CHAPTER 1

Basic Concepts and Important Definitions

Difficult times come to make us strong and offer us an insight of our strengths. So when hard times come, be in gratitude and say - thanks Lord for having faith in me and giving me a chance to grow.

Section	Provision
Sec. 2(31)	Person
Sec. 3	Previous Year
Sec. 2(9)	Assessment Year
Sec. 2(7)	Assessee
Sec. 2(24)	Income
Sec. 2(45)	Total Income

INDIAN TAXATION SYSTEM

The Income-tax Act, 1961 came into force with effect from **1/4/1962**. It has **XXIII chapters** and **298 Sections** in all. The Indian taxation structure is a mix of number of provisions either governed by income tax law and at some stages by number of mercantile and corporate laws. A number of amendments in the structure have made the taxation structure very complex and difficult to handle, the subject is not that easy to digest.

India [Sec. 2(25A)]

India means the territory of India as referred to in **Article 1** of the Constitution, its territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other maritime Zones Act, 1976 and the air space above its territory and territorial waters.

Person [Sec. 2(31)]

Person includes seven types of persons namely

(1) Individual,

(2) Hindu undivided family (HUF)

(3) Company
(4) Firm
(5) Association of persons (AOP) or a body of individuals (BOI)
(6) Local authority
(7) Every artificial juridical person not falling within any of the preceding sub clauses.

Association of Person Vs. Body of Individual

The **2** basis differences between **AOP** and **BOI** are:

- In BOI there are **only individuals** but in AOP there can be any type of persons.
- BOI is **creation of law** whereas AOP can be created by different persons coming together for doing some income producing activity on the voluntary basis.

Assessee [Sec. 2(7)]

Assessee means any person by whom tax, interest or penalty is payable under any provision of this act and includes:

(a) Deemed assessee
(b) Assessee in default
(c) Person against whom any income tax proceedings have been started for the assessment of his income or loss or the income of some other person or the loss for whom he is liable.

Assessment Year [Sec. 2(9)]

Assessment year means the period of 12 months starting from 1^{st} April every year and ending on 31^{st} march of the succeeding year.

Previous Year [Sec. 2(34)]

Previous year means the year immediately proceeding to assessment year. Income for the previous year is always taxed in the assessment year.

INCOME OF ONE PY TAXABLE IN SAME YEAR

The following are the exceptions to the general rule that income of every previous year is chargeable to tax in the relevant assessment year.

Sec. 172: Shipping business of a non-resident;

Sec. 174: Person leaving India;

Sec. 174A: An AOP formed for the purpose of a particular event.

Sec. 175: Persons likely to transfer property to avoid tax;

Sec. 176: Discontinued business or profession

Gross Total Income [Sec. 14]

Gross total income is the aggregate of income from all five heads of Income; namely:

(1) Income under the head salary
(2) Income under the head house property
(3) Income under the head business and profession
(4) Income under the head capital gains
(5) Income under the head other sources

TAXABILITY OF GIFT

Income includes the gifts received in excess of ₹ 50000. If anyone has received gift in each exceeding ₹ 50000 from a non-relative then whole of such amount received shall be considered his income. However gifts received from relatives shall not be covered in this.

Total/Taxable Income [Sec. 2(45)]

Total income is income after reducing the deduction under Chapter VI-A from the gross total income. This income is also called taxable income on which tax has to be imposed.

Computation of total income of …… for AY 2012-13

Particulars	Amount (₹)
Income under the head Salary	—
Add: Income under the head House Property	—
Add: Income under the head Business and Profession	—
Add: Income under the head Capital Gains	—
Add: Income under the head Other Sources	—
Gross Total Income	—
Less: Deduction under Chapter VI-A [Sec. 80C-80U]	—
Total/Taxable Income	—

Rounding Off of Total Income [Sec. 288A]

The total income shall be rounded off in the multiples of ₹ 10.

Rounding Off of Tax Liability [Sec. 288B]

The amount payable by the assessee and the amount of refund due, under the provisions of the Income Tax Act, 1961 shall be rounded off to the nearest ₹ 10.

CESS

Education cess for the AY 2012-13 is 2% for primary education and 1% for higher and secondary education.

Charitable Trust *[Sec. 2(15)]

The definition u/s. 2(15) has been amended to enhance the current monetary limit in respect of receipts from commercial activities from ₹ 10,00,000 to ₹ 25,00,000. Hence, the charitable trust who are registered under the category of "advancement of any other object of general public utility shall continue to be treated as charitable trust if gross receipts from such trade, commerce or business does not exceed ₹ 25,00,000.

1.1 Tax Rates for AY 2012-13

Individual/HUF/AOP/BOI and every artificial juridical person	
Upto ₹ 1,80,000	NIL
₹ 1,80,000 to ₹ 5,00,000	10%
₹ 5,00,000 to ₹ 8,00,000	20%
Above ₹ 8,00,000	30%

For resident women below the age of 60 years at any time during the previous year			
Upto ₹ 1,90,000			NIL
₹ 1,90,000 to ₹ 5,00,000			10%
₹ 5,00,000 to ₹ 8,00,000			20%
Above ₹ 8,00,000			30%
For resident individuals of the age of 60 years or more but less than 80 years at any time during the previous year			
Upto ₹ 2,50,000			NIL
₹ 2,50,000 to ₹ 5,00,000			10%
₹ 5,00,000 to ₹ 8,00,000			20%
Above ₹ 8,00,000			30%
For resident individuals of the age of 80 years or more at any time during the previous year			
Upto ₹ 5,00,000			NIL
₹ 5,00,000 to ₹ 8,00,000			20%
Above ₹ 8,00,000			30%
Note: Surcharge: NIL Education Cess: 3% (Primary Edu. Cess 2%+Secondary & Higher Seco. Edu. Cess 1%)			
Co-Operative society			
Upto ₹ 10,000			10%
₹ 10,000 to ₹ 20,000			20%
Above ₹ 20,000			30%
Note: Surcharge: NIL Education Cess: 3% (Primary Edu. Cess 2%+Secondary & Higher Seco. Edu. Cess 1%)			
Partnership firms/Limited Liability Partnership			**30%**
Company			
Type	**Particulars**	**Surcharge***	**Rate**
Domestic	Whole of total income	5%	30%
Foreign	Specific royalties and technical services	2%	50%
	On balance		40%
Note: Education Cess: 3% (Primary Edu. Cess 2% + Secondary Seco. Edu. Cess 1%) *Surcharge should be payable only if total income exceeds ₹ 1,00,00,000			
Special rates of Income Tax			
On Short-Term Capital Gain (STCG) covered under Sec. 111A			15%
On Long-Term Capital Gain (LTCG) covered under Sec. 112			20%
On winning of lotteries, crossword puzzles, card games etc. [Sec. 115BB]			30%

CHAPTER 2

Residential Status

There is no definition of a good day or bad day; it all depends on your thoughts,
Either you run the day or the day runs you.

Section	Provision
Sec. 2(26)	Indian Company
Sec. 2(30)	NR-Individual
Sec. 5(1)	Incidence of Tax on R/RO/RNOR
Sec. 5(2)	Incidence of Tax NR
Sec. 6(1)	Residential Status of Individual
Sec. 6(2)	Residential Status of HUF/Firm/AOP/BOI
Sec. 6(3)	Residential Status of Company
Sec. 6(4)	Residential Status of other persons (Local Authority/Artificial Judicial Person)
Sec. 6(6)(a)	RNOR-Individual
Sec.6(6)(b)	RNOR-HUF
Sec. 115C	Person of Indian origin

Type of person	Can be	
(1) Individual	Resident	Ordinary Resident
(2) HUF		Not Ordinarily Resident
(3) Company	Non-resident	
(4) Firm	Resident	
(5) AOP/BOI	Non-resident	
(6) Other person		

FOR INDIVIDUAL *[SEC. 6(1)]

An Individual can be resident or a non-resident in India. To be a resident he has to satisfy one of the following conditions:

(a) Stay in India ≥ 182 days in a PY OR

(b) Stay in India ≥ 60 days in a PY and Stay in India ≥ 365 days in preceding 4 PYs.

For the condition (b) above, we have 3 exceptional cases. In all these 3 cases second condition does not apply:

(a) A citizen of India who leaves India for the employment purposes.

(b) A citizen of India who leaves India as a member of crew of Indian ship.

(c) An Individual who is a citizen of India OR is a person of Indian origin who comes to India on a visit.

ROR & RNOR

ROR is one who satisfies both of the following conditions:

(a) Resident in 2 out of 10 preceding PYs.

(b) Stay in India ≥ 730 days in a 7 preceding PYs.

For an individual, residential status is determined based on the period of stay in India. However, for HUF, Firm, AOP and other non-corporate entities the control and management is critical in determining residential status.

FOR HUF * [SEC. 6(2)]

While determining residential status of HUF period of stay of Karta is not at all relevant. What is important is whether control and management of such HUF is situated in India or not. Further to check whether HUF is ROR or NOR residential status of Karta as an individual becomes relevant. HUF becomes non-resident if entire control and management is situated outside India. If Karta satisfies the following conditions HUIF becomes ROR:

(a) Resident in 2 out of 10 preceding PYs.

(b) Stay in India ≥ 730 days in a preceding PYs.

Otherwise HUF shall be RNOR.

FOR INDIAN COMPANIES * [SEC. 6(3)]

- An Indian company is always regarded as a Domestic Company. A company incorporated outside India may also be treated as a domestic company if certain conditions are fulfilled.
- An Indian company is always a resident. A Company incorporated outside India is treated as "resident" only if control and management is wholly in India.

Taxability of Income

- Resident and ordinarily resident is taxed on his global income.
- Not ordinarily resident is taxed in respect of Indian Income. In respect of foreign income he is taxed only if it is from business controlled in India or profession set up in India.
- Non-resident is taxed in respect of Indian incomes only.

Taxability of Remittance

Remittance in India is never taxed in India, since it is the second receipt.

Treatment of Agricultural Income

Agriculture income from a land in India is always exempt from tax. However, if land is not in India then agriculture income will be taxed in India.

CHAPTER 3

Income under Head Salary

Best lines by Dhirubhai Ambani. "You will never reach your destination if you stop and throw stones at every dog that barks". Better keep biscuits and go ahead

Section	Provision
Sec. 15	Chargeability section
Sec. 16(ii)	Deduction for Entertainment Allowance
Sec. 16(iii)	Deduction in respect of Professional Employment Tax
Sec. 17(1)	Meaning of Salary
Sec. 17(2)	Meaning of Perquisites
Proviso to Sec. 17(2)	Treatment of Medical Facility
Sec. 17(3)	Profit in lieu of Salary
Rule	**Valuation of Perquisites under Income Tax Rules, 1962**
Rule 3(1)	Valuation of rent free accommodation
Rule 3(2)	Valuation of car facility
Rule 3(3)	Valuation of servant facility
Rule 3(4)	Valuation of gas, electricity, water facility
Rule 3(5)	Valuation of education facility
Section	**Exemption under the head Salary**
Section 10(5)	Exemption for leave travel concession
Section 10(10)	Exemption for Gratuity
Sec. 10(10A)	Exemption for Commuted Pension
Sec. 10(10AA)	Exemption for Leave Encashment upon retirement
Sec. 10(10B)	Exemption for retirement compensation

Sec. 10(10C)	Exemption for VRS
Sec. 10(13A)	Exemption for HRA
Sec. 10(14)	Exemption for other Allowances
Schedule IV	Provident Fund

BASIC CONCEPT

Any amount received by an individual shall be treated as salary only if the relationship between payer and payee is that of an employer and employee. The employee may be a full time employee or part- time employee.

Basis of Charge [Sec. 5]

- For charging tax under income under the salary the foremost requirement is that the relationship of employer and employee must subsist between the payer and payee.
- Even if the person is in employment with more than one employer, all kinds of benefits extracted from such kind of contract would be taxable under income under the head salaries.
- The basic difference one must remember between forgone and surrender of salary is that even if forgone, salary is taxable but when salary is voluntarily transferred to the central government, such salary is not taxable.
- **Salary is taxable on due or receipt basis whichever is earlier. Accounting method of employee is not relevant.**

Salary [Sec. 17(1)]

It means any kind of:

- Wages
- Annuity
- Gratuity, fees, bonus, commission, perk or profit in lieu of salary or wages.
- Any advance of salary
- Any amount on account of leave encashment
- Any contribution to RPF to the extent it is taxable.
- Any interest on RPF to the extent it is taxable
- Any contribution under Sec. 80CCD under scheme framed by CG.

Place of Accrual

Salary is Deemed to accrue at place where service is rendered , however there is an exception to the same:

- Where an Indian National is rendering service outside on behalf of government of India outside India such salary is deemed to accrue and arise in India Itself and allowances and Perks to such person are also exempt from tax. And on the principle of reciprocity any salary or wages paid in India to a foreign national in this behalf shall also not be taxable in India.
- Also Salary received from UNO would not be taxable in India.

TAXATION OF ADVANCED SALARY AND ARREARS OF SALARY

- Any advance salary received would be taxable in the previous year in which it is received on receipt basis and any arrears of salary received which is not taxed earlier would be taxable in the year in which they are allowed , however recipient would be entitled to claim relief under Sec. 89 in respect of such arrears.

- **However it is to be noted that Advance salary is different from advance against salary and such advance against salary is taxable when salary becomes due.**

GRATUITY [SEC. 10(10)]

Government Employees	Employees covered under the Payment of Gratuity Act, 1972	Any other employees
Fully exempt	Minimum of (1) Actual received (2) $\frac{15}{26}$ × Last drawn Salary × No. of completed years plus excess of 6 months (3) ₹ 10,00,000	Minimum of (1) Actual received (2) $\frac{15}{26}$ × Average Salary of 10 months × No. of completed years (3) ₹ 10,00,000

PENSION [SEC. 10(10A)]

Un-commuted	Commuted		
Fully Taxable	Govt. employees	Non-Govt. Employees	
	Fully	Received gratuity also	Not received gratuity
		$\frac{1}{3}$ of full value of pension	$\frac{1}{2}$ of full value of pension

LEAVE SALARY [SEC. 10(10AA)]

Govt. employees	Non-govt. employees
Fully exempt	Minimum of (1) Actual received (2) Average salary of last 10 months × Balance leave calculated on the basis of 30 days (3) Average salary × 10 months (4) ₹ 3,00,000

RETIREMENT COMPENSATION [SEC. 10(10B)]

Minimum of

(1) Actual received
(2) Amount calculated in accordance with Industrial Dispute Act, 1947
(3) ₹ 5,00,000

Voluntary Retirement Compensation

Conditions [Rule 2BA]*	Exemption [Sec. 10(10C)
(i) 10 years of service or 40 years of age	Minimum of
(ii) For all employees (except directors of the company)	(1) Actual received
(iii) Reduction in number of employees	(2) Last down salary × 3 months × No. of completed years of services
(iv) Not to be filled up	(3) Last down salary × Balance months services left
(v) No same management	(4) ₹ 5,00,000

* Rules referrers to Income Tax Rules, 1962

Provident Fund

Recognised Provident Fund	• Employer's contribution –excess of 12% salary of (Taxable) • Interest on provident fund – excess of 9.5% (Taxable)
Unrecognised Provident Fund	• Employer's contribution – Taxable (Salary) • Interest on Employer's contribution – Taxable (Salary) • Interest on Employee's contribution – Taxable (Other sources)

ALLOWANCES

(1) Fully Taxable Allowance

Dearness Allowance	As is clear by its name, this allowance is paid to compensate the employee against the rise in price level in the economy. Although it is a compensatory allowance against high prices, the whole of it is taxable.
City Compensatory Allowance	This allowance is paid to employees who are posted in big cities. The purpose is to compensate the high cost of living in cities like Delhi, Mumbai etc. However, it is fully taxable.
Tiffin/Lunch Allowance	It is fully taxable. It is given to employees for lunch as coupons or added as part of salary
Overtime Allowance	When an employee works for extra hours over and above his normal hours of duty, he is given overtime allowance as extra wages. It is fully taxable.
Fixed Medical Allowance	Medical allowance is fully taxable even if some expenditure has actually been incurred for medical treatment of employee or family.
Servant Allowance	It is fully taxable whether or not servants have been employed by the employee.
Other Allowance	There may be several other allowances like family allowance, project allowance, marriage allowance, education allowance, and holiday allowance etc. which are not covered under specifically exempt category, so are fully taxable.

(2) Partly Exempt Allowance [Sec. 10(15)]

Interest on Post Office Savings Bank Account

Individual Account ₹ 3,500 and

Joint account ₹ 7,000

House Rent Allowance [Rule 2A] [Sec. 10(13A)]

Minimum of

(1) Actual allowance received

(2) Rent paid – 10% Salary

(3) 50% of salary – If accommodation is in Mumbai, Kolkata, Delhi, Chennai [Metro City]

40% of salary – For any other place

Exempt Minimum of

(1) Actual amount received

(2) Amount spent

(i) Travelling (ii) Daily (iii) Conveyance (iv) Helper (v) Academic (vi) Uniform

Exempt Minimum of

(1) Actual amount received

(2) Limit Specified

(i) Children education allowance – ₹ 100 p.m. per child (maximum 2 children)
(ii) Hosted 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) Allowance allowed to Chairman/Member of UPSC * [Sec. 10(45)]
(a) Serving chairmen/member of UPSC
1. Value of conveyance of facilities including transport allowance.
2. Sumptuary allowance
(b) Retired chairmen/member of UPSC
1. Maximum ₹ 14,000 p.m. for meeting expenses incurred towards secretarial assistance
(vi) Tribal area allowance – ₹ 200 p.m.
(vii) Underground allowances – ₹ 800 p.m.

[**Note:** *signed content refers to Amendment, important for AY 12-13 and May/Nov. 2012 IPCC]

(3) Fully Exempt Allowance

Foreign (Govt.) Employees	This allowance is usually paid by the government to its employees being Indian citizen posted out of India for rendering services abroad. It is fully exempt from tax.
HC & SC Judges	Allowance to High Court and Supreme Court Judges of whatever nature are exempt from tax.
UNO	Allowances from UNO organisation to its employees are fully exempt from tax.

<table>
<tr><td colspan="3">Perquisities</td><td>*[Sec. 10(45)]</td></tr>
<tr><td colspan="4">(1) Taxable in the hands of all employees</td></tr>
<tr><td colspan="3">Rent Free Accommodation</td><td>[Rule 3(1)]</td></tr>
<tr><td>Govt. Employee</td><td colspan="3">Non-Govt. Employee</td></tr>
<tr><td rowspan="2">As per Govt. Rules</td><td>Owned by employer</td><td colspan="2">Not owned by employer</td></tr>
<tr><td>In cities population above 25,00,000: 15% of salary
In cities population 10,00,000 to exceeding 25,00,000: 10% of salary
In other place: 7.5% of salary</td><td colspan="2">Minimum of
(1) Actual Rent
(2) 15% of Salary</td></tr>
<tr><td colspan="4">Valuation of monetary obligation of employee</td></tr>
<tr><td colspan="4">Actual expenditure</td></tr>
<tr><td colspan="3">Perquisites received by Chairman/Member of UPSC:</td><td>*[Sec. 10(45)]</td></tr>
<tr><td colspan="4">(a) Serving chairman/members of UPSC:
1. The value of rent free official residence
2. The value of leave travel concession
(b) Retired chairman/members of UPSC :
1. Free telephone connection +UP to 1500 calls p.m.
[Note: * signed content refers to Amendment, important for AY 12-13 and May/Nov. 2012 IPCC]</td></tr>
<tr><td colspan="4">Interest free loan</td></tr>
<tr><td colspan="4">(1) Interest Rate of SBI OR (2) 12%
(Maximum exemption loan : ₹ 20000)</td></tr>
<tr><td colspan="4">Use of Movable Assets</td></tr>
<tr><td colspan="4">(1) 10% p.a. of actual cost OR (2) Actual rental charge</td></tr>
</table>

Transfer of Movable Assets		
Computer & electronic items	Dep. @50% for completed years (WDV)	
Motor car	Dep. @20% for completed years (WDV)	
Other assets	Dep. @10% for completed years (WDV)	

Valuation of Car Facility		**[Rule 3(2)]**
Car owned/hired by – Employer Expenses incurred by – Employer	**Use**	**Exemption**
	Official use	Exempt
(Running & Maintenance)	Private use	10% of cost OR Actual hire charges Add : Running and Maintenance exp Less : Amount recoverable
	Partly official partly private	For/below 1.6 ltr. CC – ₹ 1,800 p.m. Above 1.6 ltr. CC – ₹ 2,400 p.m. (Nothing deductible on account of amount recovered)
Car owned by – Employer Expenses incurred by – Employee (Running & Maintenance)	**Use**	**Exemption**
	Official use	NIL
	Private Use	10% of cost OR Actual hire charges Less :Amount recoverable
	Partly official Partly private	For/below 1.6 ltr. CC - ₹ 600 p.m. Above 1.6 ltr. CC – ₹ 900 p.m. If chauffer provided – ₹ 900 p.m. (Nothing deductible on account of amount recovered)
Car owned by – Employee Expenses incurred by – Employee	Nothing is taxable.	
Car owned/hired by – Employer Expenses incurred by – Employer (Running & Maintenance)	**Use**	**Exemption**
	Official use	NIL
	Private use	Amount of expenditure
	Partly official partly private	Expenditure Less: (for/below 1.6ltr CC ₹ 1,800 pm) (Above 1.6 ltr. CC ₹ 2,400 pm) Less: If chauffer provided : ₹ 900 pm (Greater deduction can be allowed if as per official records it is established that expenditure was for official use)
Any other automotive owned by Employer	**Use**	**Exemption**
	Official use	NIL
	Private	Expenditure incurred
	Partly official Partly private	Expenditure Less: ₹ 900 pm (Greater deduction can be allowed if as per official records it is established that expenditure was for official use)
Conditions :	• When such a facility is provided to high court or supreme court judges, it is exempt from taxation • When such a facility is provided for commuting between residences to office, it is exempt from taxation.	
Documents to be maintained by employee :	1. Complete details of journey undertaken for official purposes 2. Employer's certificate that expenditure was incurred wholly for official use. **Note:** When 2 or more cars are provided, the value for one car would be as provided for partly official partly private and for other cars as purely for personal purposes.	

