

DEDUCTIONS FROM GROSS TOTAL INCOME

Some Key Points : Recent Amendments

Deduction cannot exceed income [Section 80A(4)]

Where profits and gains are eligible for deduction under sections 10A or 10AA or 10B or under any other provision of Chapter VI-A under the heading "C – Deductions in respect of certain incomes" no further deduction shall be allowed under any other provision of the Act and deduction shall in no case exceed the profits and gains of such undertaking or unit or enterprise or eligible business, as the case may be.

No deduction when it is not claimed in the return [Section 80A(5)]

Where the assessee is eligible for deduction under sections 10A or 10AA or 10B or 10BA or under any provisions of Chapter VI-A under the heading "C – Deductions in respect of certain incomes" but has failed to make a claim in his return of income, no deduction shall be allowed to him.

No further deduction in respect of specified business [Section 80A(7)]

Where a deduction under Chapter VI-A is claimed and allowed in respect of profits of any specified business referred to in section 35AD for any assessment year, no deduction shall be allowed under the provisions of section 35AD in relation to such specified business for the same or any other assessment year.

Furnishing of return before the due date [Section 80AC]

Any assessee eligible for deduction under sections 80-IA or 80-IAB or 80-IB or 80-IC or 80-ID or 80-IE shall file his return before the due date specified under section 139(1). Where the return is not filed before the due date, the assessee cannot claim the benefit of deduction under these provisions.

Contributions to pension scheme of Central Government [Section 80CCD]

In addition to Central Government employees, any person in employment under any employer (State and private sector) or any other assessee (including self employed) being an individual is eligible to claim deduction under this provision. The limit is 10% of salary in case of employees (Central, State or private sector) and 10% of gross total income in the case of others (self employed, etc).

Subscription to long term infrastructure bonds [Section 80CCF]

From the assessment year 2011-12, in the case of individual and HUF assessee's subscription to notified long term infrastructure bonds is eligible for deduction. The maximum amount eligible for deduction under this provision is Rs.20,000.

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Question 1

Mr. Srinivasan, aged 68 years, furnishes the following particulars for the year ending 31.03.2011:

- (a) Life Insurance Premium paid – Rs.30,000, actual capital sum of the policy assured for Rs.1,20,000;
- (b) Contribution to Public Provident Fund – Rs.40,000 in the name of father;
- (c) Tuition fee payment – Rs.8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing PHD in Kellogs University, USA – Rs.2.50 lakh;
- (d) Housing loan principal repayment – Rs.32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2011;
- (e) Principal repayment of housing loan taken from a relative – Rs.70,000. The property is self-occupied situated at Pune;
- (f) Deposit under Senior Citizens Savings Scheme – Rs.15,000;
- (g) Five-year deposits in an account under Post Office Time Deposit Scheme – Rs.20,000;
- (h) Investment in National Savings Certificate – Rs.25,000;
- (i) Subscription to notified long term infrastructure bonds Rs.30,000.

Compute the deduction eligible under appropriate provisions of Chapter VI-A for A.Y. 2011-12.

Answer

Computation of eligible deduction under section 80C for A.Y.2011-12

Particulars	Amount eligible for deduction u/s 80C Rs.
Life Insurance Premium (See Note 1)	24,000
Contribution to Public Provident fund (See Note 2)	Nil
Tuition fee of 2 sons for graduation course (See Note 3)	16,000
Housing loan principal repayment (See Notes 4 & 5)	Nil
Senior Citizen Savings Scheme deposit (See Note 6)	15,000
Post Office Time Deposit Scheme (See Note 6)	20,000
Investment in National Savings Certificate	25,000
Gross amount eligible for deduction under section 80C	1,00,000

Deduction U/s.80CCF : Amount invested in notified infrastructure bond is eligible for deduction subject to a maximum of Rs.20,000.

