaid by the shareholder, even in that case, it will be considered to be dividend
 - However, if any such company has business of lending money i.e. it is a banking company, then provisions of Sec 2(22)(e) shall not apply.

Dividends covered under section 2(22)(a), (b), (c), (d) are exempt u/s 10(34) in the hands of shareholder but dividends under section 2(22)(e) shall be taxable in the hands of employees under the head 'Income from other sources'

Method of Accounting [Sec 145]

Income chargeable under this head shall be computed on the basis of books of accounts maintained by the assessee and the assessee has the option to maintain the books of accounts either on the basis of mercantile system of accounting or on cash basis.

Deductions for expenses- [Sec 57]

<u>Income</u>	<u>Deduction Allowed</u>
Interest/ Dividend	Commission or remuneration of realization of such income or interest on money borrowed for such investment.
Family pension	33% of Family pension, max up to Rs. 15000
Income from Letting	Deduction of repair, insurance and depreciation
<i><u>Any other expenditure incurred wholly and exclusively for earning such income</u></i>	

Expenses not allowed [Sec 58]

- *Personal* Expenses
- Interest/ Salary paid outside India on which tax has not been deducted at source
- Expenditure referred to in Section 40A
- *Income Tax/ Wealth Tax paid*
- Any expenditure or allowance in connection with winning of lottery, crossword puzzles, etc.

However, expenditure incurred by the assessee for the activity of owning and maintaining race horses shall be allowed as deduction.

Deemed Income [Sec 59]

If any expense was claimed by the assessee in any year and subsequently it was recovered by him, it shall be included in his income.

Gift received by an individual/HUF [Sec 56(2)(vii)]

Gifts received by an individual/HUF from unrelated person or persons shall be taxable u/s 56(2)(vii)

Gift Received	Consideration	Taxable Amount
Any sum of Money	Without Consideration	Whole of such sum if it exceeds Rs. 50000
Immovable property	Without Consideration	If Stamp duty value of such property exceeds Rs. 50000, then income shall be stamp duty value
Movable Property	Without Consideration	If FMV of such property exceeds Rs. 50000, then income shall be FMV of property
	Inadequate Consideration	If difference between the consideration and FMV is more than Rs 50000, then income shall be difference between consideration paid and FMV.

Gift received by Individual/ HUF not taxable in certain cases:

When the sum of money or any property is received:

- From any relative
- On the occasion of the marriage of the individual
- Under a will or by way of inheritance
- In contemplation of death of the payer or donor
- From any local authority, trust or university etc.

For the purpose of this clause 'relative' means:

- Spouse of the individual
- Brother or sister of the individual
- Brother or sister of the spouse of the individual
- Brother or sister of either of the parents of the individual
- Any lineal ascendant or descendant of the individual
- Any lineal ascendant or descendant of spouse of the individual
- Spouse of persons referred to in items (i) to (vi) above.

Bond Washing Transactions [Sec 94(1)]

If owner of any security sell it just before due date and again acquires them after due date, he will be able to avoid payment of tax on interest.

In such case, interest would be deemed to be income of the transferor and not transferee.

Exceptions:

- If there is no avoidance of tax
- Avoidance of tax is exceptional or is unsystematic.

Dividend Stripping in case of Shares/Units [Sec 94(7)]

If any person has purchased shares/units within 3 months prior to record date and after receiving the dividends, the shares were sold within 3 months or the units were sold within 9 months after the record date, in such cases, any loss incurred to the extent dividend were received shall not be taken into consideration.

Bonus Stripping in case of Units [Sec 94(8)]

If any person has purchased units within 3 months prior to record date and after receiving the additional units, the original units were sold within 9 months after the record date, in such cases, any loss incurred shall not be taken into consideration.

Clubbing of Income [Sec 60 TO 65]

Transfer of Income without transferring assets [Sec 60]

Where there is a transfer of income by a person to another person, without the transfer of asset, such income shall be taxable in the hands of transferor.

Revocable transfer of assets [Sec 61]

If there is revocable transfer of an asset by one person to another, then income from such assets shall be taxable in the hands of transferor.

No clubbing if transfer is irrevocable [Sec 62]

- If any person has transferred any asset through irrevocable transfer, in such cases, clubbing provisions shall not apply.
- If any person has transferred any asset for the lifetime of the transferee, it will be considered to be irrevocable and clubbing provisions shall not apply.

