

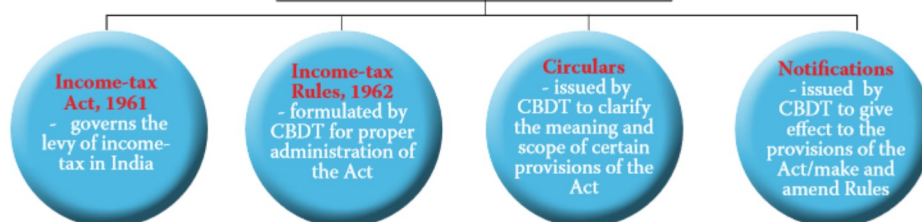
Income-tax Law: A Capsule for Quick Recap

The capsule on IIPCC/Intermediate Paper 4A: Income-tax Law gives a bird's eye view of the significant provisions of income-tax law discussed in Chapters 1 to 8 of the Study Material. This capsule is intended to assist you in the process of revision of concepts which impact the computation of income under different heads as well as the computation of total income of an individual, and, hence, it should not be taken as substitute for the detailed study of the subject. Thus, students are advised to read the July, 2018 edition of the Study Material for a thorough understanding of the provisions of income-tax law and solve the illustrations and exercise questions given therein to hone their application skills. Students may note that the income-tax law, as amended by the Finance Act, 2018 is relevant for May 2019 and November 2019 examinations. The relevant assessment year is A.Y. 2019-20.

CHAPTER 1: BASIC CONCEPTS

Income-tax is the most significant direct tax. **Entry 82 of the Union List** i.e., List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.

Significant components of Income-tax Law



Income-tax is a tax levied on the TOTAL INCOME of the PREVIOUS YEAR (P.Y.) of every PERSON.		General Rule Income of a previous year is assessed in the assessment year following the previous year		
Exceptions to this rule Cases where income of a previous year is assessed in the previous year itself				
Previous Year (P.Y.) is the F.Y. immediately preceding the Assessment Year (A.Y.).	A.Y. is the period of 12 months commencing on 1st April every year.	Shipping business of non-resident	Persons leaving India	AOPs/ BOIs/ Artificial Juridical Person formed for a particular event or purpose
		Persons likely to transfer property to avoid tax	Discontinued business	

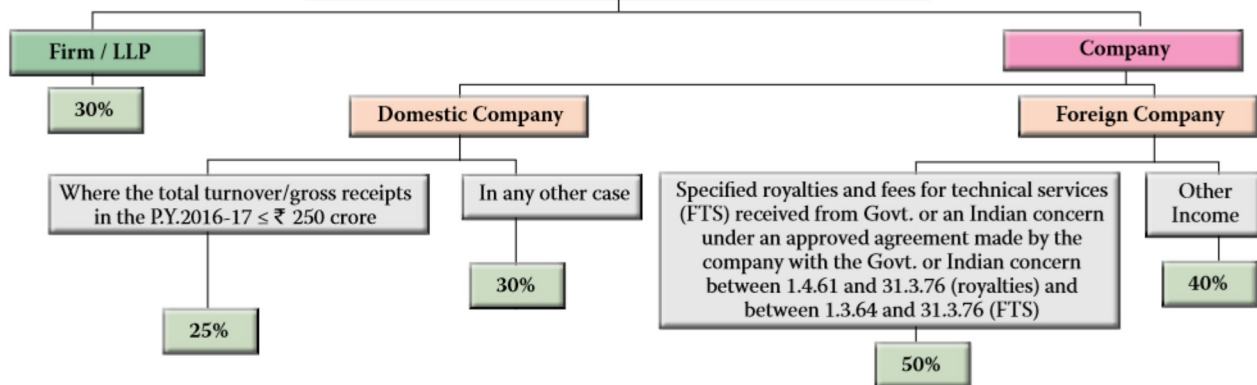
RATES OF INCOME TAX [A.Y. 2019-20]

I	Individual (other than a resident individual of the age of 60 years or more) [The same rates are also applicable for HUF/AOPs/ BOIs/Artificial Juridical Person]	
	Total Income (TI)	Income-tax payable
	≤ ₹ 2,50,000	Nil
	> ₹ 2,50,000 but ≤ ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 2,50,000
	> ₹ 5,00,000 but ≤ ₹ 10,00,000	₹ 12,500 plus 20% of the amount by which the total income exceeds ₹ 5,00,000
	> ₹ 10,00,000	₹ 1,12,500 plus 30% of the amount by which the total income exceeds ₹ 10,00,000
II	Resident individual of the age of 60 years or more but less than 80 years at any time during the previous year 2018-19	
	Total Income (TI)	Income-tax payable
	≤ ₹ 3,00,000	Nil
	> ₹ 3,00,000 but ≤ ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 3,00,000
	> ₹ 5,00,000 but ≤ ₹ 10,00,000	₹ 10,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000
	> ₹ 10,00,000	₹ 1,10,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000
III	Resident individual of the age of 80 years or more at any time during the previous year 2018-19	
	Total Income (TI)	Income-tax payable
	≤ ₹ 5,00,000	Nil
	> ₹ 5,00,000 but ≤ ₹ 10,00,000	20% of the amount by which the total income exceeds ₹ 5,00,000
	> ₹ 10,00,000	₹ 1,00,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

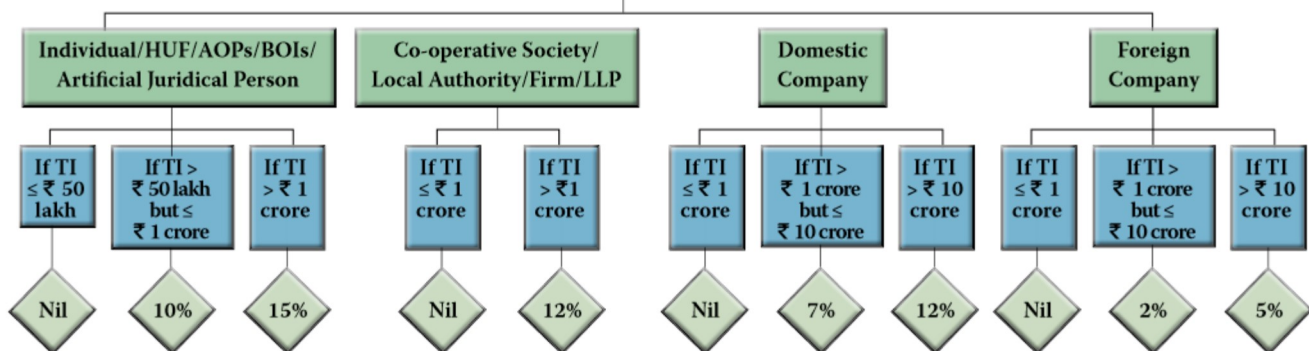
Rebate under section 87A in case of an individual resident in India:
 Lower of tax payable or ₹ 2,500, where total income does not exceed ₹ 3,50,000

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Rates of Taxes [A.Y.2019-20] – Firms/LLPs & Companies



Rates of Surcharge A.Y. 2019-20



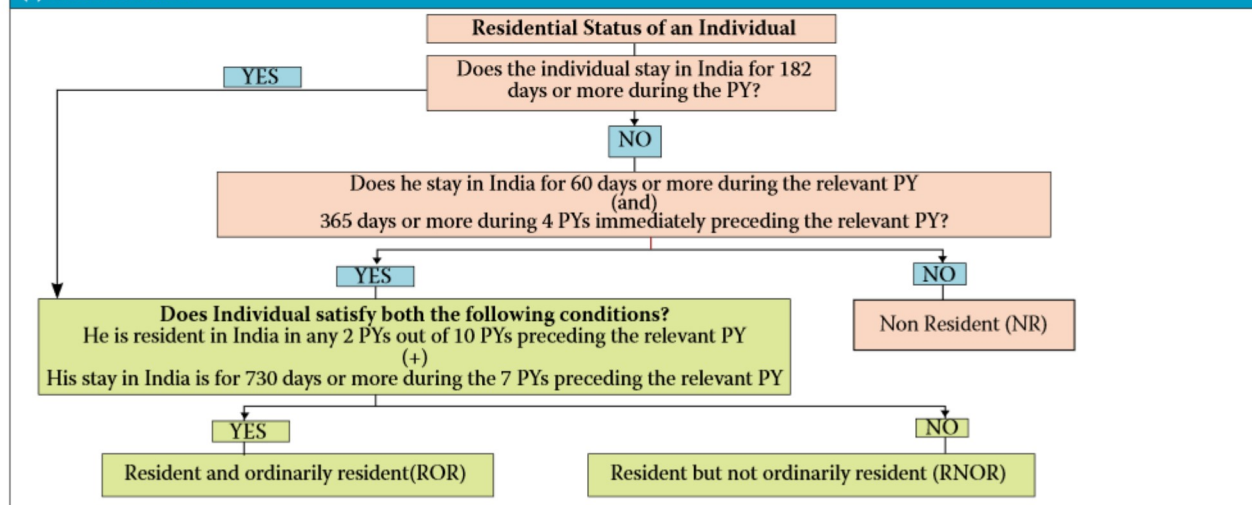
Note – Income-tax has to be computed on TI. Surcharge is computed on such income-tax. Health and education cess@4% has to be computed on income-tax plus surcharge, if applicable.

