

FOR CA-IPCC

**LATEST AND REVISED AS PER
RECOMMENDATIONS AND SUGGESTIONS**

**FOR CA-IPCC NOVEMBER 2011
EXAMINATION**

TAXATION

**SUPER
SUMMARY
WRITTEN BY:
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INCOME TAX

SERVICE TAX

VAT



TAXATION

Features:

- * Based on the Study Modules
- * All Important points are covered
- * With Estimated Time Allotment
- * Written according to suggestions and requirements
- * Revised according to amendments applicable for NOVEMBER 2011 exams
- * Expert's Advice portion is added for better clarity.

Study Pattern:

Step I: Read Study Module
Step II: Cross check with Practice Manual
Step III: Read this Super Summary



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EXPERT'S ADVICE	Richank Garg, Company Secretary
<u>PART I: INCOME TAX</u> - As far as Income tax is concerned, it's advisable to read and understand the concepts well. Further only reading is not sufficient because without learning the use of concepts in practical problems one cannot handle the practical problems. - Also in Income Tax study recent amendments brought in by the latest Finance Act. In this paper also you need to know the theory aspects well like dates and amounts to resolve the numerical. In other words if you want to attempt the practical part successfully you have to learn the theory part well. - For preparing Income tax theory I would suggest you to use the book of Girish Ahuja or T.N. Manoharan. Regarding Tax practical questions V.K. Singhania is preferable.	
<u>PART II & III: SERVICE TAX AND VAT</u> - For IPCC again there is Service Tax and VAT for 50 marks which are very easy to learn. It's always better to follow the institute materials for the preparation because all other books may be PCC/IPCC combined and may not have full aspects of service tax and VAT. - Also note one imp point it's very easy to finish Service Tax and VAT portion because it is not as lengthy as income tax is.	

DEDICATED TO ALL FRIENDS

PART I: INCOME TAX**INCOME FROM SALARY***(Estimated Time Allocated – 20 minutes)***Basis of charge [Section 15]**

Salary is taxable on due basis or on receipt basis whichever is earlier.

Gratuity [Section 10(10)]

- (a) Government employee-Fully exempted
- (b) Employee covered by Gratuity Act – *Minimum of*
 - (i) Actual Received
 - (ii) $\frac{15}{26} \times \text{Last Drawn Salary} \times \text{No. of completed years plus excess of six months}$
 - (iii) ₹ 10,00,000
- (c) Any other Employees – *Minimum of*
 - (i) Actual Received
 - (ii) $\frac{15}{30} \times \text{Average Salary of 10 months} \times \text{No. of completed years}$
 - (iii) ₹ 10,00,000

Pension [Section 10(10A)]

- ➔ Un-commuted pension – Fully Taxable
- ➔ Commuted pension-
 - (a) Government employee – Fully Exempt
 - (b) Non-Govt. employee (received gratuity also) - $\frac{1}{3}$ of full value of pension
 - (c) Non-Govt. employee (not received gratuity) - $\frac{1}{2}$ of full value of pension

Leave Salary [Section 10(10AA)]

- (i) Govt. employee – fully exempt
- (ii) Non-Govt. employee – *Minimum of*
 - (a) Actual Received
 - (b) Avg. salary of last 10 months $\times$ Balance Leave calculated on the basis of 30 days
 - (c) Average Salary $\times$ 10 months
 - (d) ₹ 3,00,000

Retirement Compensation [Section 10(10B)]*Minimum of*

- (i) Actual Received
- (ii) Amount calculated in accordance with Industrial Dispute Act, 1947
- (iii) ₹ 5,00,000

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

- (i) 10 years of service or 40 years of age
- (ii) For all employees (*except directors of the company*)
- (iii) Reduction in number of employees
- (iv) Not to be filled up
- (v) No same management
- (vi) *Minimum of*
 - (a) Actual amount received
 - (b) Last drawn salary $\times$ 3 months $\times$ No. of completed years of services
 - (c) Last drawn salary $\times$ balance months' service left
 - (d) ₹ 5,00,000

Provident Fund

(i) RPF	→ Employer's contribution – excess of 12% salary (<i>Taxable</i>) → Interest on provident fund – excess of 9.5% (<i>Taxable</i>)
(ii) Unrecognized provident fund	→ Employer's contribution-Taxable (<i>Salary</i>) → Interest on Employer's contribution-Taxable (<i>Salary</i>) → Interest on Employee's contribution-Taxable (<i>Other sources</i>)

Allowances

- (1) Fully taxable allowances
- (2) Allowance exempt upto specified limit
 - (A) House Rent Allowances [Section 10(13A)] & Rule 2A

Minimum of

 - (i) Actual allowance received
 - (ii) Rent paid – 10% Salary
 - (iii) 50% of salary - If accommodation is in Mumbai, Kolkata, Delhi, Chennai
40% of salary - For any other place
 - (B) Actual amount received or amount spent whichever is less (*exempt*)
 - (i) Travelling (ii) Daily (iii) Conveyance (iv) Helper (v) Academic (vi) Uniform
 - (C) Amount received or the limit specified – whichever is less is exempt
 - (i) Children education allowance – ₹ 100 p.m. per child (maximum 2 children)
 - (ii) Hostel expenditure allowances – ₹ 300 p.m. per child (maximum 2 children)
 - (iii) Transport allowance – ₹ 800 p.m. (₹ 1600 for blind/handicapped)
 - (iv) Allowance allowed to transport employees (*who not received daily allowance*)
 - (a) 70% of such allowance or (b) ₹ 10,000 p.m. (*whichever is less*)
 - (v) Tribal area allowance – ₹ 200 p.m.
 - (vi) Underground allowances – ₹ 800 p.m.
- (3) Fully exempted allowances
 - (i) Foreign (Govt. Employee) (ii) HC or SC Judge (iii) UNO

Perquisites [Section 17(2)]

- (1) Taxable in the hands of all employee**
 - (A) Rent free accommodation
 - Govt. employee – as per Govt. rules
 - Non-Govt. employee –
 - (i) Owned by employer → 15% of salary (in cities population exceeds 25,00,000)
10% of salary (in cities population exceeding 10,00,000 but not exceeding 25,00,000)
→ 7.5% of salary (*in other place*)
 - (ii) Not owned by employer: (a) actual rent and (b) 15% of salary (*whichever is less*)
 - (B) Valuation of monetary obligation of employee–Actual expenditure
 - (C) (i) Interest free loan–Interest rate of SBI or 12% (*exemption loan upto ₹ 20000*)
(ii) Use of moveable assets–10% p.a. of actual cost or actual rental charge
(iii) Transfer of moveable asset
 - Computer & electronic items–Dep. @ 50% for completed years (WDV)
 - Motor car–Dep. @ 20% for completed years (WDV)
 - Other assets–Dep. 10% for completed years (SLM)
- (2) Perquisites taxable in the hands of specified employees**
 - (i) Sweeper, Gardener or watchman–Actual cost
 - (ii) Gas, electricity or water–Actual cost or manufacturing cost
 - (iii) Education facilities–For children ₹ 1,000 p.m. (*exempt*)

Specified employees means–Director, 20% (beneficial ownership), salary more than ₹ 50,000 p.a.
- (3) Tax free perquisites for all employees**
 - (i) Medical facilities

Medical treatment in India:
Employer's hospital, Govt. Hospital, Notified hospital, Group medicine insurance, medical insurance u/s 80D (*fully exempt*)
Any other medical expenditure–maximum of ₹ 15,000

Medical treatment abroad:
Medical treatment and stay expenses abroad–exempt (If permitted by RBI)

Travel expenditure → GTI upto ₹ 2,00,000 (Fully exempt) → GTI above ₹ 2,00,000 (Fully Taxable)
(ii) Leave travel concession [Section 10(5)]-maximum of 2 journeys in block of 4 years (2006-2009) by air/first class air-conditioned in train by shortest distance

Deductions from salary

- (1) Entertainment allowances [Section 16(ii)]-For Govt. employees only
Minimum of
(a) Actual amount (b) 20% of Basic Salary (c) ₹ 5,000
- (2) Professional Tax [Section 16(iii)]-Actual amount paid

Relief Available [Section 89] – Step 1 – Step 2**Meaning of salary for Different purpose-**

(1) For entertainment allowances	Basic salary only
(2) Gratuity for employees (Covered under Gratuity Act)	Basic Salary + DA
(3) Gratuity for employees (not covered under Gratuity Act)	Basic Salary + DA (if forming part of retirement benefit) + Commission as a fixed percentage turnover
(4) Leave Salary	
(5) Voluntary retirement compensation	
(6) Contribution to RPF	
(7) House rent Allowances	
(8) Rent free accommodation	Basic salary + DA (for R.B.) + Bonus or commission + Taxable Allowances

INCOME FROM HOUSE PROPERTY*(Estimated Time Allocated – 10 minutes)***Basis of charge [Section 22]**

Annual Value–Building and land apportionment–owner–not use business and profession
In case of composite rent – If it is inseparable (PGBP/Other sources)

Deemed Owner [Section 27]

- (1) Transfer to spouse (*except agreement to live apart*)
- (2) Transfer to a minor child (*except minor married daughter*)
- (3) Individual holds and importable estate
- (4) Member of co-operative society
- (5) Part performance of Contract u/s 53A – Transfer of Property Act
- (6) Lease – Not less than 12 years
- (7) Dispute – Income received

Case I – Let out for full year**Step I:** MV or FR (*higher*) **Step II:** Answer or SR (*lower*) **Step III:** Answer or AR (*higher*)**Case II – Let out for full year (sum unrealized rent)****Step III:** (i) Answer of Step II (ii) Actual Rent of PY less UR (*higher*)

Key Note – Conditions : (i) Bonafide (ii) Tenant has vacant or Steps have been taken
(iii) Tenant is not in occupation of any other property
(iv) Taken all reasonable steps for the recovery of unpaid rent

Case III – Let out for full year (vacancy also)**Step IV:** Determined value in Step III less [Actual rent per month × Vacant months]**Key Note –** In Step III Actual Rent for whole of previous year**Case IV – Vacancy + Unrealized Rent**

Case V – Self acquired property

Net Annual Value → NIL

Deduction → Interest on capital borrowed → ₹ 30,000 (*maximum limit*)

₹ 1,50,000 → Loan on or after 1/4/1999 → Within 3 years acquired or considered → Proof

More than one self-occupied property [Section 23(4)]

One self-occupied property=Nil (*Other deemed let out*)

Case VI – Self occupied + Let out

Actual Rent taken for let out period only, but municipal tax for the full P/Y

Deductions [Section 24]

(i) Municipal tax paid by owner

(ii) Std. deduction @ 30% of NAV

(iii) Interest on borrowed capital (*Accrued basis*)

Key Note – Interest on pre-construction period-

Date of loan to prior to the P/Y (completed)=5 equal instalments

Borrowed commission (disallowed), Interest on unpaid interest (disallowed), Interest on fresh loan (allowed, Interest on borrowed capital, Payable outside India without TDS (disallowed)

Recovery of unrealized rent already reduced from the annual value for A/Y 2002-03 & onwards [Section 25AA]

Unrealized rent recovered less Already taxed earlier (*Taxable*)

Arrears of rent received [Section 25B]

Arrears of rent received less Already taxed earlier (*Taxable after deducting 30%*)

Co-ownership [Section 26]

➔ Provision of self-occupied property will apply to each co-owner

➔ Deduction upto ₹ 30,000 / ₹ 1,50,000 will be available to each co-owner

Property Exempt From Tax

One Palace of Ex-Ruler, Trade Union, One Self Occupied Property, Use of Business or Profession , Political Party, Charitable Purpose, Hospital

Composite Rent

Actual Rent Received less Electricity bill, water bill, Lift maintenance expenses, Liftman salary, Salary of gardener, Lighting of stairs

PROFIT & GAIN FROM BUSINESS OR PROFESSION

(*Estimated Time Allocated – 30 minutes*)

Chargeable under the head business or profession [Section 28]

(i) Profits and Gains of Business or profession

(ii) Compensation: Indian company, any other company in India, Agency, Govt.