Definition of Revocable Transfer [Sec 63]

Transfer shall be deemed to be revocable if:

- i. If whole or any part of the income or assets can be re-transferred to transferor
- ii. If transferor can re-assume power over the whole or any part of income or assets

Income of Individual to include income of spouse, minor child etc. [Sec 64]

Remuneration of Spouse – [Sec 64(1)(ii)]

If spouse of an individual is receiving salary, commission, fees or any other remuneration from any concern in which the individual is having substantial interest then such salary etc. shall be included in the income of the individual.

Exceptions: There shall be no clubbing of income if the salary etc paid to the spouse is due to his/ her technical or professional qualifications or knowledge or experience.

Substantial Interest:

- For Company : If individual along with his relatives (Spouse, brother, sister or any lineal ascendant or descendant of the individual) holds not less than 20% equity shares beneficially.
- For others: If individual along with his relatives is entitled to atleast 20% of profits

However, if both husband and wife have substantial interest in the concern and both are receiving remuneration from the same concern, then the remuneration of both the person shall be clubbed in the hands of that spouse whose total income is greater, before clubbing such income.

Income from Assets transferred to Spouse [Sec 64 (1)(iv)]

If an individual transfers any asset other than house property to his/her spouse, income from such assets shall be clubbed in the hands of transferor.

Exceptions:

- Transfer is for adequate consideration
- Transfer is under an agreement to live apart
- If the relationship of husband and wife does not exist either at the time of transfer or at the time of accrual of income.

Cross transfers: If any person has transferred any asset to the spouse of some other person and such other person has transferred the asset to the spouse of the first person, in this case clubbing provisions shall apply.

Important Points:

- If any person has transferred the asset to the spouse, income from the asset shall be clubbed in the hands of the transferor. But if such income is further invested, any subsequent income shall not be clubbed.
- If transferred asset is invested by the spouse in any business, then income from such business shall be clubbed in the hands of transferor.

$$\text{Income from business} \times \frac{\text{Amount invested out of asset transferred}}{\text{Total Invnt of Transferee in the beginning of the year}}$$

Income from Assets transferred to Son's Wife [Sec 64 (1)(vi)]

Income arising from an asset transferred by an individual to his son's wife, without adequate consideration, shall be clubbed in the hands of transferor.

Income from Assets transferred to any person for the benefit of the spouse or Son's Wife [Sec 64 (1)(vii), 64(1)(viii)]

Income from assets transferred to any person for the immediate or deferred benefit of the spouse or son's wife, without adequate consideration, shall be taxable in the hands of the transferor.

Clubbing of Income of Minor Child [Sec 64 (1A)]

All such income which accrues or arises to the minor child is to be clubbed in the hands of that parent whose total income (excluding the income of minor child) is greater. However, if the marriage of parents does not subsist, it shall be included in the income of that parent who maintains the child.

If the income of child is so included, the parent shall be entitled to an exemption of maximum Rs. 1500 in respect of each minor child. [Sec 10(32)]

Where any income is once included in the total income of either parent, it will continue be clubbed in the hand of that parent only, in all future years, unless the assessing officer is satisfied that income shall be clubbed in the hands of other parent.

However, income of minor child shall not be clubbed in following cases:

- Child is suffering from any disability of the nature specified in Section 80U, like physically disabled, totally blind etc.
- Income accruing to child on account of manual work or activity involving application of his skills, talent or specialized knowledge and experience.

Income from self acquired property converted into joint family property [Sec 64 (2)]

If an Individual, who is a member of HUF, converts his self-acquired property into HUF property then income derived by HUF from such property shall be included in the hands of transferor.

Implication in case of subsequent partition: After partition of HUF, income arising from any asset received by the spouse shall be clubbed in the hands of transferor.

Liability of person (transferor and transferee) – [Sec 65]

Even though the income arising from the transfer of assets is clubbed in the hands of transferor, tax on such income may also be demanded from the transferee.

SET OFF OR CARRY FORWARD AND SET OFF OF LOSSES

[SEC 70 TO 80]

Set off of loss – Inter Source adjustment or Intra head adjustment [Sec 70]

Loss from one source in any head of income can be set off against income from any other source falling under the same head.