CHAPTER 2: RESIDENTIAL STATUS AND SCOPE OF TOTAL INCOME

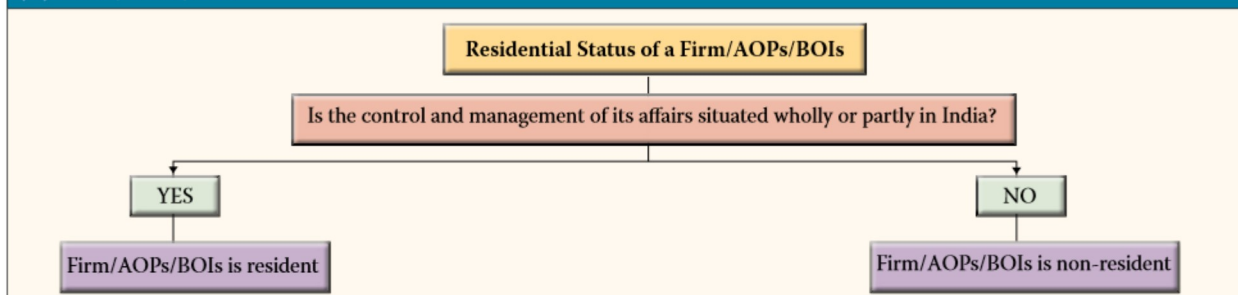
The residential status of a person determines the scope of income to be included in his/its total income (TI), which is subject to income-tax in India. The provisions for determining the residential status of a person are contained in section 6 and the scope of TI is defined u/s 5 of Income-tax Act, 1961.

RESIDENCE IN INDIA [SECTION 6]

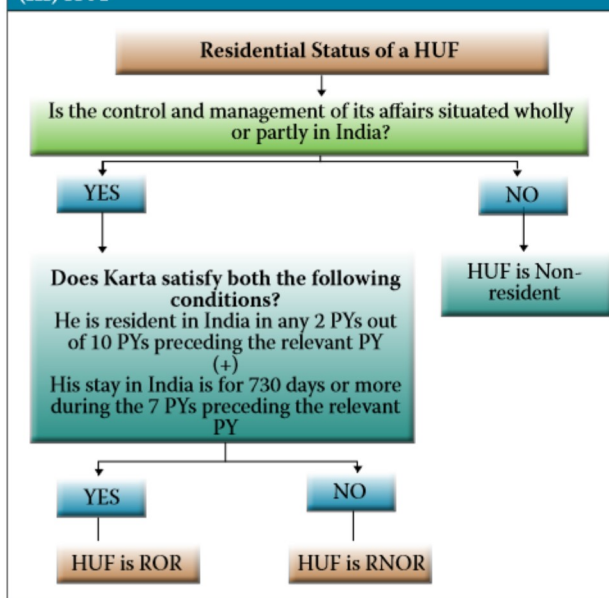
(I) INDIVIDUAL



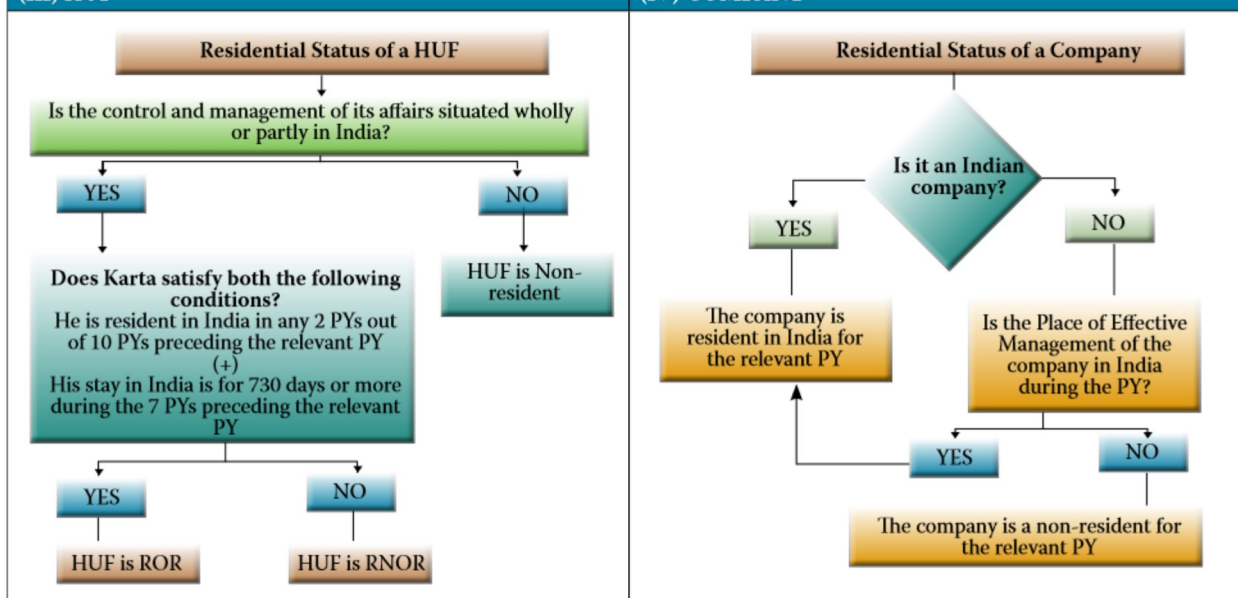
(II) FIRM/AOPs/BOIs



(III) HUF



(IV) COMPANY



SCOPE OF TOTAL INCOME [SECTION 5]: Whether the following incomes are to be included in Total Income?

Particulars	ROR	RNOR	NR
Income received or deemed to be received in India during the relevant PY	Yes	Yes	Yes
Income accruing or arising or deeming to accrue or arise in India during the relevant PY	Yes	Yes	Yes
Income accruing or arising outside India during the relevant PY	Yes, even if such income is not received or brought into India during the PY	Yes, but only if such income is derived from a business controlled from or profession set up in India; Otherwise, No.	No

CHAPTER 3: INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

The various items of income referred to in the different clauses of section 10 are excluded from the total income of an assessee. These incomes are commonly referred to as exempted incomes. The incomes which are exempt under section 10 will not be included while computing total income.



Section	Exempt Income: Some Examples
10(1)	Agricultural income Agricultural income, however, has to be aggregated with TI (non-agricultural income) for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUF, AOPs & BOIs etc., where the – • Net agricultural income exceeds ₹ 5,000 p.a. and • non-agricultural income exceeds basic exemption limit. The following are the steps to be followed in computation of tax – Step 1: Compute tax on non-agricultural income <i>plus</i> agricultural income Step 2: Compute tax on agricultural income <i>plus</i> basic exemption limit Step 3: Tax payable by the assessee = Step 1 – Step 2 Step 4: Add Surcharge/Deduct Rebate u/s 87A, if applicable. Step 5: Add Health and Education Cess@4%.
10(2)/ 10(2A)	Share income of a member from HUF/ Partner's share in the total income of the firm or LLP
10(6D)	Royalty income or FTS arising to non-corporate non-residents and foreign companies for services rendered in or outside India to the National Technical Research Organisation (NTRO)
10(11A)/ 10(16)	Any payment from Sukanya Samriddhi Account/ Scholarship granted to meet the cost of education
10(26AAA)	Income from any source in the state of Sikkim, dividend income and interest on securities in the hands of a Sikkimese individual. This exemption is not available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.
10AA	Tax holiday for unit established in SEZ, which has begun or begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 in any SEZ for 15 consecutive assessment years in respect of its profits derived from exports of such articles or things or export of services (including computer software). Amount of exemption = $\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$ 100% of such profits would be exempt in the first five years, 50% in the next five years and in the last five years, 50% subject to transfer to SEZ Re-investment Reserve Account.