(2) Taxable in the hands of specified employees Specified employees means- Director, 20% (beneficial ownership), salary more than ₹ 50,000 p.a.		
Sweeper, gardener or watchman	Actual Cost	
Gas, electricity or water suppliers	**[Rule 3(4)**	(1) Actual cost OR (2) Manufacturing cost
Education facilities	**[Rule 3(5)]**	₹ 1,000 p.m. (exempt)
(3) Tax free perquisites in the hands of all employees		
Medical facilities		
Medical treatment in India	Medical Treatment Outside 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 and stay expenses abroad- exempt (If permitted by RBI) • Travel expenditure is fully exempt if – GTI upt ₹ 2,00,000 – GTI above ₹ 2,00,000	
Leave travel concession		**[Sec. 10(5)]**
Maximum of 2 journeys in block of 4 years by air/first class air-conditioned in train by shortest distance		

DEDUCTION FROM SALARY

Entertainment Allowance (Only for Govt. Employees) [Sec. 16(ii)]

Minimum of

(c) Actual amount

(d) 20% of Basic Salary

(e) ₹ 5,000

Professional Tax/Employment Tax [Sec. 16(iii)]

Actual amount paid

Meaning of salary of deferent cases	
(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
(9) Employer's contribution towards employee pension scheme referred u/s. 80CCD. *[Sec. 36(1) (iva)] [w.e.f. A.Y. 2012-13] [see page no. 29 for more information]	Basic salary + DA (forming part of salary) (Excludes all Allowances and perks)

Salary Structure of Employee

Sl. No.	Name of Employee	Basic Salary	D.A.	HRA	Other Allowance	Commission	Gross Salary	Deduction						Net Security
								Loan	Income Tax	Professional Tax	P.F.	Total		
		A	B	C	D	E	F = (A + B + C + D + E)	G	H	I	J	L = (G + H +I + J)		M = (F – L)

Common Doubt

Question 1: Whether exemption of 1,000 is available while computing taxable value of perquisites of Education facility and balance amount is taxable?

Answer: It was held in case of Delhi Public School that in case of Education Facility if the cost of education of similar school exceeds ₹ 1000, the entire amount is taxable. Otherwise nothing taxable. E.g, if the cost of similar school ₹ 1200 p.m, then ₹ 1200 p.m is taxable and not just ₹ 200 p.m.

A contrary view was held in case of **Bal Bharati Public School** that ₹ 1000 exemption should be given. E.g., cost of similar school ₹ 1200 p.m then only ₹ 200 p.m is taxable.

Format: Computation of Income under the head Salary

Particulars	Amount (₹)	Amount (₹)
Basic Salary		—
Dearness Allowance/Pay		—
Bonus		—
Commission (Based on turnover)		—
Commission (Fixed or Other)		—
Other Taxable Allowances		
Medical allowance	—	
Add: City compensation allowance	—	
Add: Split duty allowance	—	
Add: Tiffin/lunch allowance	—	
Add: Deputation allowance	—	
Add: Overtime allowance	—	
Add: Servant or warden allowance	—	
Add: Non-practicing allowance	—	—
Allowances exempt with conditions		
Amount received	—	
Less: Exempt amount	—	
Allowances exempt without conditions		—
Amount received	—	
Less: Exempt amount	—	
Interest on balance of RPF	—	—
Less: Exempt amount	—	
Employer's contribution to notified pension fund		—
Value of perquisites		—
Leave encashment (Current Year)		—
Retirement benefit		
Gratuity		

Less: Exempt amount	—	
Leave encashment upon retirement	—	—
Less: Exempt amount	—	
Pension:		
Un-commuted pension	—	—
Commuted pension	—	
Less: Exempted amount	—	
Compensation under VRS	—	—
Less: Exempted amount	—	
Retrenchment compensation	—	—
Less: Exempted amount	—	—
Amount received from URPF upon retirement		—
GROSS SALARY		
Less: **Deduction under Sec. 16**		
Deduction for Entertainment Allowance [Sec. 16(i)]		—
Deduction for Professional/Employment Tax [Sec. 16(ii)]		—
INCOME UNDER THE HEAD SALARY		—

CHAPTER 4

Income under Head House Property

No matter your situation or circumstances. Stretch, breathe-in, and believe that you can make good things happen. Affirm to yourself, "I am happy and positive, and I'm going to have a wonderful day." Believe it!

Section	Provision
Sec. 22	Basis of charge (i.e. Charging Section)
Exp. To Sec. 23(1)	Unrealised rent
Sec. 24(a)	Statutory deduction
Sec. 24(b)	Interest on borrowed capital
Sec. 25A	Expenses not deductible
Sec. 25AA	Recovery of unrealized rent
Sec. 25B	Arrears (Outstanding) rent received
Sec. 26	Property owned by co-owners
Sec. 27(i)	Deemed ownership –Transfer to Spouse
Sec. 27(ii)	Deemed ownership-Holder of an impartible estate
Sec. 27(iii)	Deemed ownership-Member of co-operative society etc.
Sec. 27(iiia)	Deemed ownership – Person in profession of property as per Sec. 53A of Transfer of Property Act, 1882
Sec. 27(iiib)	Deemed ownership- Person having right in property for a period not less than 12 years.

BASIS OF CHARGE [SEC. 22]

- There must be a property consisting of building or land appurtenant thereto
- The Assessee should be owner of that property

- Such property should not be used for Business or profession of assessee the profits of which are chargeable to tax.

Some Important Points

- It must be noted that the would property or part thereof means part or unit of that property
- If there is any income from vacant piece of land such income would be charged under Profits and gains from business and profession or under income from other sources depending upon nature of the case.
- Property not owned by assessee should not be charged under house property, stating and example we mention that income from subletting is charged under income from other sources.

Ownership

Includes legal owner as well as deemed owner. The term ownership includes ownership of any kind and includes:

- Freehold Property
- Leasehold property
- Deemed ownership

DEEMED OWNERSHIP [SEC. 27]

The various cases in which owner would be counted as deemed of property are as follows:

Transfer to spouse:	Where an individual transfers his/her house property to his/her spouse without any adequate consideration (except in an agreement to live apart), the transferor would be deemed to be owner of such house property. It is to be noted that only house property is transferred and not any cash through which House property is purchased, in such a case, clubbing provisions will apply.
Transfer to minor child	Where property is transferred to minor child (except married minor daughter) Transferor would be deemed to be owner of that house property.
Holder of an impartible estate	Such holder would be deemed to be owner of that property.
Member of co-operative estate	Person holding property under a co-operative estate as leasehold or freehold property would be deemed to be owner of that property.
Person holding some rights of property under Sec. 53A of Transfer of Property Act, 1882	**Conditions:** • There is an agreement in writing • Purchaser has paid consideration or agreed to pay the same • Purchase has taken possession of the property.
Person holding lease of a property for not less than 12 years.	Such a person would be deemed to be owner of that property provided that lease is renewed after a minimum period of 12 months.
Disputed property	A person who holds the possession of a disputed property or enjoys income from that property is deemed to be owner of that property.

Use of House Property and its impact on Taxation

House property may be used for either commercial or residential purposes. Some cases of taxation are as follows:

- Where property is held as Stock in trade then also taxed under house property.
- When it is business to give property on rent, then also it is taxed under this head of house property.
- When hotel or P.G. accommodation building is given on rent then also taxed under house property but where separate rooms are given on rent then it is taxed either business or profession or under income from other sources.

- Some exceptions to general rule of taxation under house property are :
  - Where property is used for business of assessee
  - Where P.G. or hostel accommodation is run by assessee
  - Where property is given on rent for efficient conduct of business
  - Where H.P. is given on rent to Govt. agency for locating branch, etc. for conducting business efficiently, it is taxed under income from business and profession.
  - Where it is a case of composite rent.

Income from House Property not Chargeable to Tax

- House Property use for Business of Assessee
- Building held for charitable purposes
- Self-occupied property
- Property of registered trade union
- Palace of ex ruler
- Income from Farm house:

  Conditions:
  - Farm house in India
  - In immediate vicinity of agricultural land
  - Used as a dwelling or store house

Cases of Composite Rent

Composite rent can be on amount of

- Provision of facilities with House Property
- Provision of assets with House Property

(a) Rent On account of House Property and Other facilities like gas, etc. should be separated and rent on account of House Property would be taxed under income from House Property and rest would be taxable under either under the head Business & Profession or income under the head other sources.

(b) Rent on account of House Property and hire charges of assets is treated as follows :-

- If assets from an integral part of lending, whole of the rent should be taxed under either Income under the head "Profits and gains from Business and Profession" (PGBP) or Income under the head "Income from Other Sources" as the case may be.
- If asset do not form an integral part of lending, rent should be separated into:-
- Rent for H.P. and should be taxed under H.P.
- Rent for assets must be taxed under P.G.B.P. or income from other sources.

ANNUAL VALUE [SEC. 23]

Step 1	Take higher of (a) Expected rent (which is computed by taking higher of municipal value or fair rent whichever is higher but limited to standard rent) or, (b) Actual rent received or receivable (c) But in this clause c, we compute actual rent which would have been there if there would have been no vacancy, if such rent is higher than expected rent, then rent computed under this clause (c) would be used otherwise rent computed in clause (a) that is the expected rent would be used.
Step 2	From this Calculate GAV by taking rent as per above provisions and subtracting vacancy allowance on the basis of actual rent from the same.

Step 3	This is our **Gross Annual Value (GAV)**
Step 4	From GAV deduct Standard deduction @ 30% of GAV and municipal taxes actually paid and borne by the owner during the previous year.
Step 5	Finally we have computed our Net Annual Value or annual value

UNREALISED RENT [RULE 4]

Sometimes owner is not able to recover some portion of rent from the tenant such a rent is called as unrealized rent, Unrealized rent is allowed as a deduction only when following 4 conditions given in Rule 4 are satisfied:

- Tenancy is bonafide
- Every step has been taken to get the property vacated
- Every step has been taken to recover unrealized rent
- Tenant is not in occupation of any other property of Owner

There are a number of conflicting views regarding treatment of unrealized rent due to difference of opinion created by income tax law and income tax return form, However Taking in to account the provisions of law; the appropriate provisions are written below:

Just deduct amount of unrealized rent from Step 1 Point (b) and Point (c) of above Steps i.e. While Computing figures for actual rent, these are allowed as a deduction. The Rest of Steps Follow in the same manner as written above.

Vacancy

- In point "Annual Value", everything regarding vacancy clause has been discussed in the 5 steps for computation of annual value, so we are not discussing the same separately.
- It is to be noted that there is a difference of opinion among authors regarding vacancy allowance, rest necessary and commonly accepted provisions have been discussed in point "Annual Value".

House property let out during part of year and part of year self-occupied

- The Income from such property is calculated as if let out for whole of the year. In This case, expected rent would be taken for whole year but actual rent would be taken for let out period only and no special allowance for this purpose is allowed.
- However where property is acquired during the year itself, expected rent would be taken for only that portion for which property has been owned by assessee and rest provisions remains the same.

Treatment of Vacancy + Unrealised Rent

If the problem is such that adjustment is required both for Vacancy and unrealized rent then following treatment follows which is a combination of provisions written in Point "Unrealised rent" and Point "Vacancy" above:

- The amount of unrealized rent would be deducted from Step 1 Point (b) and Point (c)
- Next, the treatment of unrealized rent is same as per provisions written in Point "Annual Value" in the next steps.

Income from House Property – Self Occupied for Residence

When property is:

- Self –occupied for residence or
- Cannot be self-occupied for residence owing to reason of employment and he has to reside at some other place not belonging to him Then, Annual Value of such property would be taken to be NIL.

Annual other benefit is derived from property.

- House Property Actually let out during the year
- Any other benefit is derived from property.

Case where more than one house is for self-occupation:

Then the assessee has option to take any of the above houses as self-occupied and the other one would be treated as deemed let out property.

Notes:

- Annual value here denotes value after municipal taxes.
- This option is available only to individuals and Hindu undivided families.
- Where An assessee let's out his house to the employer and the employer in return allots the same to assessee only then, tax treatment would be as follows :-
- Tax on income of house property and
- Tax on the matter of rent free or concessional accommodation provided by employer taxable under income under the head salaries.

Deduction from Income from House Property

(1) **Standard deduction :** A Standard Deduction of 30% of Net Annual Value Would be allowed as a deduction from net Annual Value, irrespective of expenditure incurred. No other deduction on account of any expenditure is allowed.

However such deduction would not be allowed when annual value is negative.

(2) **Deduction on account of interest:** Any Kind of interest on borrowed capital would be allowed as a deduction from H.P. income on "accrual" basis. Interest includes pre construction period interest installment.

However Interest would not be allowed as a deduction if such interest is paid out of India and No TDS has been deducted from it and there is no person in India who can be assessed in respect of person to whom interest is paid.

Notes:

- Loan can be for any purpose like repairs, construction or any kind of extension to house property but should be connected with H.P.
- Fresh loan to merely repay original loan would be counted as if like original loan and interest would be allowed as a deduction.

Pre-construction period: Period starting from date on which capital is borrowed and ending on

- 31^{st} March immediately preceding the date on which capital is borrowed and ending on
- Date on which borrowed capital is repaid, whichever, is earlier.
- Pre-construction period interest is allowed as deduction in 5 equal installments commencing from year in which construction is completed.

Example: If capital is borrowed on June 30, 2010 and construction of property is completed on 30th July 2012, then interest from period June 30, 2010 to 31st March 2012 would be counted as pre-construction interest and would be allowed a deduction in 5 equal installments and interest from 1st April 2012 would be counted as interest for the current period.

Deduction in Case of Self-occupied Property

Deduction as written above are not fully applicable in case of a self-occupied property. The changes case of self-occupied property are as follows :-

(1) No standard deduction of 30% would be allowed.

(2) Deduction in case of money borrowed: Here also deduction is allowed subject to certain terms and conditions :-

These conditions are as follows :

- Money is borrowed after 1-4-1999
- Money is borrowed for construction or acquisition of property.
- Construction or acquisition of property is completed within 3 years from end of financial year in which money is borrowed.
- Creditor gives a certificate that amount was borrowed for construction or acquisition of property. In Case above 4 provisions are satisfied the amount of deduction is Actual interest (inclusive of pre-construction period interest) or ₹ 1,50,000 otherwise the amount of interest deduction would be ₹ 30,000.

However, Interest would not be allowed as a deduction if such interest is paid out of India and No TDS has been deducted from it and there is no person in India who can be assessed in respect of person to whom interest is paid.

Recovery of Unrealized Rent and Arrears of Rent:

Recovery of unrealized rent	Recovery of arrears of rent
• This provisions is applicable only if unrealized rent is allowed as a deduction earlier. • Any amount recovered on account of unrealized rent should be directly added to house property income. • No Standard Deduction or any kind of deduction is allowed. • No other deduction is allowed on account of any expenditure. • This provision is applicable whether property exists or not.	• This income is chargeable to tax under house property income. • Standard Deduction of 30% is allowed to the assessee. • No other deduction is allowed on account of any expenditure. • This Provision is applicable whether property exists or not.

Co-owners Property:

- If shares of co-owners are definite, then such property would be assessed in hands of individual persons.
- If shares of individual owners are not definite then such property would be assessed as body of individuals/association of persons.
- In case property is self-occupied than each co-owner would be allowed a deduction of ₹ 5\150,000/₹ 30,000.
- In case property is let out, we will ignore co-ownership and compute income and in the next step we will distribute the income among co-owners in ratio of co-ownership.

Can Annual Value be Negative? [Common Doubt]

Yes annual value can be negative.

In Case of Self-occupied property: Yes, annual value of a property can be negative but only to the extent of ₹ 1,50,000/₹ 30,000.

In Case of Let-out property: The annual Value can be negative Because of deduction on account of municipal taxes and interest.

There is no limit to which such income can be negative.

Format : Computation of Income under the head House Property

Particulars	In case of Let out property (₹)	In case of Self-occupied property (₹)
Gross Annual Value		
Less: Municipal Value	—	—
Net Annual Value	(—)	(—)
Less: Deduction under Sec. 24		
Standard Deduction @ 30%	—	Not Allowed
Deduction on account of Interest	(—)	15,000/30,000
Income under the head House Property	—	—

CHAPTER 5

Income Under Head Profit and Gains from Business and Profession

It can be anything relevant to your needs and ambitions, such as "I can do it!" or "I will succeed!" If you're feeling slightly out of kilter, repeat your mantra, either silently or out loud to yourself. Believe in the words. Trust in your mantra. You really can achieve your goals.

Section	Provision
Sec. 28	Income chargeable as PGBP
Sec. 29	Computation sheet of PGBP
Sec. 30	Deduction for expenses in relation to building
Sec. 31	Deduction for expenses in relation to plant, machine and furniture
Sec. 32(1)(i)	Depreciation by SLM for electricity company
Sec. 32(1)(ii)	Depreciation by WDVM for other assets
Sec. 32(1)(iia)	Deduction for additional depreciation for manufacturing concern
Sec. 32(1(iii)	Deduction for terminal depreciation (Under SLM)
Sec. 32(2)	Deduction for unabsorbed depreciation
Sec. 33AB	Special deduction for Tea Growing and Manufacturing concern
Sec. 33ABA	Deduction for Site Restoration fund
Sec. 35	Deduction for the activities of scientific research
Sec. 35A	Deduction for expenses on patent and copyrights (old provision)
Sec. 35ABB	Deduction for acquisition of telecommunication licenses
Sec. 35AC	Deduction in respect of eligible project
Sec. 35AD	Deduction in respect of expenditure for specific business

Sec. 35CCA	Deduction in respect of donation to RDP or NUEF
Sec. 36(1)	Other revenue deductions
Sec. 37(1)	General deductions
Sec. 37(2B)	Disallowance of payment to political party
Sec. 38	Disallowance of expense on assets not wholly (used) for business
Sec. 40(a)	Certain expenditure disallowed
Sec. 40(b)	Remuneration and Interest allowed to Partner from Firm
Sec. 40A(2)	Disallowance of payment made to related party
Sec. 40A(3)	Disallowance @ 20% on certain cash payments
Sec. 40A(7)	Disallowance of provision for gratuity
Sec. 41(a)/(2)/(3)/(4)	Certain income chargeable to tax as PGBP
Sec. 43(1)+Exp.	Actual cost of depreciable asset under different situation
Sec. 43(6)	Meaning of WDV for charging depreciation on WDVM
Sec. 43B	Certain expenses allowed on payment basis only
Sec. 44AA	Requirements of maintenance of books of accounts
Sec. 44AB	Requirements of tax audit
Sec. 44AD/AE/AF	Presumptive taxation
Sec. 50	Capital gains on depreciable assets (WDVM)
Sec. 50A	Capital gains on depreciable assets (SLM)
Sec. 145	Method of Accounting [AS 1 & AS 2: Cash System OR Mercantile (Accrual)]

BASIS OF CHARGE [ESSENTIAL CONDITIONS] [SEC. 28]

<table>
<tr><td colspan="2">• Profit from Business or Profession
• Any Compensation received or receivable
(a) Termination or Modification of affairs other than Indian Company
(b) Termination or Modification of affairs of Indian Co.
(c) Rested power on Agencies/Corporation</td></tr>
<tr><td>• Profit on sale of import license
• Any Subsidy received from Govt.
• Profit from Speculation Business</td><td>• Salary, Bonus, Commission, of Partner
• Tax on Non-monetary perquisites
• Income from key man insurance policy</td></tr>
<tr><td>Business</td><td>• Have skills, talent, knowledge
• Special qualities
• Carried on business with intension of profit</td></tr>
</table>

Occupation	• Don't have skill or talent • No qualitative • Bonus or commission earned

Computation of Business Profit [Sec. 29]

Balance as per profit and loss or Income – expenditure account			—
Add:	Expenses expressly disallowed but not debited to P&L A/C	—	
	Expenses not allowed but debited to P&L A/c	—	
	Incomes or receipts taxable under this head but not credited to P&L A/c	—	
	Capital expenses debited to P&L A/c	—	
	Personal expenses debited to P&L A/c	—	
	Expenses in excess of the allowed amount, debited to P&L A/c	—	
	Losses not allowed but debited to P&L A/c	—	
	Expenses not relating to the previous year but debited to P&L A/c	—	
	Under-valuation of closing stock or over-valuation of opening stock	—	—
Less:	Expenses expressly disallowed but not debited to P&L A/C	—	
	Expenses not relating to the previous year but debited to P&L A/c	—	
	Expenses not allowed but debited to P&L A/c	—	
	Incomes or receipts taxable under this head but not credited to P&L A/c	—	
	Capital receipts credited to P&L A/c	—	
	Incomes or receipts taxable under this head but not credited to P&L A/c	—	
	Over-valuation of closing stock or under-valuation of opening stock	—	
	Profit taxable under the head incomes from business or profession.	—	—
INCOME UNDER THE HEAD PGBP			—

Keyman Insurance Policy

- **Meaning:** Keyman insurance policy is taken by a business concern on the life of an employee (Keyman) whose services contribute substantially to the success of the business.
- **Objective:** The object of the keyman insurance is to indemnify a business concern from the loss of earning resulting from the death of a valuable employee.
- **Determine the amount:** The amount of keyman insurance can be estimated as the monetary value of the likely setback to profits of the concern due to the death of the keyman.
- **Tax impact:** Any sum received under a keyman insurance policy including the sum allocated by way of bonus is also taxable.