(iii) Profit on import licence, Cash assistance against exports, Duty Draw back

(iv) Value of benefit or perquisite arising from business/profession

(v) Salary received by partner of a firm

(vi) (a) Not carrying out any activity (b) Not sharing any know how

(vii) Keyman Insurance Policy

(viii) Any sum received or receivable on account of any capital assets, in respect of which deductions has been allowed under *Section 35AD*

Business must be carried on during the P/Y

Exceptions: Recovery against loss, Balancing charge, Sale of Scientific Research Assets, Recovery against bad debts, Amount withdrawn from special reserve

Method of Accounting [Section 32]

Cash system or mercantile system (*option to assessee*)

Two Accounting Standards (AS) in mercantile system

AS 1: Disclosure of Accounting Policies

AS 2: Prior period and extra ordinary items and charges in accounting policies

Admissible Deduction [Section 30-37]**Rent, rates, taxes, repairs and insurance for buildings [Section 30]****Repairs and Insurance of machinery, plant & furniture [Section 31]**

Only revenue expenditure

Depreciation [Section 32]

Owner → Asset must use in business/profession → relevant P/Y → eligible asset → WDV method

Block of Assets [Section 2(ii)]: Same nature → Same Rate**Rates of depreciation for various block of assets**

- (I) Building: Residential → 5%, Non-residential → 10%, Temporary residential → 100%
- (II) Furniture & Fittings → 10%
- (III) Plant & Machinery: General Rate → 15%, Books for profession and library → 100%, Motor car for Hire → 30%, Motor car for Business → 15%, Computer → 60%, Ships → 20%
- (IV) Intangible assets → 25%

Additional Depreciation [Section 32 (1)(ia)]Only for manufacturing business → any new machinery or plant (*other than ships and aircrafts*) installed after 31/3/2005 → @ 20% of annual cost*Condition:* No second hand, not installed in office, no road transport vehicle, no deduction in one P/Y**Short Term Capital Gain for Depreciable Asset***When entire block are not transferred:*

Consideration for transfer less Expenses of transferred, Opening WDV, Purchase

- If the difference is *profit*, it is taxable as STCG.
- If the difference is *loss*, it is claimed depreciation under section 32.

If asset purchased during the relevant P/Y → Put in to use *less than 180 days (dep. 50% of prescribed rate)***Computation of Depreciation**

	Depreciated value of block at begging of P/Y	(i)	
Add:	Cost of asset put to use during the P/Y	(ii)	
	a. Assets eligible for dep. @ 100% of normal rate		
	b. Assets eligible for dep. @ 50% of normal rate		
Less:	Money payable in respect of assets sold/discarded/demolished/destroyed during P/Y		
	Subject to maximum of (i)+(ii)		(.....)
	WDV at the end of P/Y [Section 43(6)(c)]		
Less:	Depreciation for the P/Y		(.....)
	Depreciated value at the end of P/Y		

Computation of STCG/STCL

	Sale consideration of those depreciable assets which have been transferred during the P/Y and which fall in the same block of asset (<i>whether received in cash or not</i>)	
Less:	Total of following three	
	a. Opening value of block	
	b. Cost of capital acquired during the P/Y	
	c. Cost of transfer	 (.....)
	STCG/STCL	

Depreciation for undertaking engaged in generation & distribution of powerWDV or SLM (*option of assessee*)

Consequence if the above assets are sold

Depreciation on the basis of WDV: Same treatment as done in Block concept*Depreciation on the basis of SLM:*

- (i) WDV – Sale Price = Terminal Depreciation (*allowed in PGBP*)
- (ii) Sale price (*not more than actual cost*) – WDV = Balancing charge (*Taxable in PGBP*)
- (iii) Sale price (*more than actual cost*) – Actual Cost = Capital Gain

Set-off and carry forward of unabsorbed depreciation [Section 32(2)]

Same head → any head of income other than salary → carry forward to any number of years

	Tea Development Account [Section 33AB]	Site restoration fund A/c [Section 33ABA]
<i>Applicable</i>	Tea or Coffee or rubber	Petroleum or natural gas
<i>Time Limit</i>	Six months of end of P/Y or before ROI	Before end of P/Y
<i>Deposit</i>	NABARD or TCR board	SBI or Scheme of Ministry of P & G
<i>Deduction</i>	40% of profits of such business (<i>max. limit</i>)	20% profit of such business (<i>mix. limit</i>)

Common provision in case of Section 33AB/33ABADeduction withdrawn → Purchase for office or residence, office appliances (*other than computer*)Deduction allowed → in one year, XIth Schedule, sale before 8 years from end of P/Y**Expenditure of scientific research [Section 35]**

- (1) Expenditure incurred by the assessee
 - (A) In all cases of in house research → 100% (*other than cost of any land*)
Any expenditure during 3 years immediately preceding the year of commencement of business → 100% (*other than cost of any land*)
 - (B) In case of companies in specified business → 200% (*except land and building*)
Special business: Bio-technologies or companies engaged in the business of manufacturer or production of an article or thing except those specified in the XIth Schedule of the Income Tax Act
 - (2) In case of contribution to outsiders → 175% (*whether or not research related to assessee business*)
Any national laboratory, university, IIT, Approved bodies
- Unabsorbed expenditure** → Same Treatment as unabsorbed depreciation

Expenditure on acquisition of Patent Rights or Copy Rights [Section 35A]

Before 1/4/1998 → Allowed in 14 equal annual instalments

On or after → Depreciation at 25% (WDV)

Expenditure for obtaining Telecommunication License [Section 35ABB]

Amount of deduction = $\frac{\text{Amount paid}}{\text{Remaining period of license}}$

Donation for Eligible Project [Section 35AC]

- (1) Eligible expenditure → Payment to public sector company, local authority, approved association, direct expenditure incurred on eligible project (*For Company only*)
- (2) Amount deduction → Actual payment or actual expenditure
- (3) Withdrawal of exemption → Project is not being carried on accordance with condition of national committee, Report nor furnished to the national committee

Investment-linked tax incentive for specified business-cold chain facilities, warehousing facilities for storage of agriculture produce, and cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities [Section 35AD]**Donation for Rural Development [Section 35CCA]**

National fund for Rural Development, National Urban poverty Eradication Fund

Preliminary Expenses [Section 35]

- (1) Applicability → Indian company or Non-corporate resident assessee
- (2) Before commencement of business → For setting up of any business
After commencement of business → Extension or setting up new undertaking
- (3) List of specified expenditures → Feasibility Report, project report, market survey, engineering services, legal charges, drafting and printing of MoA & AoA, registration fees, issue of shares and debentures, underwriting commission, expenditure of prospectus

Expenditure in case of amalgamation or demerger [Section 35DD]

Indian company → 5 instalments

Expenditure incurred under Voluntary Retirement Scheme (VRS) [Section 35DDA]

Any assessee → 5 equal annual instalments

Expenditure on prospecting for certain minerals [Section 35E]Account of deduction → $\frac{1}{10}$ th of expenditure or Income from such prospecting (lower)**Other Deduction [Section 36(1)]**

- (1) Insurance premium on stocks → allowable only in year of payment
- (2) Insurance premium on life of cattle → allowable only in year of payment
- (3) Insurance premium paid on health of employees → payment made by any mode other than cash
- (4) Bonus or commission paid to employees → on or before due date of filing return [Section 43B]
- (5) Interest paid on borrowed capital → Actual Interest
- (6) Employers contribution to RPF → on or before the due date of ROI
- (7) Contribution to approved gratuity fund → on or before the due date of ROI
- (8) Contribution from employees → on or before the due date under the relevant Act
- (9) Amount of deduction = Actual cost of animal **less** Amount realized on sale of animals
- (10) Bad debts → only actual bad debts allowed (*provision for bad debts disallowed*)
- (11) Provision for bad and doubtful debts for rural branches of Banks and co-operative banks
- (12) Special reserve created by Financial Corporations
- (13) Family planning expenditure → only for company assessee
 - Revenue expenditure → fully allowed
 - Capital expenditure → Allowed in 5 years in equal instalments
 - Unabsorbed family planning expenditure → same manner as unabsorbed depreciation
- (14) Treatment of discount on zero coupon bonds → Allowed proportionately
- (15) Securities Transaction Tax (STT) → Allowed as a deduction
- (16) Special deduction for reserve (*maximum 20%*) → allowed to national Housing Bank

General Deduction [Section 40 (a)]

Expenditure only for business or profession → revenue nature → during the P/Y → not covered by Section 30 to 36 → No personal expenditure

Disallowed Expenditures [Section 40(a) - 43B]**Expenses not deductible [Section 40(a)]**(1) Salary, Interest, Royalty, etc. for non-resident (*without TDS*) (2) Interest, Commission, Royalty, etc. for resident (*without TDS*) (3) Fringe benefit tax (4) Income tax/Dividend tax (5) Wealth Tax**Disallowance for Partnership firm [Section 40(b)]**

- Payment of interest to any partner → as per deed 12% p.a. (*whichever is lower*)
- For payment of salary, bonus to working partner:

Specified Profession Firm	Other Firm
On the first ₹ 3,00,000 of the book profit or in case of loss	₹ 1,50,000 or at the rate of 90% of the book profit, whichever is more
On the balance of the book profit	60% of book profit

Payment to specified persons [Section 40A(2)]AO may disallow → excessive or unreasonable (*fair market value*)**Cash Payment in respect of expenditure exceeding ₹ 20,000 [Section 40(A)(3)]**Payment in excess of ₹ 20,000 (*for transporter ₹ 35,000*) otherwise **Account Payee** cheque or Demand Draft → 100% disallowedExceptions: Payment made to bank and financial institutions, Govt., Banking Holiday, Employees (*not exceed ₹ 50,000*), village not served by any bank, book adjustment, producer of agriculture, Poultry farm, Dairy, Cottage Industry (*without aid of power*)**Disallowance or provision for gratuity [Section 40A(7)]**

- Provision for Gratuity
- Approved gratuity fund (*allowed*), actual payment of gratuity (*allowed*)

Deduction based on actual payment [Section 43B]

Certain deduction are made only on actual payment on or before the due date of ROI → Any tax, duty, cess, Interest on loans from scheduled bank or any public financial institution, any bonus or commission or leave encashment to employees, contribution to PF

Maintenance of accounts by person carrying on profession or business [Section 44A & Rule 6F]

(i) Business assessee (**Other than notified profession**): Income from business or profession exceeds ₹ 1,20,000 Or Total sales/gross receipts exceeds ₹ 10,00,000.
In any of 3 preceeding P/Y or likely to exceeds in case of newly setup business or profession.
Assessee is required to maintain → books of account and other documents (for computation of income)

(ii) Not required to maintain any books if specified amount are not exceeded.

Notified Professions: Profession of Law, Medicine, engineering, accounting, CA, CS, etc.