CHAPTER 4: HEADS OF INCOME

UNIT 1: SALARIES

Income under the head "Salaries"		
Chargeability (Section 15) • Salary due • Paid or allowed, though not due • Arrears of salary	Meaning (Section 17) • Salary • Perquisite • Profits in lieu of salary	Deduction (Section 16) • Standard deduction • Entertainment allowance • Professional tax

Proforma for computation of income under the head "Salaries"

Particulars				Amt (₹)
(i)	Basic Salary			XXX
(ii)	Fees/Commission			XXX
(iii)	Bonus			XXX
(iv)	Taxable Allowances:			
(a)	Dearness Allowance			XXX
(b)	House Rent Allowance (HRA)			xxx
	Less: Least of the following is exempt [Section 10(13A)]			xxx
	• HRA actually received	xxx		
	• Rent paid (-)10% of salary for the relevant period	xxx		
	• 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi or Chennai or 40% of salary in any other city for the relevant period	xxx		
(c)	Children Education Allowance			xxx
	Less: ₹ 100 per month per child upto maximum of two children is exempt			xxx
(d)	Children Hostel Allowance			xxx
	Less: ₹ 300 per month per child upto maximum of two children is exempt			xxx
(e)	Transport allowance			xxx
	Less: ₹ 3,200 per month is exempt in case of blind/ deaf and dumb/ orthopedically handicapped employee only (In case of other employees, transport allowance is fully taxable)			xxx
(f)	Entertainment Allowance			XXX
(g)	Other Allowances including overtime allowance, city compensatory allowance etc.			XXX

Particulars			Amt (₹)								
(v)	Taxable Perquisites										
	(a)	Valuation of rent free accommodation¹	XXX								
		I) Where the accommodation is provided by the Govt. to its employees									
		License fee determined by the Govt.	xxx								
		Less: Rent actually paid by the employer	xxx								
		II) Where the accommodation is provided by any other employer									
		<i>If accommodation is owned by the employer</i>									
		(i) Cities having population > 25 lakh as per 2001 census 15% of salary in respect of the period of occupation (–) rent recovered from employee	xxx								
		(ii) Cities having population >10 lakh ≤ 25 lakh as per 2001 census 10% of salary in respect of the period of occupation (–) rent recovered from employee	xxx								
		(iii) In other cities 7.5% of salary in respect of the period of occupation (–) rent recovered from employee	xxx								
		<i>If accommodation is taken on lease by the employer</i>									
		Lower of lease rental paid or payable by the employer (or) 15% of salary	xxx								
		Less: Rent actually paid by the employee	xxx								
	(b)	Obligation of employee discharged by employer. For e.g. Professional tax paid by the employer	XXX								
	(c)	Any sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity: Actual expenditure incurred by the employer	XXX								
	(d)	Value of use of motor car [Refer Table 4.1.1]	XXX								
	(e)	Any other perquisite: For example,	XXX								
		(1) Provision of services of a sweeper, gardener, watchman or personal attendant: Actual cost to employer by way of salary paid or payable for such services (–) amount paid by the employee									
		(2) Gas, electricity, or water supplied by employer for household consumption of the employee: Amount paid on that account by the employer to the agency supplying gas etc. (–) amount paid by the employee									
		(3) Provision of free or concessional education facilities for any member of employee's household: Sum equal to the expenditure incurred by the employer (–) amount paid or recovered from the employee Where educational institution is maintained and owned by employer: Cost of such education in similar institution in or near the locality (–) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 1,000 p.m.]									
		<i>Note: Above perquisites are taxable only in case of specified employees.</i>									
		(4) Interest-free or concessional loan exceeding ₹ 20,000 : Interest computed at the rate charged by SBI as on 1st day of relevant PY in respect of loans for similar purposes on the maximum outstanding monthly balance (–) interest actually paid by employee									
		(5) Value of gift, voucher: Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 5,000, there would be no perquisite]									
		(6) Use of moveable assets									
		<table><tr><th>Asset given</th><th>Value of benefit</th></tr><tr><td>(a) Use of laptops and computers</td><td>Nil</td></tr><tr><td>(b) Movable assets, other than - (i) laptops and computers; and (ii) assets already specified</td><td>10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be (–) amount paid by/recovered from an employee</td></tr></table>	Asset given	Value of benefit	(a) Use of laptops and computers	Nil	(b) Movable assets, other than - (i) laptops and computers; and (ii) assets already specified	10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be (–) amount paid by/recovered from an employee			
Asset given	Value of benefit										
(a) Use of laptops and computers	Nil										
(b) Movable assets, other than - (i) laptops and computers; and (ii) assets already specified	10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be (–) amount paid by/recovered from an employee										
		(7) Transfer of movable assets: Actual cost of asset to employer – cost of normal wear and tear – amount paid or recovered from employee									
		<table><tr><th>Assets transferred</th><th>Computation of cost of normal wear and tear</th></tr><tr><td>Computers and electronic items</td><td>@50% on WDV for each completed year of usage</td></tr><tr><td>Motor cars</td><td>@20% on WDV for each completed year of usage</td></tr><tr><td>Any other asset</td><td>@10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]</td></tr></table>	Assets transferred	Computation of cost of normal wear and tear	Computers and electronic items	@50% on WDV for each completed year of usage	Motor cars	@20% on WDV for each completed year of usage	Any other asset	@10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]	
Assets transferred	Computation of cost of normal wear and tear										
Computers and electronic items	@50% on WDV for each completed year of usage										
Motor cars	@20% on WDV for each completed year of usage										
Any other asset	@10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]										
(vi)	Leave travel concession		xxx								
	Less: Exempt u/s 10(5) [Refer table 4.1.2]		xxx								
(vii)	Gratuity										
	(a)	Received during the tenure of employment (fully taxable)	xxx								
	(b)	Received at the time of retirement or otherwise	xxx								
	Less: Exempt u/s 10(10) [Refer Fig. 4.1.3]		xxx								
			XXX								

¹In case of furnished accommodation, the value will be increased by 10% p.a. of the cost of furniture or hire charges, as the case may be, less amount recovered from the employees.

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Particulars			Amt (₹)
(viii)	Uncommuted pension (fully taxable)		XXX
(ix)	Commuted pension		xxx
	Less: Exempt u/s 10(10A) [Refer Fig. 4.1.4]		xxx
(x)	Leave encashment		XXX
	(a) Received during the employment (fully taxable)		xxx
	(b) Received at the time of retirement or otherwise		xxx
	Less: Exempt u/s 10(10AA) [Refer Fig. 4.1.5]		xxx
(xi)	Voluntary retirement compensation		XXX
	Less: Exempt u/s 10(10C) - Least of the following:		xxx
	(a)	Compensation received/ receivable on voluntary retirement	xxx
	(b)	₹ 5,00,000	xxx
	(c)	3 months' salary x completed years of service	xxx
	(d)	Last drawn salary x remaining months of service left	xxx
(xii)	Retrenchment compensation etc.		xxx
	Less: Exempt u/s 10(10B)] – Least of the following:		xxx
	(a)	Compensation actually received	xxx
	(b)	₹ 5,00,000	xxx
	(c)	15 days average pay x completed years of service and part thereof in excess of 6 months	xxx
Gross Salary			XXX
Less: Deduction under section 16			
Standard deduction u/s 16(ia) upto ₹ 40,000 or amount of salary, whichever is lower			XXX
Entertainment allowance u/s 16(ii) (only for Govt. employees)			
Least of the following is allowable as deduction:			XXX
(a)	₹ 5,000	xxx	
(b)	1/5th of basic salary	xxx	
(c)	Actual entertainment allowance received	xxx	
Professional Tax (paid by employer/ employee) under section 16(iii)			XXX
Income under the head salary			XXX

Note- For the meaning of "Salary" for the purpose of valuation of perquisite/computation of exemption, refer Study Material.

Table 4.1.1					
Perquisite Value of Motor Car					
S. No.	Car owned/hired by	Expenses met by	Wholly official use	Partly personal use	
1	Employer	Employer	No value*	cc of engine	Perquisite value
				upto 1.6 litres	₹ 1,800 p.m.
				above 1.6 litres	₹ 2,400 p.m.
				If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.	
2	Employee	Employer	No value*	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.	
3	Employer	Employee	—	cc of engine	Perquisite value
				upto 1.6 litres	₹ 600 p.m.
				above 1.6 litres	₹ 900 p.m.
				If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.	

* provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

Notes:

- Perquisite value of motor car is taxable only in case of specified employees if motor car is provided by the employer to the employee. However, where the motor car is owned by the employee and used by him or members of his family wholly for personal purpose and for which employer reimburses the running and maintenance expenses of the car, the perquisite value of motor car is taxable in case of all employees.
- Where car is owned by employer and expenses are also met by the employer, the taxable perquisite in case such car is used wholly for personal purposes of the employee would be equal to the running and maintenance expenses and normal wear and tear (calculated @10% p.a. of actual cost of motor car) less amount charged from the employee for such use.