Sum received by	Employee-employer relationship	Taxable under the head
Employee	Exist	Salary
	Does not exist	Other Sources
Management		PGBP

5.1 Allowable Deductions [Sec. 30 to Sec. 37]

RENT, RATES, TAXES, REPAIRS AND INSURANCE FOR BUILDING[SEC. 30]

Nature of expenditure	Deduction if building is taken on rent	Deduction if building is owned
Rent paid*	Allowed	—
Cost of repairs (Revenue nature)	Allowed	Allowed
Cost of repairs (Capital nature)	Not Allowed	Not Allowed
Land revenue, Municipal Tax, Local Rates	Allowed	Allowed
Premium on insurance of building against damage or destruction	Allowed	Allowed
For the purpose of Sec. 28 to 43 the word paid* means actually paid or incurred according to the **method of accounting** upon the basis of which income is computed under the head PGBP		**[Sec. 31]**

REPAIRS AND INSURANCE OF PLANT AND MACHINERY [SEC. 31]

Nature	Deduction
Repairs (Revenue nature)	Allowed
Repairs (Capital nature)	Not Allowed
Insurance against damage/destruction	Allowed
Note: Any expenses incurred for increasing efficiency of machinery will be also treated as revenue nature and it will be deductible.	

DEPRECIATION [SEC. 32]

In respect of **Block of Asset [Sec. 2(11)]**	(1) Tangible Assets: Building, machinery, plant or furniture (2) Intangible Assets: Know-how, patents, copyright, trademarks, licenses, franchises or any other business or commercial rights of similar nature (acquired on or after 1/4/1998)
Conditions	• Owned wholly or partly by the assessee and used for the purpose of the business and profession. • Depreciation shall be allowed on the WDV of the block of assets at prescribed percentage.

Some Important Points kept in Mind while Calculation of Depreciation

When 50% Depreciation ?

In following cases assesses can claim only half rate of depreciation if he fulfil following conditions:

1. If asset acquired during the PY
2. Applicable only for the year of acquisition (purchase)
3. Put to use not more than 180 days

CAPITAL EXPENDITURE [EXPLANATION TO SEC. 32(1)]

- Assesse carried on business on lease
- Any Capital expenditure incurred by him
- Treated him as owner of the building

ADDITIONAL DEPRECIATION [SEC. 32(1)(iia)]

If following conditions fulfil by assessee then he can claim additional 20% depreciation on original cost value:

1. If new plant & machinery acquired for industrial undertaking purpose
2. Installed after 31st march 2005.

AGGREGATED DEPRECIATION

In case of	Depreciation allowable to
Succession [under Sec. 47(xiii) or Sec. 47(xiiib) or Sec. (xiv) or Sec. 170]*	Predecessor and the successor
Amalgamation	Amalgamating company and amalgamated company
Demerger	Demerger company and resulting company
When AOP/Firm/individual/business acquired by company or firm then deprecation will be calculated day wise not month wise. In case of amalgamation of companies, number of days of use of assets in ratio will be kept in mind.	
Sec. 47(xiii)*	Transfer of a capital asset by a firm to a company as result of succession of a firm by a company
Sec. 47(xiiib)	Transfer of a capital asset by a private company/unlisted public company to LLP (Limited Liability Partnership) as a result of conversion of private company/unlisted public company
Sec. 47(xiv)	Transfer of a capital asset by a partnership concern to a company result of succession of partnership concern by a company
Sec. 170	**Succession of business/profession otherwise than on death:** Where a person succeeds business/ profession of any other person: • Predecessor (Seller) shall be assessed in respect of the income of the PY in which the succession took place up to the date of succession & • Successor (Purchaser) shall be assessed in respect of the income of PY after the date of succession

WRITTEN DOWN VALUE [SEC. 43(6)]

	Particulars	Amount (₹)
	WDV of block of assets as on PY (i.e. as on 1/4/2011)	—
Add:	Actual Cost of the asset falling within the block acquired during the PY	—
Less:	Money Payable in respect of asset sold/discarded/demolished/destroyed during the PY and the amount of scrap value	—
	WDV of the block at the end of PY (i.e. as on 31/3/2012) for the purpose of charging depreciation for the PY	—
Less:	Depreciation for PY 2011-12 [AY 2012-13]	—
	WDV of the block at the beginning of next PY [i.e. 1/4/2012]	—

Depreciation = Closing WDV (WDV of the block at the beginning of next PY) × Rate of depreciation

1. Actual cost means the actual cost of the asset to the assessee, reduced by the portion of the cost which has been directly or indirectly met by any other person or authority
2. Money payable means Sale Price and it includes insurance compensation
3. The reduction of money payable shall only be to the extent that WDV becomes NIL.
4. Depreciation on fractional ownership is allowed.
5. No depreciation is admissible where WDV has been zero, though the block of assets does not cease to exist (block of assets is not empty) on the last day of PY.

6. If a block of asset cease to exist or if all asset of the block have been transferred and the block of the asset is empty on the last day of the PY, no depreciation will be admissible in such case.

SPECIAL PROVISION FOR COMPUTING GAINS IN CASE OF DEPRECIABLE ASSETS [SEC. 50]

Computation of capital gain/loss can be made only in following two situation :

1. On the last day of PY, WDV of the block of assets is zero, although block of assets is not empty because all assets in the block are not transferred during the PY.
2. When block of assets is empty on the last day of PY because all assets in that block are transferred during the PY.

Computation of capital gain

Sales consideration		Amount (₹)	Amount (₹)
Less:	WDV of block of assets at the beginning of PY (i.e. as on 1-4-2011)		—
	Actual Cost of the asset falling within the block acquired during the PY Transfer expenses	—	—
	Short term capital gain	—	—

Notes:

1. It is not necessary that depreciation is allowed for the year under consideration. If the depreciation is allowed in the current year (or any earlier years), Sec. 50 will be applicable.
2. If Sec. 50 is not attracted (affected) then the expenditure on transfer of assets shall be allowed as business expenditure under Sec. 37(1). It shall not be reduced from Sales consideration.
3. As per Sec. 45(1A), value of any money or FMV of assets received as compensation from insurance company shall be deemed to be full value of consideration received as a result transfer of asset which was destroyed.

SET-OFF AND CARRY FORWARD OF UNABSORBED DEPRECIATION [SEC. 32(2)]

Step 1	Depreciation allowance of the current PY is first deductible from Income under PGBP head
Step 2	If depreciation allowance is not fully deductible under the head PGBP because of absence or inadequacy of profit, it is deductible from income chargeable under other heads of income (except income under the Salary) of the current PY
Step 3	If depreciation allowance still remains unabsorbed, it can be carry forward to the subsequent AYs by the same assessee.
Same head – Any head of income other than salary – Carry forward to any number of years	

Notes:

1. Unabsorbed depreciation can be carry forward and set off, even ROI (Return of Income OR Income Tax Return) is filed after due date of furnishing the return of Income.
2. No time limit is fixed for the purpose of carrying forward of unabsorbed depreciation, it can be carried forward for indefinite period, if necessary .
3. In the subsequent AYs, unabsorbed depreciation can be set off against any income whether chargeable under the head PGBP or under any other head (except income under the head Salary) In the matter of set-off, the following order of priority is followed in subsequent AYs:
   (a) Depreciation of current PY.
   (b) Brought forward business loss
   (c) Brought forward unabsorbed depreciation

If in the subsequent AYs, there is no **brought forward loss**, brought forward unabsorbed depreciation can be added to **depreciation of current PY** for the purpose of claiming deduction.

4. For claiming depreciation, the assessee should be beneficial owner of the asset. It is not necessary that he should be registered owner.
5. Revaluation of assets does not have any impact on Income Tax Act, 1961. For the calculation of depreciation, revaluation should be ignored .

DEPRECIATION FOR POWER GENERATING UNDERTAKINGS [SEC.32(1)(i)]

1. They have option to claim depreciation

(a) SLM on **each** assets OR (b) WDVM on **block** assets.

2. Put to use less than 180 days: same as block asset concept
3. Depreciation allowed shall not exceed actual cost of the asset
4. Open to such undertaking to opt the depreciation under WDVM
5. Above option is not exercised depreciation is allowed on the basis of SLM

TERMINAL DEPRECIATION [SEC. 32(2)(iii)]

- Depreciation claimed under Sec. 32(i)(i) — Sold, destroyed or discarded
- Sale consideration < [Actual Cost — Depreciation Allowed]
- Difference of above shall allowed as terminal depreciation in PY in which asset sold, destroyed or discarded

Computation of Terminal Depreciation

		Amount (₹)
	Written Down Value (WDV)	—
Less:	Insurance received	—
	Terminal Depreciation	—

BALANCING CHARGE [SEC. 41(2)]

- Depreciation claimed under Sec. 32(i)(i) — Sold, destroyed or discarded
- Sale consideration < [Actual Cost — Depreciation Allowed]
- Minimum of following will be treated as Balancing charge
  (a) Cost Less WDV OR (b) Sales consideration Less WDV

CAPITAL GAIN ON THE TRANSFER OF CAPITAL ASSET ON WHICH SLM DEPRE, CHARGED [SEC. 50A]

Sales consideration exceeds actual cost of such assets

Computation of Capital Gain on the transfer of Capital Asset on which SLM depre charged

		Amount (₹)
	Sales consideration	—
Less:	Actual cost of Assets	—
	Capital Gain on the transfer of Capital Asset on which SLM depre. Charged	—

APPENDIX

Rates of depreciation for various block of assets		
Block No.	**Name of Asset**	**Rate of Depreciation**
Class 1: Buildings [included roads, bridges, culverts, wells and tube-wells]		
Block 1	Residential buildings	5%
Block 2	Non-residential buildings (e.g. office, factory, godown etc.)	10%
Block 3	Purely temporary erections such as wooden structures	100%
Class 2: Furniture and fittings		
Block 1	Furniture and fittings include electronic fittings [Electronic fittings include electrical wiring, switches, sockets and other fittings and fans etc.]	10%
Class 3 : Plant and machinery		
Block 1	(a) Motor cars (other than those used in business of running them on hire) (b) Any other plant and machinery (other than those covered by Block 2 to 8 below)	15%
Block 2	Ocean-going ships, vessels ordinarily operating on inland waters including speed boats	20%
Block 3	(a) Motor buses, motor lorries and motor taxis used in a business of running them on hire (b) Moulds used in rubber and plastic goods factories (c) Machinery used in semi-conductor industry	30%
Block 4	(a) Aeroplanes –Aero-engines (b) Specified life-saving medical equipment	40%
Block 5	Containers made of glasses or plastic used as re-fills	50%
Block 6	(a) Computer including computer software (b) Books (other than annual publication) owned by professional (c) Gas cylinders (d) Plant used in field operation by mineral oil concerns (e) Direct fire gas melting furnace used in glass manufacturing concerns	60%
Block 7	(a) Energy saving devices (e.g. Automatic Voltage Controller) (b) Renewal energy devises (e.g. Flat Plate Solar Collectors) (c) Rollers in flour mills, sugar works and steel industry	80%
Block 8	(a) Air pollution control equipment (b) Water pollution control equipment (c) Solid waste control equipment (d) Wooden parts used in artificial silk manufacturing machinery (e) Cinematograph films, bulbs of studio lights (f) Woods watch frames in match factories (g) Some plants used in mines, quarries and salt works (h) Books (annual publication) owned by professional (i) Books (mayor may not be annual publication) owned by assesses carrying on business in running libraries	100%
Class 4: Intangible assets		
Block 1	Know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature	25%

	Tea Development Account	**[Sec. 33AB]**	**Site restoration fund Account**	**[Sec.33ABA]**
Applicable	Tea or Coffee or rubber		Petroleum or natural gas	
Time Limit	Six months of end of P/Y or before ROI		Before end of P/Y	

Deposit	NABARD or TCR board	SBI or Scheme of Ministry of P&G
Deduction	40% of profits of such business (max. limit)	20% profit of such business (mix. Limit)
Common provision in case of Sec. 33AB & 33ABA		
Deduction 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 PY		

EXPENDITURE ON SCIENTIFIC RESEARCH *[SEC. 35]

Purpose	Donee	Deduction
Specific research	National laboratories, IIT, specified person	200% of donation
Specific research	Research association, university, college, other institutions	175% of donation
Specific research	Company (company's main object being is to carry on scientific research)	125% of donation
Research in social sciences, statistical research	Research association, university, college, other institutions	125% of donation
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. **Unabsorbed expenditure:** Same Treatment as unabsorbed depreciation [**Note:** *signed content refers to Amendment, important for AY 12-13 and May/Nov. 2012 IPCC]		

THE XIth (ELEVENTH) SCHEDULE: LIST OF ARTICLES OR THINGS

1. Beer, wine and other alcoholic sprits.
2. Tobacco and tobacco preparations, such as, cigars and cheroots, cigarettes, biris, smoking mixtures for pipes and cigarettes, chewing tobacco and snuff.
3. Cosmetics and toilet preparations.
4. Tooth paste, dental cream, tooth powder and soap.
5. Aerated waters in the manufacture of which blended flavouring concentrates in any form are used.

   Explanation: "Blended flavouring concentrates" shall include, and shall be deemed always to have included, synthetic essences in any form.
6. Confectionery and chocolates.
7. Gramophones, including record-players and gramophone records.
8. Projectors.
9. Photographic apparatus and goods.
10. Office machines and apparatus such as typewriters, calculating machines, cash registering machines, cheque writing machines, intercom machines and teleprinters.

    Explanation: The expression "office machines and apparatus" includes all machines and apparatus used in offices, shops, factories, workshops, educational institutions, railway stations, hotels and restaurants for doing office work 16 [and for data processing (not being computers within the meaning of section 32AB).
11. Steel furniture, whether made partly or wholly of steel.
12. Safes, strong boxes, cash and deed boxes and strong room doors.
13. Latex foam sponge and polyurethane foam.
14. Crown corks, or other fittings of cork, rubber, polyethylene or any other material.
15. Piler-proof caps for packaging or other fittings of cork, rubber, polyethylene or any other material.

EXPENDITURE ON- ACQUISITION OF PATENT RIGHTS OR COPY RIGHTS [SEC. 35A]

Before 1/4/1998 → Allowed in 14 equal annual instalments
On or after → Depreciation at 25% (WDV)

EXPENDITURE FOR OBTAINING LICENSE TO OPERATE TELECOMMUNICATION SERVICES [SEC. 35ABB]

Actual payment made to obtain a license, shall be allowed as deduction in equal instalments during the number of years for which he license is in force.

<table>
<tr><th colspan="3">If licence fee (amount) paid before Commencement of busienss</th><th colspan="2">If licence fee (amount) paid before Commencement of busienss</th></tr>
<tr><td colspan="3">Amount of deduction = $\frac{\text{Actual aount (fee) paid}}{\text{Total no. of license period}}$</td><td colspan="2">Aount of deduction = $\frac{\text{Actual aomunt (fee) paid}}{\text{Total no. of license period}}$</td></tr>
<tr><td colspan="5">Treatment after sale of license (for capita lgain purpose)</td></tr>
<tr><th colspan="3">Fully license right sold</th><th colspan="2">Partly license right sold</th></tr>
<tr><th colspan="2">SV > AV</th><th>SV > WDV</th><th>SV > AV</th><th>SV > WDV</th></tr>
<tr><td>$\frac{\text{Sale value – Org. cost}}{\text{Capital Gains}}$</td><td>$\frac{\text{Org. cost – WDV}}{\text{Business Income}}$</td><td>$\frac{\text{Org. cost – WDV}}{\text{Business Income}}$</td><td>$\frac{\text{Sale Value – WDA}}{\text{Business}}$</td><td>$\frac{\text{WDA – Sale Value}}{\text{WDA}}$</td></tr>
</table>

EXPENDITURE (DONATION) ON ELIGIBLE PROJECT OR SCHEMES [SEC. 35AC]

(1) Eligible expenditure → Payment to public sector company, local authority, approved association, direct expenditure incurred on eligble project (For Company only)

(2) Amount deduction → Actual payment OR Actual expenditure

(3) Disallowance unless assessee furnishes along with his Return of Income Tax a certificate
- In Form No. 58A from entity in respect of contribution (Expenditure or Donation) made
- In case where the expenditure is directly incurred (only for companies), a certificate from the Chartered Accountant.

DEDUCTION IN RESPECT OF CERTAIN SPECIFIED BUSINESS *[SEC. 35AD]

- 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

Specified business	Eligible assessee	Date of commencement of business on or after
Setting up & operating a cold chain facility for agricultural produce, meat, polutory products, processed food, etc.	Any	April 1, 2009
Setting up & operating a warehousing facility for storage of agricultural produce	Any	April 1, 2009
Laying & operating a cross-country natural gas pipeline network for distribution include storage facilities	Indian Co. Or Consortium of such co.	April 1, 2007

Laying & operating a cross-country crude/petroleum oil pipeline network for distribution including storage facilities (Approval required from Petroleum and Natural Gas Regulatory board notified by CG)	Indian Co. Or Consortium of such co.	April 1, 2009
Building & operating, anywhere in India, a hotel of 2 star or above (w.e.f. AY 2011-12)	Any	April 1, 2010
Building & operating, anywhere in India, a hospital with atleast 100 beds (w.e.f. AY 2011-12)	Any	April 1, 2010
Developing & building a housing project under a scheme for redevelopment or rehabilitation	Any	April 1, 2010
Developing & building a housing project under a scheme for affordable housing (w.e.f. AY 2011-13)	Any	April 1, 2011
Production of fertilizer in India (w.e.f. AY 2011-13)	Any	April 1, 2011

Deduction:	• 100% deduction of capital expenditure incurred during the previous year. • 100% of capital expenditure incurred prior to commencement of business shall be allowed in year of commencement of business only if same has been capitalized on the date of commencement of buisness. • Capital expenditure shall not include land, goodwill & finanical instrument.* **[* Sec. 28(iv): Any sum, whether received or receivable, on account of capital assets (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capial assets has been allowed as deduction under Sec. 35AD shall treated as income of assessee chargeable to income under the head PCBP.]**
Other Provisions	• Business should be new business i.e. should not be formed by splitting/reconstruction of old business. • Business should not be set up by transfer of old plant & machinery. Old plant & machinery should not be more than 20% of total plant & machinery used for the business. • Deduction u/s VI-A shall not be allowed in respect of such business for any assessment year. • Actual cost of the asset for which deduction has been allowed u/s 35AD shall be taken as NIL • Further, receipts on account of sale of these assets shall be taxable u/h PGBP only, whatever the amount may be.
Explanation regarding amendment	• Since the word "new" is deleted, therefore the hotels (2 star or above) and hospital (100 or more bed) carried on by assessee before 1.4.2010 is now covered under "Specified business". However, no deduction under this section is available because one of the conditions for claiming deduction is the business must be operate on or after 1.4.2010. • But the assessee is eligible to set off the loss with the profit of earlier hotel business u/s. 73A. Because, section 73A allow to set off of losses of one specified business with the profit of another specified business. Hence, for set off what is important is only "Specified business" and whether such specified business is eligible to claim deduction u/s 35AD or not is immaterial.

EXPENDITURE BY WAY OF PAYMENT TO ASSOCIATIONS AND INSTITUTIONS FOR CARRYING OUT RURAL DEVELOPMENT PROGRAMMES [SEC. 35CCA]

Assessee contribute for

(i) National fund for Rural Development

(ii) National Urban poverty Eradication fund,

The assessee shall be allowed a deduction of the amount of such expenditure during the PY.

AMORTISATION OF CERTAIN PRELIMINARY EXPENSES [SEC. 35CCA]

Meaning of Expenses: **Q. Who can clalim?** **A. Resident person** **OR** **Indian company**	Any expenses incurred before commencement of business sections (1) Preparation of feasibility report/project report (2) Conducting market surveys or any other surveys necessary for business (3) Legal charges for drafting any agreement/registering the complaint (4) Legal charges for drafting MoA/AoA (5) Printing of MoA/AoA (6) In connection with the issue, for public subscription of shares and debentures, underwriting commission (7) Engineering services relating to business of the assessee
Amount of Expenditure incurred	Minimum of

Deduction:	**On or before 1-4-1998 (Avail for 10 successive years)**	(1) $\frac{1}{10}$ × [Maximum of (a) 2.5% of project Value [OR (b) 2.5% of Capital Employed] (2) Actual expenditure
	Expenditure incurred on or after 1-4-1998 (Avail for 5 successive years	Maximum of (1) $\frac{1}{10}$ × [Maximum of (a) 2.5% of project Value [OR (b) 2.5% of Capital Employed] (2) Actual expenditure
Some important terms	**Cost of project**	All fixed cost (Actual)
	Capital employed	Equity share capital Add: General reserve Add: Debenture Add: Preference share

EXPENDITURE OF AMALGAMATION/DEMERGER *[SEC. 35DD]

Who can claim?	Indian companies
Deduction:	$\frac{1}{5^{th}}$ of expenditure (in 5 equal installments)

EXPENDITURE INCURRED ON COMPENSATION UNDER VRS*[SEC. 35DDA]

Deduction:	$\frac{1}{5^{th}}$ of expenditure (in 5 equal installments)
Amended [on AY 2011-12]	• Where a private company or unlisted company is succeeded (purchased) by a LLP, the provision of Sec. 35DDA shall apply to the successor (purchaser) LLP, as they would have applied to predecessor (sold) company. • However, as per Sec. 35DDA (5), no deduction under Sec. 35DDA shall be allowed to the predecessor (sold) company in the PY in which conversion takes place.

