CHAPTER 7

DEDUCTIONS FROM GROSS TOTAL INCOME

Question 1

Fill in the blanks having regard to the provisions of the Income-tax Act, 1961:

(i) For new two, three and four star hotels started in the specified districts on or after 1.4.2008, tax holiday of ………... years is available under section 80-ID.

(ii) Mr. Z has paid a sum of Rs.65,000 on 30.11.2010 as tuition fees to a university in Australia. The amount deductible under section 80C for A.Y. 2011-12 is Rs. ……….

(iii) Where an individual has repaid in the second year, Rs.20,000 towards principal and Rs.60,000 towards interest on eligible education loan from an approved bank, the deduction available under section 80E is Rs. --------------.

(iv) Deduction under Section 80GGC in respect of contribution to approved political parties given by a local authority partly funded by the Government is………

(v) The maximum qualifying limit for deduction u/s 80C, 80CCC and 80CCD is Rs. ………………..

Answer

(i) Five

(ii) Nil.

(iii) Rs.60,000

(iv) Nil / not allowed.

(v) Rs. 1,00,000

Question 2

State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

(i) During the financial year 2010-11, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.

(ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.

(iii) In order to be eligible to claim deduction under section 80C, investment/contribution/

subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

(iv) Where an individual repays a sum of Rs.30,000 towards principal and Rs.14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is Rs.44,000.

Answer

(i) True

The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means spouse and children of the individual. So, Mr. Amit will get the deduction under section 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

(ii) True

Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.

(iii) False

There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) False

Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to Rs.14,000.

Question 3

Write short notes on:

(a) Deduction in respect of royalty income on patents.

(b) Deduction from Gross Total Income under section 80GG

Answer

(a) Deduction in respect of royalty income on patents [Section 80RRB].

Refer to page 7.62 of Study Material.

(b) Deduction in respect of rent paid [Section 80GG]

Refer to page 7.25 of Study Material.

Question 4

Write briefly about the provisions regarding deductions from gross total income in respect of medical treatment of dependent disabled under section 80DD of the Income-tax Act, 1961 and in respect of medical treatment of assessee himself/dependent under section 80DDB of the Income-tax Act, 1961.

Answer

Deduction under section 80DD

Refer to page 7.17 of Study Material.

Deduction under section 80DDB

Refer to page 7.18 of Study Material.

Question 5

List out the conditions for availing deduction under section 80QQB of Income-tax Act, 1961.

Answer

Refer to page 7.61 of Study Material.

Question 6

Discuss briefly about the deductibility of interest on loan taken for higher education, under section 80E of the Income-tax Act, 1961.

Answer

Refer to page 7.19 of Study Material.

Question 7

Explain whether any deduction is available from the gross total income of a company in respect of any contribution given to a political party.

Answer

Any sum contributed by an Indian company in the previous year to any political party shall be allowed as deduction under section 80GGB while computing its total income. For the purposes of this section, the word "contribute" has the meaning assigned to it under section 293A of the Companies Act, 1956. Accordingly,

(i) any donation/subscription/payment caused to be given by a company on its behalf or on its account to a person who is carrying on any activity which is likely to effect public support for a political party is deemed to be a contribution for political purpose.

(ii) any amount of 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 –

  (a) where such publication is by or on behalf of a political party, to be a contribution of such amount to such political party, and

  (b) where such publication is not by or on behalf of but for the advantage of a political party, to be a contribution for a political purpose.

Students may note that expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party is not eligible for deduction as per section 37(2B). However, such contribution is now deductible under section 80GGB in the case of companies and under section 80GGC in the case of other assessees (except local authority and every artificial juridical person which wholly or partly funded by the Government)

Question 8

State the special provisions in respect of certain undertakings or enterprises in certain special category states as laid down under Section 80-IC of the Act.

Answer

Refer to page 7.49 of Study Material.

Question 9

Explain the deduction in respect of donations for Scientific Research and Development u/s.80GGA of the Income-tax Act, 1961.

Answer

Refer to page 7.27 of Study Material.

Question 10

Discuss the allowability of the following:

(i) Rajan has to pay to a hospital for treatment Rs.42,000 and spent nothing for life insurance or for maintenance of handicapped dependent.

(ii) Raja, a resident Indian, has incurred for treatment Rs. Nil in the previous year and deposited Rs.25,000 with LIC for maintenance of handicapped dependant.

(iii) Rajan has incurred Rs.20,000 for treatment and Rs.25,000 was deposited with LIC for maintenance of handicapped dependant.