Table 4.1.2		
Leave Travel Concession exempt u/s 10(5)		
Exemption is available for 2 trips in a block of 4 calendar years.		
S. No.	Journey performed by	Exemption
1	Air	Amount not exceeding air economy fare by the shortest route to the place of destination
2	Any other mode :	
	(i) Where rail service is available	Amount not exceeding air conditioned first class rail fare by the shortest route to the place of destination
	(ii) Where rail service is not available	
	a) recognised public transport does not exist	Amount equivalent to air conditioned first class rail fare for the distance of the journey by the shortest route, as if the journey had been performed by rail
	b) recognised public transport exists	Amount not exceeding the first class or deluxe class fare on such transport by the shortest route to the place of destination

Fig. 4.1.3
Gratuity exempt u/s 10(10)

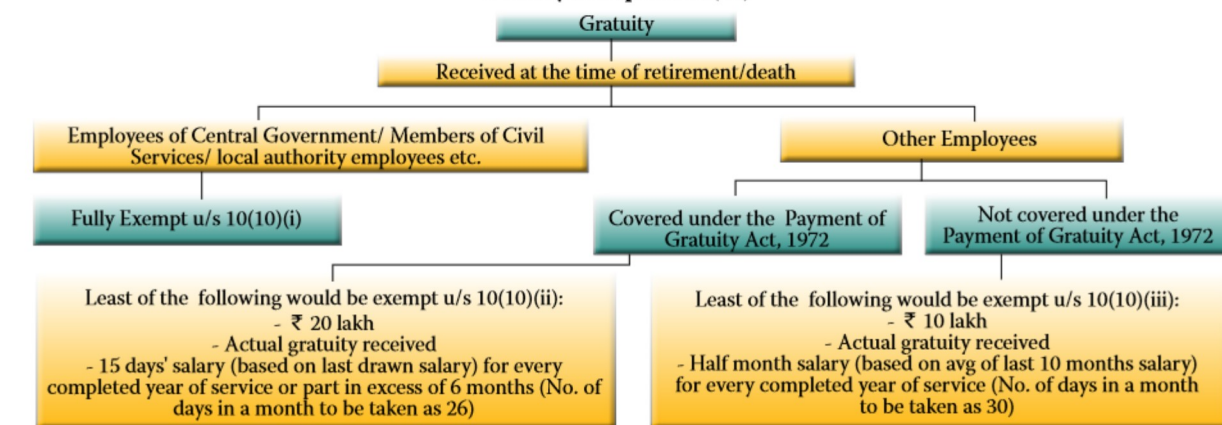


Fig. 4.1.4
Commuted Pension exempt u/s 10(10A)

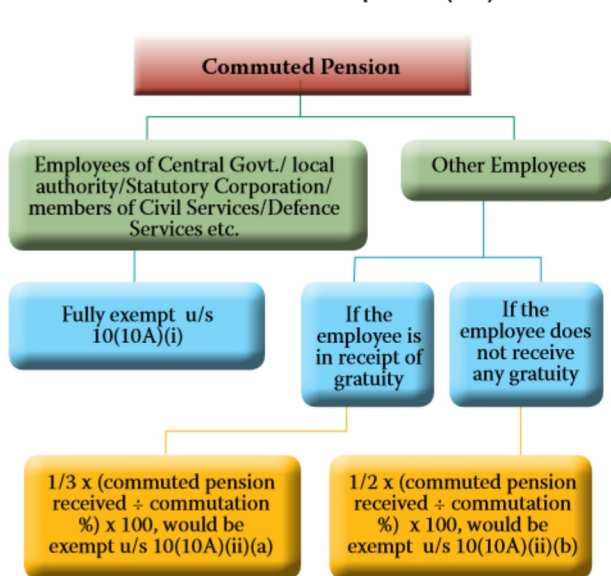
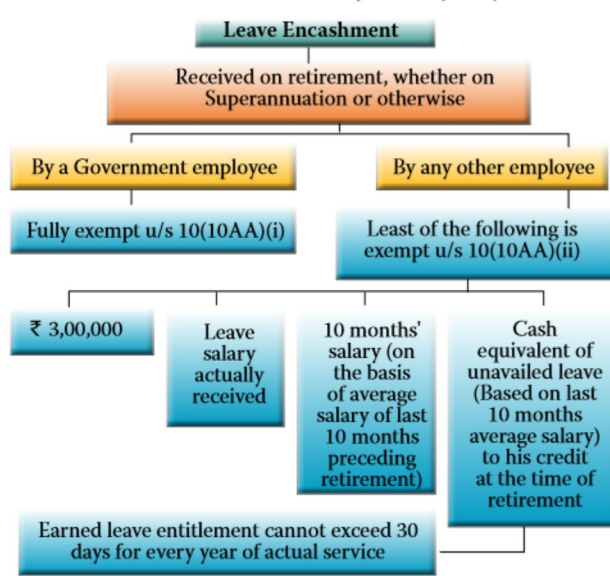
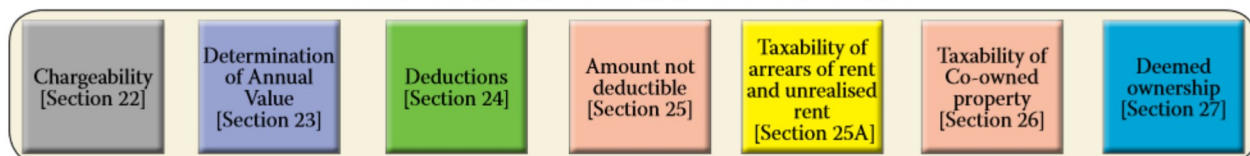


Fig. 4.1.5
Leave Encashment exempt u/s 10(10AA)



UNIT 2 : INCOME FROM HOUSE PROPERTY



I Basis of Charge [Section 22]

The annual value of any property comprising of buildings or lands appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".

Exceptions: Annual value of the following properties are chargeable under the head "Profits and gains of business and profession" -

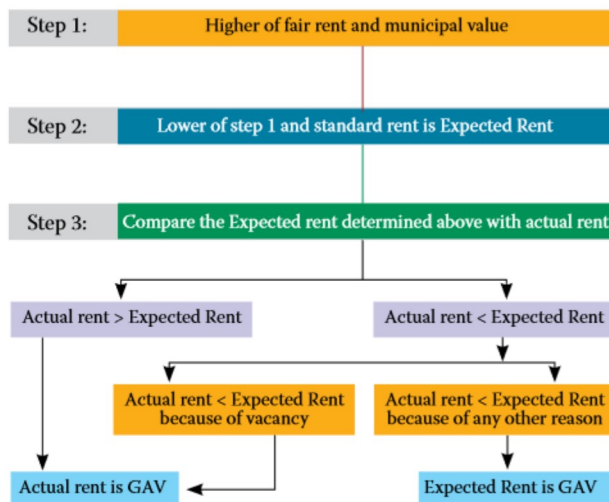
- Portions of property occupied by the assessee for business or profession carried on by him.
- Properties of an assessee engaged in the business of letting out of properties.

II Determination of Annual Value [Section 23]

(1) Annual Value of let-out property [Section 23(1)]



Fig. 4.2.1 Determination of GAV of let out property:



Note – Actual rent received/receivable should not include unrealised rent (i.e. any amount of rent not capable of being realised)

(2) Annual Value of one self-occupied property [Section 23(2)/(3)]

Where the property is self-occupied for own residence or unoccupied throughout the PY owing to his employment, business or profession carried on at any other place and residing at that other place in a building not belonging to him, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

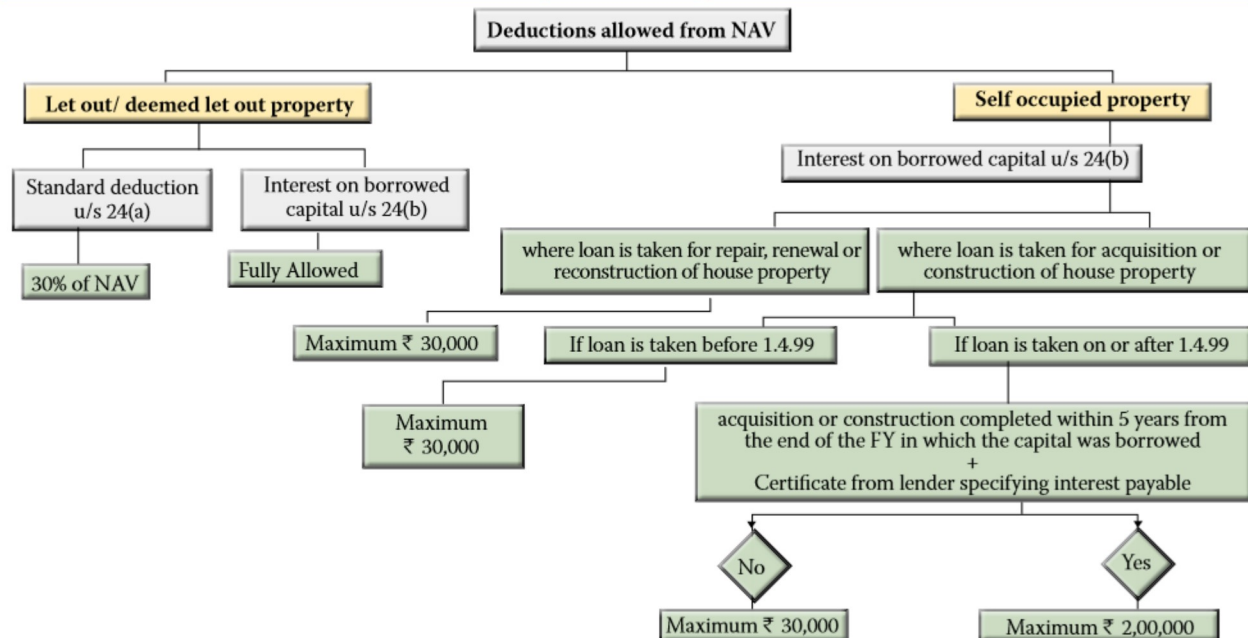
(3) Annual Value of deemed to be let out property [Section 23(4)]

If more than one property is so self-occupied/unoccupied, the assessee may claim benefit of Nil Annual Value in respect of any one property at his option. The other property(s) would be deemed to be let out, in respect of which Expected Rent would be the GAV.