OTHER DEDUCTIONS [SEC. 36]

(a) Insurance premium on **stock/stores** used in Business or Profession *(only in year of payment)*
(b) Insurance premium on **life of cattle** *(only in year of payment)*
Amount of deduction = Actual cost of animal **less** Amount realized on sale of animals
(c) Insruance premium on **health of employee** under following schemes:
Mode of payment: Other than cash
General Insurance Corporation of India approved by CG
Any other insurer approved by IRDA
(d) **Interest** on capital borrowed for business purpose
(e) Contribution by **employer** to rcognised P.F. or Approved Superannuation fund subject to limit specified in those fund
(f) Contribution to approvd **Gratuity Fund** for exclusive benefits of employees
(g) Contribution from employees → on or before the due date under the relevant Act.
(h) Bonus or commission paid to an employee for service rendered **[Sec. 36(I)(va)]**
(i) Bad debts → only actual bad debts allowed **[Sec. 36(I)(vii)]**
(j) Family planning expenses → only for company assesse
- Revenue expenditure → fully allowed
- Capital expenditure → Allowed in 5 years in equal instalments
- Unabsorbed family planning expenditure → same manner as unabsorbed depreciation **[Sec.36(I)(ix)]**

(k) Discount on zero coupon bonds → on the basis of life of the bonds and on ***pro-rata basis*** **[Sec.36(I)(iiia)]**
(l) Banking transaction tax on taxable banking transaction by assessee **[Sec. 36(I)(xiii)]**
(m) Securities Transaction Tax. **[Sec.36(I)(iiia)]**
(n) Employer's contribution towards employee pension scheme referred u/s 80CCD
Minimum of
(1) Amount contributed
(2) 10% of Salary [Here, Salary = Basic Salary + DA]
[Meaning of salary in different cases: Page no. 11] *[Sec.36(I)(iiia)]

GENERAL CLAUSE FOR DEDUCTIONS [SEC. 37(1)

Any expenditure other than referred under Sec. 30 to 36 shall allowed provided following conditions are satisfied:

1. It should not be in the nature of capital expenditure
2. It should not be in the nature of personal expenditure
3. Incurred wholly and exclusively for the purpose of business or profession

Note: Any expenditure incurred for any purpose which is an offence or which is prohibited by law (e.g. extortion money, protection money, hafta, bribes etc.) shall not be allowed under Sec. 37(1)

Expenditure on advertisement in any souvenir, brochure, tract, pamphlets or like that published by any political party will not allowed **[Sec. 37(1)]**

5.2 Disallowed Expenditures [Sec. 40 to Sec. 43B]

EXPENSES NOT DEDUCTIBLE [SEC. 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 FIRMS [SEC. 40(b)]

- Payment of interest to any partner → Minimum of (1) as per deed or (2) 12% p.a.
- 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 [SEC. 40A(2)]

- A.O. may disallowed → excessive or unreasonable (fair market value)

CASH PAYMENT IN RESPECT OF EXPENDITURE EXCEEDING ₹ 20,000 [SEC. 40A(3)]

Payment in excess of ₹ 20,000 (for transporter ₹ 35,000) otherwise **Account Payee** cheque or Demand Draft → 100% disallowed

Note: Sec. 40A(3) will not apply if assessee purchase a capital asset.

Exceptions: payment made t 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 IN PROVISION FOR GRATUITY [SEC. 40A(7)]

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

CERTAIN DEDUCTION ON ACTUAL PAYMENT BASIS [SEC. 43(B)

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 t employees, contribution to PF

PROFIT CHARGEABLE TO TAX [SEC. 41(1)]

(a) Where any loss or expenditure has been allowed as deduction and subsequently any amount is received and then the amount so received shall be deemed to be the Income of the P/Y in which such amount is received.

(b) Where a deduction has been allowed in respect of a trading liability and subsequently there is a remission or cessation of the trading liability then he amount of trading liability so ceased shall be deemed to be the income of P/Y in which such remission or cessation took place.

[**Note:** The above provisions shall apply even if the business is not in existence]

RECOVERY OF BAD DEBTS [SEC. 41(4)

Where a deduction has been allowed in respect of bad debts and the bad debts is subsequently recovered, and the amount so recovered shall be deemed to be the income of P/Y in which the amount is recovered.

[**Note:** The above provisions shall apply even if the business is not in existence]

MAINTENANCE OF ACCOUNTS BY PERSON CARRYING ON PROFESSION NOR BUSINESS [RULE 6F][SEC. 44AA]

(1) **Business assesse (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/Yor 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)

(2) Note 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 preceedings 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 Inventroy Register

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

COMPULSORY TAX AUDIT OF ACCOUNTS [SEC. 41AB]

(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) I accounts audited under any other law → Report with audit report under any law

(4) Consequence of non-compliance → Defective return **[Sec.139(9)]**

Penalty: Failure to Keep/maintain books of account, documents etc. **[Sec.271A]** ₹ 25,000

Penalty: Failure to get accounts audited/to furnish audit report **[Sec.271A]** ₹ 1.5 lakh

Due dates for getting books audited or submission of audit report and its Form No.

Different Taxpayes	Audit Form No.	Statement of particulars	Due dates for getting books audited	Due dates for submission of audit report
In the case of a person who carries on Business or Profession and who is required by or under any law to get his accounts audited	Form No. 3CA	Form No. 3CD	30th September of the AY	30th September of the AY

In the case of a person who carries on Business or Profession but not being a person referred above	Form No. 3CB	Form No. 3CD	30th September of the AY	30th September of the AY

SPECIAL PROVISION FOR COMPUTING PROFITS AND GAINS OF BUSINESS ON PRESUMPTIVE BASIS [AMENDED AY 2011-12] [SEC. 441AD]

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 assesse:

1. An individual, HUF or a partnership firm, who is **resident**, but not LLP as define in Sec. 2(l)(n) of the Limited Liability Partnership Act, 2008 and
2. Who has not claimed deduction under any of Sec. 10A, 10AA, 10B, 10BA or 80HH to 80RRB

***Eligible Business:**

1. Any business except the business of plying, hiring or leasing goods carriages referred to in Sec. 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

Whose total income exceeds the maximum amount which is not chargeable to income-tax

[Sec. 10A] Special provision in respect of newly established undertaking in free trade zone or export processing zone.

[Sec. 10AA] Special provision in respect of newly established undertaking in free trade zone who begins to manufacture or produce articles or things or provide any services during the PY relevant to any AY commencing on or after 1-4-2006.

[Sec. 10B] Special provision in respect of newly established100% export oriented undertaking.

[Sec. 10BA] Special provision in respect of export of certain things or articles.

Things to kept in mind with above provisions:

(1) Deduction under *Section 30-38 (deemed to be allowed)*

(2) Depreciation *(deemed to be allowed)*

(3) Turnover for under *(Sec. 44AB not to considered)*

Option for lesser amount *(Section 44AA & 44AB applicable)*

Partner's - Interest, salary *(allowed)*

Deduction under Section 80C-80U *(allowed)*

SPECIAL PROVISION TO COMPUTING PROFIT AND GAINS OF BUSINESS OF PLYING, HIRING OR LEASING GOODS CARRIAGE ON PRESUMPTIVE BASIS I AMENDED AY 2011-121 *[SEC. 44AE]

Heavy goods vehicles: ₹ 5,000 per month/part of month for each heavy goods vehicle.
Other vehicles: ₹ 4,500 per month/part of month for each light goods vehicle *(Maximum 10 goods carriage)*

Common doubts:

Question 1: Whether Depreciation is allowed in respect of "Goodwill"?

Answer: It was held in case of ***Raveendran Pillai Vs. CIT (2010)*** that if the goodwill is specifically purchased then depreciation is allowed. However, In case of self-generated Goodwill no depreciation is allowed.

Question 2: Whether computer printers and scanner are eligible to get higher rate of depreciation of 60% as computer or only general rate of 15%?

It was held in case of ***Samiran Majumdar*** that for the purposes of depreciation computer printers and scanners to be regarded as computers and eligible for 60% rate and not 15%.

Format: Computation of Income under the head Profits and Gains from Business or Profession

Particulars		Amount (₹)	Amount (₹)
Net profit as per Profit and Loss A/c			—
Add:	Expenses debited to Profit and Loss A/c but not allowed as deduction		—
Less:	Expenses not debited to Profit and Loss A/c but allowed as deduction		(—)
			(—)
Less:	Incomes credited to Profit and Loss A/c but either exempt or taxable under other heads of income		—
Add:	Incomes not credited to Profit and Loss A/c but taxable under other heads		(—)
	of Profit and Gain from Business or Profession		—
Add:	Adjustment of over-valuation of opening stock		
Less:	Adjustment of under-valuation of opening stock		(—)
Add:	Adjustment of under-valuation of closing stock		(—)
Less:	Adjustment of over-valuation of closing stock		
Add:	Adjustment of goods withdrawn by proprietor		—
	Cost Price	—	
	Less: Price charged	(—)	—
Less:	Adjustment of goods withdrawn by proprietor	—	(—)
	Price charged	(—)	
	Less: Cost Price		—
Add:	Depreciation as per books of accounts		—
Less:	Depreciation as per Income Tax Rules		(—)
PROFITS AND GAINS FROM BUSINESS OR PROFESSION			—

CHAPTER 6

Income Under Head Capital Gains

Whatever the problem, a little bit of humor will make everything seem easier to cope with. When you laugh, your internal organs gain a workout, and laughter drives fresh oxygen around your body. So, take some time out to see the funny side of your world. Often, it's never as bad as you think. Seek out the positive in every situation.

Section	Provision
Sec. 45(1)	Basis of charge (i.e. charging Section)
Sec. 2(14)	Meaning of capital asset
Sec. 2(42A)	Short-term capital asset
Sec. 2(29A)	Long-term capital asset
Sec. 2(42B)	Short-term capital gain
Sec. 2(29B)	Long-term capital gain
Sec. 2(47)	Definition of transfer
Sec. 48	Method of calculating capital gain
First proviso to Sec. 48	Computation of capital gain from transfer of shares or debentures of Indian company held by NR assesse and purchased in foreign currency
Rule 115A	Method of conversion
Second proviso to Sec. 48	Indexation
Sec. 55	Cost of acquisition
Sec. 47	Certain transaction not regarded as transfer
Sec. 49(1)	Cost with reference to certain modes of acquisition

Sec. 49(2AA)	Where the capital gain arises from the transfer of specified security or sweat equity shares referred to in Sec. I7(2)(vi), the CO A of such security or shares shall be the FMV which has been taken into account for the purpose of said Sec. 17(2)(vi)
Sec. 49(4)	Where the capital gain arises from the transfer of a property which has been subject to income-tax under Sec. 56(2)(vii), the CO A of such property shall be deemed to be the value which has been taken into account for the purpose ofsaid Sec. 56(2) (vii)
Sec. 2(42A)	Period of holding
Sec. 55	Cost of improvement
Sec. 50C	Adoption of stamp duty for transfer of land or building or both
Sec. 111A	STCG on transfer of equity shares or units of equity oriented mutual fund taxable (a) J 5%
Sec. 112	Tax on LTCG @ 20%
Proviso to Sec. 112	In case of listed securities or units (units may be listed or unlisted) or zero coupon bonds. Tax on LTCG shall be minimum of following: (1) 20% of LTCG after Indexation (2) 10% of LTCG before Indexation
Sec. 51	Advanced money forfeited
Sec. 45(1 A)	CG shall not be taxable in the year in which the asset is destroyed but shall be taxable in the year in which money is received or an asset is received from insurance company
Sec. 45(2)	CG arising from the transfer (conversion) of capital asset into stock-in-trade shall be charged to tax in the PY in which stock-in-trade is sold or otherwise transferred
Sec. 45(2A)	CG from transfer of securities held in DEMAT form shall be taxable as the income of beneficial owner in the PY in which transfer took place
Sec. 45(3)	Where a partner of a firm transfers an asset to the firm by way of capital contribution on normal sale, CG chargeable as tax in PY in which transfer took place
Sec. 45(4)	CG arising from the transfer of a capital asset by way of distribution of capital asset to partner on dissolution or 'otherwise'
Sec. 56(2)(viii)	Interest received on original/enhanced compensation is taxable under the head IOS
Sec. 57(iv)	In case of interest received on original/enhanced compensation, a deduction of sum equal to 50% of such income shall be allowed
Sec. 54	Exemption — Residential house property
Sec. 54B	Exemption - Agricultural land
Sec. 54D	Exemption — Land or building compulsorily acquired by the Government
Sec. 54EC	Exemption — Any long-term capital asset other than residential H.P.
Sec. 54F	Exemption - Land, building, plant or machinery in order to shift in an industrial undertakingfrom urban area to rural area

Sec. 54GA	Exemption - Land, building, plant or machinery in order to shift in an industrial undertaking from urban area to any Special Economic Zone
Sec. 10(33)	Exemption — Unit Scheme, 1964
Sec. 10(37)	Exemption - Urban agricultural land compulsorily acquired by Govt.
Sec. 10(38)	Exemption — Equity share or units of an equity oriented fund

BASIC OF CHARGE [SEC.45(1)]

Profit or gain arising from the transfer of capital asset during PY is chargeable under the head Capital Gains if following conditions are satisfied:

Condition 1	There should be a **Capital asset**
Condition 2	There is **transfer** of capital asset
Condition 3	Transfer takes place **during the PY**
Condition 4	Any profit or gain arises as a result of transfer
Condition 5	Such rofit or gain is not exempt from tax under Sec. 54, 54B, 54D, 54F, 54G and 54GA

MEANING OF CAPITAL ASSET [SEC.2(14)]

Capital asset means property of any kind, whether or not connected with business or profession of assessee but ***does not include:***

(1) Any stock-in-trade
(2) Personal effects meaning
- Movable property
- Held for use by assessee or member of family dependent upon him
- The following assets can never be personal effects:
  - Jewellery
  - Archaeological collection
  - Drawings
  - Paintings
  - Sculptures
  - Any other work of art
  - Does not include house property as it is immovable property

(3) Rural agricultural land
- Within municipal limits and population less than 10,000
- If outside municipal limits at least 8 km away from municipal limits

(4) 6 ½ % Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980 issued by Central Govt.
(5) Special Bearer Bonds, 1991 issues by Central Govt.
(6) Gold deposit bonds issued under a Gold Deposit Scheme, 1999

TRANSFER [SEC.2(47)]

It includes (1) Sales (2) Exchange (3) Relinquishment of the asset (4) Extinguishment of any rights therein (5) Compulsory acquisition of any capital assets by Govt. (6) Conversion of capital assets into stock-in-trade.

Exceptions: However following transfer are specified excluded for definition of transfer that is in following case no capital gain shall attracted:

1. Distribution of any assets by Indian company at the time of liquation to his shareholder sec.46(I) from company point of view it is not transfer but from shareholder point of view it is transfer of share & same shall be subject to capital gain after considering deemed divided [Sec 2(22)(c)]
2. Transfer of assets by way of gift, will, inheritances however w.e.f. 01/10/2009 in certain gift are treated as IOS in hand of receiver under Sec. 56(2)(vii)
3. Any transfer of assets by HUF to its members at the time of partition
4. Transfer of capital assets by holding company to its holding (100%) owned Indian subsidiary company
5. Transfer of capital assets by subsidiary company to its holding owned (100%) Indian holding company

   Restriction: In above 4 & 5 following two restriction

   (i) Holding company should continue to hold 100% shares for at list 8 years from the date of transfer of capital assets

   (i) The transferee company should not convert such capital assets in to stock in trade (if either or both condition/s are/is not fulfilled than capital gain shall be taxed in year in which condition violated)
6. Surrender of share of Amalgamation company under the schemas of amalgamation where the consideration received only from of shares of Amalgamated company Conversion of debenture or debenture stock in to shares
7. Transfer of assets by the proprietor or firm is succeeded by a company [Sec. 47 (xiii) and (xiv)] conditions

   (i) All the assets & liabilities of proprietor or firm should be transfer to the company.

   (ii) Consideration should be received only in the form of shares. Shareholding of firm/partner/ proprietor should be at list 50%

   (iii) 50% beneficiary right in the company of the partner/proprietor should continue at list 5 years &

   (iv) In case of firm the shareholder of the partnership firm should be same proportion in which there capital account is standing in books at the time of suction.
9. Any transfer of capital assets being any work of art, archaeological collation ,art collection, books, drawing, painting transfer to Govt, or university or national museum, national art gallery etc.
10. *Reverse mortgage:* In case of reverse mortgage any amount received by the assessee either in installment or in lump-sum is not treated as transfer

COMPUTATION OF CAPITAL GAINS [SEC.2(48)]

(1) **Computation of Short Term Capital Gain:**

Full value of consideration Less Transfer expenses, COA, COl, Exemption u/s 54B, 54D & 54G

(2) **Computation of Long Term Capital Gain:**

Full value of consideration Less Transfer expenses, ICOA, ICOl, Exemption u/s 54-54H

Types of Capital Assets

Short Term Capital Assets	Long Term Capital Assets
Asset held by assessee for not more than 36 months immediately preceding date of transfer	An asset which is not a short term capital asset.

Notes:

(1) In case of following assets the period of 36 months is reduced by 12 months:- Equity or preference shares

- Any other security on recognized stock exchange –
- Units of UTI or mutual fund
- Zero coupon bonds

(2) For calculating period of 36 months or 12 months, the date of transfer should be excluded

Types of Capital Gain

Short Term Capital Gain	Long Term Capital Gain
On transfer of Short Term Capital Asset	On transfer of Long Term Capital Asset
The need for such distinction arises because STCG is taxable at normal rates and added to gross total income whereas LTCG is taxable at concessional rate of 20%.	

How to know Short Term Capital Assets (STCA)$_t$ Long Term Capital Assets (LTCA) & Short Term ' Capital Gain/Loss (STCG/or Long Term Capital Gain/Loss (LTCG/L)?

STCG/L		LTCG/L	
Transfer of STCA [Sec2(42A)l		Transfer of LTCA	[Sec 2(29A)]
A List	**B List**	**A List**	**B List**
1. Shares 2. Listed securities 3. Unit of UTI/Unit of Mutual funds specified under Sec. 10(23D) 4. Zero coupon bond	(Capital Assets other than A List) 1. Urban agricultural land 2. Unlisted securities 3. Jewellery, drawing, painting, any art work, 4. archaeological collection, Sculptures	Held for more than 12 months	Held exceeding 36 months
Hold up to 12 months	**Hold up to 36 months**		
[**Note:** As per Sec. 50 Capital Gain/Loss arising/incurred on transfer of Depreciable Asset it always short Term irrespective of period of holding.]			

Determination of holding period: *The total period for which asset was held by assessee together with the period of ownership by previous holder under Sec 49(1) & galledperiod of holding.*

[**Note:** While calculating it date of acquisition is included and date of transfer is excluded.]

Transaction/Situation	Inclusion/Exclusion [What to include & what not to]
Assets transfer by the Assessee which was acquired by him by way of Gift .will or inherent	The period of holding pervious holder shall also include for determining whether assets is Short Term (ST) or Long Term (LT)
Transfer of shares/security of Amalgamated company which was earlier held in Amalgamating company	The period of holding of shares Amalgamating company should be also including for determining whither assets is ST or LT
Transfer of ownership on in security which was acquired base on holding of original shares/security.	The period of holding shall be considered form the date of allotment security & not from the date of security allotment of original shares/security.
Considerations received from company on the liquidation base of shares holding in the company.	The capital gain is taxable in the year in which consideration is received but period of holding is considered only up to the date of liquidation.
Transfer of right renounces in favour of assessee base on existing shares holding.	The period of holding shall be considered from the date right renounces in favour of assessee from the date on which share & security base on which right allotted.(date on which right is given for purchase of shares^

Transfer of right which was acquiring right from the existing shares holder.	The period of holding shall be considered from the date when the shares were allotted to assessee irrespective of date of purchase of right (date on which shares are purchase)
Transfer of share which was acquiring in IPO	The period of holding shall be considered from date of allotment of share not from date of application.
In case of DEMAT account if assessee has purchase the shares of same script on different date FIFO method is follows determining which lot transfer	Must Remember

CAPITAL GAIN TO NON-RESIDENT ON TRANSFER OF SHARES OR DEBENTURES OF INDIAN COMPANY [FIRST PROVISO TO SEC. 48

- Capital gain arising to non-resident
- On transfer of shares or debentures of Indian company
- Such shares are bought in foreign currency
- **Here for computing LTCG, no indexation is allowed.**
- ***Further Capital gain is computed in following manner:***
  - **COA shall** be converted in foreign currency used for purchasing such securities **using average of TT buying and selling rate on date of acquisition**
  - **Expenses of transfer** shall be converted into same foreign currency using **average of TT buying and selling rate on date of transfer**
  - **Consideration** is also converted in foreign currency using **average of TT buying and selling rate on date of sale**
  - **Capital gain is computed in such foreign currency**
  - Such amount of **capital gain is converted into Indian rupees using TT buying rate only on date of transfer** of capital asset. This capital gain may be short term or long term.