Exceptions: (Following losses can be set off from the same income only)

- Long term capital loss
- Loss from speculative business
- Loss from maintaining and owning race horse
- Loss from specified business u/s 35AD

Set off of loss – Inter-head adjustments [Sec 71]

If the loss cannot be set-off within same head, assessee is allowed to set off such loss against income under any other head.

Exceptions:

- Loss u/h PGBP cannot be set off against income from salary
- Loss of specified business u/s 35AD can be set off only against income of specified business
- Loss u/h capital gains cannot be set off against income of any other head
- Loss from maintaining and owning horse races cannot be set off against any other type of income.
- No loss can be adjusted against Income of winning from lottery etc.

Carry forward and Set off of loss of House Property [Sec 71B]

Unadjusted loss of House Property shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 8 years following the assessment year in which loss was computed.

Carry forward loss of House property can be adjusted only against income of house property in subsequent years.

Carry forward and Set off of Business Losses[Sec 72]

Unadjusted loss under the head 'Profits and Gains of Business or profession' (Except loss in speculation business) shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 8 years following the assessment year in which loss was computed.

Carry forward loss of PGBP (other than speculation loss) can be adjusted only against income of PGBP in subsequent years.

Unabsorbed depreciation u/s 32(2) or scientific research expenditure u/s 35 can be carried forward for unlimited period and is allowed to be adjusted against any other income (except casual income like winning of lotteries etc.)

Expenditures, losses and depreciation shall be adjusted in the order given below:

- a. Current year business expenditure
- b. Current year depreciation, capital expenditure on family planning or scientific research
- c. Brought forward loss of PGBP
- d. Brought forward depreciation/ unabsorbed expenditure on scientific research/ family planning

Carry forward and Set off of loss in case of amalgamation/ demerger/ Conversion of proprietorship/ partnership firm into company etc. [Sec 72A]**In case of Amalgamation:**

The unadjusted loss and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss of the amalgamated company as if incurred in the year of amalgamation, if :

- The amalgamated company continues the business of amalgamating company for a period of at least 5 years
- The amalgamated company continues to hold at least 75% of the book value of assets for a period of 5 years.
- Fulfill other conditions as prescribed

In case of Demerger:

Unadjusted losses and depreciation of the demerged company is allowed to be carried forward and set off by the resulting company for the remaining period.

In case of conversion of proprietorship or partnership firm into company:

Unadjusted losses and depreciation of the proprietorship/ partnership firm shall be deemed to be the losses of company as if incurred in the year of conversion, if conditions laid down u/s 47 are complied with.

In case of conversion of private or unlisted company into LLP:

Unadjusted losses and depreciation of the private or unlisted company shall be deemed to be the losses of LLP as if incurred in the year of conversion, if conditions laid down u/s 47 are complied with.

Losses in Speculation Business [Sec 73]

Loss from speculative business is allowed to be set off only against profits of speculative business.

Unadjusted loss of Speculative business shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 4 years following the assessment year in which loss was computed and is allowed to be set-off only against profits of speculative business in subsequent years.

As per section 43(5), speculative business means such business transactions in which a contract for the purchase or sales of any commodity including stocks and shares is settled otherwise than by the actual delivery.

Carry Forward and Set off of Losses by specified business [Sec 73A]

Loss from specified business u/s 35AD is allowed to be set off only against profits of any other specified business.

Unadjusted loss of Specified business shall be allowed to be carried forward to the subsequent assessment year for unlimited period and is allowed to be set-off only against profits of specified business in subsequent years.

Losses under the head Capital Gains [Sec 74]

Short term capital loss can be set off either from STCG or LTCG, but long term capital loss can be adjusted against LTCG only.

Losses under the head capital gain are not allowed to be set off against any other head of income.

Unadjusted loss of Capital Gains shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 8 years following the assessment year in which loss was computed.

Carry forward loss u/h Capital Gains can be adjusted only against income under the head Capital Gains in subsequent years. Short term capital loss can be adjusted from STCG or LTCG but long term capital loss can be adjusted against LTCG only.

Losses under the head Other Sources [Sec 74]

Losses from activities under the head other sources (except maintaining and owning race horses) is allowed to be set-off within same head or any other head except casual income.