(4) Annual value where the property held as stock-in-trade etc. [Section 23(5)]

Where property is held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the PY, the annual value of property or part of the property, for the period upto 1 year from the end of the F.Y. in which certificate of completion of construction of the property is obtained from the competent authority, shall be taken as "Nil".

III Deductions from Net Annual Value [Section 24]



Notes: (1) Pre-construction interest allowable as dedn in 5 equal installments from the PY. of completion of construction. In case of self-occupied property, the total interest (including pre-construction interest) can not exceed ₹ 30,000/ ₹ 2,00,000, as the case may be.

(2) If a portion of property is let out and a portion is self-occupied, then, income will be computed separately for let out and self-occupied portion.

IV Inadmissible deduction [Section 25]

Interest chargeable under this Act which is payable outside India shall not be deducted if		
tax has not been paid or deducted from such interest	and	there is no person in India who may be treated as an agent

V Taxability of recovery of Unrealised rent & Arrears of rent received [Section 25A]

Arrears of Rent / Unrealised Rent	
(i)	Taxable in the year of receipt/realisation
(ii)	Deduction@30% of rent received/realised
(iii)	Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation.

VI Co-owned property [Section 26]

Self-occupied property	Let-out property
The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹30,000 / ₹ 2,00,000, as the case may be, on account of interest on borrowed capital.	The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

VII Deemed Ownership [Section 27]

The following persons, though not legal owners of a property, are deemed to be the owners:

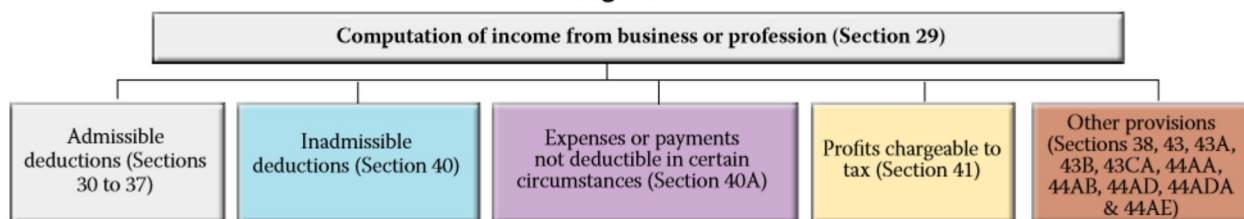
- (1) Transferor of the property, where the property is transferred to the spouse (not in connection with an agreement to live apart) or to minor child except minor married daughter, without adequate consideration.
- (2) Holder of an impartible estate is deemed to be the individual owner of all the properties comprised in the estate.
- (3) Member of a co-operative society, company or other association of persons is deemed to be the owner of the building or part thereof allotted or leased to him under a house building scheme.
- (4) Person in possession of a property in part performance of a contract u/s 53A of the Transfer of Property Act, 1882.
- (5) Person having lease right in a property for a period not less than 12 years.

UNIT 3: PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Income chargeable under the head "profits and gains from business or profession" [Section 28]	
(i)	The profits and gains of any business or profession (PGBP) carried on by the assessee.
(ii)	Any compensation or other payment due to or received by a person, at or in connection with termination of his management, office, agency, any contract relating to business or modification of the terms and conditions relating thereto in certain cases.
(iii)	Income derived by a trade, professional or similar association from specific services performed for its members.
(iv)	Profit on sale of import licence, cash assistance against exports, duty drawback, profit on transfer of DEPB/DFRC.
(v)	Value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of profession.
(vi)	Any interest, salary, bonus, commission or remuneration due to, or received by, a partner of a firm from such firm (to the extent allowed as deduction in the hands of the firm).
(vii)	Any sum, received or receivable, in cash or kind under an agreement for – (a) not carrying out any activity in relation to any business or profession; or (b) not sharing any know-how, patent, copyright, trademark, etc.
(viii)	Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.
(ix)	Fair market value of inventory on the date of its conversion or treatment as capital asset, determined in the prescribed manner.
(x)	Any sum, whether received or receivable, in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, in respect of which the whole of the expenditure has been allowed as deduction u/s 35AD.

Note - Income chargeable under the head PGBP or Income from Other Sources has to be computed in accordance with either cash basis or mercantile system of accounting regularly employed by the assessee [Section 145]

Fig 4.3.1



Proforma for computation of income under the head "Profits and gains from business or profession"

Particulars		Amt (₹)
Net profit as per statement of profit and loss		A
<i>Add:</i>	Expenses debited to statement of profit and loss but not allowable - Depreciation as per books of accounts - Income-tax [disallowed u/s 40(a)(ii)] 30% of sum payable to residents on which tax is not deducted at source or after deduction has not been remitted on or before the due date u/s 139(1), would be disallowed u/s 40(a)(ia) [The same is allowable in the year in which the tax is deducted and remitted] - Any expenditure incurred, in respect of which payment is made for goods, services or facilities to a related person, to the extent the same is excessive or unreasonable, in the opinion of the A.O, having regard to its FMV [disallowed u/s 40A(2)] - Any expenditure incurred in respect of which payment or aggregate of payments to a person exceeding ₹ 10,000 in a single day is made otherwise than by way of A/c payee cheque/bank draft or use of ECS through bank A/c [disallowed u/s 40A(3)] - Certain sums payable by the assessee which have not been paid during the relevant P.Y. in which the liability was incurred on or before the due date for filing return u/s 139(1) in respect of that P.Y. [disallowed u/s 43B – Refer Fig 4.3.2 below] Personal expenses/ capital expenditure [not allowable as per section 37] Repairs of capital nature [not allowable as per sections 30 & 31] - Amortisation of preliminary expenditure u/s 35D/ expenditure incurred under voluntary retirement scheme u/s 35DDA [4/5th of such expenditure to be added back] Fine or penalty paid for infringement or breach of law [However, penalty in the nature of damages for delay in completion of a contract, being compensatory in nature, is allowable] - All expenses related to income which is not taxable under this head e.g. municipal taxes in respect of house property - Any sum paid by the assessee as an employer by way of contribution to pension scheme u/s 80CCD exceeding 10% of the salary of the employee	B
(A + B)		C
<i>Less:</i>	Expenditure allowable as deduction but not debited to statement of profit and loss Depreciation u/s 32 computed as per Rule 5 of Income-tax Rules, 1962 Additional depreciation@20% of actual cost of new P & M acquired by an assessee engaged in the business of manufacture or production of any article or thing or generation, transmission or distribution of power (10% of actual cost, if put to use for less than 180 days in the year of acquisition)/ 35% of actual cost (17.5% if put to use for less than 180 days in the year of acquisition), if the manufacturing undertaking is set up in a notified backward area in the State of A.P./Bihar/Telangana/West Bengal on or after 1.4.2015 [Balance additional depreciation can be claimed in the next year] - Deduction@15% of actual cost of new P&M u/s 32AD in case of a manufacturing undertaking/ enterprise set up in a notified backward area in the State of A.P./Bihar/ Telangana/West Bengal on or after 1.4.2015 Weighted deduction for expenditure on/contribution for research u/s 35(1)(ii), 35(2AA), 35(2AB) in excess of the amount already debited to statement of profit & loss [Refer Table 4.3.3 below] Investment-linked tax deduction in respect of specified businesses u/s 35AD [Refer Fig 4.3.4 below]	D
(C - D)		E
<i>Less:</i>	Income credited in statement of profit and loss but not taxable/ taxable under any other head Dividend income exempt u/s 10(34)/ taxable u/s 115BBDA Agricultural income exempt u/s 10(1) Interest on securities/savings bank account/ FD taxable under the head "Income from other sources" Profit on sale of capital asset taxable under the head "Capital Gains" Rent from house property taxable under the head "Income from house property" Winnings from lotteries, horse races, games etc., taxable under the head "Income from other sources" Gifts exempt or taxable under the head "Income from other sources" Income-tax refund not taxable Interest on income-tax refund taxable under the head "Income from other sources"	F
(E - F)		G
<i>Add:</i>	Deemed Income Bad debt allowed as deduction u/s 36(1)(vii) in an earlier PY, now recovered [deemed as income u/s 41(4)] - Remission or cessation of a trading liability [deemed as income u/s 41(1)]	H
(G + H)		I