INDEXATION [SECOND PROVISO TO SEC. 48

- Indexation is available only to the long term capital assets (LTCA) excluding Debentures (listed or non-listed) bonds however capital indexed bonds issued by Govt, are eligible to indexation
- Indexation benefit shall be available only for the period in which assessee himself it's the owner & nature of assets not be change.

<table>
<tr><td>Indexation Period:</td><td>The indexation period is either equal to or less than period of holding but it never exceeds period of holding.
Example:
If assets transfer by the assessee was acquired was acquired by way of gift, will, inheritance the period of holding previous owner is also considered to determined assets is ST/LT but indexation benefit is available only from the year in which assessee become owner.</td></tr>
<tr><td colspan="2">Certain cases where indexation is not allowed</td></tr>
<tr><td colspan="2">• Transfer of bonds other than capital index bonds
• Transfer of shares or debentures of an Indian company acquired by non-resident in foreign currency
• Slump sale
• Transfer of UTI funds purchased in foreign currency by non-resident
• Transfer of GDR's purchased in foreign currency by non-residents or bonds of Indian company or public company
• Transfer of GDR's purchased in foreign currency by resident or employee of Indian company Transfer of securities of foreign institutional investors
• Transfer of foreign exchange asset by Non-resident Indian</td></tr>
</table>

INDEXATION [SEC. 55]

The cost incurred to acquire any asset by the assessee is called as it's cost of acquisition. It is to be noted that cost of acquisition includes deemed cost of acquisition where asset was acquired by some other person other than assessee but was gradually passed on to assessee and in such a case cost means cost incurred by previous owner.

Cost of acquisition for assets acquired on or before 1-4-1981: It would be any one of:

<table>
<tr><td colspan="4">Cost incurred OR } which ever is beneficial to assessee
Fair market value on 1 - 4 -1981 }</td></tr>
<tr><td colspan="2">CO A of Goodwill, Trademark, Patent, Rights etc.</td><td>COA of Right Shares</td><td>COA of Right Shares</td></tr>
<tr><td>If acquired</td><td>If self-generated</td><td rowspan="2">• Cost at which such shares are purchased
• If right is sold, whole amount is capital
• gain and COA is NIL
• Sale of shares by such person acquiring right:
COA = Cost of Purchase Right + Payment to Company for Purchase of Shares</td><td rowspan="2">• Here COA is NIL
• But if such shares acquired on or before 1/4/1981, cost on 1/4/1981 can be taken as COA</td></tr>
<tr><td>Take Actual Cost [Cost on 1 4 1981 is not allowed in this case.</td><td>Cost of such asset is assumed to be NIL.</td></tr>
</table>

TREATMENT OF ADVANCED MONEY FORFEITED [SEC. 51]

If self-generated: Cost of such asset is assumed to be nil

If acquired: Take actual cost.

[Cost on 1-4-1981 not allowed in this case]

If assessee has received any advance money for sale of asset but later on such sale could not completed and as a result some advance money was forfeited by assessee such advance money would be treated as follows:

- It would be deducted from cost of asset
- If such amount is received by previous owner, it would not be deducted Such amount would be deducted before indexation.
- If advance money is more than COA, such advance money received would be a capital receipt and hence not taxable however capital gain on sale would be taxable.

COST OF IMPROVEMENT [SEC. 55]

Cost incurred to add value to the asset is called its cost of improvement. It is calculated as follows:-

- If asset acquired before 1-4-1981 it is always NIL
- In relation to Goodwill or right to manufacture any product or right to carry on business it would always be NIL
- In all other cases it is expenditure actually incurred by assessee or the previous owner
- It does not include routine expenditure on repairs, etc. which are allowed in PGBP, other sources, house property

ICOA	• Indexation benefit is available in case of LTCG only. $= \text{COA} \times \dfrac{\text{Cost of the year in which asset is transferred}}{\text{CII of the first year in which asset was first held by assessee Or CII of the year beginning on 1/4/1981}}$ ***Which ever is later***

ICOI	$= COA \times \frac{\text{CII of the year in which asset is transferred}}{\text{CII of the year in which improvement took place}}$
No indexation benefit in case of LTCG on bonds and debentures. However benefit of indexation available for Capital Indexed Bonds.	

COST INFLATION INDEX

The Central Govt, has notified the CH for the purpose ofLTCG as follows:

Financial Year	CH	Financial Year	CD	Financial Year	CII	Financial Year	CII
1981-82	100	1991-92	199	2001-02	426	2011-12	785
1982-83	109	1992-93	223	2002-03	447		
1983-84	116	1993-94	244	2003-04	463		
1984-85	125	1994-95	259	2004-05	480		
1985-86	133	1995-96	281	2005-06	497		
1986-87	140	1996-97	305	2006-07	519		
1987-88	150	1997-98	331	2007-08	551		
1988-89	161	1998-99	351	2008-09	582		
1989-90	172	1999-00	389	2009-10	632		
1990-91	182	2000-01	406	2010-11	711		

CAPITAL GAIN ON ZERO COUPON BONDS [SEC. 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

(d) If period of holding more than 12 months, it is regarded as LTCG otherwise as STCG. LTCG on such bonds: Taxable @ 10% without indexation.

Capital gain on money received from insurer

- Where any person receives during year any amount from insurer on account of damage, destruction, etc. of a capital asset
- Such damage, destruction, etc. would be regarded as transfer.
- Capital gain shall arise in the year when amount or asset is actually received from insurer
- However period f holding would be up to date of damage, destruction, etc. which is regarded as date of transfer
- Indexation is also done up to date of transfer.

Full value of consideration

- Money received or
- Value of asset received

However, in case of block of asset system, capital gain treated as per section 50 but liability to pay same arises only when money is actually received from insurance company.

Capital gain on conversion of capital asset into stock in trade

- This section is applicable when capital asset (not personal effect) is converted into stock-in-trade.
- Transfer shall be in year in which asset is sold
- Indexation shall be done till date of conversion
- FMV on date of transfer is sale consideration
- Sale price less FMV on date of transfer is business income.

Capital asset transfer to firm, AOP/BOI as capital contribution or otherwise

Transfer and capital gain both in the year of transfer
Full value of consideration: Amount recorded in books on such transfer.

Firm/AOP transfers capital asset to members on dissolution

- Capital gain is chargeable to firm
- ***Full value of consideration:*** FMV on date of transfer instead value at which it is given to partner
- There can be LTCG/STCG
- But cost of acquisition by partner is the amount at which it is given to the partner not the deemed value for taxation.

Distribution of stock in trade to partners on dissolution

Such income of the firm is taxed as business income.

Computation of Capital Gain on Compulsory Acquisition of Asset

- This section deals with compulsory acquisition of an asset.
- It does not include compulsory acquisition of urban agricultural land
- Period of holding till date of acquisition
- Capital gain taxable in year when either whole or part of amount is actually received.
- Enhanced compensation :
  - Capital gain in nature of original capital gain
  - COA is NIL
  - Expenses of realization allowed
- If the amount of compensation is in dispute then also taxable at original value first. And if amount of compensation is subsequently reduced, the capital gain would be recomputed by A.O. and necessary relief would be provided.

Conversation of debenture into shares

- It would not be regarded as transfer
- On sale of such shares, COA of these shares would be deemed to be that part of cost of debentures as surrendered by assessee.

Period of holding of shares: Date of allotment of shares to date of sale of such shares.

Conversion of preference share into equity shares

- This transaction is regarded as a transfer
- Capital gain on date of allotment of shares

Sale consideration: FMV of equity on date of transfer

Transfer of goodwill, trademarks, right to carry on business etc.

The following assets are covered under this section:

- Goodwill of business, not of profession (there is no capital gain on sale of self-generated goodwill of profession,
- Goodwill of profession is not Taxable – B. Srinivas Setty; SC Judge
- Trademark or brand name associated with business
- Right to manufacture or process any article, example :- patents, copyrights
- Right to carry on business
- Tenancy rights
- Route permits
- Loom hours

Cost of Acquisition	Cost of improvement
If self-generated: NIL	Not allowed for goodwill, right to carry on business, right to manufacture any articles, etc.
If acquired: Price paid by owner or previous owner [Sec. 49(1)]	Allowed for Trademark, tenancy right, loom, hours, route permits

Capital Gain on Depreciable Assets on Block of Assets System

Capital gain in case of block of assets is always short term capital gain

COA: WDV of the block

Short term capital loss: In this case, it is possible only when whole or part of block is transferred for a value exceeding WDV of the block at the end of the year.

Capital Gain on Depreciable Assets of Electricity Company

Such capital gain can be long term capital gain or short term capital gain

COA: Actual cost

Rest is same as explained in "profits and gains from business and profession"

Slum sale:	
If acquired	**If self-generated**
Price paid by owner or previous owner u/s 49(1)	It is always assumed to be NIL
Allowed for	**Not allowed for**
Trademark, tenancy rights, loom hours, route permits.	Goodwill, right to carry on business, right to manufacture any article, etc.

- When whole of undertaking or part of undertaking is soled, it is called as slump sale
- Part of undertaking means any division or unit of undertaking
- Undertaking when owned and held for more than 36 months, it is Long term capital gain otherwise short term capital gain
- COA: COA in this case is "net worth" of the unit or undertaking. Net worth is value of assets of organization less value of liabilities of the organization; in valuation any change in value on account of revaluation is ignored.
- Every assessee in case of slump sale has to furnish a report by Chartered accountant in the relevant from indicating that net worth has been correctly arrived at.
- Capital gain in year in which sale is effected
- Arriving at value of assets:

In case of depreciable assets	In case of assets whole cost is allowed or allowable u/s 35AD	In case of any other assets
What would have been value if this would have been only asset in the block. However aggregate of the value computed can't exceed WDV of the block	NIL	Book value of asset

COST OF ACQUISITION OF DIFFERENT TYPES OF SHARES [SEC. 55]

Particulars of Assets	Date of acquisition/ Holding Period	Cost of Acquisition
(1) Shares originally purchased		
(a) Primary market	Date of Allotment	Allotment price
(b) Secondary market		
(i) Transaction through share broker	Date of broker's note	Amount paid + Brokerage charges + Adjustment for exp. & com. + dividend/interest
(ii) Transaction between parties directly	Date of contract of sale	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 depositary 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 renouncement	Date of allotment	Offer price+ Amount paid for renouncement
(7) Renouncement of right shares in favour of another person	Holding period is date of offer of such right to the date of renouncement (always STCG)	NIL
(8) Financial asset acquired without any payment	Date of allotment of such financial assets	NIL

REFERENCE OF A VALUATION OFFICER [SEC. 55A]

(1) Sale consideration<FMV
(2) Difference between FMV and sale consideration (more than ₹ 25,000 or 15%)

EXEMPTION ON COMPULSORY ACQUISITION OF AGRICULTURE LAND [SEC. 10(37)]

- Individual or HUF
- Holding period 2 year or more
- Consideration determined by CG or RBI
- On or after 1/4/2004

EXEMPTION ON LTGC [SEC. 10(38)]

Transfer on or after 1/10/2004 – Through recognized stock exchange – Security transaction tax applicable

TAX ON STCG FROM SHARES [SEC. 111A]

Tax @ 15% on STCG – Transfer on or after 1/10/2004 – Through recognized stock exchange – Security transaction tax applicable

TAX ON LTCG ON LISTED SECURITIES [SEC. 112]

Minimum of

(1) Tax @ 20% on LTCG after Indexation or

(2) Tax @ 10% on LTCG without indexation

EXEMPTION TO NRI'S ON ACCOUNT OF LTGC ARISING BY TRANSFER OF FOREIGN EXCHANGE ASSET [SEC. 115F]

- NRI transfers long term foreign exchange asset,
- He can claim exemption u/s 115F
- Foreign exchange asset means :
  - Shares of Indian company
  - Debentures of Indian company not a private company
  - Deposit with Indian public limited co.
  - Central govt. securities

Conditions for claiming exemption:

He (the NRI) has invested the whole or any part of net consideration in any new foreign exchange asset within a period of six months from date of transfer of original asset.

Quantum of exemption:

The exemption is this case shall be computed in the following manner:

- If amount invested is more than net consideration whole of capital gain is exempt
- Otherwise, exemption is calculated in the following manner

$$= \frac{\text{Amount invested}}{\text{Net consideration}} \times \text{Long Term Capital Gain}$$

Net consideration = Consideration Less Expenses of transfer

Withdrawal of exemption: If the new asset is transferred within 3 years of its date of acquisition, the exemption so granted u/s 115F would be withdrawn. It would be deemed to be income of the year in which such asset is transferred.

Summarised provisions relating to securities in case of capital gains

<table>
<tr><th colspan="5">Securities of resident</th></tr>
<tr><th colspan="2">Short Term</th><th colspan="3">Long Term</th></tr>
<tr><td rowspan="3">Securities mentioned in Sec. 111A sold RSE and STT paid: Taxable @ 15%</td><td rowspan="3">Rest of securities: Taxable @ normal rates of STCG</td><th>Non-listed</th><th colspan="2">Listed and Mutual Fund</th></tr>
<tr><td rowspan="2">Taxable at normal rates of LTCG @ 20%</td><th>Not sold through RSE</th><th>Sold through RSE</th></tr>
<tr><td>Min. of
(1) Limit of 10%
(2) 20 (as per Sec. 112)</td><td>Exempt under Sec. 10(38)</td></tr>
</table>

<table>
<tr><th colspan="5">Securities of non-resident</th></tr>
<tr><th colspan="2">Short Term</th><th colspan="3">Long Term</th></tr>
<tr><td rowspan="3">Securities mentioned in 111A sold through RSE and STT paid: Taxable @ 15% However calculation of capital gain has to be made has to be made (as per first proviso in Sec. 48 in case of an Indian co.)</td><td rowspan="3">Rest of securities: Taxable @ normal rates of STCG. However calculation of capital gain has to be made as per first proviso in Sec. 48 in case of an Indian co.</td><th>Non-listed</th><th colspan="2">Listed and Mutual Fund</th></tr>
<tr><td rowspan="2">Taxable at normal rates of LTCG i.e. @ 20%. However Due care in calculation as per first proviso in Sec. 48</td><th>Not sold through RSE</th><th>Sold through RSE</th></tr>
<tr><td>Taxable @ of 10% and Due care in calculation as per first proviso in Sec. 48</td><td>Exempt under Sec. 10(38)</td></tr>
<tr><td colspan="5">Note: In case of NRI certain benefit of exemption as per Sec. 115F in case of long term foreign exchange asset has been given. [RSE – Recognised Stock Exchange]</td></tr>
</table>

Tax rates on capital gain income

- **STCG:** Simply taxed at normal rates and added to income of assessee.
- **STCG Referred in Sec. 111A:** Taxable at special rate of 15% and No deduction under chapter VI A is allowed from this income.
- **LTCG:** Taxable at special rate of 20% and No deduction under chapter VI A is allowed from this income.
- Besides this there are some rates prescribed in "Tax on LTCG from listed Securities" which are to be taken care of.
- It is to be noted that above rates are exclusive of education cess, secondary and higher education cess and surcharge which re charged separately at the normally prescribed rates.

Computation of capital Gain in special cases

Section	Nature of Transaction	Year of taxability	Computation of Capital gain
Sec. 45(1A)	Insurance claim on loss of assets	Year of receipt of claim	Insurance claim received Less COA or COI
Sec. 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 work	FMV of the capital asset on conversion Less COA or ICOA Business income = Sale consideration Less FMV considered as above
Sec. 45(2)	Sale of shares held as depository (FIFO method)	Year of transfer	Consideration for transfer Less COA or ICOA
Sec. 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
Sec. 45(4)	Distribution of capital asset by partners/members on dissolution of firm/AOP/BOI	Year of first receipt	FMV on date of transfer Less COA or ICOA
Sec. 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

Sec. 45(6)	Redemption 80CCB Units	Year of repurchase	Repurchase price Less Amount invested (no indexation)
Sec. 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
Sec. 46A	Repurchase/bay back of shares/ Specified securities	Year of repurchase	Consideration for transfer Less COA or ICOA
Sec. 50B	Sale or undertaking as a going concern or Slump sale	Year of transfer	Lump sum consideration Less Net worth
Sec. 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

6.1 Exemptions from Capital Gains

Exemption available only to Individual and/or HUF Assessees			
Provisions	**Capital gains on sale of residential property used for residential property**	**Capital gains on sale of urban agricultural land and used for another agricultural land**	**Capital gain on sale of LTCA not to be charged in case of investment in residential house**
	[Sec. 54]	**[Sec. 54B]**	**[Sec. 54F]**
Assessee	Individual/HUF	Individual	Individual/HUF
Nature of assets	LTCA	LTCA/STCA	LTCA
Assets transferred	Residential house property being building or land appurtenant thereto.	Agricultural land used by individual or his parents for agricultural purposes during 2 years of transfer	Any capital assets not being residential house property. Exemption is not available if assessee owns more than 2 houses including new house.
New assets to be purchased or constructed	Residential house property i.e. building, land appurtenant thereto	Agricultural land (in rural or urban area)	Residential house property i.e. building, land appurtenant thereto.
Time limit of purchased or constructed	Purchase : Within 1 year before or 2 years after the date of transfer; and Construction : Complete construction within 3 years from date of transfer	Purchase : Within 2 years of the date of transfer	Purchase : Within 1 year before or 2 years after the date of transfer; and Construction : Complete construction within 3 years from date of transfer
Deposit scheme	Applicable	Applicable	Applicable
Amount of exemption	Min. of (1) Capital gains (2) Investment	Min. of (2) Capital gains (3) Cost of new asset	Cost of new house $\times \frac{\text{Capital gains}}{\text{Net consideration}}$

Exemption available only to All assessees				
Provisions	**Compulsory acquisition of land and building**	**Investment in certain bonds**	**Shifting of undertaking to rural area**	**Shifting of undertaking to SEZ**
	[Sec. 54D]	**[Sec. 54EC]**	**[Sec. 54G]**	**[Sec. 54GA]**
Assessee	Any person	Any person	Any person	Any person
Nature of assets	SPCA/LTCA	LTCA	STCA/LTCA	STCA/LTCA

Assets transferred	Compulsory acquisition of land or building which was used in the business of industrial undertaking during 2 years prior to date of transfer.	Any LTCA	Transfer of plant, machinery or land or building for shifting industrial undertaking from urban area to rural area	Transfer of plant, machinery or land or building for shifting industrial undertaking from urban area to Special Economic Zone
New assets to be purchased or constructed	New land or buildings for the industrial undertaking	Bonds, redeemable after 3 years issued – (a) By National Highway Authority of India; or (b) By Rural Electrification Corporation, Maximum exemption limit being ₹ 50 lakhs (Amended by FA, 2007 w.e.f. 1/4/08)	(a) Purchase/ Construction of plant, machinery, land or building in such rural area or, (b) Shifting original assets to that area or, (c) Incurring notified expenses	(a) Purchase/ Construction of plant, machinery, land or building in such SEZ or, (b) Shifting original assets to that area or, (c) Incurring notified expenses
Time limit of purchased or constructed	Within 3 years from date of receipt of initial compensation	Within 6 months from the date of transfer of original asset.	Within 1 year before or 3 years after the date of transfer.	Within 1 year before or 3 years after the date of transfer.
Deposit scheme	Applicable	Applicable	Applicable	Applicable
Amount of exemption	Min. of (1) Capital gains (2) Amt. invested			

Key note: Under all above sections, amount deposited in Capital gains Account Schemes, if not utilized with prescribed time, it will be taxed in the PY in which prescribed period expires.

Big debate

Topic	In case of gift or inheritance the Cost of acquisition and period of holding is taken when the previous owner has acquired the assets. However, the indexation shall be done when the assessee/current owner acquired/received the assets. [We follow this as per the provisions of the Act]
Argument	However, it was held in the case of Mrs. Puspa Devi Sofat (Chandigarh Tribunal) that the indexation shall also be done when the previous owner has acquired the assets. A similar view has been taken in case of Kamal Mishra by Mumbai tribunal and also in the case of Munjal Shaw.

Format: Compensation of Income under the head Capital Gains

Particulars	Amount (₹)	Amount (₹)
Sale consideration		—
Less: Cost of Acquisition (COA)	—	
Cost of Improvement (COI)	—	(—)
Transfer Expenses	—	—
Less: Exemption under Sec. 54B, 54D, 54G & 54GA		—
SHORT –TERM CAPITAL GAIN		(—)

Particulars	Amount (₹)	Amount (₹)
Sale consideration		—
Less : Indexed Cost of Acquisition (ICOA)	—	
Indexed Cost of Improvement (ICOI)	—	(—)
Transfer Expenses	—	—
Less : Exemption under Sec. 54B, 54D, 54EC, 54F, 54G & 54GA		—
SHORT –TERM CAPITAL GAIN		(—)

CHAPTER 7

Set-off or Carry Forward and Set-off of Losses

A mud pot having milk will be ranked higher than a golden pot having poison, it's not our outer glamour but our inner virtues that make us valuable.