Carry forward of loss u/h other source is not allowed.

Losses from owning and maintaining race horses is allowed to be set off only against profit of owning and maintaining race horses and unadjusted losses is allowed to be carried forward for a maximum period of 4 years and it can be set-off only against the profit of owning and maintaining race horses in subsequent years.

Carry forward of losses - Change in constitution of firm or on succession [Sec 78]

If there is change in the constitution of a firm, then the loss proportionate to the share of retired or deceased partner shall not be allowed to be carried forward by the firm. This provision does not apply to unabsorbed depreciation.

Where any person carrying on any business or profession has been succeeded in such capacity by another person otherwise than by inheritance, such other person cannot carry forward and set off against his income, any loss incurred by the predecessor. However, in case of inheritance, legal heirs are entitled to carry forward and set off the loss of predecessor.

Carry forward and Setoff of losses in case of closely held companies.[Sec 79]

Losses of closely held companies shall be allowed to carried forward only if the shareholder holding at least 51% of voting power are the same as on the last day of the year in which the loss has been incurred and as on the last day of the year in which the loss is to be set off.

This provision does not apply in following cases:

- Unabsorbed depreciation
- Change in shareholding is due to death of shareholder
- Change in shareholding is due to gift of share by shareholder to his relative.

Submission of return for losses [Sec 80]

Losses (except losses under the head House Property) can be carried forward only if loss has been determined as per a return of loss filed on or before the date u/s 139(1).

Deductions[Sec 80C TO 80U]

Deductions from Gross Total Income are not allowed from the following incomes:

1. Long Term Capital Gain
2. Short Term Capital Gain u/s 111A
3. Winning from lotteries, horse races etc.

Sec 80C - Deductions for Life Insurance Premium, Provident Fund etc.

Deduction u/s 80C is allowed only to individual or HUF, up to a maximum limit of Rs. 1,00,000 and the deduction is allowed only when the amount has actually been paid by the assessee.

Following amounts paid or deposited are allowed as deduction u/s 80C:

- Any sum paid by an individual as Life insurance premium on life of himself, spouse and children or paid by an HUF for any member of his family.
However premium paid in excess of 20% of the capital sum assured shall be ignored.
- Contribution to statutory provident fund or recognized provident fund
- Contribution to superannuation fund
- Contribution/subsorption to PPF, NSC, NSS, ULIP, ELSS,
- Fixed Deposit with any schedule bank for at least 5 years
- Subscription to notified bonds of NABARD
- Payment of tuition fees (excluding development fees or donation etc) for maximum two children for full time education to university, college, school or other educational institution situated in India.
- Repayment of principal amount of loan taken for purchase/construction of residential house property from Central/State Govt, Bank, LIC, National Housing Bank or from employer(where employer is statutory corporation, public company, university, college, or local authority or co-operative society)
- Payment of stamp duty for the purpose of transfer of residential house property to the assessee.
- Amount invested in deposit scheme of public company engaged in infrastructure facility or approved mutual fund.
- Any sum deposited in an account under the Senior Citizens Saving Scheme.
- Any sum deposited as five years time deposit in an account under the Post Office Time Deposit.

[Sec 80CCC] – Contribution to Certain Pension Funds

Deduction is allowed for payment made by individual towards annuity plan of insurance company for receiving annuity or pension and it is allowed up to a maximum limit of Rs. 1,00,000.

[Sec 80CCD] – Contribution to Pension Scheme of Central Government

Deduction is allowed for contribution made by individual (whether salaried or self-employed) towards notified pension scheme, but maximum up to a limit of 10% of Salary or Gross Total Income as the case may be.

Employee is also allowed deduction of the amount which is contributed by the employer but up to a maximum limit of 10% of employee salary. (Salary includes Basic Pay and Dearness Allowance, if it forms part of retirement benefit).

Amount received from such pension fund is taxable at the time of receipt.

[Sec 80CCE] – Limit on deductions u/s 80C, 80CCC and 80CCD

The aggregate amount of deduction u/s 80C, 80CCC and 80CCD (except employer contribution) shall not, in any case, exceeds Rs. 1,00,000.

[Sec 80CCF] – Subscription to long term infrastructure bonds.