Notes:

1. Any amount of life insurance premium paid in excess of 20% of capital sum assured shall be ignored for deduction under section 80C. In the given case, 20% of actual capital sum assured is Rs.24,000, whereas, the premium paid during the year is Rs.30,000. Therefore, the excess premium of Rs.6,000 does not qualify for deduction.
2. In the case of an individual, contribution to PPF can be made in his name, or in the name of his spouse or children to qualify for deduction under section 80C. **As the contribution was made in the name of his father, deduction is not allowable.**
3. Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, Rs.16,000 shall be allowed as deduction. **Tuition fee paid to an educational institution situated outside India is not eligible for deduction.**
4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.
5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank / specified employer / institution.
6. The scope of eligible savings instruments have been widened by the Finance Act, 2008. Accordingly, the following investments would also be eligible for deduction under section 80C:-
 - (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
 - (2) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

Question 2

- (a) *Mr. Harsh, aged 42 years, furnishes the following information relating to premium on mediclaim policy paid by cheque for the year ending 31.03.2011 :*
- (i) *for self – Rs.8,000;*
 - (ii) *for spouse, aged 35 years – Rs.8,000;*
 - (iii) *for non-dependent father, aged 70 years - Rs.21,000;*
 - (iv) *for dependent mother-in-law, aged 65 years - Rs.11,000.*

Compute his eligible deduction under section 80D for A.Y.2011-12. Would your answer be different, in case the premium was paid in cash?

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- (b) Mr. Ravi, a Cost Accountant, derives Rs.4,12,000 as taxable professional income. Income of Mr. Ravi from other sources is Rs.21,000. He pays medical insurance premium of Rs.28,000 for insuring the health of his non-dependant parents who are senior citizens; Rs.17,000 for self and spouse and Rs.4,000 for his sister. He incurs expenditure of Rs.25,000 on medical treatment of his dependant mentally retarded (severe disability) brother in an approved hospital duly certified. He pays rent of Rs.4,000 per month. Calculate his total income for the assessment year 2011-12.

Answer

- (a) In the given case, Mr. Harsh has paid Rs.16,000 in aggregate towards self and spouse's mediclaim premium, deduction in respect of which shall be restricted to Rs.15,000. Mediclaim premium of Rs.21,000 paid for insuring the health of his father, who is a senior citizen, is eligible for additional deduction of up to Rs.20,000 even though his father is not dependent on him. Therefore, total deduction of Rs.35,000 [i.e., Rs.15,000 + Rs.20,000] shall be allowed to Mr. Harsh under section 80D.

It may be noted that, Rs.11,000 paid for dependent mother-in-law is not allowable, since the definition of the term 'family' does not include mother-in-law.

Section 80D requires payment of premium on health insurance by any mode other than cash. In case the payment is made by cash, the amount paid cannot be availed as deduction.

- (b) **Computation of total income of Mr. Ravi for the A.Y. 2011-12**

Particulars	Rs.	Rs.
Professional income		4,12,000
Income from other sources		<u>21,000</u>
Gross Total Income		4,33,000
<i>Less: Deductions under Chapter VI A</i>		
1. Medical insurance premium paid under section 80D – (15,000 + 20,000) [See Note 1]	35,000	
2. Expenditure for dependant mentally retarded - section 80DD [See Note 2]	1,00,000	
3. Rent paid under 80GG [See Note 3]– least of the following is eligible for deduction -		
(i) Excess of rent paid over 10% of total income (48,000 - 29,800) = 18,200		
(ii) 25% of total income = 74,500		
(iii) Ceiling limit Rs.2,000 p.m. = 24,000	<u>18,200</u>	<u>1,53,200</u>
Total income		<u>2,79,800</u>

Notes -

- (1) Medical insurance premium paid for self and spouse would qualify for deduction under section 80D subject to a maximum of Rs.15,000.

Mediclaime insurance premium paid for parents shall qualify for additional deduction under section 80D, subject to a maximum of Rs.20,000 (since they are senior citizens), irrespective of whether they are dependent or non-dependent on Mr. Ravi.

Medical insurance premium paid for insuring the health of sister does not qualify for deduction under section 80D, since sister does not fall within the definition of "family".

- (2) Deduction under section 80DD is a flat amount of **Rs.1,00,000**, irrespective of the actual expenditure incurred in respect of a dependent, who is a **person with severe disability**. It is assumed that Mr.Ravi has furnished a copy of the certificate issued by the medical authority, in the prescribed form and manner, along with the return of income under section 139 in respect of A.Y.2011-12.

- (3) Total income for the purpose of section 80GG would be -

Gross Total Income	4,33,000
Less : Deduction under sections 80D & 80DD	<u>1,35,000</u>
Total income	<u>2,98,000</u>

It is presumed that all the conditions for claim of deduction under section 80GG have been fulfilled by Mr. Ravi.