Section	Provision
Sec. 70	Set-off of loss from one source against income from other source under the same head of income (i.e. Intro-head adjustment)
Sec. 71	Set-off of loss from one head against income from other head (i.e. Inter-head adjustment)
Sec. 71B	Carry forward and Set-off of loss from House Property
Sec. 72	Carry forward and Set-off of loss from non-speculative business
Sec. 72A	Unabsorbed loss and unabsorbed depreciation of Amalgamating Co./Pvt. Co./Unlised Public Co. shall be deemed to be the losses and depreciation of Amalgamated Co./LLP of the PY in which amalgamation or conversion took place.
Sec. 41(5)	"Loss" of business or profession of the PY in which business was discontinued can set-off against the Income under Sec. 41(1), 41(3) and 41(4) arising subsequent to the discontinuance of business.
Sec. 41(1)	Recovery of loss or expenditure allowed as deduction & remission and cessation of trading liability
Sec. 41(3)	Profit on sale of scientific research asset
Sec. 41(4)	Bad debt recovery

Proviso to Sec. 72(1)	Where business is discontinued due to flood, cyclone, earthquake, riots etc. and re-established before expiry of 3 years from the end of PY in which business discontinued, then the loss of such business including brought forwarded loss can be set-off against non-speculative business income in the AY relevant to the year in which business is re-established and balance in 7 succeeding AY.
Sec. 73	Losses of Speculation Business
Sec. 74	Losses under the head Capital Gains
Sec. 74A	Losses from activity of owning and maintaining of race horses
Sec.80	Return of loss should be filed on or before due date of furnishing return as prescribed under Sec. 139(1)
Sec. 73A	Set-off or carry forward & Set-off of losses by specified business referred to in Sec. 35AD

SET-OFF OF LOSS FROM ONE SOURCE AGAINST INCOME FROM OTHER SOURCE UNDER THE SAME HEAD OF INCOME (i.e. INTRA-HEAD ADJUSTMENT) [SEC. 70]

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

Exceptions	Following losses can be set off from the same income only • Long term capital loss • Loss from speculative business • Loss from maintaining and owning race horse • Loss from specified business u/s 35AD

SET-OFF OF LOSS FROM ONE HEAD AGAINST INCOME FROM OTHER HEAD (i.e. INTRA-HEAD ADJUSTMENT) [SEC. 71]

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

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

CARRY FORWARD AND SET OFF OF LOSS OF HOUSE PROPERTY [SEC. 71B]

- Unadjusted loss of House Property shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 8 years following the assessment year in which loss was computed.
- Carry forward loss of House property can be adjusted only against income of house property in subsequent years.

CARRY FORWARD AND SET-OFF OF LOSS FROM (NON-SPECULATIVE) BUSINESS [SEC. 72]

- Unadjusted loss under the head 'Profits and Gains of Business or profession' (Except loss in speculation business) shall be allowed to be carried forward to the subsequent assessment year for a maximum period for 8 years following the assessment year in which loss was computed.
- Carry forward loss of PGBP (other than speculation loss) can be adjusted only against income of PGBP in subsequent years.
- Unabsorbed depreciation u/s 32(2) or scientific research expenditure u/s 35 can be carried forward for unlimited period and is allowed to be adjusted against any other income (except casual income like winning of lotteries etc.)

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

(1) Current year business expenditure
(2) Current year depreciation, capital expenditure on family planning or scientific research
(3) Brought forward loss of PGBP
(4) Brought forward depreciation/unabsorbed expenditure on scientific research/family planning

CARRY FORWARD AND SET OFF OF LOSS IN CASE OF AMALGAMATION/ DEMERGER/CONVERSION OF PROPRIETORSHIP/PARTNERSHIP FIRM INTO COMPANY ETC. [SEC. 72A]

Amalgamation	The unadusted loss and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss of the amalgamated company as if incurred in the year of amalgamation, if:
	• The amalgamated company continues the business of amalgamating company for a period of at least 5 years. • The amalgamated company continues to hold at least 75% of the book value of assets for a period of 5years. • Fulfil other conditions as prescribed
Demerger	Unadjusted losses and depreciation of the demerged company is allowed to be carried forward and set off by the resulting company for the remaining period.
Conversion of proprietorship or partnership firm into company	Unadjusted losses and depreciation of the proprietorship/partnership firm shall be deemed to be the losses of company as if incurred in the year of conversion, if conditions laid down u/s 47 are complied with.
Conversion of private or unlisted company into LLP	Unadjusted losses and depreciation of the private or unlised company shall be deemed to be the losses of LLP as if incurred in the year of conversion, if conditions laid down u/s 47 are complied with.

LOSS IN SPECULATION BUSINESS [SEC. 73]

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

MEANING OF SPECULATIVE BUSINESS* [SEC. 45(5)]

Speculative business means such business transactions in which a contract for the purchase or sales of any commodity including stocks and shares is settled otherwise than by the actual delivery.

CARRY FORWARD AND SET OFF OF LOSSES BY SPECIFIED BUSINESS U/S 35AD [SEC. 73A]

- Loss from specified business u/s 35AD is allowed to be set off only against profits of any other specified business.
- Unadjusted loss of Specified business shall be allowed to be carried forward to the subsequent assessment year for unlimited period and is allowed to be set off only against profits or specified business in subsequent years.

LOSSES UNDER THE HEAD CAPITAL GAINS [SEC. 74]

- Short term capital loss can be set off either from STCG or LTCG, but long term capital loss can be adjusted against LTCG only.
- Losses under the head capital gain are not allowed to be set off against any other head of income.
- Unadjusted loss of Capital Gains shall be allowed to be carried forward to the subsequent assessment year for a maximum period of 8 years following the assessment year in which loss was computed.
- Carry forward loss u/h Capital Gains can be adjusted only against income under the head Capital Gains in subsequent years. Short term capital loss can be adjusted from STCG or LTCG but long term capital loss can be adjusted against LTCG only.

LOSSES UNDER THE HEAD INCOME FROM OTHER SOURCES [SEC. 74A]

- Loss from activities under the head other sources (except maintaining and owning race horses) is allowed to be set-off within same head or any other head except casual income.
- Carry forward of loss u/h other source is not allowed.
- Losses from owning and maintaining race horses is allowed to be set off only against profit of owning and maintaining race horses and unadjusted losses is allowed to be carried forward for a maximum period of 4 years and it can be set-off only against the profit of owning and maintaining race horse in subsequent years.

CARRY FORWARD OF LOSSES-CHANGE IN CONSTITUTION OF FIRM OR ON SUCCESSION [SEC. 78]

- If there is change in the constitution of a firm, then the loss proportionate to the share of retired or deceased partner shall not be allowed to be carried forward by the firm. This provision does not apply to unabsorbed depreciation.
- Where any person carrying on any business or profession has been succeeded in such capacity by another person other wise than by inheritance, such other person cannot carry forward and set off against this income, any loss incurred by the predecessor. However, in case of inheritance, legal heirs are entitled to carry forward and set off the loss of predecessor.

CARRY FORWARD AND SETOFF OF LOSSES IN CASE OF CLOSELY HELD COMPANIES [SEC. 79]

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

This provision does not apply in following cases:

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

SUBMISSION OF RETURN OF LOSSES [SEC. 80]

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

Nature of Income		Set-off			Carry forward for AY	Set-off from
		Same source under same head	Inter-source under same head	Inter-head		
Salary		NA	NA	NA	NA	NA
PGBP	Non-speculative	√	√	√ Except Salary	8 years	Same head
	Speculative	√	√		4 years	Same head
Capital gains	Short term	√	√	x	8 years	Same head
	Long term	√	√	x	8 years	Same head
Other Sources	Owning and maintenance of race horses	√	√	x	4 years	Same head
	Winning from lottery etc.	x	x	x		
	Interest etc.	√	√	√		

CHAPTER 8

Deduction from Gross Total Income

When you move your focus from competition to contribution, life becomes celebration.
Never try to defeat people, just try to win them.

Section	Provision
Sec. 80C	Deduction in respect of LIP, contribution to P. F. etc.
Sec. 80CCC	Deduction in respect of contribution to certain pension funds
Sec. 80CCD	Deduction in respect of contribution to Pension Scheme of Central Govt.
Sec. 80CCE	Aggregate amount of deduction under Sec. 80C, 80CCC and 80CCE cannot exceed ₹ 1,00,000
Sec. 80CCF	Deduction in respect of Subscription to long term infrastructure bonds
Sec. 80D	Deduction in respect of medical insurance premium
Sec. 80DD	Deduction in respect of maintenance including medical treatment of dependent being person with disability
Sec. 80DDB	Deduction in respect of medical treatment etc.
Sec. 80E	Deduction in respect of repayment of loan taken for higher education
Sec. 80G	Deduction in respect of donation to certain funds, charitable institutions etc.
Sec. 80GG	Deduction in respect of rent paid
Sec. 80GGB	Deduction in respect of contribution given by Indian Co. to political parties
Sec. 80GGC	Deduction in respect of contribution given by any person to political parties
Sec. 80JJA	Deduction in respect of profit and gains from business of collecting and processing of bio-degradable waste
Sec. 80U	Deduction in case of a person with disability

General Condition

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

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

DEDUCTIONS FOR LIFE INSURANCE PREMIUM, PROVIDENT FUND ETC. [SEC. 80C]

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

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

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

CONTRIBUTION TO CERTAIN PENSION FUNDS [SEC. 80CCC]

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

CONTRIBUTION TO PENSION SCHEME OF CENTRAL GOVERNMENT *[SEC. 80CCD]

Self-employed	Employees	
	Employer's contribution	**Employees contribution**
(1) Minimum of (a) Amount contributed (b) 10% of GTI (2) Deduction subject to maximum ₹ 1,00,000	(1) Taxable under salary and then, deduction u/s. 80CCD Min. of (a) Amount contributed or (b) 10% of Salary (2) Deduction is available without the maximum limit of ₹ 1,00,000 u/s. 80CCE.	(1) Min. of (a) Amount contributed or (b) 10% of Salary (2) Deduction is available without the maximum limit of ₹ 1,00,000 u/s. 80CCE.
[Salary = Basic + DA (forming part of retirement benefit)]		

LIMITS OF DEDUCTION UNDER SEC. 80C, 80CCC AND 80CCD *[SEC. 80CCE]

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

SUBSCRIPTION TO LONG TERM INFRASTRUCTURE BONDS *[SEC. 80CCE]

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

DEDUCTION IN RESPECT OF MEDICAL INSURANCE PREMIUM [SEC. 80D]

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

Quantum of deduction	• Maximum ₹ 15,000 (For insurance of Individual, Spouse, Dependent Children) or ₹ 20,000 in case of senior citizen, and • Maximum ₹ 15,000 (For insurance of Parents) or ₹ 20000 if parents are senior citizen.

DEDUCTION IN RESPECT OF MAINTENANCE INCLUDING MEDICAL TREATMENT OF A DEPENDENT WHO IS A PERSON WITH DISABILITY [SEC. 80DD]

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

Quantum of deduction	Deduction of ₹ 50,000, ***irrespective of the actual amount*** spent or deposited. In case of severe disability deduction allowed shall be ₹ 1,00,000, irrespective of the amount spent or deposited.
***Relative**	Relative, for individual, shall include spouse, children, brothers, sisters and parents. Relative, for HUF, shall be its members

DEDUCTION IN RESPECT OF MEDICAL TREATMENT ETC. [SEC. 80DDB]

- Deduction is allowed to a resident individual/HUF for payment towards Medical treatment of specified disease of self or dependent relative or member of HUF.
- Deduction is allowed for the amount actually spent or ₹ 40000 (₹ 60,000 in case of senior citizen), whichever is less.
- Deduction shall be reduced by the amount received from the insurer or employer. Further, a certificate from doctor of government hospital has to be furnished for claiming the deduction.

DEDUCTION OF INTEREST PAID ON LOAN TAKEN FOR PURSUING HIGHER EDUCATION [SEC. 80E]

- Deduction is allowed to an ***individual*** for payment of ***interest on loan*** taken for pursuing higher education* of himself or relative**.
- Loan must have been taken from financial ***institutions or approved charitable institution***. There is no maximum limit prescribed under this section and also deduction can be claimed for ***maximum period of 8 years*** starting from the year in which payment of interest on the loan begins.

***Higher education**	Higher education means any course of study pursued after passing Senior Secondary Examination.
***Relative**	Relative means spouse, children or the student for whom; he/she is the legal guardian.

Part A:	**Donation made to following are eligible for 100% deduction without any qualifying limit:**
	• National Defence Fund set up by the Central Government • Prime Minister's National Relief Fund • Prime Minister's Armenia Earthquake Relief Fund • Africa (Public Contributions - India) Fund • National Foundation for Communal Harmony • A University or any educational institution of national eminence as may be approved by the prescribed authority • Chief Minister's Earthquake Relief Fund, Maharashtra • Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat • Zila Saksharta Samiti constituted in any district
	• National Blood Transfusion Council • Any fund set up by a State Government to provide medical relief to the poor • Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund • Andhra Pradesh Chief Minister's Cyclone Relief Fund • National Illness Assistance Fund • Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund • National Sports Fund set up by the Central Government • National Cultural Fund set up by the Central Government • Fund for Technology Development and Application set up by the Central Government National • Trust for Welfare of Persons with mental retardation and multiple disabilities.
Part B:	**Donation made to following are eligible for 50% deduction without any qualifying limit:**
	• Jawaharlal Nehru memorial fund • Prime Minister's Drought Reief Fund • National Children's Fund • Indira Gandhi Memorial Trust • Rajiv Gandhi Foundation
Part C:	**Donation made to following are eligible for 100% deduction without any qualifying limit:**
	• Donation to Government or any approved local authority, institution or association to be utilized for promoting family planning • Donation made by a company to Indian Olympic Association or to any other notified institution, for development of infrastructure for sports in India.
Part D:	**Donation made to following are eligible for50% deduction subject to qualifying limit:**
	• Donation to Government or any approved local authority, institution or association to be utilized for any other charitable purpose other than promoting family planning • Donation to any approved charitable institution which satisfies the condition of Section 80G • Donation to any authority for satisfying the need for housing accommodation or any corporation for promoting interest of minority community. • Donation to any notified temple, mosque, gurudwara, church or other place notified by the Central Government to be of historical, archaeological or artistic importance for renovation or repair of such place.

Note: Donations under Part C and Part D above shall not exceed the qualifying limit.*

***Qualifying limit**	Qualifying limit means ***10% of adjusted Gross Total Income*****
****Adjusted GTI**	Gross Total Income Less: Long Term Capital Gains Less: Short Term Capital Gains under Sec. IIIA Less: Deduction under Sec. 80C to SOU except Sec. 80G

DEDUCTION FOR PAYMENT OF RENT [SEC. 80GG]

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

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

(ii) Assessee, spouse, minor child or HUF ***does not own*** any residential accommodation in the citywhere he lives or where he works.

(iii) The deduction in respect of rent paid is allowed to the extent of ***minimum*** of the following:

- (i) Rent paid over 10% of Adjusted Gross Total Income
- (ii) 25% of the Adjusted Gross Total Income*
- (iii) ₹ 2,000 per month

****Adjusted GTI**	Gross Total Income Less: Long Term Capital Gains Less: Short Term Capital Gains under Sec. IIIA Less: Deduction under Sec. 80C to SOU except Sec. 80GG

DEDUCTION IN RESPECT OF DONATIONS FOR SCIENTIFIC RESEARCH OR RURAL DEVELOPMENT [SEC. 80GGA]

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

(1) Donation to notified scientific research association as per Sec 35

(2) Donation to notified institution for the purpose of eligible project as per Sec 35AC.

(3) Donation given to notified institution for rural development or to national urban poverty eradication fund as per Sec. 35CCA

DEDUCTION IN RESPECT OF CONTRIBUTION GIVEN BY COMPANIES TO POLITICAL PARTIES [SEC. 80GGB]

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

DEDUCTION IN RESPECT OF CONTRIBUTION GIVEN BY ANY PERSON TO POLITICAL PARTIES [SEC. 80GGC]

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

DEDUCTION IN RESPECT OF PROFITS AND GAINS FROM BUSINESS OF COLLECTING AND PROCESSING OF BIO-DEGRADABLE WASTE [SEC. 80JJA]

- Deduction is allowed to ***all assessee*** who are engaged in the ***business of collecting/processing or treating etc. of bio-degradable waste*** for generating power or to make pellets for fuel or to use it in organic manure or to use it in bio-gas plant etc.
- Deduction is allowed equal to ***100% profits*** of such business for the ***5 consecutive AYs*** beginning with the year in which such business is commenced.

DEDUCTION IN RESPECT OF EMPLOYMENT OF NEW WORKMEN [SEC. 80JJAA]

- Deduction is allowed to ***Indian Company***, equal to ***30% wages of the new regular workman for 3 AYs*** including the year in which the employment is provided.
- Companies shall be engaged in the ***manufacture or production of any article or thing*** and accounts must be audited by Chartered Accountant and the report shall be furnished with the return of income

Wages qualifying for deductions	• In the case of new company: Wages paid to workers in excess of 100 • In the case of existing company: Wages paid to workers in excess of100, but there should be at least 10% increase in number of workers, as employed on the last day of the preceding year
Regular workmen does not includes	(1) Person employed in managerial or administrative capacity or (2) Workman employed as a casual workman or contract labour or (3) Any other workman employed for a period of less than 300 days during the PY

DEDUCTION IN RESPECT OF CERTAIN INCOMES OF OFFSHORE BANKING UNITS AND INTERNATIONAL FINANCIAL SERVICES CENTRE [SEC. 80 LA]

Deduction is allowed to	(1) A scheduled bank having an offshore banking unit in SEZ or (2) Any bank, incorporated under the laws of a foreign country and having an offshore banking unit in SEZ or (3) A unit of International Financial Services Centre (IFSC)	
Quantum of deduction	***For the first 5 consecutive years:***	***100%*** of such income beginning with the previous year in which (a) The permission under the ***Banking Regulation Act*** was obtained or (b) The permission under the ***SEBI Act, 1992*** was obtained or (c) Permission or registration under ***any relevant law*** was obtained
	For the next 5 years:	50% of such income
Conditions	(1) A report of Chartered Accountant, certifying that the deduction has been correctly claimed, should be submitted with return of income (2) Copy of permission obtained under the Banking Regulation Act, 1949 should be furnished along with the return of Income.	

DEDUCTION IN RESPECT OF CO-OPERATIVE SOCIETIES [SEC. 80 P]

[1]	**Income from following activities shall be allowed 100% deduction in case of co-operative societies:**
	(1) Income from business of banking or providing credit facilities to its members (2) Income from cottage industry (3) Income from marketing of the agricultural produce grown by its members

	(4) Income derived from the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture (5) Income from processing without the aid of power (6) Income from fishing or allied services (7) Income from supplying milk, oilseeds, fruits & vegetables raised by its members to federal milk co-operative society
[2]	**Co-operative societies engaged in a business other than those mentioned above shall not be liable to pay tax on:**
In case of consumer Co-operative society:	Maximum up to ₹ 1,00,000 of income
In other case	Maximum up to ₹ 50,000 of income
[3]	**Deduction allowable to all co-operative societies:**
	(1) Any interest, dividend income derived from its investments with any other co- operative society (2) Income derived from letting out of godown or warehouses for storage, processing or facilitating the marketing of commodities (3) 100% of the income from interest on securities or income from house property in case of cooperative society not being (i) A housing society or (ii) An urban consumer society or (iii) Society carrying on transport business or (iv) Society engaged in the performance of any manufacturing operating with the aid of power, provided its GTI does not exceed ₹ 20000

DEDUCTION IN RESPECT OF ROYALTY INCOME ETC. OF BOOKS [SEC. 80QQB]

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

(1) Books should be a work of literary, artistic or scientific nature. Books ***shall not include*** text books, diaries, commentaries, journals etc.

(2) Royalty in ***excess of 15%*** of the value of the books sold during the previous year shall be ignored. However, this condition is ***not applicable*** where the royalty is received in lump sum.

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

DEDUCTION IN RESPECT OF ROYALTY INCOME ON PATENTS [SEC. 80RRB]

- Deduction is allowed to ***resident individual***, who is a ***patentee***, for royalty income of patents but maximum upto ₹ 3,00,000.
- If royalty is received from ***outside India***, then to claim deduction, it must be brought into India ***within 6 months*** from the end of the previous year in which such income is earned.