Deduction is allowed to an individual/HUF for payment towards subscription to long-term infrastructure bonds as notified by Central Government, but up to a maximum limit of Rs. 20,000

[Sec 80D] – Deduction in respect of medical insurance premium

Deduction is allowed to an individual/HUF for payment towards Medical Insurance Premium or to any contribution made to the Central Government Health Scheme) by any mode other than cash.

Quantum of deduction:

- Maximum Rs. 15000 (For insurance of Individual, Spouse, Dependent Children) or Rs. 20000 in case of senior citizen, and
- Maximum Rs. 15000 (For insurance of Parents) or Rs. 20000 if parents are senior citizen.

[Sec 80DD] – Deduction in respect of maintenance including medical treatment of a dependent who is a person with disability

Deduction is allowed to a resident individual/HUF for payment towards Medical treatment or training and rehabilitation of a dependent relative who is a person with disability. Deduction is also allowed for payment towards deposit in a scheme for receiving annuity or lump sum amount for the benefit of such disabled person.

Relative, for individual, shall include spouse, children, brothers, sisters and parents. Relative, for HUF, shall be its members.

Quantum of deduction: Deduction of Rs. 50000, irrespective of the actual amount spent or deposited. In case of severe disability deduction allowed shall be Rs. 100000, irrespective of the amount spent or deposited.

[Sec 80ddb] – Deduction in respect of medical treatment, etc.

Deduction is allowed to a resident individual/HUF for payment towards Medical treatment of specified disease of self or dependent relative or member of HUF.

Deduction is allowed for the amount actually spent or Rs. 40000 (Rs. 60000 in case of senior citizen), whichever is less.

Deduction shall be reduced by the amount received from the insurer or employer. Further, a certificate from doctor of government hospital has to be furnished for claiming the deduction.

[Sec 80E] – Deduction of interest paid on loan taken for pursuing higher education.

Deduction is allowed to an individual for payment of interest on loan taken for pursuing higher education of himself or relative.

Loan must have been taken from financial institutions or approved charitable institution. There is no maximum limit prescribed under this section and also deduction can be claimed for maximum period of 8 years starting from the year in which payment of interest on the loan begins.

Higher education means any course of study pursued after passing Senior Secondary Examination.

Relative means spouse, children or the student for whom; he/she is the legal guardian.

[Sec 80G] – Deduction in respect of donations

Deduction is allowed to all assessee for payments made to specified funds/ institutions

Donation shall be sum of money; Donation in kind is not deductible. Further proof of payment shall be furnished with the return

Part A: Donations made to following are eligible for 100% deduction without any qualifying limit:

- National Defence Fund set up by the Central Government
- Prime Minister's National Relief Fund
- Prime Minister's Armenia Earthquake Relief Fund
- Africa (Public Contributions - India) Fund
- National Foundation for Communal Harmony
- a University or any educational institution of national eminence as may be approved by the prescribed authority
- Chief Minister's Earthquake Relief Fund, Maharashtra
- any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
- Zila Saksharta Samiti constituted in any district
- National Blood Transfusion Council
- any fund set up by a State Government to provide medical relief to the poor
- Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund
- Andhra Pradesh Chief Minister's Cyclone Relief Fund
- National Illness Assistance Fund
- Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund
- National Sports Fund set up by the Central Government
- National Cultural Fund set up by the Central Government
- Fund for Technology Development and Application set up by the Central Government National
- Trust for Welfare of Persons with mental retardation and multiple disabilities.

Part B: Donations made to following are eligible for 50% deduction without any qualifying limit:

- Jawaharlal Nehru memorial fund
- Prime Minister's Drought Relief Fund
- National Children's Fund

- Indira Gandhi Memorial Trust
- Rajiv Gandhi Foundation

Part C: Donations made to following are eligible for 100% deduction subject to qualifying limit:

- Donation to Government or any approved local authority, institution or association to be utilized for promoting family planning
- Donation made by a company to Indian Olympic Association or to any other notified institution, for development of infrastructure for sports in India.

Part D: Donations made to following are eligible for 50% deduction subject to qualifying limit:

- Donation to Government or any approved local authority, institution or association to be utilized for any other charitable purpose other than promoting family planning
- Donation to any approved charitable institution which satisfies the condition of Section 80G.
- Donation to any authority for satisfying the need for housing accommodation or any corporation for promoting interest of minority community.
- Donation to any notified temple, mosque, gurudwara, church or other place notified by the Central Government to be of historical, archaeological or artistic importance for renovation or repair of such place.