(i) Gross receipts exceeding ₹ 1,50,000 (in all three years immediately preceeding the PY or likely to exceed if the profession is newly setup)

Assessee is required to maintain: **Specified books** → Cash Book, Journal, Ledger, Carbon Copies of Bills exceeding ₹ 25, Original Bill for expenditure exceeding ₹. 50

In case of medicine profession: Daily Cash Register, Medicine Inventory Register

(ii) In other cases: Assessee is required to maintain such books of account and other documents as may enable the Assessing Officer to compute income

Compulsory Audit of Accounts [Section 44AB]

- (1) Applicability →
 - (a) For business total sales or gross receipts exceed ₹ 60,00,000
 - (b) For profession gross receipts exceeds ₹ 15,00,000
 - (c) Business referred to u/s 44AD/AE/AF and declaring lower income
- (2) Filling of report → Audit report of CA on or before 30th September of the relevant A/Y
- (3) If accounts audited under any other law → Report with audit report under any law
- (4) Consequence of non-compliance → Defective return [Section 139(9)]

Presumptive income in case of Specific Business or Profession [Section 44AD/AE/AF]

Civil construction [Section 44AD]: 8% or more of gross turnover

Business of plying and leasing goods carriages [Section 44AE]: Heavy goods vehicle ₹ 5,000 p.m. and other ₹ 4,500 p.m. or part of a month (Maximum 10 goods carriage)

Common provisions in case of Section 44AD (Sec. 44AD + Sec. 44AF = Sec. 44AD)

- (1) Deduction under Section 30-38 (deemed to be allowed)
- (2) Depreciation (deemed to be allowed)
- (3) Turnover for under Section 44AB (not to considered)
- (4) Option for lesser amount (Section 44AA & 44AB applicable)
- (5) Partner's – Interest, salary (allowed)
- (6) Deduction under Section 80C-80U (allowed)

Amendment 1: Section 44AD & Section 44AF

Notwithstanding anything to the contrary contained in **Sections 28 to 43C**, in the case of an eligible assessee engaged in an eligible business*, a sum equal to 8% of the total turnover or gross receipts of the assessee in the previous year on account of such business or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head Profits and gains of business or profession.

Effect of this amendment: Now not only retail business but all business covered so scope of this section is very wide. That is also evident from the fact, that just because of this amendment, a new ITR has come called "Sugam"

➔ Eligible Business:

1. Any business except the business of plying, hiring or leasing goods carriages referred to in section 44AE; and
2. Whose total turnover or gross receipts in the previous year does not exceed an amount of sixty lakh rupees.

There is specific Turnover limit of ₹ 15 Lakhs for Profession under **Section 44AB**, which means that profession is totally separate from Business.

The assessee is bound to get the books of accounts audited, if the following two conditions are satisfied:

1. His profits and gains from the eligible business are lower than the profits and gains specified in sub-section (1) i.e. his net profit is lower than 8% of turnover
And
2. Whose total income exceeds the maximum amount which is not chargeable to income-tax

Amendment 2: Section 44AE

- Plying, leasing or hiring of trucks (person should not own over 10 goods carriage at any time during the previous year)
- ₹ 5,000 per month/ part of month for each heavy goods vehicle.
- ₹ 4,500 per month/ part of month for each light goods vehicle.

INCOME FROM CAPITAL GAIN

(Estimated Time Allocated – 20 minutes)

Basis of charge [Section 45(1)]

Capital assets → Transfer → P/Y → Capital Gain → Exemption u/s 54-54H (applicable)

Capital Assets [Section 2(14)]

Includes → Property of any kind whether or not connected with business or profession

Excludes → Stock in trade, personal effects (except jewelry, archeological collections etc.), Rural agriculture land in India

Types of Capital Assets

- (i) **Short term capital assets** → Holding period not more than **36 months**
Exception → Holding period not more than **12 months**
Equity or preference shares, listed securities, units of mutual fund, Zero Coupon Bonds
- (ii) **Long term capital assets** → A capital assets which is not a short term capital asset

Transfer [Section 2(47)]

Sale Exchange, Relinquishment, Extinguishment, Compulsory Acquisition, Conversion of Capital Assets, **Redemption of Zero Coupon Bonds**, Part Performance of Contract (Transfer Of Property Act), Enjoyment Of Immovable Property

Meaning of Zero Coupon Bond [Section 2(48)]

- (a) Issued (on or after 1/6/2005) → Infrastructure capital company or infrastructure capital fund or public sector company or scheduled bank
- (b) No payment and benefit → before maturity or redemption
- (c) Central government → Notification in the Official Gazettee

Transaction which are not considered as transfer [Section 47]

- (1) Partition of HUF
- (2) Gift or will or irrevocable trust (except → ESOP)
- (3) Holding company to its Indian Subsidiary company (Condition → 100% shareholding)
- (4) Subsidiary company to its Indian Holding company (Condition → 100% shareholding)
- (5) Amalgamation company to its Indian amalgamated company
- (6) Amalgamation of a company with a Banking Institutions
- (7) Demerged company to its Indian resulting company
- (8) Transfer of shares by resulting company to the shareholders of demerged company
- (9) Shares of amalgamated company to shareholder of amalgamated company
- (10) Transfer made by one non-resident to another non-resident (outside India)
- (11) Transfer (Government, University, Notional Museum, National art Gallery, Notified by CG)
- (12) Conversion of Bonds, debenture, deposit certificate into shares or debentures of that company
- (13) Transfer of land by Sick Industrial company (managed by its own co-operative)
- (14) Transfer of capital assets of a firm into company

Condition: All assets/liabilities, capital ratio, partners received only by shares, 50% voting power 5 years

Comparison of Capital Gain [Section 48]

- (i) Computation of Short Term Capital Gain:
Full value of consideration **Less** Transfer expenses, COA, COI, Exemption u/s 54B, 54D & 54G
- (ii) Computation of Long Term Capital Gain:
Full value of consideration **Less** Transfer expenses, ICOA, ICOI, Exemption u/s 54-54H

Cost of acquisition and Improvement [Section 55]

- ⇒ **In case of right to manufacture, produce any article or goodwill of a business**
COA → Nil (if self-generated by assessee or provision owner.)
Cost to assessee/ Previous Owner (if required/purchase)
COI → Nil
- ⇒ **In case of Tenancy rights, Route permits and loom hours, trademarks or bond name**
COA → Nil (if self-generated by assessee or provision owner.)
Cost to assessee/ Previous Owner (if required/purchase)
COI → Expenses incurred by assessee or previous owner

Goodwill of profession is not taxable

→ B. Srinivas Setty (SC)

Cost of Acquisition of different types of shares [Section 55]

Particulars of Assets	Date of acquisition/Holding Period	Cost of Acquisition
(1) Shares originally purchased: (a) Primary market (b) Secondary market (i) Transaction through share broker (ii) Transaction between parties directly	Date of Allotment Date of broker's note Date of contract of sale	Allotment price Amount paid + Brokerage charges + Adjustment for exp. & com. + dividend/interest As above (excluding brokerage)
(2) Bonus share	Date of allotment	NIL
(3) Shares acquired in different lots at different point of time	FIFO method	FIFO method
(4) Shares held in depository system (taxable in hands of beneficial owner)	FIFO method	FIFO method
(5) Right shares offered to existing shareholders and subscribed by them	Date of allotment	Offer Price
(6) Right share acquired by a person by way of renunciation	Date of allotment	Offer price + Amount paid for renunciation
(7) Renunciation of right shares in favour of another person	Holding period is date of offer of such right to the date of renunciation (always STCG)	NIL
(8) Financial asset acquired without any payment	Date of allotment of such financial assets	NIL

Computation of Capital Gain in Special Cases

Section	Nature of Transaction	Year of taxability	Computation of Capital gain
45(1A)	Insurance claim on loss of assets	Year of receipt of claim	Insurance claim received Less COA or COI
45(2)	Conversion of capital assets into Stock-in-trade (Key note: Indexation based on year of conversion, not on year of sale)	Year of transfer of converted stock	FMV of the capital asset on conversion Less COA or ICOA Business income = Sale consideration Less FMV considered as above
45(2A)	Sale of shares held as depository (FIFO method)	Year of transfer	Consideration for transfer Less COA or ICOA
45(3)	Introduction of capital assets by partner into firm	Year of distribution	Amount credited in partners' capital a/c in the books of the firm Less COA or ICOA

45(4)	Distribution of capital asset by partners/ members on dissolutions of firm/AOP/BOI	Year of first receipt	FMV on date of transfer Less COA or ICOA
45(5)	Compulsory acquisition of capital asset by Government		
	(a) Normal compensation	Year of first receipt	Whole of normal compensation received or receivable Less COA or ICOA
	(b) Enhanced compensation	Year of receipt of claim	Enhanced compensation Less Expenses incurred
45(6)	Redemption 80CCB Units	Year of repurchase	Repurchase price Less Amount invested (no indexation)
46	Receipts of Assets / cash from company on liquidation	Year of receipt	FMV of asset received Add Amount received in Cash Less Deemed dividend u/s 2(22)(c) Less COA or ICOA of hares
46A	Repurchase/buy back of shares /Specified securities	Year of repurchase	Consideration for transfer Less COA or ICOA
50B	Sale or undertaking as a going concern or Slump sale	Year of transfer	Lump sum consideration Less Net worth
50C	Transfer of land or building or both at less than stamp duty authority value	Year of transfer	Value determined by stamp duty authority Less COA or ICOA

Advance money forfeited [Section 51]Cost of assessee **Less** Forfeited by the assessee**Reference of a valuation officer [Section 55A]**

(i) Sale consideration < FMV

(ii) Difference between FMV and sale consideration (*more than ₹ 25,000 or 15%*)**Exemption on compulsory acquisition of agriculture land [Section 10(37)]**

Individual or HUF → Holding period 2 year or more → Consideration determined by CG or RBI → on or before 1/4/2004

Exemption on LTCG from Shares [Section 10(38)]

Transfer on or after 1/10/2004 → Through recognized stock exchange → security transaction tax applicable

Tax on STCG from shares @ 15% [Section 111A]

Transfer on or after 1/10/2004 → Through recognized stock exchange → security transaction tax applicable

Tax on LTCG from listed securities [Section 112]Tax @ 20% on LTCG after Indexation or @ 10% on LTCG without indexation (*whichever is less*)