DEDUCTION IN CASE OF A PERSON WITH DISABILITY [SEC. 80U]

Conditions	(1) The deduction is available to resident individual (2) He is a person with disability (3) He is certified by the medical authority to be a person with disability at any time during PY (4) For claiming the deduction, the assessee shall have to furnish a copy ofcertificate issued by medical authority along with Return of Income

Quantum of deduction	(1) Fixed deduction of ₹ 50,000 (2) ₹ 1,00,000 for a person with severe disability

8.1 Summary of Deductions Under Sec. 80C-80U

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	Min. of: (1) Amt. paid or (2) ₹ 1,00,000
*80CCD	CG or other or self-employees	Contribution to CG pension schemes	Min. of: (1) Amt. paid or (2) 10% of salary 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: Min. of (1) Premium paid or (2) ₹ 15,000 For parents: ₹ 15,000 Senior citizen: Min. of (1) Premium paid or 2) ₹ 20,000
80DD	Resident Individual/ HUF	Expenditure on handicapped dependent relative	Disability: ₹ 50,000, Severe Disability: ₹ 1,00,000
80DDB	Resident Individual/ HUF	Expenditure on specified diseases	General: Minimum of (1) Actual or (2) ₹ 40,000 Senior citizen: (1) Actual or (2) ₹ 60,000
80E	Individuals	Interest on payment of loan taken for Higher Education	Actual Interest (max. 8 AY)
80G	All Assessees	Deduction in respect of Donation	• 100% deduction without Qualifying Limit* (10% of Adj. GT1) • 50% deduction without Qualifying limit 100% deduction without Qualifying limit 50% deduction without • Qualifying limit
80GG	individuals	Assessee should not be entitled to HRA. not own any residential at work space	(1) Minimum of (2) Rent paid less 10% of Adj. GT1 (3) 25%ofAdj.GTI (4) ₹ 2000 p.m.
80GGA	All Assessees (no PGBP income)	Donations	Same as Sec. 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	Infrastructure! facility, telecommunication, industrial park, distribution of power	100% of profit for 10 years [available if operation started on or before 31/03/2012]
80JJA	All Assessees	Business of processing of Bio-degradable waste	100% of profit for first 5 AY
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:l00%, e 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 Severe Disability: ₹ 1,00,000

CHAPTER 9

Computation of Total Income and Tax Payable

Always remember, no one gets a sudden rise, not even the sun.
It takes time to rise to the peak of success you just have to keep your efforts and be positive.

Section	Provision
Sec. 15 to 17	Income under the head Salaries
Sec. 22 to 27	Income under the head House Property
Sec. 22 to 44DB	Income under the head Profit and Gains from Business or Profession
Sec. 45 to 55A	Income under the head Capital Gains
See. 56 to 59	Income under the head Income from Other Sources-
Sec. 80C to 80U	Deductions under Chapter VIA

TOTAL INCOME [SEC. 2(25A)]]

The Total income of an individual is arrived at after making deductions under Chapter VIA from the Gross Total Income. Gross Total Income is the aggregate of the net income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward and set-off of losses.

INCOME TO BE CONSIDERED WHILE COMPUTING TOTAL INCOME OF INDIVIDUALS

Capacity in which income is earned by an individual	Treatment of income earned in each capacity
In his personal capacity (under the 5 heads of income)	Income from salaries. Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.

As a partner of a firm	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner. (iii) The incomes mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iv) Share of profit in the firm is exempt in the hands of the partner.
As a member of HUF	(i) Share of income of HUF is exempt in the hands of the member (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF (iii) Income from self-acquired property converted into joint family property
Income of other persons included in the income of the individual	(i) Transferee's income, where there is a transfer of income without transfer of assets (ii) Income arising to transferee from a revocable transfer of an asset. In cases (i) and (ii), income is includible in the hands of the transferor. (iii) Income of spouse as mentioned in Sec. 64(1) (iv) Income from assets transferred to son's wife or to any person for the benefit of son's wife. (v) Income of minor child as mentioned in Sec. 64(1 A)

SPECIAL PROVISION FOR SPOUSES GOVERNED BY PORTUGUES CIVIL CODE [SEC. 5A]

This section relates to the computation of total income of husband and wife governed **by the system of community** of property as in force in the **State of Goa and in the Union Territories of Dadra and Nagar Haveli and Daman and Diu**. Such income shall not be assessed as that of the community of property. The income under each head of income (other than under the head 'Salaries') should be apportioned equally between the husband and wife and should be included separately in their respective total income. However, in the case of salary income, it will be assessed in the hands of the spouse who has actually earned it.

COMPUTATION OF TOTAL INCOME AND TAX LIABILITIES OF INDIVIDUALS

Step 1:	Determination of residential status
Step 2:	Classification of income under different heads
Step 3:	Exclusion of income not chargeable to tax
Step 4:	Computation of income under each heads
Step 5:	Clubbing of income of spouse, minor child etc.
Step 6:	Set-off and carry forward and set-off of losses
Step 7:	Computation of Gross Total Income
Step 8:	Deduction from GTI under Sec. 80C to 80V/Chapter VIA
Step 9:	Total Income
Step 10:	Application of the rates of tax on the total income
Step 11:	Education Cess and Secondary and Higher Secondary Education Cess
Step 12:	Credit of advance tax and TDS

CHAPTER 10

Agricultural Income

Once, all villagers decided to pray for rain, on the day of prayer all people gathered and only one boy came with an umbrella, that's faith.

Section	Provision
Sec. 2(IA)(a)	Any rent or revenue derived from land which is situated in India and used for agricultural purpose
Sec. 2(IA)(b)	Any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market, or sale of such produce
Sec. 2(IA)(c)	Income attributable to a farm house subject to the condition that the building is situated on or, in the immediate vicinity of the land and is used as dwelling house, store house or other outbuilding and the land is assessed to land revenue or local or, alternatively, the building is situated on or the immediate vicinity of land, which (though not assessed to land revenue or local rate) is situated outside the urban areas
Sec. 10(1)	Exemption of agricultural income
Rule 7	Any other case (e.g. sugarcane) Market value of any agricultural produce, raised by the assessee or received by him as rent-in-kind an utilised as raw material in his business, is deducted
Rule 7A	Income derived from sale of centrifuged latex or cenex or latex based crepes or brown crepes or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India
Rule 7B	Income derived from the sale of coffee grown and cured by the seller in India
Rule 7B(1A)	Income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients
Rule 8	Income from sale of tea grown and manufactured by the assessee in India

BASIC CONCEPT

Agricultural income is ***exempt from tax under Sec 10(1)*** of the income tax act, 1961. However for computing tax on non-agricultural income, ***agricultural income is added to non-agricultural income.***

MEANING OF AGRICULTURAL INCOME [SEC. 2(IA)]]

(a) Rent or revenue derived from land
(b) Income derived from such land by way of agriculture or forming process of marketing process by way of sale of such produce
(c) Income from a farm building

MEANING OF AGRICULTURAL INCOME [SEC. 2(IA)(a)]

Any rent or revenue whether in kind or in cash derived from land situated in India which is used for agricultural processes as indicated above is wholly exempt from tax.

INCOME DERIVED FROM SUCH LAND BY WAY OF AGRICULTURE OR FORMING PROCESS OF MARKETING PROCESS BY WAY OF SALE OF SUCH PRODUCE [SEC. 2(IA)(b)]

Any income derived by cultivator or receiver of rent in kind from agriculture by sale of agricultural produce on which necessary operations(may be or may not be needed) are carried on to render the produce fit for consumption and taking it to market is called as agricultural income. Such income is exempt from taxation. However in case operations performed are not in the nature as mentioned above, income has to be separated so as to compute tax on non-agricultural income. The operations mentioned above are called as agricultural or marketing operations.

INCOME FORM A FARM BUILDING [SEC. 2(IA)(c)]

- Farm house situated in India
- In immediate vicinity of land used for agricultural purposes
- Is occupied by cultivator or receiver of rent in kind
- Land used as dwelling house, store house or other out building
- Land is assessed to land revenue at local rates, if not subject to land revenue, it is not situated in urban areas.
- However if land is used for any other purpose other than those mentioned in (d) it would not be deemed to be agricultural income.

NECESSARY CONDITIONS FOR INCOME TO BE AGRICULTURAL INCOME

(1) Income should be ***derived from land***
(2) Land must be ***situated in India***
(3) Land must be used for ***basic operations of agriculture***. Land may also be used for subsequent operations but such subsequent operations can only be with ***conjunction or together*** with the basic operations. These are what are called as agricultural ***operations and classified into basic and subsequent operations.***
(4) Income from nursery (It is always ***exempt***)

SCHEME OF PARTIAL INTEGRATION

Though agricultural income is exempt from tax, however there is special method of partial integration applicable for computing tax on non-agricultural income. This method is applicable only when:

(1) Net agricultural income exceeds ₹ 5,000

(2) Non-agricultural income exceeds maximum amount non chargeable to tax i.e. the exemption limit

If scheme of partial integration is applicable, tax liability will be determined as follows:

Computation of tax	
Step 1:	Add agricultural income to non-agricultural income and calculate tax as if this is total income
Step 2:	Add agricultural income to maximum amount non- chargeable to tax and calculate tax as if this is total income.
Step 3:	Deduct tax computed in step 2 from tax computed in Step I. The amount so computed is the Actual Tax Payable.
Step 4:	Add surcharge, education cess and secondary and higher education cess.

Format: Computation of tax liability

Particular	Amount (₹)
Total/Net/Taxable Income	
Total income subject to special tax rates	—
Total income (including agricultural income) subject to normal tax rate	—
Tax on Total Income subject to special tax rates	
Tax Total income (including agricultural income) subject to normal tax rate	—
Less: Income tax on agricultural income plus maximum amount not chargeable to tax at normal rates	—
Income tax	—
Add: EC @ 2%	—
Add: SHEC@ 1%	—
Add: Interest/Penalty	—
Less: Prepaid taxes (i.e. Advanced Tax, TDS, etc.)	—
Tax Payable/Refund	—

INCOME WHICH IS PARTIALLY AGRICULTURAL AND PARTIALLY FROM BUSINESS

Income-tax Rule, 1962	Nature of Income	Amount of agricultural income	Amount of business income
Rule 8	Income from sale of tea ***grown*** and ***manufactured*** by the assessee in India	60%	40%
Rule7A	Income derived from sale of centrifuged latex or cenex or latex based crepes or brown crepes or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India	65%	35%
Rule7B	Income derived from the sale of coffee grown and cured by the seller in India	75%	25%
Rnle7B(IA)	Income derived from the sale of coffee ***grown***, ***cured***, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients	60%	40%
Rule 7	***Any other case (e.g. sugarcane)*** Market value of any agricultural produce, raised by the assessee or received by him as rent-in-kind an utilised as raw material in his business, is deducted		

CHAPTER 11

Payment of Advance Tax, Interest and Tax Deducted at Sources

Example of the feeling of a one year old baby, when you throw him in the air, he laughs because he knows you will catch him, that's trust.

11. 1 Provision Regarding Advance Tax and Interest

Section	Provision
Sec. 208	Conditions of liability to pay advance tax
Sec. 209	Computation of advance tax
Sec. 211	Due dates for payment of advance tax
Sec. 234A	For default in furnishing of return of income
Sec. 234B	For default in payment of advance tax
Sec. 234C	For deferment of advance tax

CONDITIONS OF LIABILITY OF PAY ADVANCE TAX [SEC. 208]

Advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year, as computed in accordance with the provisions of this Chapter, is ₹ 10,000 or more.

Computation of advance tax [Sec. 209]

Particular	Amount (₹)	Amount (₹)
Income under the 5 heads of income		
Adjustment in respect of B/F loss and allowance		—
GROSS TOTAL INCOME		
Less: Deduction admissible under Chapter VI-A		—

TAXABLE INCOME		
Tax on Taxable Income	—	—
Less: Rebate under Sec. 88E		
Tax Payable	—	
Add: Surcharge		
Add: EC @ 2%	—	
Add: SHEC@l%	—	
Net Tax Payable		
Less: Relief under Sec. 89, 90, 90A, 91	—	
Tax liability		
Less: TDS/TCS	—	
Less: MAT Credit under Sec. 115JAA		
ADVANCE TAX	—	
	—	

DUE DATES FOR PAYMENT OF ADVANCE TAX [SEC. 211]

Due date of installments: On or before	Companies	Other assessee
15^{th} June	Not less than 15% of Adv. Tax liability	—
15* Sept.	Not less than 45% of Adv. Tax liability	Not less than 30% of Adv. Tax liability
15^{th} Dec.	Not less than 75% of Adv. Tax liability	Not less than 60% of Adv. Tax liability
15* March	The whole amt. of Adv. Tax Liability	The whole amt. of Adv. Tax Liability
Note: Any amount paid by way of advance tax on or before the 31st day of March shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of this Act.		

LIABILITY TO PAY INTEREST FOR DEFAULT IN FURNISHING RETURN OF INCOME [SEC. 234A]

(1) Where the Return of income of any AY is furnished after due dates as per Sec. 139(1) or not furnished, the assessee shall be liable to pay simple interest @ 1% for every month or part of a month
   (a) The interest shall be payable for the period commencing from the next date after the due date and ends on-
   (b) Where the return of income furnishes after the due date of filling of return; or
   (c) When no return has been furnished after the due date, the date of completion of assessment
(2) *(Normally the best judgement assessment under Sec. 144)*
(3) The interest is calculated on total income **minus** Advance Tax (paid up to 31s' March of PY) **minus** TDS
(4) The total tax is calculated on the returned income. However, the income is changed subsequently, due to assessment/reassessment/appeal/revision/rectification, then the total tax should be calculated on the changed income (assessed income) and the interest would be recalculated.

PROCEDURE TO BE FOLLOWED IN CALCULATING INTEREST [SEC. 119A]

In calculating interest payable by the assessee, the amount of tax, penalty or other sum in respect of which interest is to be calculated will be rounded off to the nearest multiple of ₹ 100 ignoring by fraction of ₹ 100. And accordingly, for calculating the interest under Sec. 234A, 234B and 234C, this procedure of round off should be followed.

LIABILITY TO PAY INTEREST FOR DEFAULT IN PAYMENT OF ADVANCE TAX [SEC. 234B]

When interest is payable?	Amount on which interest is payable	Rate of interest	Period of which interest is payable
An assessee who is liable to pay advance tax has failed to pay such tax	Interest is payable on assessed tax	Simple interest @ 1% for every month or part of month	From 1st April of the AY to the date of determination of income under Sec. 143(1) or where regular assessment is made to the date of regular assessment
An assessee who has paid advance tax* but the amount of advance tax paid by him is less than 90% of assessed tax	Assessed tax minus Advance tax		
***Note 1:** Assessed Tax means the tax on total income determined on the basis of summary assessment under Sec. 143(1) or regular assessment as reduced by TDS (Tax Deducted at Sources) or TCS (Tax Collected at Sources) on any income which is take into account in computing advance tax. If interest under Sec. 234B is to be calculated for the purpose of self-assessment under Sec. 140A**, then 'assessedtax' means tax on returned income			

ADJUSTMENT WHEN TAX IS PAID BEFORE REGULAR ASSESSMENT [SEC. 140A]**

If before the date of determination of total income under Sec. 143(1) or completion of a regular assessment, tax is paid on the basis of self-assessment under Sec. 140A or otherwise (periodical payments on adhoc basis), the interest shall be calculated up to the date on which the tax is paid and thereafter the interest shall be calculated only on the reduced amount.

LIABILITY TO PAY INTEREST FOR DEFERMENT OF ADVANCE TAX [SEC. 234C]

When interest is payable? [If adv. Tax paid on or before...]	In case of non-corporate assessee			In case of corporate assessee		
	Rate of Simple interest	Period of interest	Amount on which interest is payable	Rate of Simple interest	Period of interest	Amount on which interest is payable
(1)	(2)	(3)	(4)	(2)	(3)	(4)
15th June	NA			1%	3 months	15%(a-b)-c
15th Sept.	1%	3 months	30%(a-b)-c	1%	3 months	45%(a-b)-d
15th Dec.	1%	3 months	60%(a-b)-d	1%	3 months	75%(a-b)-e
15th March	1%	1 months	100%(a-b)-e	1%	1 months	100%(a-b)-f

Note for above provisions:	In case of non-corporate assessee	In case of corporate assessee
	a. Tax on Total income declared in the return filled by assessee b. TDS or TCS c. Adv. Tax paid on or before 15^{th} Sept. for the FY in immediate preceding the AY d. Adv. Tax paid on or before 15^{th} Dec. for the FY in immediate preceding the AY e. Adv. Tax paid on or before 15^{th} March, for the FY in immediate preceding the AY	a. Tax on the Total income declared in the return filled by assessee b. TDSorTCS c. Adv. Tax paid on or before 15^{th} June for the FY in immediate preceding the AY d. Adv. Tax paid on or before 15^{th} Sept. for the FY in immediate preceding the AY e. Adv. Tax paid on or before 15^{th} Dec. for the FY in immediate preceding the AY f. Adv. Tax paid on or before $I5^{th}$ March, for the FY in immediate preceding the AY

PAYMENT OF ADVANCE FAS IN CASE OF CAPITAL GAINS/CASUAL INCOME [PROVISO TO SEC. 234C]

- Advance tax is payable on all types of income, including capital gains and winnings of lotteries, crossword puzzles, etc.
- However, it is not normally possible for an assessee to estimate his capital gains or winnings from lotteries, etc. which are generally unexpected. Therefore, it is provided that if any such income arises after the due date of any instalment, then, the entire amount of tax payable (after deduction of tax at source, if any) on such capital gain or casual income should be paid in remaining instalments of advance tax which are due or where no such instalment is due, by 31st March of the relevant Financial Year.
- If the entire amount of tax payable is so paid, then no interest on late payment will be leviable

11.2 Provisions Regarding Tax Deducted at Sources [TPS]

Section	Nature of payment	Person responsible to deduct tax	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*
192	Salary	AH assesse	₹ 1,80,000/- ₹ 1,90,000/- ₹ 2,50,000/-	At the time of payment	As applicable to an individual
193	Interest on securities	Local authority or Statutory corporation	Exempt categories listed	At the time of Payment or credit whichever is earlier.	10%
		Central Govt. in case of 8% (taxable) saving bonds, 2003	₹ 10,000		10%
		Company	Monetary limit of ₹ 5,000 in case of listed debenture; otherwise no minimum		Listed Deb.:10% (20% in case the payee is a company) Non-Listed Deb.: 20%
194A	Interest other than interest on securities	All Assessee (except those individual & HUF who are not covered u/s 44AB(a) or 44AB(b) in the preceding P Y)	₹ 5,000, (₹ 10,000, in case the payer is a banking co./ co-operative bank/post office)	At the time of Payment or credit whichever is earlier.	Non-co.: 10% Co.: 20%
194B	Winnings from lotteries, crossword puzzles, etc.	AH Assessees	₹ 10,000	At the time of payment	30%
194BB	Winnings from horse races	Any person being a book maker or a person who is a licensee	₹ 5,000	At the time of payment	30%
194C	Consideration of any work contract	Specified persons/all assessees except those individuals and HUF (also AOP and BOI) who are not covered u/s 44AB(a) or 44AB(b) in the preceding P.Y	₹ 30,000 for single payment or aggregate amount in the financial year does not exceed ₹ 75,000/-	At the time of payment or credit whichever is earlier	In case of Advertising contract: 1% In other Case: 2% In case of sub-Contractor: 1%

194D	Insurance commission	Insurance companies	₹ 20,000	At the time of payment or credit whichever earlier.	If payee is a Company: 20% If payee is Other than Company: 10%
194G	Commission on sale of lottery tickets	Stockist, distributor, etc. of lottery tickets	₹ 1,000	At the time of payment or credit whichever earlier.	10%
194H	Commission or brokerage	All Assessee (except those individual & HUF who are not covered u/s 44AB(a) or 44AB(b) in the preceding P Y)	₹ 5,000		10%
1941	Rent	All Assessee (except those individual & HUF who are not covered u/s 44AB(a) or 44AB(b) in the preceding PY	Exceeds ₹ 1,80,000 in a financial year	At the time of payment or credit whichever earlier.	For use of P & M: 2% For use of other asset: 10%
194J	Fees for professional or Technical Services or royalty or non-compete fee	---do---	₹ 30,000 each in a financial year	At the time of payment or credit whichever earlier.	10%
*194LB	Income way by of interest from infrast-ructure debt fund	Non-resident or to a foreign company	Any amount	At the time of payment or credit whichever earlier.	5%

* Education cess @ 2% and SHEC @ 1% shall also be added.

Notes:

1. Where amount is credited on the last day of accounting year, the tax amount thereon is to be deposited within two months from the end of the month in which credit is made.
2. If the amount is credited on the last day of the accounting year then the TDS certificate in Form No. 16A may be issued within one week from the end of two months from the last day of the month in which amount is credited.
3. The person responsible for deducting tax may (on request of payee) issue one consolidated certificate for tax deducted during the whole of the financial year within one month from the close of such financial year.
4. e-filing of statements is mandatory in case of:
   (a) Office of the Government, or
   (b) A company, or
   (c) A person required to get his accounts audited under section 44AB in the immediate preceding financial year or
   (d) If the number of deductees in an immediate preceding quarter is 50 or more, and optional for other assessees.

The quarterly statement filed on computer media should be accompanied by following forms:

Quarterly statement: Form No. 27A

Quarterly statement of TCS : Form No. 27A

Where other assessees file paper return, it should be accompanied by copies of the receipted challans and TDS certificates.

5. Where interest/income is credited to any account, whether called interest account, suspense account or by any other name in the books of accounts of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee.

RULES AND FORMS FOR TDS/TCS RETURNS

Verification of e-TDS/TCS	Form 27 A, 27B
Quarterly TDS/TCS under Sec. 200(3) and proviso to Sec. 206C(3)	Form 26Q, 27EQ
TDS/TCS returns under Sec. 206 and 206C(5A)	Form 24Q, 26Q, 27, 27E
Statement of TDS/TCS to be issued to taxpayer under Sec. 203AA or Second proviso to Sec. 206C(5)	Form 26AS

CHAPTER 12

Return of Income

Every night we go to bed, we have no assurance to wake up alive the next morning but still we have plans for tomorrow, that's hope.