Question 3

Examine the correctness of the statement that "there exists no difference in the treatment of income claimed under section 10 with those claimed under Chapter VI-A of the Income-tax Act".

Answer

The statement is incorrect. Section 10 lists out the items of income which do not form part of total income. Thus, such incomes are fully or partly exempt from tax. Items of income which are exempt under section 10 shall not form part of any head of income. Therefore, the income which are claimed as exempt under section 10 are excluded from gross total income, in the sense, they are not included in the computation of gross total income. However, for claiming deduction under Chapter VIA, the income must be included under the respective head of income for computation of gross total income and thereafter, deduction can be claimed under the respective section as specified in Chapter VI-A to arrive at the total income. In short,

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section 10 provides for exemption of income whereas Chapter VI-A provides for deductions from gross total income.

Question 4

Can an assessee, fulfilling all the prescribed conditions, having total income of Rs.1,84,000 and paying house-rent @ Rs.4,800 p.m. in respect of the residential accommodation occupied by him at Mumbai, claim the deduction for the house rent so paid while computing his taxable income?

Answer

An individual, who is not in receipt of house rent allowance and complying with all the conditions as specified in section 80GG, shall be entitled to claim deduction (in respect of rent paid by him for the residential accommodation) of an amount, equal to the least of the following limits, under section 80GG -

	Rs.	Rs.
(i) Actual rent less 10% of total income i.e., Rs.57,600 less Rs.18,400, (10% of Rs.1,84,000)	39,200	
(ii) 25% of total income i.e., 25% of Rs.1,84,000	46,000	
(iii) Amount calculated at Rs.2,000 p.m.	24,000	
Deduction allowable (least of the above)		24,000

Note - It is assumed that Rs.1,84,000 is the total income before allowing deduction under section 80GG.

Question 5

"The profits and gains of an industrial undertaking established in specified areas and engaged in carrying out certain activities are enjoying tax holiday." Specify such areas and the activities.

Answer

This question can be answered on the either on the basis of the provisions of section 10A or section 80-IB or section 80-IC.

Section 10A

This section provides tax holiday in respect of newly established industrial undertakings in free trade zones, electronic hardware technology parks and software technology parks set up in accordance with a scheme notified by the Central Government. The section exempts the profits and gains of such undertakings derived from the export of articles or things or computer software.

The benefit of exemption under this section is available to all categories of assessee who derive any profits or gains from an undertaking engaged in export of articles or things or

computer software. The profits and gains derived from on-site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

Section 80-IB

The tax holiday under section 80-IB is available in respect of the following industrial undertakings –

- (a) Small Scale Industrial undertakings
- (b) Industrial undertakings set up in an industrially backward State specified in the Eighth Schedule. Industrial undertakings in the State of Jammu & Kashmir should not manufacture or produce cigarettes/cigar, distilled and brewed alcoholic drinks, aerated branded beverages and their concentrates.
- (c) Industrial undertakings, set up in notified backward districts, producing articles other than those given in the Eleventh Schedule.

Section 80-IC

The tax holiday under section 80-IC is available in respect of the industrial undertakings set up in Sikkim, Himachal Pradesh, Uttaranchal and North-Eastern States. If the undertaking is set up in the specified zone in the States of Sikkim, Himachal Pradesh and Uttaranchal, it should manufacture any article or thing other than those given in the Thirteenth Schedule. If the undertaking is set up in any other area in these States, it should manufacture any article given in the Fourteenth Schedule. Specified zones include export processing zone, integrated infrastructure development centre, industrial growth centre, industrial estate, industrial park, software technology park, industrial area or theme park.

Question 6

State briefly the conditions to be satisfied by hospitals located anywhere in India other than excluded area for the purpose of obtaining deduction @ 100% of the profits under section 80-IB of the Act.

Answer

As per section 80-IB(11C) for granting deduction of 100% of profit derived by an undertaking from the business of operating and maintaining a hospital located anywhere in India, other than the excluded area, the following conditions are to be satisfied:

- (i) The hospital should be constructed and should start functioning between 1st April, 2008 to 31st March, 2013.
- (ii) The hospital should have at least 100 beds for patients.
- (iii) The construction of the hospital should be in accordance with the regulations or bye-laws of the local authority.