- Donations under Part C and Part D above shall not exceed the qualifying limit.
- Qualifying limit means 10% of adjusted Gross Total Income.

Adjusted Gross Total Income means:

Gross Total Income
Less: Long Term Capital Gains
Less: Short Term Capital Gains u/s 111A
Less: Deductions u/s 80C to 80U (Except 80G)

[Sec 80GG] – Deduction for payment of rent

Deduction is allowed to an individual in respect of rent paid for his residential accommodation subject to fulfillment of following conditions:

- i. He is a self employed person or if he is an employee, he is neither getting HRA nor rent free accommodation

- ii. Assessee, spouse, minor child or HUF does not own any residential accommodation in the city where he lives or where he works.

The deduction in respect of rent paid is allowed to the extent of least of the following:

- i. Rent paid over 10% of Adjusted Gross Total Income
- ii. 25% of the Adjusted Gross Total Income
- iii. Rs. 2000 per month

Adjusted Gross Total Income Means

Gross Total Income
Less: Long Term Capital Gains
Less: Short Term Capital Gains u/s 111A
Less: Deductions u/s 80C to 80U (Except 80GG)

[Sec 80GGA] – Deduction in respect of donations for scientific research or rural development

Deduction is allowed to all assessee provided the assessee does not have income under the head PGBP. Deduction is allowed equal to the amount of donation or contribution given below:

- i. Donation to notified scientific research association as per Sec 35
- ii. Donation to notified institution for the purpose of eligible project as per Sec 35AC.
- iii. Donation given to notified institution for rural development or to national urban poverty eradication fund as per Sec 35CCA

[Sec 80GGB] – Deduction in respect of contribution given by companies to political parties

Any sum contributed by Indian Company to political party or electoral trust is allowed as deduction.

[Sec 80GGC] – Deduction in respect of contribution given by any person to political parties

Any sum contributed by any person (except local authority or artificial juridical person) to political party or electoral trust is allowed as deduction.

[Sec 80JJA] – Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste

Deduction is allowed to all assessee who are engaged in the business of collecting/processing or treating etc of bio-degradable waste for generating power or to make pellets for fuel or to use it in organic manure or to use it in bio-gas plant etc.

Deduction is allowed equal to 100% profits of such business for the 5 consecutive assessment years beginning with the year in which such business is commenced.

[Sec 80JAA] – Deduction in respect of employment of new workmen

Deduction is allowed to Indian Company, equal to 30% wages of the new regular workman for 3 assessment years including the year in which the employment is provided.

Companies shall be engaged in the manufacture or production of any article or thing and accounts must be audited by Chartered Accountant and the report shall be furnished with the return of income.

Wages qualifying for deduction:

- In the case of new company – wages paid to workers in excess of 100
- In the case of existing company – wages paid to workers in excess of 100, but there should be at least 10% increase in number of workers, as employed on the last day of the preceding year.

Regular Workmen does not include:

- i. Person employed in managerial or administrative capacity or
- ii. Workman employed as a casual workman or contract labour or
- iii. Any other workman employed for a period of less than 300 days during the previous year

[Sec 80LA] – Deduction in respect of certain incomes of Offshore Banking Units and International Financial Services Centre**Deduction is allowed to:**

- i. A scheduled bank having an offshore banking unit in SEZ or
- ii. Any bank, incorporated under the laws of a foreign country and having an offshore banking unit in SEZ or
- iii. A unit of International Financial Services Centre (IFSC)

Quantum of deduction:

- i. For the first 5 consecutive years: 100% of such income beginning with the previous year in which
 - a. the permission under the Banking Regulation Act was obtained or
 - b. the permission under the SEBI Act, 1992 was obtained or
 - c. permission or registration under any relevant law was obtained
- ii. For the next 5 years: 50% of such income

Conditions to be satisfied:

- i. A report of Chartered Accountant, certifying that the deduction has been correctly claimed, should be submitted with return of income
- ii. Copy of permission obtained under the Banking Regulation Act, 1949 should be furnished along with the return of Income.