Exemption from Capital Gain [Section 54/54B/54D/54EC/54F/54G/54GA]									
Sec.	Asset transferred	Who is entitled	Use of Holding period	Amount to be invested	New Asset	Exemptions	Prescribed period for investment	Treatment of unutilized amount	Sale of new asset
54	Residual House	Individual or HUF	Exceeding 36 months	Capital Gain	Residual House	Capital Gain or amt. invested whichever is less	Within 1 yr. before or 2 yrs. after the date of transfer in case of purchase, or within 3 yrs. after the date of transaction in case of new consideration	Deposit in Capital Gains Account Scheme before due date of furnishing the return of Income	If sold within 3 yrs. from the date of purchase/ construction for the purpose of computation of STCA on the new asset, the cost of new asset shall be reduced by the amount of CG claimed as exempted
54B	Agricultural Land	Individual	Use for 2 yrs. for agriculture	Capital Gain	Agricultural land	As Above	Within 2 yrs. after transfer	As Above	As Above
54D	L & B for industrial Undertaking	Any assessee	Use for 2 years	Capital Gain	L & B for industrial undertaking	As Above	Within 3 yrs. after transfer	As Above	As Above
54EC	Long term capital asset	Any assessee	LTCA	Capital Gain	Bonds issued on or after 1/4/2007 by NHAI or RECL	Capital Gain or amt. invested whichever is less (maximum ₹ 50 lakh during any financial year)	Within 6 months of transfer of original asset	Not Applicable	If sold within 3 yrs. exempted Capital gain will be deemed to be the income of the assessee in the yr. of sale of new asset
54F	Any asset other than residual house	Individual or HUF	Should be LTCA. Should not own more than one house on the date of transfer	Net consideration	Residual House	Capital Gain $\times$ $\frac{\text{Amt. Invested}}{\text{Net consider.}}$	Within 1 yr. before or 2 yrs. after the date of transfer in case of purchase, or within 3 yrs. after transfer in case of construction	Deposit in Capital Gains Account Scheme before due date of furnishing the return of Income	Sale as for Section 54, 54B, 54D except that under section 54F will be taxed as LTCG
54G	P & M or L&M for industrial undertaking in urban area	Any assessee	May be LTCA or STCA	Capital Gain	P & M or L & B used for industrial undertaking in non-urban area or meeting expenses of shifting	Capital Gain or amt. invested whichever is less	Within 1 yr. before or within 3 yr. after the date of transfer	As Above	Same as for Section 54, 54B & 54D
54GA	P & M or L&M for industrial in urban area	Any assessee	May be LTCA or STCA	Capital Gain	P & M or L & B used for industrial undertaking in SEZ or meeting expenses of shifting	Capital Gain or amt. invested whichever is less	Within 1 yr. before or within 3 yr. after the date of transfer	As Above	Same as per Section 54

INCOME FROM OTHER SOURCES*(Estimated Time Allocated – 8 minutes)***Basis of charge [Section 56(1)]**

Income not related to any head

Specified Incomes [Section 56(2)]

- (i) Dividend, winning from lotteries, races, card games, incomes from letting machinery or furniture along with building and only machinery or furniture, interest on securities.
- (ii) **Where any some of money / any property / movable property exceeding ₹ 50,000 the whole of such amount (except relative, occasion of marriage, under a will, in comparison of death of the payer)**

Deemed Dividend [Section 2(22)]

(a) Any distribution by company, (b) Distribution of debenture, (c) Distribution of accumulated profit to shareholders on liquidation, (d) Distribution on reduction of share capital, (e) Any advance / loan by a private company to equity shareholder (10% voting power) or any concern (in which such member is have been not less than 20% voting power)

Rate of tax in case of winning from lottery etc. [Section 155BB]

30% of such income + 2% education + 1% SHEC

Interest on securities (Rates of TDS)

Types of Security	Rate of TDS
(i) CG/SG securities	No TDS
(ii) Listed securities	10%
(iii) Unlisted Securities	20%

Note: In case of tax free non-government securities → Grossing Up of interest**Bond Washing Transaction**

- If owner of any securities sells 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 as per Section 94 interest would be deemed to be the income of transferor and not Transferee.

Example:

- (a) If there is not avoidance of Income Tax or
- (b) The avoidance of Income Tax was exceptional and bot synergic and there was no avoidance of income tax of three proceeding years.

Family Pension [Section 37(iia)]

Family pension received by legal heir of deceased employee, taxable under the head "other source. Standard deduction to legal heirs is allowed.

- (i) 33.33% of pension
 - (ii) Rs. 15000
- } whichever is lower

CLUBBING OF INCOME

(Estimated Time Allocated – 8 minutes)

Transfer of income without transfer of assets [Section 60]
Taxable in hands of transferor
Revocable transfer of assets [Section 61]
Taxable in the hands of transferor
Remuneration of a spouse from a concern in which the other spouse has substantial interest other than for exercising professional knowledge [Section 64(1)(ii)]
Clubbed in the hands of individual
Income from assets transferred to the spouse for inadequate consideration [Section 64(1)(iv)]
Clubbed in the hands of individual
Income from assets transferred to the son's wife for inadequate consideration [Section 64(1)(vi)]
Clubbed in the hands of individual
Income from assets transferred to any person for the benefit of the spouse of the transferor [Section 64(1)(vii)]
Clubbed in the hands of individual
Income from assets transferred to any person for the benefit of the son's wife of the transferor [Section 64(1)(vii)]
Clubbed in the hands of individual
Clubbing of income of a minor child [Section 64(1A)]
In the hands of parents whose total income is higher or the person maintained minor
Income from self-acquired property concerted to joint family property for inadequate consideration [Section 64(2)]
Clubbed in the hands of individual

SET-OFF & CARRY FORWARD

(Estimated Time Allocated – 6 minutes)

Nature of Income		Set-Off			Carry Forward	Set-Off
		Same Source under same head	Inter-source under same head	Inter-Head	For Assessment Year	From
Salary		NA	NA	NA	NA	NA
PGBP	Non-Speculation	✓	✓	✓ <i>Except from Salary</i>	8 years	Same head
	Speculation	✓	✓	✓	4 years	Same head
	Owning & maintenance race horses	✓	×	×	4 years	Same head
Capital Gains	Short Term	✓	✓	×	8 years	Same head
	Long Term	✓	×	×	8 years	Same head
Other Sources	Winning from lottery etc.	×	×	×		
	Interest etc.	✓	✓	✓		

DEDUCTIONS (UNDER CHAPTER VIA) FROM GROSS TOTAL INCOME
(Estimated Time Allocated – 14 minutes)

Sec.	Applicability	Nature of Payment/Receipt	Amount of deduction
80C	Individual/HUF	Life insurance premium, contributions to PF, etc.	Max. ₹ 1,00,000
80CCC	Individuals	Contribution to certain pension funds	Amt. paid or ₹ 1,00,000 (lower)
80CCD	CG or other or self-employees	Contribution to CG pension schemes	Amt. paid or 10% of salary (lower) [Self-employees max. 10% of GTI]
80CCE	80C+80CCC+80CCD		Max. ₹ 1,00,000
80CCF	Individuals/HUF	Long-term infrastructural bonds	Max. ₹ 20,000
80D	Individuals/HUF	Central Govt. Health Scheme (CGHS) amended for AY 2011-12	General: Premium paid or ₹ 15,000 (lower) and For parents ₹ 15,000 Senior citizen: Premium paid or ₹ 20,000 (lower)
80DD	Resident Individual/HUF	Expenditure on handicapped dependent relative	Disability: ₹ 50,000 (fixed), Severe Disability: ₹ 1,00,000 (fixed)
80DDB	Resident Individual/HUF	Expenditure on specified diseases	General: Actual or ₹ 40,000 (whichever is less) Senior citizen: Actual or ₹ 60,000 (whichever is less)
80E	Individuals	Interest on payment of loan taken for Higher Education	Actual Interest (maximum 8 assessment year)
80G	All Assesseees	Deduction in respect of Donation	⇒ 100% deduction without Qualifying Limit ⇒ 50% deduction without Qualifying limit ⇒ 100% deduction without Qualifying limit (10% of Adj. total income) ⇒ 50% deduction without Qualifying limit
80GG	Individuals	Assessee should not be entitled to HRA, not own any residential at work space	Minimum of (i) Rent paid less 10% of Adj. total income (ii) 25% of Adj. Total Income , (iii) ₹ 2000 p.m.
80GGA	All Assesseees (no PGBP income)	Donations	Just like to Section 35/35CCA/35AC
80GGB	Indian Companies	Donation to Political Party or Electoral Trust	Actual amt. donated
80GGC	Other than Indian Company (except local authority, AJP)	Donation to Political Party or Electoral Trust	Actual amt. donated
80IA	Industrial Undertaking	Infrastructural facility, telecommunication, industrial park, distribution of power	100% of profit for 10 years
80JJA	All Assesseees	Business of processing of Bio-degradable waste	100% of profit for first 5 Assessment years
80JJAA	Indian Companies	Deduction for additional employment	30% of Additional wages for 3 years
80LA	Off shore banking units of banks	Income from Off-shore banking unit	First 5 years : 100%, Next 5 years : 50% } of such income
80P	Co-operative society	Cottage industries, marketing of the agricultural produce, fishing	⇒ Co-operative society engaged in other activities ₹ 50,000 ⇒ Consumer's co-operative society ₹ 1,00,000
80QQB	Resident Individual	Royalty income from book	Least of whole of such income of ₹ 3,00,000
80RRB	Resident Individual	Income from patent registered after 1/4/2003	Least of whole of such income of ₹ 3,00,000
80U	Handicapped Resident Individual		General: ₹ 50,000 (fixed) Severe Disability: ₹ 75,000 (fixed)

RETURN OF INCOME*(Estimated Time Allocated – 12 minutes)*

Sec.	Particulars	
139(1)	Return of Income: Due Date: (a) Where the assessee is company (i) Other than co. where a/c are audited (ii) Working partner of a firm (a/c are audited) (b) In any other case	Company, firm, a person other than company or firm if its total income exceeds the maximum amount which is not chargeable to Income Tax 30th September of AY 30th September of AY 30th September of AY 31st July of AY
139(1A)	Bulk Return	Filing of return through employer (<i>Floppy, Diskette, Magnetic cartage Tape, CD ROMS etc.</i>)
139(1B)	Filing of Return on Computer readable media	Floppy, Diskette, Magnetic cartage Tape, CD ROMS etc. or any other computer readable media
139(3)	Return of loss	File within time specified in <i>Section 193(1)</i> If return of loss is not filed then following loss cannot be carried forward (i) Business loss (ii) Capital loss (iii) Owning and maintenance race horses loss
139(4)	Belated return	Within 1 year from the end of relevant AY or before completion of assessment (<i>earlier</i>)
139(4A)	Return of charitable trust	Before allowing exemption u/s 11 & 12 exceeds the basic exemption limit
139(4B)	Return on behalf of Political Party	Before allowing exemption u/s 13A exceeds the basic exemption limit
139(4C)	Return of Income of certain associations	Scientific Research, News agency, Professional institution, University Hospital, Institution for development of Khadi, Trade Union
139(5)	Revised Return of income	Within 1 year from the end of relevant AY or before completion of assessment (<i>earlier</i>) Belated return cannot be revised [Kumar Jagdish Chandra Sinha (SC)]
139(6)	Other Assessee	Income exempt from tax, assets, bank account & credit card, expenditure excess the limit
139(6A)	Particulars to be furnished by business assessee	Name and address of principal place and branches, partners or members Profit share of partners or members, Audit report under <i>Section 44AB</i>
139(9)	Defective return	Annexure, computation of the tax, audit report u/s 44AB, proof of TDS and advanced Tax Account, Statement, Audit u/s 233AB of Companies Act
139A	Permanent Account Number (PAN)	(i) Total Income greater than Basic exemption limit (ii) Gross turnover/receipt greater than ₹ 5,00,000 (iii) Charitable Trust (iv) Return of fringe benefit
140	Signing of return	Individual → himself, HUF → Karta, Company → MD, Firm → Managing Partner, LLP-Designated Local Authority → Principal officer, Political Party → CEO, AOP → Principal officer