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- (iv) Audit report in the prescribed form signed and verified by a chartered accountant certifying that the deduction has been correctly claimed should be filed along with the return of income.

Question 7

Ayush, an employee with M/s Isomer Solutions Ltd., provides the following information relating to his income for the financial year 2010-11:

- (i) *He received salary Rs.25,000 per month including conveyance allowance @ Rs. 2,500 per month for official purposes.*
- (ii) *He deposited Rs.2,500 per month in his account under a pension scheme notified by the Central Government.*
- (iii) *He paid a sum of Rs.60,000 during the year as interest on loan taken in April, 2006 from bank for higher studies of his daughter.*
- (iv) *He paid health insurance premium for himself and for his family members Rs.8,500 in cash and Rs.9,000 by credit card.*
- (v) *He invested Rs.40,000 in notified bonds issued by NABARD in July, 2010.*
- (vi) *Equity shares having fair market price of Rs.1,00,000 (on the date of exercise of option) were allotted to him by the company at a concessional price of Rs. 20,000 on 30.5.2010, which were sold by him for Rs.1,80,000 on 28.2.2011.*

Compute the total income of Ayush for assessment year 2011-12 and give reasons for treatment to each of the items.

Answer

Computation of total income of Mr. Ayush for the Assessment Year 2011-12

Particulars	Rs.	Rs.
Salaries		
Gross salary received	3,00,000	
Add: Shares allotted at concessional price – fair market value less the amount recovered from the employee [Section 17(2)(vi)] (i.e. Rs.1,00,000 minus Rs.20,000)	80,000	
	3,80,000	
Less: Conveyance allowance exempt under section 10(14)	30,000	
		3,50,000
Capital gains		
Sale consideration of equity shares sold on 28.02.2011	1,80,000	
Less: Fair Market Price of shares on the date of exercise of option (i.e. 30.5.2010)	1,00,000	
Short-term Capital Gains		80,000
Gross Total Income		4,30,000

Deductions from Gross Total Income

Less: Deduction under Chapter VIA

Under section 80C

For investment in notified bonds of NABARD	40,000
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Under section 80CCD

For deposit in pension scheme notified by Central Government [Rs.30,000 but restricted to 10% of salary i.e. 10% of Rs.2,70,000]	27,000
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Under section 80D

For payment of health insurance premium by credit card	9,000
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Under section 80E

For payment of interest on loan taken from bank for higher studies of daughter	60,000	
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Total Income	1,36,000	2,94,000
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Notes:

- (i) Conveyance allowance received for official duties is fully exempt under section 10(14).
- (ii) Section 80CCD provides for deduction of employee's and employer's contribution to pension scheme notified by the Central Government. This deduction has been extended also to individuals employed by any other employer on or after 1.1.2004. However, if the amount contributed exceeds 10% of salary, then the deduction would be restricted to 10% of salary. [As per Explanation to section 80CCD, salary for this purpose would include dearness allowance if the terms of employment so provide, but excludes all other allowances and perquisites]. Therefore, "salary" for the purpose of section 80CCD would be Rs.2,70,000 (Rs.3,00,000 – Rs.30,000).
- (iii) The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education has been extended to include interest on such loan taken for higher education of his relative i.e. his or her spouse and children. Hence, interest on loan taken by Mr. Ayush from bank for the higher studies of his daughter is eligible for deduction under section 80E.
- (iv) For claiming deduction under section 80D, the payment of medical insurance premium has to be made by any mode other than cash. Hence, payment of Rs.8,500 made in cash will not qualify for deduction under section 80D.
- (v) Subscription to notified bonds issued by NABARD will qualify for deduction under section 80C(2)(xxii).
- (vi) The value of any specified security or sweat equity shares allotted or transferred by the employer, free of cost or at a concessional rate to the employee would be treated as a perquisite in the hands of the employee. The value would be the fair market value of the specified security or sweat equity shares on the date on which the option is exercised by the employee as reduced by the amount actually paid by, or recovered from the employee in respect of such security or shares.

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Consequently section 49(2AA) provides that for the purpose of computing capital gains in the hands of the employee at the time of sale of such securities/shares by the employee, the cost of acquisition shall be the fair market value which has been taken into account for the purpose of computing the perquisite value in the hands of the employee.