[Sec 80P] – Deduction in respect of income of co-operative societies

Income from following activities shall be allowed 100% deduction in case of co-operative societies:

- i. Income from business of banking or providing credit facilities to its members
- ii. Income from cottage industry
- iii. Income from marketing of the agricultural produce grown by its members
- iv. Income derived from the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture
- v. Income from processing without the aid of power
- vi. Income from fishing or allied services
- vii. Income from supplying milk, oilseeds, fruits & vegetables raised by its members to federal milk co-operative society

Co-operative societies engaged in a business other than those mentioned above shall not be liable to pay tax on:

In case of consumer co-operative society -> maximum up to Rs. 1,00,000 of income

In other cases -> maximum up to Rs. 50,000 of income

Deduction allowable to all co-operative societies:

- i. Any interest, dividend income derived from its investments with any other co-operative society
- ii. Income derived from letting out of godown or warehouses for storage, processing or facilitating the marketing of commodities
- iii. 100% of the income from interest on securities or income from house property in case of co-operative society not being (i) a housing society or (ii) an urban consumer society or (iii) society carrying on transport business or (iv) society engaged in the performance of any manufacturing operating with the aid of power, provided its GTI does not exceed Rs. 20000

[Sec 80QQB] – Deduction in respect of Royalty Income etc of Books

Deduction is allowed to resident individual for royalty income from assignment of copyright of books, maximum upto Rs. 3,00,000.

- i. Books should be a work of literary, artistic or scientific nature. Books shall not include text books, diaries, commentaries, journals etc.
- ii. Royalty in excess of 15% of the value of the books sold during the previous year shall be ignored. However, this condition is not applicable where the royalty is received in lumpsum.
- iii. If royalty is received from outside India, then to claim deduction, it must be brought into India within 6 months from the end of the previous year in which such income is earned.

[Sec 80RRB] – Deduction in respect of Royalty Income on patents

Deduction is allowed to resident individual, who is a patentee, for royalty income of patents but maximum upto Rs. 3,00,000.

If royalty is received from outside India, then to claim deduction, it must be brought into India within 6 months from the end of the previous year in which such income is earned.

[Sec 80U] – Deduction in case of person with disability

Deduction is allowed to a resident individual who is suffering from specified disability at any time during the previous year.

Such assessee shall be allowed fixed deduction of Rs. 50,000 irrespective of actual amount spent or Rs. 1,00,000 in case of severe disability.

A certificate issued by the medical authority should be furnished along with the return.

Summary of the provisions.

Section	Particulars	Available to	Max Limit
80C	Life Insurance Premium etc	Individual, HUF	1,00,000
80CCC	Pension Funds of Insurance Co	Individual	1,00,000
80CCD	Pension Scheme of Central Govt,	Individual	1,00,000
80CCF	Long term Infrastructure bonds	Individual/HUF	20,000
80D	Medical Insurance	Individual/HUF	15000/20000 +(AND) 15000/20000 (for parents)
80DD	Medical treatment et of dependent relative(disabled)	Resident Individual/HUF	50000 / 100000(if severe disability)
80DDB	Medical treatment of self or dependent relative	Resident Individual/HUF	40000 (60000 in case of senior citizen)
80E	Interest on loan taken for higher education- self/relative	Individual	No Limit, but allowed up to 8 years.
80G	Donations	All assessee	limits prescribed
80GG	Rent paid for residence	Individual	Max up to Rs. 2000 pm.
80GGA	Donations for Scientific research or rural development etc	All assessee (No PGBP income)	100%
80GGB	Contribution to political party or electoral trust	Indian Company	100%
80GGC	Contribution to political party or electoral trust	Any person	100%
80JJA	Business of collecting etc bio-degradable waste	All assessee	100% of profits from such business for 5 years.
80JJAA	Employment of new workmen	Indian Company	30% of additional wages
80LA	Income of Offshore Banking Units/ IFSC	Banks	100% for 5 years and then 50% for next 5 years.
80P	Income of co-operative societies	Co-operative Societies	100% in some cases.
80QQB	Royalty of Books	Resident Individual	3,00,000
80RRB	Royalty of Patents	Resident Individual	3,00,000
80U	For Handicapped Person	Resident Individual	Rs. 50000/ 100000