Fig 4.3.2

Certain deduction to be allowed only on actual payment (Section 43B)

(a)	Any sum payable by way of tax, duty, cess or fee
(b)	Any sum payable as an employer by way of contribution to any PF or superannuation fund or gratuity fund etc.
(c)	Any sum payable to an employee as bonus or Commission for services rendered
(d)	Any sum payable as interest on any loan or borrowing from any public financial institution or a State Financial Corporation or a State Industrial Investment Corporation.
(e)	Interest on any loan or advance from a scheduled bank or co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank
(f)	Any sum paid as an employer in lieu of earned leave of his employee
(g)	Any sum payable to the Indian Railways for use of Railway assets

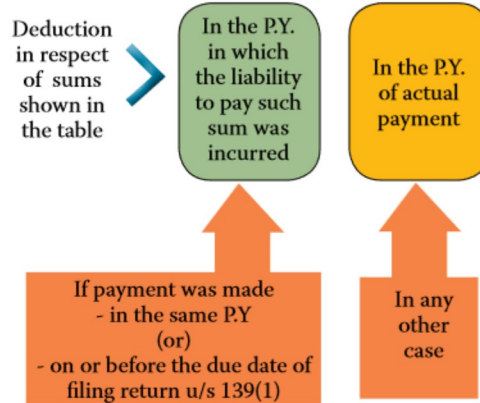


Table 4.3.3

Deduction for expenditure on/contribution for research u/s 35		
Section	Expenditure incurred/ Contribution made to	Deduction (as a % of expenditure incurred/contribution made)
35(1)(i)	Revenue expenditure incurred on scientific research related to the assessee's business	100%
35(1)(ii)	Any sum paid to a notified approved research association/ university/ college/ other institutions for scientific research	150%
35(1)(ia)	Any sum paid to an approved Indian company for scientific research	100%
35(1)(iii)	Any sum paid to a notified approved research association/ university/ college/ other institutions for research in social science or statistical research	100%
35(1)(iv)	Capital expenditure (other than expenditure on acquisition of land) incurred on scientific research related to the assessee's business	100%
35(2AA)	Any sum paid to an approved National Laboratory/ University/ IIT/ specified person for scientific research undertaken under an approved programme	150%
35(2AB)	Expenditure (other than cost of Land & Building) incurred by a company engaged in the business of Bio-technology or any business of production or manufacture of article or thing, not being an article or thing listed in Eleventh Schedule, on scientific research on approved in-house R & D facility	150%

Fig 4.3.4

Investment linked tax deduction u/s 35AD

100% of following capital expenditure incurred wholly and exclusively for the specified business allowable as deduction	
Expenditure incurred during the P.Y. Allowed as deduction in the same P.Y.	Expenditure incurred prior to commencement of operations - allowed as deduction in the year of commencement of operations - if the amount incurred is capitalised in the books of account on the date of commencement of operations



Capital expenditure does not include the following expenditure	
Expenditure on acquisition of any land, goodwill or financial instrument	Expenditure in respect of which payment or aggregate of payments made to a person in a day, otherwise than by way of A/c Payee cheque/ bank draft/ ECS, exceeds ₹ 10,000

Note – For list of specified business eligible for deduction u/s 35AD, refer Study Material.

Fig 4.3.5

Taxability in case of composite income

Rule	Nature of composite income	Business income (Taxable)	Agricultural Income (Exempt)
7A	Income from the manufacture of rubber in India	35%	65%
7B	Income from the manufacture of coffee • sale of coffee grown and cured in India • sale of coffee grown, cured, roasted and grounded in India	25% 40%	75% 60%
8	Income from the manufacture of tea in India	40%	60%

Special provisions for computing profits and gains on presumptive basis

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(1)	Eligible Assessee	Resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and who has not claimed deduction under section 10AA or Chapter VIA under the heading "C – Deductions in respect of certain incomes" Non-applicability of section 44AD in respect of the following persons: - A person carrying on profession specified u/s 44AA(1); - A person earning income in the nature of commission or brokerage; - A person carrying on any agency business.	Resident assessee engaged in any profession specified u/s 44AA(1) , namely, legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or notified profession (authorised representative, film artist, company secretary, profession of information technology)	An assessee owning not more than 10 goods carriages at any time during the P.Y.
(2)	Eligible business/ profession	Any business, other than business referred to in section 44AE, whose total turnover/ gross receipts in the P.Y. ≤ ₹ 200 lakhs	Any profession specified under section 44AA(1), whose total gross receipts ≤ ₹ 50 lakhs in the relevant P.Y.	Business of plying, hiring or leasing goods carriages
(3)	Presumptive income	8% of total turnover/sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee. 6% of total turnover/sales/gross receipts in respect of the amount of total turnover/sales/ gross receipts received by A/c payee cheque/ bank draft/ECS during the P.Y. or before due date of filing of return u/s 139(1) in respect of that P.Y.	50% of total gross receipts of such profession or a sum higher than the aforesaid sum claimed to have been earned by the assessee.	For each heavy goods vehicle: ₹ 1,000 per ton of gross vehicle weight or unladen weight , as the case may be, for every month or part of a month For other than heavy goods vehicle: ₹ 7,500 per month or part of a month during which such vehicle is owned by the assessee or an amount claimed to have been actually earned from such vehicle, whichever is higher.
(4)	Non-allowability of deductions while computing presumptive income	Deductions allowable under sections 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed Even in case of a firm, salary and interest paid to partners is not deductible.	Even in case of a firm, salary and interest paid to partners is not deductible.	In case of a firm, salary and interest paid to partners is deductible subject to the conditions and limits in section 40(b) [Refer Note 1 below Table]
(5)	Written down value of asset	WDV of any asset of an eligible business/profession shall be deemed to have been calculated as if the eligible assessee had claimed and had been actually allowed depreciation for each of the relevant assessment years		
(6)	Requirement of maintenance of books of account u/s 44AA and audit u/s 44AB	After declaring profits on presumptive basis u/s 44AD, say, for A.Y.2019-20, non-declaration of profits on presumptive basis for any of the 5 successive AYs thereafter (i.e., from A.Y.2020-21 to A.Y.2024-25), say, for A.Y. 2021-22, would disentitle the assessee from claiming profits on presumptive basis for five successive AYs subsequent to the AY relevant to the PY of such non-declaration (i.e., from A.Y.2022-23 to A.Y.2026-27). In such a case, the assessee would have to maintain books of account and other documents u/s 44AA(2) and get his accounts audited u/s 44AB, if his total income > basic exemption limit in those years.	If the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account and other documents u/s 44AA(1) and get his accounts audited u/s 44AB, if his total income > basic exemption limit for that year.	If the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account u/s 44AA(2) and get his accounts audited u/s 44AB.

Notes – (1) Any payment by a firm to a working partner by way of salary, bonus, commission or remuneration, authorised by the partnership deed and relates to any period falling after the date of such deed, upto the following limit prescribed u/s 40(b), is allowable as deduction:

	Book Profit	Prescribed limit
(a)	On the first ₹ 3 lakh of the book profit or in case of a loss	₹ 1,50,000 or 90% of book profit, whichever is more
(b)	On the balance of book profit	At the rate of 60%

Any payment of interest to any partner which is authorised by and is in accordance with the terms of the partnership deed and relates to any period falling after the date of such deed, to the extent such amount does not exceed simple interest calculated @12% p.a. is allowable as deduction in the hands of the firm.

(2) If a person is not covered under presumptive tax provisions mentioned above, audit of books of account u/s 44AB is mandatory, if, in a case where he carries on business, his total sales, turnover or gross receipts in business > ₹ 1 crore in that P.Y. and in a case where he carries on profession, his gross receipts in profession > ₹ 50 lakh in that P.Y.