Question 8

Explain the meaning of “eligible business” referred to in section 80-IE granting tax holiday in respect of profits and gains of certain undertakings in North-Eastern States.

Answer

Eligible business as referred to in section 80-IE of the Act means the business of :

- (a) hotel (not below two star category),
- (b) adventure and leisure sports including ropeways;
- (c) providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds;
- (d) running an old-age home;
- (e) operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training;
- (f) running information technology related training center;
- (g) manufacturing of information technology hardware; and
- (h) bio-technology.

Question 9

PQR Co-operative Bank, a co-operative society, having its area of operation confined to Gubbi Taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities, has received the following amounts during the year ending 31.3.2011:

- (i) Interest amounting to Rs.1,00,000 from its members on loans advanced to them.
- (ii) Interest amounting to Rs.1,50,000 on deposits with other co-operative societies.
- (iii) Rent amounting to Rs.2,00,000 from letting out its godowns for storage of commodities.

PQR Co-operative Bank seeks your advice in the matter of taxability of the above amounts and the eligibility for deduction, if any, in respect thereof for the assessment year 2011-12.

Answer

Sub-clause (viiia) to section 2(24) includes within the scope of definition of income, the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members. Hence, the interest of Rs.1,00,000 received by PQR Co-operative Bank on loans advanced to its members constitutes its income.

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Further, interest received amounting to Rs.1,50,000 on deposits with other co-operative societies and rent amounting to Rs.2,00,000 received from letting out its godowns for storage of commodities also constitute the income of the co-operative bank.

Sub-section (4) of section 80P provides that section 80P shall not apply to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Explanation to section 80P(4) defines a primary co-operative agricultural and rural development bank to mean a society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities.

PQR Co-operative Bank is a primary co-operative agricultural and rural development bank as defined in the said *Explanation* since it is a co-operative society having its area of operation confined to Gubbi Taluk and its principal object is to provide long-term credit for agricultural and rural development activities. Therefore, it is eligible for deduction under section 80P.

Interest of Rs.1,00,000 received by the bank on loans advanced to its members is eligible for deduction in full under section 80P(2)(a)(i).

Interest of Rs.1,50,000 received by the bank from deposits with other co-operative societies qualifies for deduction in full under section 80P(2)(d).

Rent of Rs.2,00,000 received by the bank from letting out its godowns for storage of commodities is eligible for deduction in full under section 80P(2)(e).

Question 10

Chand, an individual resident in India, paid medical insurance premium amounting to Rs.20,000 by cash during the year ending 31.3.2011 out of his income chargeable to tax in respect of the policy taken on the health of his dependent father in accordance with the scheme framed by the General Insurance Corporation of India and approved by the Central Government.

Besides, he paid Rs.90,000 during the year ending 31.3.2011 for the medical treatment of his dependent mother, aged 69 years, in respect of a disease specified in Rule 11DD(1) of the Income-tax Rules, 1962. He received Rs.20,000 from the insurance company for the said medical treatment of his mother.

Chand seeks your advice on the deductions available in respect of these two payments.

Answer

Section 80D provides for deduction in respect of medical insurance premium paid by an individual or a Hindu undivided family subject to certain conditions and limitations. One of the conditions for allowance of the deduction is that the premium should be paid by any mode

other than cash. Chand has paid the premium by cash and is therefore, not eligible for deduction under section 80D.

However, Chand is eligible for deduction under section 80DDB in respect of the payment made by him during the relevant previous year for the medical treatment of his dependent mother in respect of the specified disease. The ceiling limit of deduction is Rs.60,000 since the payment made is in respect of his dependent mother who is above 65 years of age.

Section 80DDB provides that the assessee shall be allowed a deduction of the amount actually paid for medical treatment of the specified disease or Rs.60,000 (since the payment is in respect of a senior citizen), whichever is less, in respect of that previous year in which such amount was actually paid. The second proviso to that section provides that *deduction under that section* shall be reduced by the amount received under an insurance. From a combined reading of the section and the proviso, it can be inferred that in this case, Rs.20,000, being the amount received from the insurer, should be deducted from Rs.60,000, which is the *deduction allowable as per section 80DDB* (since it is lower than the amount of Rs.90,000 actually paid). Therefore, Rs.40,000 [i.e. Rs.60,000 minus Rs.20,000] is the deduction available under section 80DDB.