TAX DEDUCTED AT SOURCES (TDS)*(Estimated Time Allocated – 14 minutes)*

Sec.	Nature of payment	Who is liable to deduct tax?	Type of Recipient	Rates of TDS	Exemption Limit
192	Salary	Employers	Employees	Rates of tax as applicable to the individual	Basic exemption applicable to individuals (₹ 1,60,000/ ₹ 1,90,000/ ₹ 2,40,000)
193	Interest on securities	Payer of Interest of securities	A resident person	Domestic co.: 10% Other: Listed debentures 10% Non-listed debentures: 10%	Exempted for certain listed securities u/s 193. Listed Debentures: ₹ 2,500 De-mat. Security
194	Dividend u/s 2(22)(c)	Domestic company	Resident	20%	Upto ₹ 2,500 during a FY in case of an individual
194A	Interest other than interest on securities	All assessee except Individuals and HUF who are not subject to audit u/s 44AB during prior PY	A resident person	Domestic co.: 10% Other: 10%	₹ 10,000 if payment made by Banking co., co-operative society, post office. ₹ 5,000 if payment made by any other person.
194B	Winning from lotteries/ crossword puzzles	Any Person	Any Person	30%	₹ 10,000
194BB	Winning from horse race	Any Person	Any Person	30%	₹ 5,000
194C	Payment to contractor or sub-contractor	All assessee except Individuals and HUF who are not subject to audit u/s 44AB during prior PY	Any person resident in India	Individual/HUF: 1% Other: 2%	₹ 30,000 per contract value or credit less than ₹ 75,000 p.a. aggregate
194D	Insurance commission	Any Person	Resident Assessee	Domestic Co.: 20% Others: 10%	₹ 20,000 p.a.
194E	Payment to non-resident sportsmen or sport association of income referred to sec. 155BBA	Any Person	Non-resident: Sportsmen being foreign citizen; or Sport association	10%	NIL
194EE	National saving scheme	Post office	Any Person	20%	₹ 2,500 or payment is made to heirs of the deceased assessee
194F	Repurchase of units	Mutual funds or UTI	Unit holder u/s 80CCB	20%	NIL
194G	Commission on sale of lottery	Any Person	Any resident Person	10%	₹ 1,000 p.a.
194H	Commission on brokerage	All assessee except Individuals and HUF who are not subject to audit u/s 44AB during prior PY	Any resident Person	10%	(i) ₹ 5,000 (ii) Commission payable by BSNL or MTNL
194I	Rent	All assessee except Individuals and HUF who are not subject to audit u/s 44AB during prior PY	Any resident Person	Rent of P & M: 2% Rent of L & B. Furniture: 10%	(i) ₹ 1,80,000 in a financial year (ii) Payee is Govt./Local authority
194J	Professional or Technical fees	All assessee except Individuals and HUF who are not subject to audit u/s 44AB during prior PY	Any resident Person	10%	₹ 30,000 in a financial year
194LA	Compensation/ Enhanced compensation on compulsory acquisition	Any person	Any resident Person	10%	Aggregate of such payments during the FY does not exceed ₹1,00,000
195	Interest; or any other sum (other than income taxable as "Salaries")	Any person	Non-resident foreign company	As Specified by Finance Act	Dividend referred in Section 115O

APPENDIX**INCOME TAX RATES FOR AY 2011-12***(Estimated Time Allocated – 05 minutes)*

In case of every Individual or HUF or AOP/BOI (other than a co-operative society) whether incorporated or not, every artificial judicial person			
Upto ₹ 1,60,000		NIL	
₹ 1,60,010 to ₹ 5,00,000		10%	
₹ 5,00,010 to ₹ 8,00,000		20%	
Above ₹ 8,00,000		30%	
In the case of every Individual, being a women resident in India, and below the age of 65 years at any time during the previous year			
Upto ₹ 1,90,000		NIL	
₹ 1,90,010 to ₹ 5,00,000		10%	
₹ 5,00,010 to ₹ 8,00,000		20%	
Above ₹ 8,00,000		30%	
In the case of every Individual, being a resident in India, who is of the age of 65 years at any time during the previous year			
Upto ₹ 2,40,000		NIL	
₹ 2,40,010 to ₹ 5,00,000		10%	
₹ 5,00,010 to ₹ 8,00,000		20%	
Above ₹ 8,00,000		30%	
Note: 1. No surcharge is payable by the above assessee. 2. 'Education Cess' @ 2% & 'Secondary and Higher Secondary Education Cess (SHEC)' @ 1% on income tax shall be chargeable			
In case of every co-operative society			
Where income does not exceed ₹ 10,000		10%	
Where the Total Income exceeds ₹ 10,000 but does not exceeds ₹ 20,000		₹ 1,000 plus 20% of the amount by which the total income exceeds ₹ 10,000	
Where the total income exceeds ₹ 20,000		₹ 1,000 plus 30% of the amount by which the total income exceeds ₹ 10,000	
Note: 1. No surcharge shall be levied in the case of a co-operative society 2. 'Education Cess' @ 2% & 'Secondary and Higher Secondary Education Cess (SHEC)' @ 1% on income tax shall be chargeable			
In case if any firm (including LLP)		30%	
Note: 1. No surcharge shall be levied in case of firm 2. 'Education Cess' @ 2% & 'Secondary and Higher Secondary Education Cess (SHEC)' @ 1% on income tax shall be chargeable			
In case of Company			
Company	Particular	Rate	Surcharge
For domestic company	Total income exceeds ₹ 1,00,00,000	30%	7.5%
For foreign company	Total income exceeds ₹ 1,00,00,000	40%	2.5%
Note: 'Education Cess' @ 2% & 'Secondary and Higher Secondary Education Cess (SHEC)' @ 1% on income tax shall be chargeable			
Special rates of Income Tax			
On Short-Term Capital Gain (STCG) covered under Section 111A		15%	
On Long-Term Capital Gain (LTCG) covered under Section 112		20%	
On winning of lotteries, crossword puzzles, card games etc. [Sec. 115BB]		30%	

ASSUMPTIONS*(Estimated Time Allocated – 05 minutes)***If nothing mentioned clearly in question only then make following assumptions.**

INCOME FROM SALARY		
No.	Particulars	Assumption
1.	Govt./Non-Govt.	Assume non-govt. employee
2.	Gratuity	Employee is not covered under Payment of Gratuity Act
3.	Pension	Uncommuted pension
4.	Employees PF contribution	Basic salary is gross without deducting employees' contribution
5.	Dearness Allowances	It is not under terms of employment
6.	Dearness Pay	It is under terms of employment
7.	Specified Allowances (Travelling Allowances, Daily Allowances)	If expenditure not given assume that fully expended for official purpose
8.	HRA, city in which house taken on rent	Assume 40% (For any other place)
9.	Rent free Accommodation	If nothing is mentioned or only Fair Rent Value given then assume that owned by employer and if Actual Rent or Lease Rent given then not owned by employer
10.	Rent free Accommodation	If owned by employer and population not given then assume that in city of more than 25,00,000
11.	Interest free loan	If rate of interest of SBI not given assume to be 12% p.a.
12.	Education facility	Employer has no contract with the school and it is not maintained by employer
13.	Medical facility	In any other hospital and exemption upto ₹ 15,000
INCOME FROM HOUSE PROPERTY		
1.	Interest for self-occupied property	Loan was taken before 1/4/1999
2.	Recovery of unrealized rent	Covered u/s 25A
INCOME FROM OTHER SOURCES		
1.	Debentures	Non-listed at any recognized stock exchange
SET-OFF OR CARRY FORWARD OF LOSSES		
1.	Business Losses	Non-speculation Business Losses

MEANING OF RELATIVES
(Estimated Time Allocated – 05 minutes)

INCOME FROM SALARY		
No.	Particulars	Meaning of Relative
1.	Prescribed fringe benefits	Member of household (a) Spouses (b) Children and their spouses (c) Parents (d) Servants and dependents
2.	Medical facilities and leave travel concession	(a) The spouses & children (b) Parents, brothers and sisters of the individual wholly or mainly dependent on the individual
PROFIT & GAIN FROM BUSINESS OR PROFESSION		
1.	Payment to specified persons [Section 40A(2)]	Specified person means relative, partner, director or person having substantial interest or relative of any such person (Any relative i.e., spouse, any brother, sister lineal ascendant or descendant of such individual)
INCOME FROM OTHER SOURCES		
1.	Gifts (in money) [Section 56(2)]	(a) Spouse of the individual (b) Brother or sister of the individual (c) Brother or sister of spouse of the individual (d) Brother or sister of either of the spouse or the individual (e) Any lineal ascendant or descendant of the individual (f) lineal ascendant or descendant of spouse of the individual (g) Spouse of the person referred to in clauses (b) to (f)
CLUBBING OF INCOME		
1.	Substantial Interest	Individual, spouse, brother, sister or lineal ascendant & descendant
DEDUCTIONS		
1.	Life Insurance Premium [Section 80C]	LIP on life of himself, spouse and children. In HUF: any member of family
2.	Medical Insurance Premium [Section 80D]	(1) Individual, spouse, parents (whether dependent or not), dependent children (2) In case of HUF: in the name of any member
3.	Section 80DD & Section 80DDB	(i) Individual, spouses, children, parents, brother and sister (ii) In case of HUF, any member of HUF
4.	Section 80E	Spouse, children of individual

EXPERT'S ADVICE	Pulkit Gupta, CA Final Student
➤ Taxation is not only the scoring but one of the most interesting subjects you will come across during CA. It is very useful in your professional life too and money wise too. ➤ One should give atleast 2 hours each day to taxation along with Accountancy. No need to prepare separate schedule for it. Just do it with Accountancy and Costing and you never know when you have completed the subject like Taxation. ➤ VAT & Service Tax portion is very easy and too much scoring. Its advisable to you to attempt it first if it comes as a separate section. ➤ Capital Gain is a bit tricky one so requires multiple reading and too much practice. In Exam too read the question of Capital Gain twice before attempting it. ➤ House Property, Clubbing, Set-off, Residential Status, TDS & Advance tax are the scoring portions too. ➤ PGBP (Profit and Gain for Business and Profession) is very important for exam purpose and for professional purpose too. ➤ In salary pay special attention to retirement benefits, exempted limit and meaning of Govt. employee.	

PART II: SERVICE TAX**SERVICE TAX AT A GLANCE**
(Estimated Time Allotted 30 Minutes)

Important Sections, Rules and Forms		
Section	Particulars (Sections referred to Finance Act, 1994)	
Section 64	Extent, commencement and application	
Section 65(105)	Taxable Services	
Section 66	Charge of Service Tax	
Section 67	Valuation of Taxable services for charging Service Tax	
Section 68	Payment of Service Tax	
Section 69	Registration	
Section 70	Furnishing of return	
Section 71	Scheme for Submission of Returns through Service Tax Preparer	
Section 72	Best Judgment Assessment	
Section 73A	Service Tax collected from any person to be deposited with Central Government	
Section 73B	Interest on amount collected in excess	
Section 74	Rectification of mistake	
Section 75	Interest on delayed payment of Service Ta	
Section 76	Penalty for failure to pay service tax	
Section 77	Penalty for contravention of rules and provisions of Act for which no penalty is specified elsewhere	
Section 78	Penalty for suppressing value of taxable service	
Section 80	Penalty not to be imposed in certain cases	
Section 93	Power to grant exemption from service tax	
Rules	Particulars	Related Section
Rule 2	Forms	Section 68
Rule 4	Registration	Section 69
Rule 5	Records	Section 70
Rule 6	Payment of Service tax	Section 68
Rule 7	Returns	Section 70
Rule 7B	Revision of return	
Rule 7C	Amount to be paid for delay in furnishing the prescribed return	
Forms	Particulars	
ST 1	Application	
ST 2	Registration Certificate	
ST 3-3A	Return	
TR 6-GAR 7	Payment of Service Tax	
Levy of Service Tax		
➤ Based on recommendation of Dr Raja. J. Chelliah in Tax Reform Committee in 1990		
➤ Brought in existence in 1994 under the finance ministry of Dr. Manmohan Singh		
Basis of recommendation		
➤ To introduce value added tax as indirect taxation as a whole		
➤ To make tax revenue neutral		
➤ To widen tax base		
➤ As service sector contribute a lot to GDP so to generate Tax revenue from this sector		
Constitutional authority		
Entrv 97 of List 1 empowers the union to levv Tax		

Acts governs Service Tax

- ✦ Finance Act, 1994
- ✦ Service Tax Rules, 1994
- ✦ Service Tax Rules, 2003
- ✦ CENVAT Credit Rules, 2003
- ✦ Export of Service Rules, 2005
- ✦ Service Tax (attachment of property Rules, 2006)

Functions of Director General

- ✦ Ensure proper establishments and infrastructure facilities
- ✦ Study on staff requirement
- ✦ ST has been properly implemented in the field
- ✦ Suggest proper measures to increase revenue collection
- ✦ Simplify Service Tax collection

Place to levy Service Tax

At the **place where service is actually utilized** not on place where person who provides service

Registration under Service Tax

- ✦ **Form ST 1**
- ✦ Get **Registration Certificate** within 7 days by filling **Form ST 2**
- ✦ Registration must be done within 30 days after providing of taxable services.