Answer

(i) The deduction of Rs.50,000 under section 80DD is allowed in full irrespective of whether the expenditure was actually incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs.1,00,000.

(ii) The assessee Rajan has deposited Rs.25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim Rs.50,000 since the deduction of Rs.50,000 is allowed in full irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is Rs.1,00,000.

(iii) Section 80DD allows a deduction of Rs.50,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be Rs.50,000 even though the total amount incurred/deposited is Rs.45,000. If the dependant is a person with severe disability the quantum of deduction is Rs.1,00,000.

Question 11

For the Assessment year 2011-12, the Gross Total Income of Mr. Chaturvedi, a resident in India, was Rs.2,68,240 which includes long-term capital gain of Rs.45,000 and Short-term capital gain of Rs,8,000. The Gross Total Income also includes interest income from banks of Rs.12,000.

Mr. Chaturvedi has invested in PPF Rs.60,000 and also paid a medical insurance premium Rs.11,000. Mr. Chaturvedi also contributed Rs.15,000 to Public Charitable Trust eligible for deduction under section 80G. Compute the total income and tax there on of Mr. Chaturvedi, who is 70 years old as on 31.3.2011.

Answer

Computation of total income and tax payable by Mr. Chaturvedi

Particulars	Rs.
Gross total income including long term capital gain	2,68,240
Less : Long term capital gain	45,000
	2,23,240

Less : Deductions under chapter VI-A:		
u/s. 80C in respect of PPF deposit	60,000	
u/s. 80D (it is assumed that premium is paid by otherwise than by cash and since the amount paid is less than Rs.15,000 it is fully deductible)	11,000	
u/s. 80G (See Working note below)	7,500	78,500
Total income (excluding long term capital gains)		**1,44,740**
Total income (including long term capital gains)		**1,89,740**
Tax on total income (including long-term capital gains of Rs. 45,000)		Nil

Working note:

Computation of deduction u/s.80G

Gross total income (excluding long term capital gains)	2,23,240
Less : Deduction u/s.80C and 80D	71,000
	1,52,240
10% of the above	15,224
Contribution made	15,000
Lower of the two eligible for 80G deduction	15,000
Deduction u/s.80G – 50% of Rs.15,000	**7,500**

Note: As per section 112, the unexhausted basic exemption limit can be exhausted against long-term capital gains. Therefore, since the total income of Rs. 1,89,740 (inclusive of long-term capital gains of Rs. 45,000) is less than the basic exemption limit of Rs. 2,40,000, there would be no tax liability.

Question 12

State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction under section 80-IB, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.

(b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under sections 80-ID or 80-IE of the Act.

Answer

(a) False

Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 80-IB.

(b) True

As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, *inter alia,* section 80-ID or 80-IE.

Question 13

Can a Primary Co-operative Agricultural and Rural Development Bank claim deduction under section 80P in respect of income derived from the business of banking?

Answer

Sub-section (4) to section 80P provides that the provisions of section 80P shall not apply to any co-operative bank, other than, *inter alia,* a primary co-operative agricultural and rural development bank (PCARB). Thus, a PCARB is entitled to claim deduction under section 80P in respect of income derived from the business of banking.

Question 14

Deduction under section 80CCD is available only to individuals employed by the Central Government. Discuss the correctness of this statement.

Answer

The deduction under section 80CCD is available to the individuals employed by the Central Government or any other employer. With effect from A.Y. 2010-11, the deduction has been extended to self-employed individuals also. Therefore, the statement is incorrect.

Question 15

Briefly explain provisions of section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability.

Answer

Refer to page 7.63 of Study Material.

Question 16

Mr. Abhik, an individual, made payment of health insurance premium to GIC in an approved *scheme. Premium paid on his health is Rs. 10,000 and his spouse's health is Rs. 15,000 during the year 2010-11. He also paid health insurance premium of Rs. 25,000 on his father's health who is a senior citizen and not dependent on him. The payments have not been made by cash. Compute the amount of deduction under section 80D of the Act, available to Mr. Abhik from his gross total income for the assessment year 2011-12.*

Answer

Mr. Abhik will be eligible to claim deduction under section 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. Therefore, the amount of deduction under section 80D would be –

Particulars	**Amount (Rs.)**
On health insurance premium paid on the health of himself and his spouse (Rs.10,000 + Rs.15,000 = Rs.25,000, but restricted to Rs.15,000)	15,000
On health insurance premium paid on the health of his father, Rs.25,000 but restricted to Rs.20,000 in the case of a parent, who is a senior citizen (whether dependent or not)	20,000
Total deduction under section 80D	**35,000**