Question 11

(a) *An institution has been established wholly for charitable and religious purposes within the meaning of sections 11 and 12 of the Income-tax Act. Donations made to such an institution do not automatically qualify for deduction under section 80G. Discuss the validity of this proposition.*

(b) *Expenditure on medical treatment of an assessee and members of his family constitute a major element of a household budget, particularly if he or a member of his family suffers from physical disability. Discuss the relevant provisions which provide relief or deductions available to a non-salaried person, in this respect.*

Answer

- (a) An institution which has been established wholly for charitable and religious purposes within the meaning of sections 11 and 12 has to satisfy certain other conditions to qualify for deduction under section 80G (vide sub-section 5). The additional conditions required to be satisfied are:
1. The instrument under which the institution is established should not contain any provision for the transfer or application at any time of the whole or any part of the income or assets for any purpose other than a charitable purpose.
 2. The institution should not be for the benefit of any particular religious community or caste.
 3. The institution should maintain regular accounts of its receipts and expenditure.

4. The institution should be constituted either as a public charitable trust or registered under the Societies Registration Act or section 25 of the Companies Act or be a university established by law or an institution financed wholly or in part by the Government or a local authority.
5. In relation to donations made after 31.5.1992, the institution should for the time being, be approved by the Commissioner of Income-tax in accordance with rules made in this behalf.

Charitable purpose does not include any purpose of a religious nature with two exceptions:

- (a) An institution established for the benefit of Scheduled Caste, Backward classes, Scheduled Tribes or of women and children, shall not be deemed to be an institution expressed to be for the benefit of a religious community or caste.
- (b) Incurring of expenditure not exceeding 5% of its total income of that previous year for religious purpose will not disqualify an institution for the purpose of section 80G.

Students may note that Finance (No.2) Act, 2009 has omitted proviso to clause (vi) of sub-section 5 of section 80G to provide that once an approval is granted it shall continue to be valid in perpetuity. However, the Commissioner has the power to withdraw the approval if he is satisfied that the activities of the institution or fund are not genuine or are not being carried out in accordance with the objects of the institution or fund.

Approvals expiring on or after 01.10.2009 shall be deemed to have been extended in perpetuity unless specifically withdrawn. Where the approvals expire before 01.10.2009, these have to be renewed and once renewed these shall continue to be valid in perpetuity unless specifically withdrawn.

- (b) Sections 80D, 80DD, 80DDB and 80U of Chapter VI-A of the Income-tax Act, 1961 provide deduction in respect of medical insurance premium paid/ medical expenditure incurred/ amount deposited with LIC or any other insurer approved by the IRDA.

Sections 80DD and 80U, which particularly provide for deduction in respect of a person with disability, are discussed hereunder -

- (i) Under section 80DD, deduction is allowable to an individual or HUF, resident in India, in respect of any expenditure incurred for the medical treatment (including nursing), training and rehabilitation of a dependent with disability or a payment made to L.I.C. or any other insurer approved by the IRDA for the maintenance of a dependent with disability. **The deduction under this section is Rs.50,000, irrespective of the quantum of expenditure incurred or deposit made. The deduction is Rs.1,00,000, where the dependent is a person with severe disability.**
- (ii) Under section 80U, an individual who is a resident and who is certified by a medical authority to be a person with disability at any time during the previous year, shall be entitled to a deduction of Rs.50,000. If it is a case of severe disability, deduction

shall be Rs.1,00,000. A copy of the certificate issued by the Medical authority is required to be furnished in respect of the assessment year for which the deduction is claimed along with the return of income.

Question 12

What is the deduction allowable in respect of donations for political purposes? How will expenditure on advertisements in souvenirs of political parties be dealt with, in computing income from business?

Answer

Sections 80GGB and 80GGC have been inserted in the Income-tax Act, 1961 by the Election and Other Related Laws (Amendment) Act, 2003 w.e.f. 11.9.2003.

As per section 80GGB, any sum contributed by an Indian company in the previous year to any political party shall be allowed as deduction while computing its total income. For the purpose of this section, the word “contribute” has the meaning assigned to it under section 293A of the Companies Act, 1956, which provides that -

- (a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
- (b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.