UNIT 4: CAPITAL GAINS

Chargeability [Section 45]	Transactions not regarded as transfer [Section 47]	Mode of computation [Section 48]	Cost with reference to certain modes of acquisition [Section 49]	Exemptions [Section 54 to 54F]	Other provisions [Sections 46, 46A, 50 to 50D, 51, 55 & 55A]
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I Scope and year of chargeability [Section 45]

Any profits or gains arising from the transfer of a capital asset effected in the previous year (P.Y.) will be chargeable to tax under the head 'Capital Gains' [CG, in short], and shall be deemed to be the income of the P.Y. in which the transfer took place [Section 45(1)]

Section	Profits or gains arising from the following transactions chargeable as income	P.Y. in which income is chargeable to tax	Deemed Full Value of consideration (FVC) for computation of CG u/s 48
45(1A)	Money or other asset received under an insurance on account of damage / destruction of any capital asset, as a result of, flood, hurricane, cyclone, etc.	The P.Y. in which such money or other asset is received.	The value of money or the FMV of other asset on the date of receipt
45(2)	Transfer by way of conversion by the owner of a capital asset into stock-in-trade (SIT) of a business carried on by him	The P.Y. in which such SIT is sold or otherwise transferred.	The FMV of the capital asset on the date of such conversion
45(3)	Transfer of a capital asset by a person to a firm or other AOPs or BOIs in which he is or becomes a partner or member, by way of capital contribution or otherwise.	The P.Y. in which such transfer takes place	The amount recorded in the books of account of the firm, AOPs or BOIs as the value of the capital asset.
45(4)	Transfer of a capital asset by way of distribution of capital assets on the dissolution of a firm or other AOPs or BOIs or otherwise, is chargeable to tax as the income of the firm, AOPs or BOIs.	The P.Y. in which the said transfer takes place.	The FMV of the capital asset on the date of such transfer.
45(5)	Transfer of capital asset by way of compulsory acquisition under any law, or a transfer, the consideration for which was determined or approved by the Central Government or RBI. If the compensation or consideration is further enhanced by any court, Tribunal or other authority, the enhanced amount deemed to be the income. However, compensation received in pursuance of an interim order of a court/Tribunal deemed to be income of the P.Y. in which the final order is made.	The P.Y. in which the consideration or part thereof is first received. The P.Y. in which the amount was received by the assessee.	Compensation or consideration determined or approved in the first instance by the Central Govt or RBI. Amount by which the compensation/ consideration is enhanced or further enhanced. For this purpose, cost of acquisition and cost of improvement shall be taken as 'Nil'.
45(5A)	Transfer of a capital asset, being land or building (L & B) or both, by an individual or HUF, who enters into a specified agreement for development of a project , provided he does not transfer his share in project on or before the date of issuance of completion certificate.	The P.Y. in which the certificate of completion for the whole or part of the project is issued by the competent authority.	The stamp duty value of his share in the project, being L or B or both, on the date of issue of completion certificate + Consideration received in cash, if any,

II Transactions not regarded as transfer for the purpose of levy of capital gains tax [Section 47]: Some Examples

Any transfer:

- by way of distribution of capital assets on the **total or partial partition of a HUF**
- of capital asset under a **gift or will or an irrevocable trust**
- of capital asset by a **holding company to its 100% subsidiary Indian company** or by a **subsidiary company to its 100% holding Indian company**
- or issue of shares by resulting company, **in a scheme of demerger** to the shareholders of demerged company
- by a shareholder in a **scheme of amalgamation** of shares held by him in the amalgamating company, in consideration of allotment to him of shares in the amalgamated Indian company.
- by an individual of **sovereign gold bonds issued by RBI** under Sovereign Gold Bond Scheme, 2015 by way of redemption
- by way of **conversion of bonds, debentures, debenture stock, deposit certificates** of a company, into shares or debentures of that company.
- by way of **conversion of preference shares** of a company into equity shares of that company
- of a capital asset in a transaction of **reverse mortgage** under a scheme notified by the Central Govt.

III Mode of Computation of Capital Gains [Section 48]

	Particulars	Amt (₹)	Amt (₹)
In case of a Short-term capital asset (STCA) [For period of holding of STCA refer to Fig. 4.4.3]	Full value of consideration received or accruing as a result of transfer	xxx	
	Less: Exp. incurred wholly and exclusively in connection with such transfer (for eg., brokerage on sale)	xxx	
	(Note: Deduction on account of STT paid will not be allowed)		
	Net Sale Consideration		xxx
	Less: Cost of acquisition (COA) [Refer Table 4.4.4]	xxx	
	Cost of improvement (COI) [Refer Table 4.4.5]	xxx	xxx
	Short-term capital gain (STCG)		xxx
	Less: Exemption u/s 54B/54D [Refer Table 4.4.7]		xxx
	STCG chargeable to tax at rates given in Table 4.4.1		xxx
In case of a Long-term capital asset (LTCA) [For period of holding of LTCA, refer to Fig. 4.4.3]	Full value of consideration received or accruing as a result of transfer	xxx	
	Less: Exp. incurred wholly and exclusively in connection with such transfer	xxx	
	(Note: Deduction on account of STT paid will not be allowed)		
	Net Sale Consideration		xxx
	Less: Indexed cost of acquisition (ICOA)		
	Cost of acquisition X $\frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the asset was first held by the assessee or P.Y. 2001-02, whichever is later}}$	xxx	
	(Note: Benefit of indexation will, however, not be available in respect of LTCG from transfer of bonds or debentures other than capital indexed bonds issued by the Government and sovereign gold bonds issued by RBI)		
	Less: Indexed cost of improvement (ICOI)		
	Cost of improvement X $\frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the improvement took place}}$	xxx	xxx
	Long-term capital gains (LTCG)		xxx
	Less: Exemption u/s 54/54B/54D/54EC/54EE/54F [Refer Table 4.4.7]		xxx
	LTCG chargeable to tax at the rates given in Table 4.4.2		xxx

Table 4.4.1
Rates of tax on STCG

Section	Rates of tax
111A	- STCG arising on transfer of listed equity shares and units of equity oriented fund - 15%, if STT has been paid on such sale. - STCG arising from transaction undertaken in foreign currency on a Recognised Stock Exchange (RSE) located in an International Financial Services Centre (IFSC) taxable @ 15% even though STT is not paid in respect of such transaction.

Note – STCG arising on transfer of other STCAs would be chargeable at normal rates of tax.

Table 4.4.2
Rates of tax on LTCG

Section	Particulars								
112A	Tax @10% on long-term capital gains exceeding ₹ 1,00,000 on the transfer of following long-term capital assets. - listed equity shares, if STT has been paid on acquisition and transfer of such shares - units of equity oriented fund, if STT has been paid on transfer of such units If such transaction undertaken on a RSE located in an IFSC, LTCG would be taxable at a concessional rate of 10% where the consideration for transfer is received or receivable in foreign currency, even though STT is not paid in respect of such transaction. - Benefit of indexation and currency fluctuation would not be available in respect of LTCG taxable u/s 112A.								
112	<table> <tr> <th>LTCA</th><th>Applicable rate of tax on LTCG</th></tr> <tr> <td>Unlisted securities or shares of a closely held company</td><td>Non-corporate non-resident / foreign company - 10% without the benefit of indexation and currency fluctuation Other Assesseees - 20%, with indexation benefit</td></tr> <tr> <td>Listed securities (other than a unit) or a zero-coupon bond</td><td>- 10%, without the benefit of indexation or - 20%, availing the benefit of indexation whichever is more beneficial to the assessee</td></tr> <tr> <td>Other Assets</td><td>- 20%</td></tr> </table>	LTCA	Applicable rate of tax on LTCG	Unlisted securities or shares of a closely held company	Non-corporate non-resident / foreign company - 10% without the benefit of indexation and currency fluctuation Other Assesseees - 20%, with indexation benefit	Listed securities (other than a unit) or a zero-coupon bond	- 10%, without the benefit of indexation or - 20%, availing the benefit of indexation whichever is more beneficial to the assessee	Other Assets	- 20%
LTCA	Applicable rate of tax on LTCG								
Unlisted securities or shares of a closely held company	Non-corporate non-resident / foreign company - 10% without the benefit of indexation and currency fluctuation Other Assesseees - 20%, with indexation benefit								
Listed securities (other than a unit) or a zero-coupon bond	- 10%, without the benefit of indexation or - 20%, availing the benefit of indexation whichever is more beneficial to the assessee								
Other Assets	- 20%								

Notes: (1) In case of a resident individual or a Hindu Undivided Family(HUF), the LTCG taxable u/s 112 or u/s 112A and STCG taxable u/s 111A shall be reduced by the unexhausted basic exemption limit and the balance shall be subject to tax at the rates specified therein
(2) No deduction under Chapter VI-A can be claimed in respect of such LTCG chargeable to tax@20% u/s 112 or 10% u/s 112A or STCG chargeable to tax@15% u/s 111A.