Registration Limit

- ✦ Assessee must **apply** for Registration when his taxable turnover **exceeds ₹ 8,00,000**
- ✦ Also, assessee shall charge **Service Tax** after crossing the turnover of **₹ 10,00,000**

Cases in which Service Tax is payable by service receiver

- ✦ Insurance Auxiliary
- ✦ Units of Mutual Fund
- ✦ Sponsorship Services
- ✦ Service Received from a Person outside India
- ✦ Goods Transport Agency

Payment of Service Tax

Proprietors and firms	Others
Quarterly basis on 5th day of Completion of Each Quarter and 31st March for Quarter from January-March	Monthly Basis on 5th Day of Next Month and 31st March for the Month of March

Note: For E-filing of Return the Due date is 6th rather than 5th in above cases.

Discharge of payment

- ✦ ST is paid Through **GAR-7** Challan
- ✦ Any Delay in payment of Service Tax attracts an Interest of **13% p.a.** from the date of default

Note: E-Payment of Service Tax is Mandatory if Assessee is paying an amount **more than ₹10,00,000**

Service Tax Return

- ✦ Service Tax Return is filled on **Half Yearly Basis** on 25th Day after every six months.
Due dates: 25th April and 25th October
- ✦ Service Tax Return can be revised within 90 days from the date of filling of Return.

Penalty for late return filing

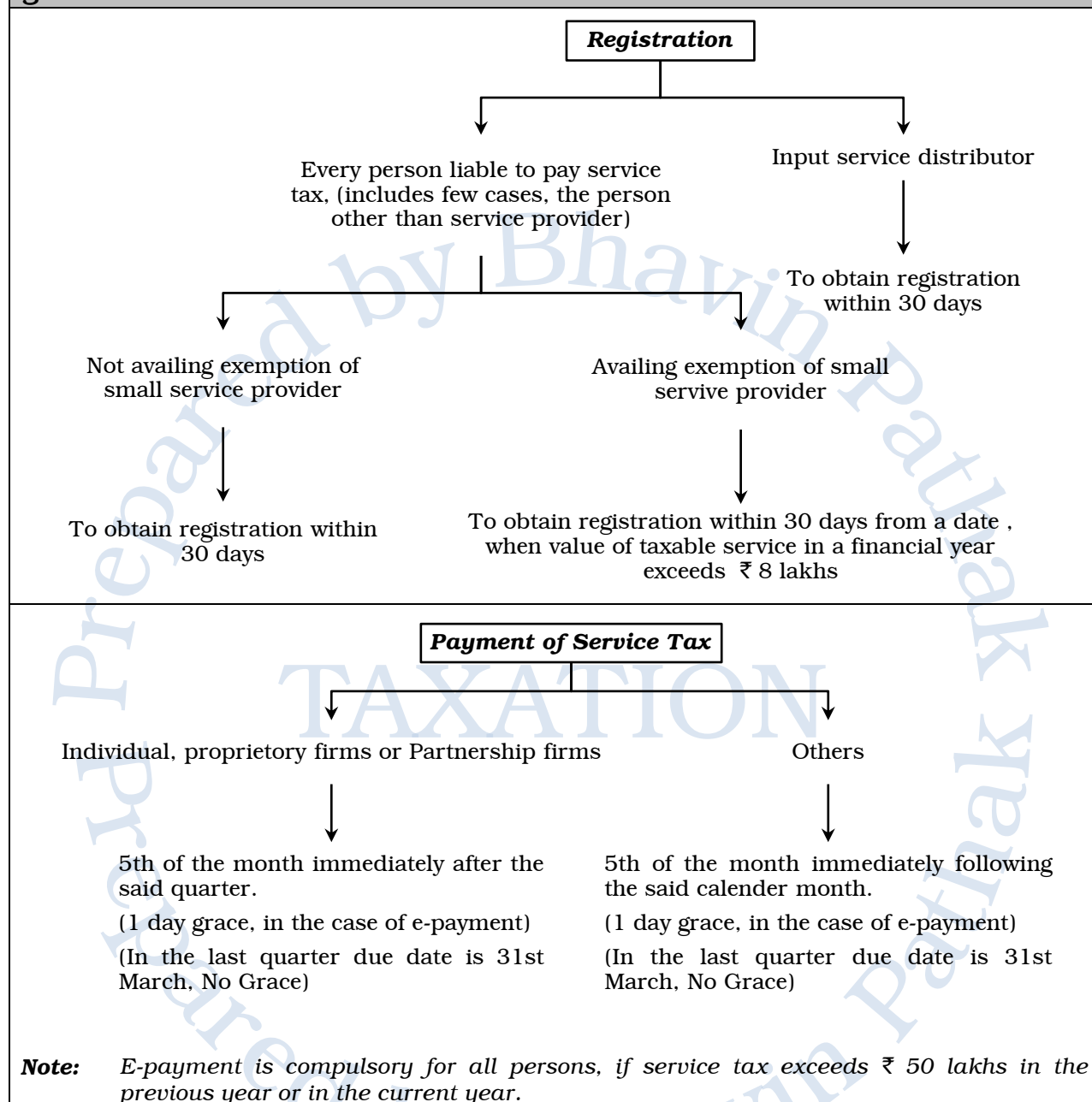
If Return is **Late From Due Date**

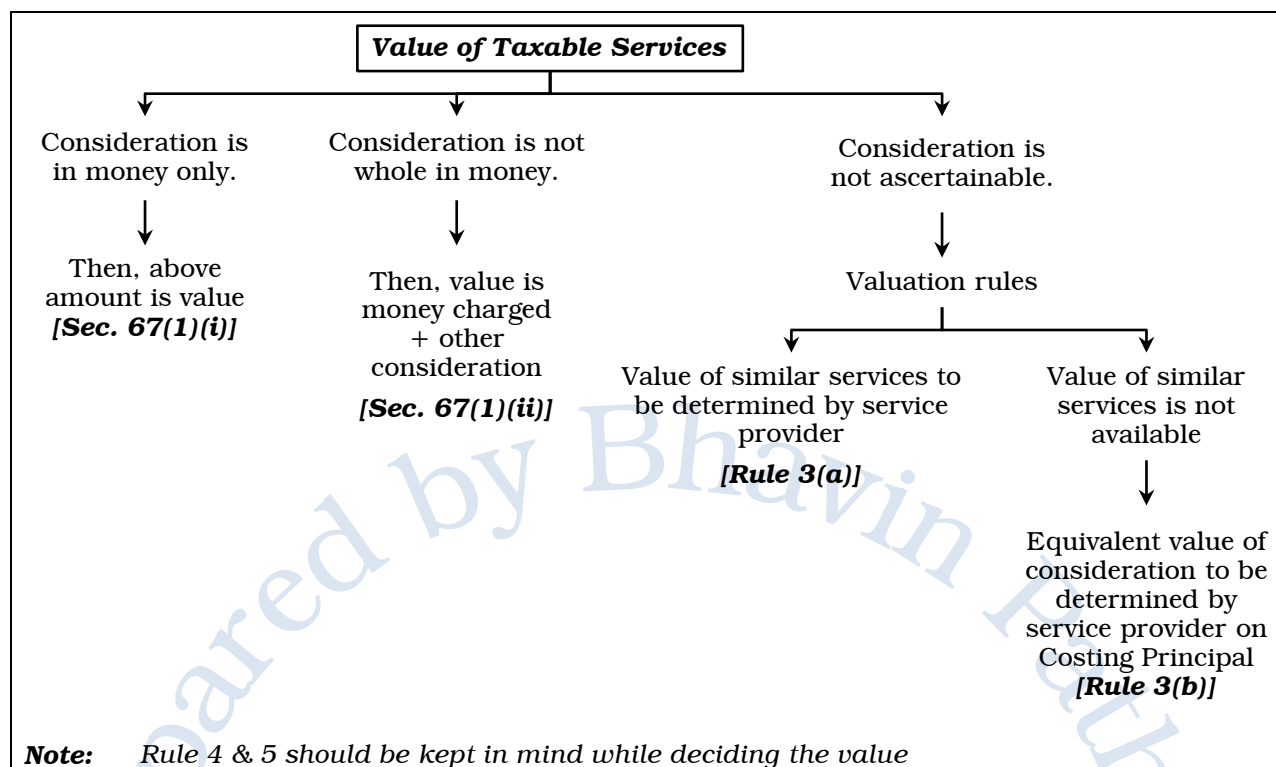
- ✦ From 0 to 15th Day: **₹ 500**
- ✦ From 15th to 30th Day: **₹ 1000**
- ✦ After 30th Day: **₹ 1000 + ₹ 100** per Day to a Maximum of **₹ 2000**

Exemption of services

Service Provided by **Following is Exempt if**

- ◆ Service Provided by him to RBI
- ◆ SSP upto turnover of ₹ 10,00,000

Quick Flick



APPLICABLE SERVICES FOR NOVEMBER 2011 EXAMINATION

(Estimated Time Allocated – 30 minutes)

LEGAL CONSULTANCY SERVICE

Legal Consultancy Service' means services provided

- By a business entity, to any person, in relation to advice, consultancy or assistance in any branch of law, in any manner.
- Representational Services provided by any person to a business entity
- Services provided by arbitrators to business entity

Services	Taxable: ✓ Not Taxable: ✗
Individual → Individual	✗
Individual → Company/Firm/LLP (Representation Service)	✓
Individual → Company/Firm/LLP (Other than Representation Service)	✗
Company/Firm/LLP → Individual (Consultancy Service)	✓
Company/Firm/LLP → Individual (Representation Service)	✗
Company/Firm/LLP → Charitable Institution (Representation Service)	✗
Company/ Firm/LLP → Charitable Institution (Consultancy Service)	✓
Company/Firm/LLP → Company/ Firm/ LLP	✓

COMMERCIAL TRAINING AND COACHING CENTERS

- **“Commercial training or coaching”** means any training or coaching provided by a Commercial training or coaching center to any person. **Commercial training or coaching center** means any institute or establishment providing commercial training or coaching for imparting skill or knowledge or lessons on any subject or field other than the sports, with or without issuance of a certificate and includes coaching or tutorial classes
- But does not include
 - ✗ Preschool coaching and training OR
 - ✗ Education that leads to award of qualification (Certificate/Degree/Diploma) recognized by law.