Section	Provision
Sec. 139(1)	Company, firm and other person (if total income exceeds maximum amount which is not chargeable to tax) are required to file ROI on or before due date
Sec. 139(1C)*	Specified class or classes of person exempt from filing return of income For reducing the compliance burden of small taxpayers, the Central Government has been empowered to notify any class or classes of persons who will be exempted from the requirement of furnishing a return of income.
Exp. 2 to Sec. 139(1)	Due date of filing of ROI
Rule 12	Forms of filing the ROI
4th proviso to Sec. 139(1)	Individual, HUF, AOP/BOI and Artificial Judicial Person required to file ROI on or before due date if GTI before claiming deductions under Sec. 10A, 10B and 10BA exceeds maximum amount not chargeable
Sec. 139(3)	Loss return
Sec. 80	Notwithstanding anything contained in Chapter VI, the loss which has not been determined in pursuance of a return filed in accordance with the provisions of Sec. 139(3), shall not be allowed to be 'carried forward and set off' under Sec. 72 or 73 or 74 or 74A
Sec. 139(4)	Belated return
Sec. 139(4A)	If the total income of charitable or religious trust or institution, before exemption under Sec. 11 and 12, exceeds the maximum amount not chargeable to tax, then the trust or institution is under an obligation to furnish the ROI within the time allowed under Sec. 139(1)

Sec. 139(4B)	In the total income of a political party, before exemption under Sec. 13A, exceeds maximum amount not chargeable to tax, then the political party is under an obligation to furnish the ROI within the time allowed under Sec. 139(1)
Sec. 139(4Q)*	Return of Income of certain associations and institutions The following amendments has been made under this Section a. Body or authority or Board or Trust or Commission referred to in Section 10(46); b. Infrastructure debt fund referred to in section 10 (47), shall, furnish a return of such income of the previous year in the prescribed form and prescribed manner, if the total income before giving exemption exceeds maximum exemption limit
Sec. 139(5)	Revised return
Sec. 139(9)	Defective return
Sec. 139B	New scheme to facilitate submission of returns through Tax Return Preparers
Sec. 139C	Power of CBDT to dispense with furnishing of documents
Sec. 139D	Power of CBDT to make rules for filing of returns in e-form
Sec. 140	Who shall sign the return?

SUBMISSION OF RETURN OF INCOME [SEC. 139(1)]

Every person

(a) Being a ***company*** or a ***firm***; or

(b) Being a local authority, if its total income during the previous year exceeds the maximum amount which is not chargeable to income tax; or

(c) Being a ***person other than*** a company or a firm or a local authority, if

(i) his total income or

(ii) the total income of any other person

during the previous year (without giving effect to provisions of Chapter VI-A), exceeds the maximum amount which is not chargeable to income-tax.

shall, furnish a return of his income or the income of such other person.

Such return of income must be furnished on or before the due date, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed.

DUE DATE OF FURNISHING RETURN OF INCOME *(EXPL. 2 TO SEC. 139(1)

Particulars		Due date (of AY)
Company	Not undertaking international transaction	30th September
	Undertaking international transaction	30th November
Other than company	Where the accounts of the assessee are required under this Act or any other law to be audited or where the assessee is a working Partner in a firm whose accounts are required to be audited under this Act or under any other law for the time being in force	30th September
	In case of other assessee	30th July

TAX RETURNS PREPARERS [SEC. 139B]

- CBDT may, by way of notification, frame a scheme providing that such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the scheme.
- This scheme is not applicable for a company or a person who is required to undergo a 'tax audit' or 'audit under any other law'.
- It has also been provided that a TRP may be an ***individual*** other than a person who is
  - Any officer of a scheduled bank in which the assessee maintains a current account or has regular dealings.
  - A legal practitioner or
  - A chartered accountant (CA).

RETURNS OF LOSS[SEC. 139(3)]

- Loss under the head PGBP or under the head Capital Gains or loss on account of owning & maintaining race horses can be carried forward only if a return of loss is furnished by the assessee within the time prescribed under Sec. 139(1).
- Loss under the head House Property and unabsorbed depreciation can be carried forward even if the return of loss is filled after due date.
- In short, ***for carry forward of loss it is necessary that return is filed by due date***

Return is necessary for carry forward for	Return is necessary for carry forward for
• Business loss • Business loss Speculation business loss Capital gain loss • Loss on account of owning and maintaining horses	• House property loss • Loss of business specified u/s 35AD • Unabsorbed depreciation, etc.
Note: (1) Sec. 139(3) read with Sec. 80 do not stop set off of loss in current year even if return is not filed it just prohibits carry forward of such loss (2) It is to be noted that current year loss cannot be carried forward if return is not filed but in this case, losses pertaining to preceding years can be carried forward if return for these years is filed by due date.	

BELATED RETURNS [SEC. 139(4)]

- If an assessee has not submitted his return of income
- on or before the due date mentioned under Sec. 139(1) or 142(1),
- he can still file the return of income to be called as belated return
- at any time before the expiry of following on the basis of whichever is earlier
  - 1 year from **end of the relevant AY**, or}
  - before the **completion of the assessment**} Whichever is earlier

RETURNS OF INCOME OF CHARITABLE TRUST AND INSTITUTION [SEC. 139(4A)]

Every person who is in receipt of following income:

- Income from property held under trust whose income is wholly or In part only for religious or charitable purposes
- Income by way of voluntary contribution on behalf of such trust.
- Must file return of income in ITR-7 if such income before allowing exemption under Sec. 11 and 12 exceeds the exemption limit must file his return of income by 30th September.

Consequences of failure to file return: Penalty of ₹ 100 per day till default continues

RETURNS OF INCOME OF POLITICAL PARTY [SEC. 139(4B)]

The CEO of every political party shall,

- If the total income of the political party (computed before allowing exemption under Sec. 13 A)
- exceeds the maximum amount not chargeable to income-tax.

Furnish a return of income within the time period prescribed under Sec. 139(1).

RETURNS OF INCOME OF CERTAIN ASSOCIATION AND INSTITUTIONS [SEC. 139(4C)]

The following associations or institutions are also required to furnish a return of income if their respective income (before exemption u/s 10), exceeds the maximum amount which is not chargeable to income-tax:

(1) Scientific research association referred to Sec. 10(21);
(2) News agency referred to Sec. 10(22B);
(3) Association or institution referred to in Sec. 10(23A);
(4) Any institution referred in Sec. 10(23B);
(5) Fund or institution referred to in Sec. 10(23C);
(6) Trade union referred to in Sec. 10(24)

MANDATORY FILING RETURN OF INCOME/LOSS [SEC. 139(4D)]

Every university, college or other institution referred to in Sec. 35,

- Which is not required to furnish return of income or loss under any other provision of this section,

Shall furnish the return in respect of its income or loss in every previous year and all the provisions of this Act shall be treated as return furnished under Sec. 139(1).

REVISED RETURN [SEC. 139(5)]

If an assessee, after furnishing the return of income:

(a) Under Sec. 139(1), or
(b) In pursuance of to a notice under Sec. 142(1),

Discovers any omission or any wrong statement in the return filed, he may furnish a revised return at any time

- before the expiry of 1 year from **end of the relevant AY**, or) Whichever is
- before the **completion of the assessment**) earlier

Landmark Judgements

A belated return filed under Sec. 139(4) cannot be revised.	Kumar Jagdish Chandra Sinha v CIT (SC)
A revised return can be further revised, if the assessee discovers any omission or any wrong	Niranjan Lal Ram Chandra v CIT (All)
Statement in a revised return.	
Revised return substitutes the original return	Dhampur Sugar Mills Ltd. v CIT (All)

POWER OF BOARD TO DISPENSE WITH FURNISHING DOCUMENTS, ETC. WITH THE RETURN [SEC. 139C)]

The Board may make rules providing for

- A class or classes of persons
- Who may not be required to furnish documents, statements, receipts, certificates, reports of audit or any other documents, which are required to be furnished, along with the return
- But on demand to be produced before the Assessing Officer.

FILING OF RETURN IN ELECTRONIC FORM [SEC. 139D)]

The Board may make rules providing for

(a) The class or classes of persons who shall be required to furnish the return in electronic form;

(b) The form and the manner in which the return in electronic form may be furnished;

(c) The documents, statements, receipts, certificates or audited reports which may not be furnished along with the return in electronic form but shall be produced before the Assessing Officer on demand;

(d) The computer resource or the electronic record to which the return in electronic form may be transmitted.

PERMANENT ACCOUNT NUMBER (PAN) [SEC. 139A)]

(1) Every person who has not been allotted a permanent account number shall, within such time, as may be prescribed, apply in Form No. 49A to the Assessing Officer for the allotment of a permanent account number in the following cases:

(a) if his total income or the total income of any other person in respect of which he is assessable under this Act during any previous year exceeded the maximum amount which is not chargeable to income-tax; or

(b) if he is carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed <T 5,00,000 in any previous year; or

(c) he is required to furnish a return of income under Sec. 139(4A)

(2) The Assessing Officer, having regard to the nature of the transactions as may be prescribed, may also allot a PAN, to any other person (whether any tax is payable by him or not), in the manner and in accordance with the procedure as may be prescribed.

(3) Any other person may apply for the allotment of a PAN.

Power delegated to the Central Government to notify class or classes of persons for whom it will be obligatory to apply for permanent account number (PAN) **[Sec. 139A)]**

Time limit for applying for PAN	
Whose Total income Exceeds exemption limit and covers the case where he is assessable for any other person	On or before 3rd May of the assessment year for which income is assessable
Whose Receipts of business and profession exceeds ₹ 5,00,000	On or before end of that accounting year
Trust or charitable institutions	
In any other cases	

Transactions where quoting of PAN has been made compulsory

(a) Sale/purchase of any immovable property valued at ₹ 5 lakhs or more;

(b) Sale/purchase of motor vehicle (other than two wheeled vehicles);

(c) Time deposit exceeding ₹ 50,000 with a bank/banking company/banking institution;

(d) Deposits exceeding ₹ 50,000 in Post Office Savings Bank;

(e) Contract for sale/purchase of securities exceeding ₹ 1,00,000;

(f) Opening an account with a bank;

(g) Application for installation of a telephone connection including cellular connection;

(h) Payment to hotels/restaurants of bills exceeding ₹ 25,000 at any time;

(i) Payment in cash for purchase of bank draft or pay orders or banker's cheques for an amount aggregating ₹ 50,000 or more during any one day;

(j) Deposit in cash aggregating ₹ 50.000 or more, with a banking company during any one day;

(k) Payment in cash in connection with travel to any foreign country of an amount exceeding ₹ 25,000 at any one time.

(l) Making an application for issue of a credit card;

(m) Payment of an amount of ₹ 50.000 or more to
  (i) A mutual fund for purchase of its units, or
  (ii) A company for acquiring shares issued by it, or
  (iii) A company or an institution for acquiring debentures or bonds issued by it, or
  (iv) The Reserve Bank of India for acquiring bonds issued by it.

RETURN BY WHOM TO BE SIGNED [SEC. 140]

Individual	(1) The individual himself; or (2) Where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf; (3) Where he is absent from India, by the individual himself or by some person duly authorised by him on his behalf;
HUF	(1) Only by the Karta (2) Any other adult member of the family where the Karta is absent from India
Company	• The managing director or any director, if no MD or MD is not in India
Firm/LLP	• The managing partner or any partner, if no MP or MP is not in India
Local authority	• The principal officer
Political party	• The chief executive officer of such party
Any other association	• Any member of the association or the principal officer
Any other person	(1) That person or (2) Some person competent to act on his behalf.

RETURN BY WHOM TO BE SIGNED [SEC. 140A]

- Every person, before submitting a return of income is under an obligation
- To make a self-assessment of his income and
- After taking in account the amount of tax, if any, already paid,
- Pay the self-assessment tax, if due.

Self-assessment tax = Total Tax Liability including interest, if any — Advance Tax Paid - TDS – TCS

Form	Description
ITR-l:SAHAJ	For individuals, whose total income includes chargeable under the head - (a) "Salaries" or income in the nature of family pension under Sec.57(iia) (b) "Income from house property", where the assessee does not own more than one house property and does not have any brought forward loss under the head; (c) "Income from other sources", except winnings from lottery or income from race horses.
ITR-2	For individuals & HUFs not having income from Business or Profession.
ITR-3	For individuals/HUFs being partners in firms and not carrying out business or profession under any proprietorship
ITR-4	For individuals & HUFs having income from a proprietary business or profession.
ITR-4S: SUGAM	For presumptive business income covered under Sec. 44AD and 44AE
ITR-5	For firms, AOPs and BOIs
ITR-6	For Companies other than companies claiming exemption under Sec. 11
ITR-7	For persons including companies required to furnish return under Sec. 139(4A) or Sec. 139(4B)or Sec. 139(4C) or Sec. 139(4D). (Not available for e-Filing)
ITR-V	ITR-V **Indian Income** Tax **Return Verification Form:** This Form is to be used where the data of the Return of Income in Form ITR-1. ITR2, ITR- 3, ITR-4 and ITR-5 transmitted electronically without digital signature.

Appendix

ASSUMPTIONS

Note: If nothing mentioned clearly in the question then make following assumptions

No.	Particulars	Assumption
Income from Salary		
1.	Govt./Non-Govt.	Assume non-govt. employee
2.	Gratuity	Employee is not covered under Payment of Gratuity Act
3.	Pension	Un-commuted pension
4.	Employees PF contribution	Basic salary is gross without deducting employees' contribution
5.	Dearness Allowances	It is not under terms of employment
6.	Deamess 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 than 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 25 A
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

No.	Particulars	Meaning of Relative
Income from Salary		
1.	Prescribed fringe benefits	(a) Member of household (b) Spouse (c) Children and their spouses (d) Parents (e) Servants and dependents
2.	Medical facilities and leave travel concession	(a) The spouse & 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 [Sec. 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) [Sec.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 [Sec. 80C]	LIP on life of himself, spouse and children. In HUF: any member of family
2.	Medical Insurance Premium [Sec. 80D]	(1) Individual, spouse, parents (whether dependent or not), dependent children (2) In case of HUF: in the name of any member
3.	Sec. 80DD & Sec. 80DDB	(i) Individual, spouses, children, parents, brother and sister (ii) In case of HUF, any member of HUF
4.	Sec. 80E	Spouse, children of individual

AMENDMENTS HIGHLIGHTS

Section	Amendments
Rates	Refer Page No. 3
2(15)	The monetary Limit of permissible receipt from trading activity for an institution with an object of "Advancement of any other object of general public utility" and engaged in charitable purpose u/s 2(15) have been increased from ` 10 lakh to ` 25 lakh to retain its "charitable status" w.e.f. A Y 2012-13.
10(45)	New clause 45 to Sec. 10 has been inserted to enable the exemption of specified allowance to Chairman or a retired chairman or any other member or retired member of Union Public Service Commission for the allowance and perquisites as noti fied by central government. (WEF retrospectively from AY 2008-09)

10(46), 10(47), 139 (4c)	• New clause 46 to Sec-10 has been inserted to enable the exemption of income arising to a notified body or authority or Board or Trust or Commission to the extent as notified by central government. (WEF 1st June-2011) • New clause 47 to Sec. 10 has been inserted to enable the exemption of income of notified infrastructure debt fund by central government (WEF 1st June-2011). • Filing of return to such body or authority would be liable u/s I39(4C) which has been amended via Finance Act, 2011, within time period prescribed u/s 139(1), if its total income exceed above basis exemption limit without giving effect of Sec. 10(46), 10(47].
35(2AA)	The limit of weighted average deduction has been increased from 175% to 200% WEF AY 2012-13.
35AD	• The scope have been extended to include the following to Developing and building a house project under a notified scheme of CG and SG. Production of fertilizer in India (The new plant or new capacity should be started on or after 1st April, 2011) effective from AY 2012-13(In respect of existing provision to this section in the business of hotels and hospitals the word "New" have been removed from the definition of specified business . • Loss of assessee claiming deduction u/s 35AD can be set-off against the profit of any other specified business u/s 73 A irrespective of whether any other specified business is eligible for deduction u/s 35AD or not.
36(1), 40A(9), 80CCE	• Employers contribution to the account of the employee under a pension scheme to in Sec. 80CCD will be deductible as a business expenditure under newly inserted clause (iva) in Sec. 36(1) subject to maximum of 10% salary of employee in PY (For this purpose salary will include DA, if the terms of employment provides so) WEF AY 2012 -13 • Consequently Sec. 40A(9) has been amended to provide the effect to the above provison. • Sec. 80CCE has also been amended to provide the effect to the above proviso where the deduction of sum provided under this proviso to employee will be over and above the limit of ` 1 lakh.
80CCF	Extension in duration for investment in long-term infrastructure bond for one more year.
80IA	The time limit u/s 80-IA(4)(iv) have been extended by one year i.e. from 31/3/11 to 3/13/12 to enable the undertakings which have started the power business during the period from 1.4.11 to 31/03.12
80IB	A new sunset clause has been added under the Sec. 80IB(9) under which no deduction will be allowed under this Sec. for the commercial production of mineral oil for which the license under a contract have been awarded after 31st March, 2011. Effective from AY 2012-13
92C	5% variation % have been substituted with as such % notified by CG. From AY 12-13
92CA	The powers of Transfer Pricing Officer have been broaden to empower him to determine the ALP of other international transaction, identified subsequently in course of proceedings before him and conduct a survey upon income-tax authority u/s 133 A. (Effective from 1st June, 2011)
94A	New Sec 94A: To discourage assesses from entering into transaction with persons located into countries and territories where no effective mechanism of communication exist with India. CG have been empowered to notify any such country as NJA (Notified Jurisdictional Area). Any transaction done with person located in NJA would be deemed to be an international transaction and all parties will be deemed to be associated enterprises and all the provision of the transfer pricing will be applicable to such transaction except the benefit of Sec. 92C(2) (Effective from 1st June, 2011)
115JB	MAT has been increased from 18% to 18.5%. WEF AY 2012-13
115JBBD	New Sec. 115BD: Concessional rate of tax on dividend Where any specified foreign company (the foreign company in which Indian company holds 26% or more in nominal value of the equity share capital of the company) declares dividend and such dividend (gross dividend that no expenses will be allowed in such respect) is received by Indian company then it shall be subject to concessional rate of 15% as against the existing rate of 30%. W.e.f. AY 2012-13
1150, II5JB, 10(34)	A sunset clause for SEZ have been introduce to remove for MAT exemption from AY 2012-13 and remove DDT exemption for dividend declared, distributed or paid on or after 1st June, 2011. Since DDT will be levied u/s 1150 in that case dividend declared, distributed or paid on or after 1st June, 2011 by SEZ or dividend received by SEZ will be exempt in the hand of recipient u/s 10(34) (dividend declared before 1st June, 2011 and paid on or after 1st June, 2011 would not attract DDT provision)

115R	Increase in rate of additional Income-tax on income distributed by a debt fund, mutual fund, money market fund or liquid fund to a person other than individual or HUF has been increased from 25% to 30% w.e.f. 1st June, 2011. (Income from equity oriented fund is exempt from tax)
115JCto 115JF	New Sec. (Alternate Minimum tax on LLPs) LLP to be subject to AMT @ 18.5%. A report on or before due date u/s 139(1) from chartered accountant required certifying that adjusted total income and AMT have been computed according to provision of this chapter. All other provision of advance tax, interest etc. shall continue to apply. Carry forward and set-off up to a maximum period of 10 AYs. No interest will be paid on such tax credit. Effective from AY 2012-13
131, 133, 153 & 153B	(Powers for facilitating collection of information on request from tax authorities outside India) The time limit of six month or actual receive of information, whichever is less have been removed in getting the information from the income-tax authorities outside India. (Effective from 1st June, 2011)
139(1)	• Extension of due date for the corporate assesse for filing of report u/s 92E in the Form 3CEB and return u/s 139(1) undertaking the international transaction extended from 30.09.11 to 30.11.2011. • Time limit u/s 43B & TDS deposit to avoid disallowance u/s 40(a)(ia) also extended to 30.11.2011. w.e.f. AY 2012-13
139(1), 296	CG empowered to notify the class or classes of persons exempted from the requirement of filing of return.
143	The time limit for issue of notification by CG u/s 143(1B) extended from 31/3/11 to 31/3/12.
245C	The limit for applying to Settlement Commission in case of Sec. 153 A, 153B and 153C the limit of ` 50 lakh of specified person against who is subject matter to search. Where the applicant is related person/entities to the specified person and proceeding also have been initiated in his case as a result of search can apply before settlement commission if add. Income tax on income disclosed exceed ` 10 lakh. Effective from June 2011
245D	The settlement commission may amend any order passes by it u/s 245D to rectify any mistake apparent from record within six month from the date of order and follow natural justice principle (Effective from June, 2011) Note: A similar amendment have been made in Wealth-tax Act-1957
282B	Omission of Sec. 282B of requirement to quote DIN by Finance Act, 2011
285	A new Sec. 285: W.e.f. 1st June, 2011 Non-resident to file a statement to AO, within 60 days from the end of financial year, providing the details in respect of activities carried out by the liaison office in India
Sen. 4	The time limit for a recognized provident fiind, where the recognition have been received on or before 31.03.2006, for satisfying conditions has been extended from 31.12.2010 to 31.03.2011