As per section 80GGC, any amount of contribution made by an assessee being any person, except local authority and every artificial juridical person wholly or partly funded by the Government shall be allowed as deduction while computing the total income of such person.

For the purposes of sections 80GGB and 80GGC, “political party” means a political party registered under section 29A of the Representation of the People Act, 1951.

As regards expenditure on advertisements in souvenirs of political parties, the meaning of the word “contribute” as discussed above as per section 80GGB makes it clear that such expenditure is deemed to be a contribution to a political party or for a political purpose.

However, section 37(2B) provides that no allowance shall be made in respect of expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party. Therefore, the provisions of section 37(2B) have to be given effect to in computing gross total income. Thereafter, while allowing Chapter- VIA deductions, such expenditure would be allowed under section 80GGB.

The Finance (No.2) Act, 2009 has extended the scope for deduction under sections 80GGB and 80GGC in respect of any sum contributed to “electoral trust”. The meaning of “electoral trust” is defined in section 2(22AAA), which means a trust approved by the Board in

accordance with the scheme made in this regard by the Central Government. Hence, contribution made to electoral trust is also eligible for deduction under section 80GGB or section 80GGC.

Question 13

Roxy Cine Arts of Mumbai is engaged in distribution of cinematography films. It started construction of a multiplex theatre and convention hall in Navi Mumbai in April, 2004 and completed in December, 2004. The profits for the year ended 31-03-11 of all the activities are:

- | | |
|--|-------------|
| (i) Distribution of Cinematography Films | Rs. 5 lakhs |
| (ii) Convention Centre | Rs. 2 lakhs |
| (iii) Multiplex Theatre | Rs. 1 lakh. |

Compute the taxable income for the Assessment year 2011-12 with reasons.

Answer

Income from **multiplex theatre** is eligible for deduction under section 80-IB(7A) @ 50% for **five assessment years** provided the multiplex theatre was constructed before 31.03.2005. **No deduction could be claimed under this section beyond fifth year.**

Similarly, the construction of **convention centre** ought to have completed before 31.03.2005 for availing deduction under section 80-IB(7B) for **five years** @ 50% of the profits and gains derived therefrom.

Therefore, deduction under section 80-IB(7A) and 80-IB(7B) is allowable only upto A.Y. 2009-10. Hence, no deduction under section 80-IB(7A) and under section 80-IB(7B) would be allowable for the assessment year 2011-12.

Question 14

The assessee, a Co-operative Society, earned interest income out of the reserve funds, which had been invested with SBI/RBI in compliance with statutory provisions in order to carry on banking business and claimed deduction under Section 80P(2)(a) of Income-tax Act. The Assessing Officer declined to allow the claim, but restricted its claim to that part of interest income derived from working or circulating capital. Examine the validity of the action of Assessing Officer.

Answer

No deduction under section 80-P would be allowed from the assessment year 2007-08 unless the assessee is a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Assuming the society is eligible for deduction by being a primary agricultural credit society or a primary co-operative agricultural and rural development bank, the eligibility for deduction under section 80-P vis a vis the validity of the action of the Assessing Officer is to be decided. In order to carry on the business of banking, the society had to make investments out of the

reserve funds with SBI/ RBI in compliance with statutory provisions and the same was necessary and consequently, such investments are part of the business activities falling within the scope of section 80P(2)(a) of the Income-tax Act.

There is nothing in the phraseology in section 80P(2)(a)(i) which makes it applicable only to income derived from working or circulating capital. Thus, the action of the Assessing Officer is not correct in law and he should allow the total interest income derived from investments made out of reserve funds under section 80P(2)(a). [*CIT vs. Karnataka State Co-operative Apex Bank* 251 ITR 194 (SC)].

Question 15

Write a short note on deduction in respect of loan taken for higher education

Answer

Section 80-E governs the deduction in respect of repayment of loan taken for higher education. **It applies to individuals and the deduction is limited to payment of interest on loan** taken from any financial institution or any approved charitable institution for the purpose of pursuing his higher education or for the purpose of higher education of his or her relative i.e. spouse or children of the individual or the student for whom the individual is a legal guardian. There is no monetary limit in respect of the interest on educational loan paid by the assessee. **The deduction is admissible for the initial assessment year and seven assessment years succeeding that year or until the interest is paid by the assessee in full, whichever is earlier.**