Services	Liable for Service Tax?	Reason
Coaching Centers	YES	It provides coaching
Sports Training Center	NO	Institute giving training/Coaching relating to sports activities has been specifically excluded from Scope of Commercial Training and Coaching Centers.
Home tuitions	NO	Only an Institute or establishment can be Commercial Training and Coaching Centers. Thus providing Services at the premises of service receiver can't be said to be one having any Institute/ Establishment.
Tuition bureau	YES	Such services liable to Service Tax as an Individual are rendering services on behalf of an institution which falls within the definition of Commercial Training and Coaching Centers.
School	NO	Education that leads to any certificate which is legally recognized in India has been excluded from the definition of Commercial Training and Coaching Centers. Thus School Fee is not liable for ST. But in case they provide other education with is not recognized, they shall be liable to ST.
Preschool	NO	Pre-School training & Coaching center have been excluded from the definition of Commercial Training and Coaching Centers.
University/College/ICAI	NO	Education that leads to any degree/diploma which is legally recognized in India has been excluded from the definition of Commercial Training and Coaching Centers. Thus, Fee of B.Com/M.Com/CA is not liable for ST. But in case they provide other education with is not recognized, they shall be liable to ST.
Vocational Training	NO	Services provided by Vocational Training institute shall be 100% exempt if affiliated to National council of Vocational training.
Computer Training Center	YES	Exemption does not apply to computer training centers.
Recreational Training Institute	NO	Services provided by Recreational Training Institute shall be 100% exempt.

Points to ponder

- ◆ Postal coaching or through correspondence is taxable and it will include the postal charges charged for rendering the service.
- ◆ Study material value is not excludible otherwise than sale value of standard text book which are priced.
- ◆ Coaching imparted to students of standards 1 to 9 is not taxable.
- ◆ Institutes like the Institute of Chartered Accountants of India some time hire the services of other institutes to impart some part of training (like language or computer training) to the students undertaking courses for obtaining recognized degrees/diplomas (like Chartered Accountancy) from their institute. Whereas the Institute of Chartered Accountants of India will not be chargeable to service tax because they confer qualifications recognized by law, the institutes or centers providing such part of training may be otherwise under service tax net. Vide notification No. 10/2003-such coaching or training is exempted from service tax which form an essential part of the course or curriculum leading to issuance of recognized certificate, diploma, degree or any other educational qualification. The exemption is subject to the condition that the receiver of such service (for example, student) makes payment for the entire course or curriculum to the institute or establishment issuing such certificate, diploma etc. and not to the commercial coaching or training center.
- ◆ Donation received by commercial training & coaching centre is not taxable as donation is not linked to specific trainee or training.

- ❖ “Modular Employable Skill Courses” provided by Institute registered under “Skill Development Initiative Scheme” with the Directorate General of Employment and Training is exempt from whole of service tax.

Services		Taxable: ✓ Not Taxable: ✗
Sports coaching		✗
Preschool coaching (Nursery or Play group)		✗
Certificate course by recognised institute		✗
Degree course by recognised institute		✗
Coaching at residence of service recipient		✗
Training to employee		✗
Recreational coaching (Dance, Singing, Martial Arts or Hobby Classes)		✗
Vocational Training	Provided by central affiliated to NCVT	✗
	Other than above	✓
Not for profit organisation		✓
Postal coaching		✓

INFORMATION TECHNOLOGY SERVICES

Information technology software means any representation of instructions, data, sound or image, including source code and object code, recorded in a machine readable form, and capable of being manipulated or providing interactivity to a user, by means of a computer or an automatic data processing machine or any other device or equipment.

Points to ponder

- ❖ Only customized software is covered. Packaged software sold off the shelf is leviable to excise duty. However in some cases here is an exemption granted from excise / customs duty for part of the value of the packaged software. Such value which is exempt from excise would be liable for service tax.
- ❖ Packaged or Canned software intended for single use and packed accordingly is not liable to service tax if following conditions are satisfied
 - ✗ Document providing the right to use is packed along with software
 - ✗ Importer has paid appropriate customs duties
 - ✗ The manufacturer/ duplicator/ the person holding the copyright to software has paid the excise duty on the entire amount received from the buyer.
- ❖ Services provided in relation to Information Technology (IT) software, such as development, designing, programming, up-gradation, providing advice, consultancy and assistance on the matters of IT software and providing right to use IT software, whether supplied on a media or electronically, were brought in the ambit of Service tax. However, taxable only when the receiver of service exploits them for commercial or business purposes.

CARGO HANDLING SERVICES

The term ‘cargo’ means ‘the load (i.e., freight) of a vessel, train, truck, aeroplane or other carrier’. Thus any goods which are meant for transportation from one place to another place by any mode of transport are known as ‘cargo’. Any service provided (*or to be provided*) to any person, by a cargo handling agency in relation to cargo handling services, is a taxable service.

“Cargo handling service” means.

- (a) Loading of cargo; (c) Packing of cargo; OR
(b) Unloading of cargo; (d) Unpacking of cargo.

Also Include	Does not include
❖ Services Provided In Special Containers ❖ Services Provided by Container Freight Terminals ❖ Packing And Transportation Only	❖ Cargo Handling Relating to Export ❖ Handling of Passenger Baggage ❖ Mere Transportation

Value of taxable services

- ❖ Service tax is payable on the entire amount received for the aforesaid services. However, service tax is not payable on charges which represent cost of goods sold by service provider.
- ❖ Cargo Handling service is taxable in relation to all modes of transport.
- ❖ Transportation of cargo is taxable only when it is through air/road/pipeline or other conduit.

Exemption:

- (1) Cargo handling service provided to a goods transport agency (GTA) for use by the said GTA to provide transportation service to a customer in relation to transport of goods by road in a goods carriage.
- (2) When provided in relation to
- Agricultural Produce (e.g., Sugarcane/ Rice)
 - Goods meant for cold Storage (e.g., Fish)

Services	Taxable: ✓ Not Taxable: ✗
Cargo handling services provided for freight in Special Containers/Non-Containerized Freight.	✓
Services provided by an Inland Container Depot (ICD) or a Container Freight such as	
Receipt, dispatch or delivery of cargo;	✓
Stuffing and stripping of containers;	✓
Transit operations by rail / road to and from serving ports;	✓
Temporary storage of cargo containers etc.	✓
Services provided by Freight Terminal, for all modes of transport	✓
Cargo handling services incidental to Freight	✓
Services of transshipment of Import Cargo from international to domestic carrier	✓
Packing together with transportation of cargo or using services like loading, unloading, unpacking	✓
Services relating to agricultural Produce/good intended for cold storage.	✗
Transportation of goods	✗
Marketing or canvassing for cargo for Airlines	✗
Handling of Export Cargo/ Personal Baggage	✗
Service of auction of abandoned cargo	✗
Cargo handling services provided in the port (Port Services)	✗
Supply of labour for handling the cargo (Manpower Recruitment and Supply Services)	✗
Storing, Washing, Repairing and Handling of empty containers for shipping lines. (Storage and Warehousing Services; Port Services if rendered within a Port)	✗

CUSTOM HOUSE AGENT'S SERVICES

- Any service provided (or to be provided) to any person, by a custom house agent in relation to the entry or departure of conveyances or the import or export of goods, is a 'taxable service'.
- Individual/ Proprietor/ Firms providing this Service shall continue to pay tax on receipt basis.
- Custom house agent is the person licensed, temporarily or otherwise, under the Customs Act providing service in relation to entry or departure of conveyances or Import or export of goods.
- Does not cover:
 - ✗ Representatives/ employees of an enterprise providing the above services to the enterprise.
 - ✗ Custom House Agent, who provides services to other licensed Custom House Agent

Services Covered

- Obtaining relevant documents (invoices, packing list, license required for clearance of cargo, license required for export, bill of lading)
- Preparation of bill of entries
- Arranging for execution of bond
- Examination of cargo
- Preparing shipping bill
- Making payment of export/import duty
- Clearing of import and export consignment
- Loading/unloading of import/export goods from/at the premises of exporter / importer
- Packing, weightment and measurement of export / import goods
- Transportation of export goods to customs station or import good from customs station to

importer's premises

- ✦ Sorting/ marking / stamping / sealing of goods on behalf of exporter / importer

Value of taxable services

- ✦ Service tax is payable on the amount received for the aforesaid services. However, service tax is not payable on charges which represent cost of goods sold by the service provider. Moreover, expenses (which are liability of the service receiver) incurred by the service provider and later on recovered from service receiver are not subject to service tax.
- ✦ In case of "turnkey" imports and exports where a lump sum amount is charged from the client for undertaking various services. In such cases, the value of the taxable Service Tax shall be 15% of the lump sum amount charged to the client.

Exemption:

- ✦ In case of sub-contract – It is possible that the sub-contracting Custom House Agent raises the bill on the main Custom House Agent who in turn raises the bill to client. It has been decided that in such cases the sub-contracting Custom House Agent will not be required to pay Service Tax on the bills raised by him on the main Custom House Agent. The Service Tax will be payable by the Custom House Agent who provides the actual service to the client and raises the bill to the client.
- ✦ The payment received by the Custom House Agent from the Shipping Lines for Canvassing of Import/export cargo, would not be chargeable to Service Tax.
- ✦ Services provided by a Custom House Agent in relation to goods exported by exporter are exempt from levy of Service Tax.

PRACTICING CHARTERED ACCOUNTANT'S SERVICE

- ✦ Any service provided (or to be provided) to person, by a practicing chartered accountant in his professional capacity in any manner, is taxable service.
- ✦ Individual/ Proprietor/ Firms providing this service shall continue to pay tax on receipt basis.

Value of taxable services

Service tax is payable on the amount received for the aforesaid services (excluding exempt services). However, service tax is not payable on charges which represent cost of goods sold by service provider. Moreover, expenses (which are a liability of the service receiver) incurred by the practicing chartered accountant and later on recovered from the service receiver, are not subject to service tax.

CONSULTING ENGINEER'S SERVICES

Any service provided (or to be provided) to any person, by a consulting engineer in relation to advice, consultancy or technical assistance in any manner (in one or more discipline of engineering including the discipline of computer hardware engineering) is a taxable service. Services provided by a consulting engineer in relation to advice, consultancy or technical assistance in the disciplines of both computer hardware engineering and computer software engineering shall also be classifiable under "consulting engineer's services".

Discipline of Engineering

- | | |
|-----------------------------------|---------------------------------|
| ✦ Industrial engineering | ✦ Automobile engineering |
| ✦ Mechanical engineering | ✦ Aviation engineering |
| ✦ Aerospace engineering | ✦ Electronics engineering |
| ✦ Computer engineering | ✦ Environmental engineering |
| ✦ Electrical engineering | ✦ Fabrication engineering |
| ✦ Metallurgical engineering | ✦ Geotechnical engineering |
| ✦ Chemical engineering | ✦ Hydraulic engineering |
| ✦ Civil/environmental engineering | ✦ Marine engineering |
| ✦ Agricultural engineering | ✦ Mining engineering |
| ✦ Aquaculture engineering | ✦ Telecommunication engineering |
| ✦ Architecture engineering | ✦ Biotechnology engineering |

Value of services

Service tax is payable on the amount received for the aforesaid service. However, service tax is not payable on charges which represent cost of goods sold by service provider. Moreover, expenses (which are the liability of the service receiver) incurred by the service provider and later on recovered from service receiver, are not subject to service tax.

Points to ponder

- ✦ Service provided by unqualified engineers cannot be taxed under “consulting engineer’s services.
- ✦ Service provided by a person who is holder of certificate from an industrial training institute run by Ministry of Labour and Rehabilitation, cannot be taken as service provided by consulting engineer.
- ✦ It is not necessary that the concern rendering service should be a commercial concern.
- ✦ Research & Development Cess (Cess payable on import of technology) is allowed as deduction from value of taxable Service provided.

MANPOWER RECRUITMENT OR SUPPLY AGENCY’S SERVICES

Any service provided (or to be provided) to any person, by a manpower recruitment or supply agency in relation to the recruitment or supply of manpower (temporarily or other-wise) in any manner, is a taxable service. The expression “recruitment or supply of manpower” also includes

- (a) Service in relation to pre-recruitment screening;
- (b) Verification of the credentials and antecedents of the candidate; and
- (c) Authenticity of documents submitted by the candidate.

Value of taxable service

Service tax is payable on the amount received for the aforesaid service. However, expenses (which are the liability of the service receiver) incurred by the service provider and later on recovered from the service receiver, are not subject to service tax.

Points to ponder

- ✦ A manpower supply agency provides truck drivers to a transport undertaking for carriage of goods whether temporarily or otherwise is exempt from the whole of the Service Tax.
- ✦ Educational institutions (such as universities, IIMs, IITs) fall within the definition of ‘manpower recruitment or supply agency’, and service tax is liable on services provided by such institutions in relation to campus recruitment.
- ✦ The contract should be for supply of manpower. If the contract is for executing some work (e.g., floor polishing), it is not a “manpower supply service”.
- ✦ Amount collected by an agency for making available bio-data/resume of prospective candidates, is subject to service tax.

PART III: VALUE ADDED TAX (VAT)

(Estimated Time Allotted 30 Minutes)

VAT-at a glance

- ❖ Under the system of VAT the sales tax levied and collected at each stage of sale only the value added at every stage.
- ❖ As commonly understood this is a method by which final consumer shall be taxed at different stages of production and distribution in various installments. For this difference between the sale price and purchase price is taken as value added and a tax is imposed at every level where there is some value addition.
- ❖ **Need for VAT in India**
 - ✖ Avoids distortions in the economy due to uniformity all across the channel.
 - ✖ Prevents cascading effect (multiple-taxation) by providing credit of Input taxation.
 - ✖ VAT is just and logical way of taxing all dealers in equitable manner whereby all dealers share burden of tax.
 - ✖ This system leads to easy computation and compliance.
 - ✖ Credit of input taxation leads to cost efficiency.
- ❖ **Merits of VAT**
 - ✖ Eliminates multiple-taxation.
 - ✖ No tax evasion.
 - ✖ Simple method.
 - ✖ Lowering tax burden.
 - ✖ Transparency
 - ✖ Better revenue collection and stability.
 - ✖ Better accounting systems.
- ❖ **Demerits of VAT**
 - ✖ VAT does not cover services.
 - ✖ Non integration of central VAT with state-VAT.
 - ✖ Accounting burden.
 - ✖ Cost of administration for government.
 - ✖ Exemptions on goods.
- ❖ **Concept of input tax credit:** The main feature of system of VAT is that it provides the benefit of set off of input tax from the main output tax. The value added tax is based on the value addition to the goods, and the related VAT liability of the dealer is calculated by deducting input tax credit from the tax collected on sales during a particular period.
- ❖ **Variants of VAT:** VAT could be levied under three variants. Gross product variant, Income variant, Consumption variant. These variants could be further distinguished according to their methods of calculation and they are addition method and subtraction method. The subtraction method could be further divided into direct subtraction method, intermediate subtraction method, and indirect subtraction method.
- ❖ **Methods for computation of VAT:** VAT is form of a sales tax and is charged at each stage on the 'Value Added' to the goods. 'Value Added' is the difference sales and purchases of the business. There are several methods to calculate the 'Value Added' to the goods for levy of tax. The three commonly used methods are addition method, invoice method (tax credit method) and subtraction method.

Historical Background

- ◆ Initiated in Brazil in 1960
- ◆ Subsequently introduced in 130 Countries
- ◆ In European Countries in 1970
- ◆ In India, VAT was introduced in the year 2004

Basic Concept of Value Added Tax (VAT)

The term "Value Added" refers to Increase in Value of Goods and Services at each stage of production and VAT is basically a tax to be levied on the value added by an organization at each stage of producing Goods or rendering Services.

Need of VAT

Due to adverse effects in the current system of sales tax VAT was introduced. They are:

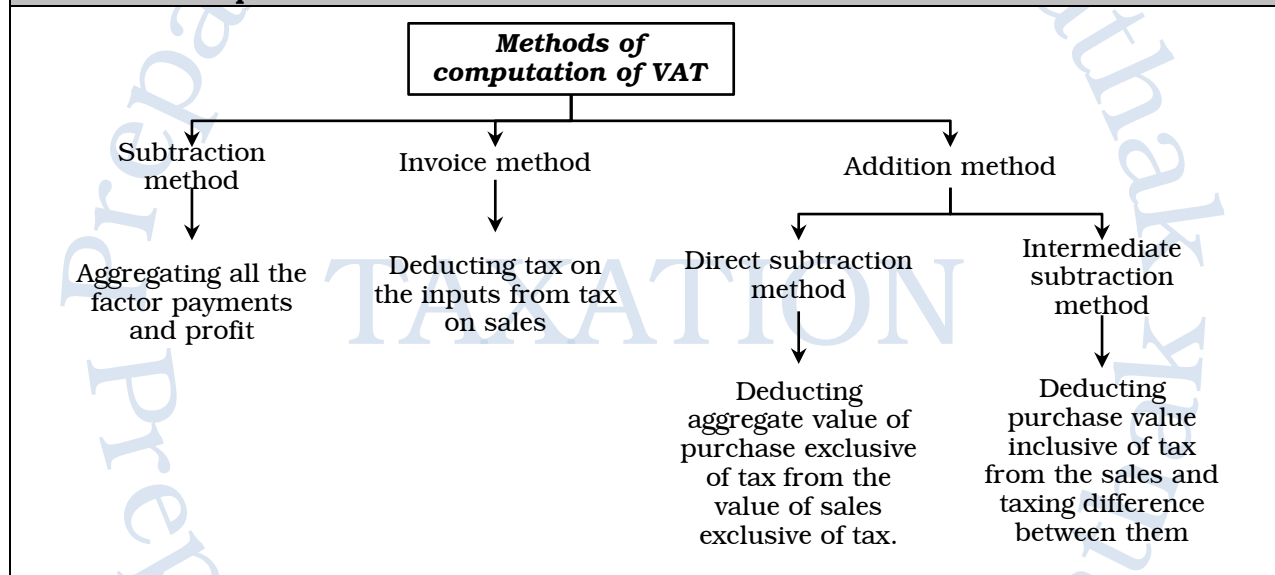
- (a) Large Number of Rates
- (c) Burden of Additional Taxes
- (b) Cascading Effects
- (d) Tax Evasion

Demerits of VAT

- ◆ Increase in Working Capital Requirement
- ◆ Increase in Paper work and Record keeping
- ◆ Increase in Operating Costs
- ◆ Problem of Interstate Sales

Variants of VAT

- (1) Gross Product Variant (2) Income Variant (3) Consumption Variant

Methods of computation of VAT**Rates of VAT**

Sr. No.	Particulars	Rate of Tax
1.	Unprocessed Agriculture Goods & Goods for Social Importance.	0%
2.	Precious and Semi-precious Metals or Stone.	1%
3.	Inputs Used for Manufacturing Purpose.	4%
4.	Luxury Goods	20%
5.	All other Goods not Listed in above Part.	13%

Accounting entries at the time of:

Purchase		Sale		Set Off	
Purchase A/c	Dr	Customer/Bank A/c	Dr	VAT Payable A/c	Dr
Vat Receivable A/c	Dr	To Sales A/c		To VAT Receivable A/c	
To Supplier/Bank A/c		To VAT Payable A/c			

Input Vat Credit:	Output VAT Credit:	Essential for set off:
Tax paid or payable on purchase of Goods from registered dealers	Tax Chargeable or Charged on the sale of Goods	➤ Registered dealers only ➤ Tax invoice ➤ Maintenance of Accounts

Registration under VAT

Registration is obligatory for

- (1) Importers, who import goods into the state
- (2) Manufacturers
- (3) CST Dealers
- (4) Dealer with turnover greater than ₹ 5,00,000

On registration TIN is issued by the Sales Tax Department.

Return filling:	Assessment:
➤ Every registered dealer is required to file the return duly signed in prescribed form. ➤ Return should be filed Monthly/Quarterly as prescribed along with challan.	Self/Deemed Assessment

Composition Scheme

➤ Optional scheme for Small Dealers ➤ Rate of Tax applicable 4%	➤ Set off not allowed ➤ Dealer not eligible to issue Tax Invoice
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Role of ICAI	Role of CA
➤ Guidance Note on accounting of VAT ➤ Debates and Seminars conducted at various branches ➤ National and State level Conferences	➤ Record Keeping ➤ Tax Planning ➤ Holding Departmental Audits ➤ External Audit on VAT Records

EXPERT'S ADVICE	<i>Sneha, CPT-All India Rank: 6th; IPCC-All India Rank: 4th, Taxation – 87 marks</i>
AT THE TIME OF PREPARATION: ➤ Notes are a strict requirement. Make a separate notebook and write down various section numbers along with its provision. It will be a boon for you at the time of revision because you won't need to get back to the book at all. ➤ It would be preferable if you can memorise the section numbers. No matter what people say but the truth is it boosts your score. But quote a section number only and only if you are 200% sure about it. Wrong section number can prove fatal to your answer. ➤ Better not go for digging into too many questions at this level. Solve the scanner, institute's module and selected questions from a reference book (use Girish Ahuja or V.K Singhanian's book). This will be more than enough. Scanner is a must. ➤ Keep on revising the sections. Tax is a very slippery subject. It can slip from your mind as well as your mark-sheet anytime, so needs regular revision. Develop an interest, you will find the journey beautiful. ➤ Use only institute's material for Indirect Tax part (Service Tax and VAT). Learn the theory word by word and just paste it in your answer sheets. It's very easy and scoring at the same time. AT THE TIME OF EXAMS: THEORY ANSWERS ➤ Start with theory answers. Hope your handwritings should be legible. (Handwriting need not be beautiful but decent). You might get confused in practical part if you start with it coz of nervousness. So start with some theory till your nerves settle because it's a boiling hot exam environment. Try to present the answer point wise. ➤ <i>Stretching and Shrinking:</i> Many times in theory answers we don't have much to write but try and learn the trick to adjusting the answer according to the marks allotted. Suppose a question is for 4 marks having just a 2 line answer. The evaluator also knows this fact but even if you write only those two lines the he might give you just 2 or 2.5 marks. So learn how to stretch and shrink an answer giving no scope to the evaluator. PRACTICAL ANSWERS ➤ Solve it neatly. Working notes must be clear - as clear as possible. No need of decoration but cleanliness is always preferred. ➤ Try and solve 100 marks paper. The evaluator is in a completely different mindset when he sees a 100% solved answer sheet. Possibility of failing is almost washed away. PROVISIONS ➤ The practical questions designed by ICAI have high probability to make us fall into trap. It's tricky and even the best of the best don't get 100% correct solution on most occasions. ➤ In Practical answers--if you have time then mention the provision along with the section number in working notes. It will work wonders. Even if your solution is 50% wrong your provisions can fetch you 90% marks. It works and it works wonders. Because the teacher is assured that the students has the knowledge.	

ALL THE BEST