Table 4.4.3
Period of holding [Section 2(42A)]

STCA, if held for ≤ 12 months LTCA, if held for > 12 months	- Security (other than a unit) listed in a recognised stock exchange - Unit of equity oriented fund/ unit of UTI - Zero Coupon bond
STCA, if held for ≤ 24 months LTCA, if held for > 24 months	- Unlisted shares - Land or building or both
STCA, if held for ≤ 36 months LTCA, if held for > 36 months	- Unit of debt oriented fund - Unlisted securities other than shares - Other capital assets

Table 4.4.4
Cost of Acquisition of certain assets: At a Glance [Section 55(2)]

Sl. No.	Nature of capital asset	Cost of acquisition
1	Goodwill of a business, trademark, brand name associated with a business, right to manufacture, produce or process any article or thing, right to carry on any business or profession, tenancy rights, stage carriage permits or loom hours - - Self-generated - Acquired from previous owner	Nil Purchase price
2	Bonus Shares If bonus shares are allotted before 1.4.2001 If bonus shares are allotted on or after 1.4.2001	FMV on 1.4.2001 Nil
3	Rights Shares Original shares (which form the basis of entitlement of rights shares) Rights shares subscribed for by the assessee Rights entitlement (which is renounced by the assessee in favour of a person) Rights shares which are purchased by the person in whose favour the assessee has renounced the rights entitlement	Amount actually paid for acquiring the original shares Amount actually paid for acquiring the rights shares Nil Purchase price paid to the renouncer of rights entitlement as well as the amount paid to the company which has allotted the rights shares.
4	Long term capital assets being, - equity shares in a company on which STT is paid both at the time of purchase and transfer or - unit of equity oriented fund on which STT is paid at the time of transfer, acquired before 1st February, 2018	Cost of acquisition shall be the higher of (i) cost of acquisition of such asset; and (ii) lower of - the fair market value of such asset on 31.01.2018; and - the full value of consideration received or accruing as a result of the transfer of the capital asset.
5	Any other capital asset Where such capital asset became the property of the assessee before 1.4.2001 Where such capital asset became the property of the assessee by any mode specified in section 49(1), namely, by way of distribution of assets on total or partial partition of HUF, under a gift or will, by succession, inheritance, distribution of assets on liquidation of a company, etc. Where the capital asset became the property of the previous owner before 1.4.2001	COA of the asset to the assessee, or FMV as on 1.4.2001, at the option of the assessee Cost to the previous owner. Where such cost cannot be ascertained, FMV on the date on which the capital asset became the property of the previous owner. Cost to the previous owner or FMV as on 1.4.2001, at the option of the assessee

Table 4.4.5
Cost of Improvement of certain assets: At a Glance [Section 55(1)]

Sl. No.	Nature of capital asset	Cost of improvement
1	Goodwill of a business right to manufacture, produce or process any article or thing, right to carry on any business or profession	Nil
2	In relation to any other capital asset	All capital expenditure incurred in making additions or alternation to the capital asset on or after 1.4.2001 – - by the assessee after it became his property; and - by the previous owner [in a case where the assessee acquired the property by modes specified in section 49(1)]

Fig 4.4.6

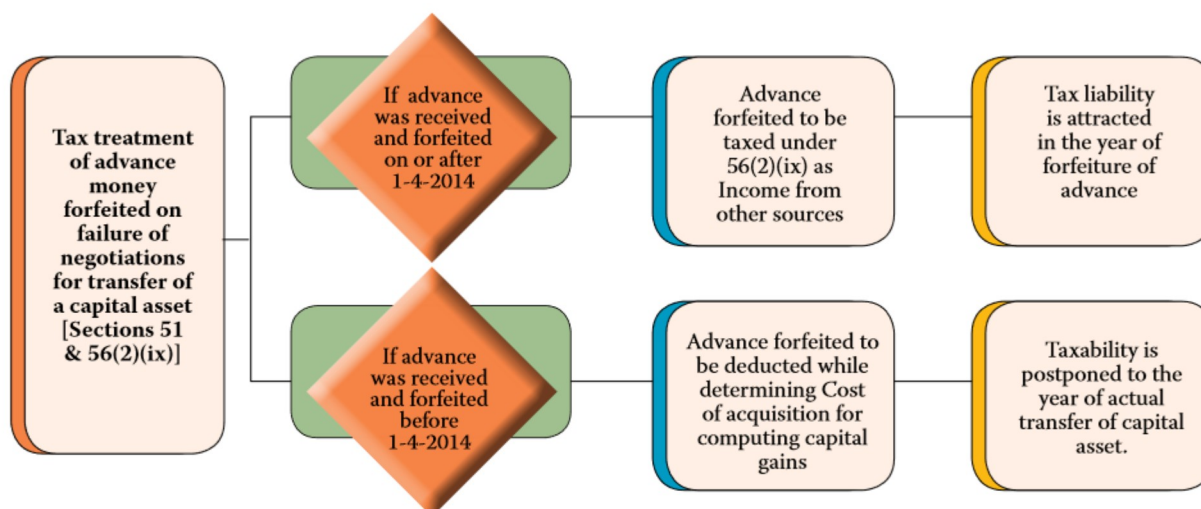


Table 4.4.7
Exemption of Capital Gains [Sections 54 to 54F]

S. No.	Particulars	Section 54	Section 54B	Section 54D	Section 54EC	Section 54EE	Section 54F
1	Eligible Assessee	Individual / HUF	Individual / HUF	Any assessee	Any assessee	Any assessee	Individual / HUF
2	Asset transferred	Residential House (LTCA)	Urban Agricultural Land	Land & building forming part of an industrial undertaking	LTCA, being Land or building or both	Any LTCA	Any LTCA other than Residential House.
3	Other Conditions	Income from such house should be chargeable under the head "Income from house property"	Land has been used for agricultural purposes by assessee or his parents or HUF for 2 years immediately preceding date of transfer	- L & B have been used for business of undertaking for at least 2 years immediately preceding the date of transfer. - The transfer should be by way of compulsory acquisition of the industrial undertaking	-	-	Assessee should not own more than one residential house on the date of transfer. He should not purchase within 2 years or construct within 3 years after the date of transfer, another residential house
4	Qualifying asset i.e., asset in which capital gains has to be invested	One Residential House situated in India	Land for being used for agricultural purposes	Land or Building or right in land or building	Bonds of NHAI or RECL or any other bond notified by Central Govt (Redeemable after 5 years)	Unit issued before the 1.4.2019 of Specified Fund notified by Central Govt	One Residential House situated in India
5	Time limit for purchase/construction	Purchase within 1 year before or 2 years after the date of transfer (or) construct within 3 years after the date of transfer	Purchase within a period of 2 years after the date of transfer	Purchase/ construct within 3 years after the date of transfer, for shifting or re-establishing the existing undertaking or setting up a new industrial undertaking.	Purchase within a period of 6 months after the date of transfer	Purchase within a period of 6 months after the date of such transfer	Purchase within 1 year before or 2 years after the date of transfer or Construct within 3 years after the date of transfer
6	Amount of Exemption	Cost of new Residential House or CG, whichever is lower, is exempt	Cost of new Agricultural Land or CG, whichever is lower, is exempt	Cost of new asset or CG, whichever is lower.	Lower of CG or amount invested in specified bonds. Maximum permissible investment out of CG arising in any FY is ₹ 50 lakhs, whether such investment is made in the current FY or next FY or both	Lower of CG or amount invested in notified units of specified fund. Maximum permissible investment in such units out of CG arising in any FY is ₹ 50 lakhs, whether such investment is made in the current FY or subsequent FY. or both	Cost of new Residential House ≥ Net sale consideration of original asset, entire CG is exempt. Cost of new Residential House < Net sale consideration of original asset, proportionate CG is exempt.

UNIT 5: INCOME FROM OTHER SOURCES

Computation of income under the head “Income from Other Sources”

	Particulars	Amt
(i)	Dividend Income [Refer fig 4.5.3]	xxx
(ii)	Casual Income (winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc.)	xxx
(iii)	Consideration received for issue of shares from any person, being a resident, in excess of FMV of shares of a closely held company, where such shares are issued at a premium [Section 56(2)(viib)]	xxx
(iv)	Interest received on compensation/ enhanced compensation deemed to be income in the year of receipt [Section 56(2)(viii)]	xxx
(v)	Advance forfeited due to failure of negotiations for transfer of a capital asset [Section 56(2)(ix)]	xxx
(vi)	Sum of money or property received by any person [Section 56(2)(x)] [Refer Table 4.5.4]	xxx
(vii)	Compensation or other payment, due to or received by any person, in connection with termination of his employment or the modification of the terms and conditions relating thereto [Section 56(2)(xi)]	xxx
(viii)	The following income, if not chargeable under the head “Profits and gains of business or profession”	
	(a) Any sum received by an employer from his employees as contributions to any PF, superannuation fund or any other fund for the welfare of the employees	xxx
	(b) Interest on securities	xxx
	(c) Income from letting out on hire of machinery, plant or furniture	xxx
	(d) Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting	xxx
	(e) Any sum received under a Keyman insurance policy including bonus on such policy (if not chargeable to tax under the head “Salaries” also)	xxx
(ix)	Any income chargeable to tax under the Act, but not falling under any other head of income	xxx
(x)	Deemed income u/s 59 – Remission or cessation of a trading liability or receipt of any amount in respect of loss or expenditure allowed as deduction in an earlier PY	xxx
		xxx
Less: Deductions allowable [Section 57]		
(a)	In case of dividends (other than dividends u/s 115-O) or interest on securities - Any reasonable sum paid by way of commission or remuneration to a banker or any other person	xxx
(b)	Income consists of recovery from employees as contribution to any PF, superannuation fund etc. - Amount of contribution remitted before the due date under the respective Acts, in accordance with the provisions of section 36(1)(va)	xxx
(c)	Income from letting on hire of machinery, plant and furniture, with or without building - current repairs to the machinery, plant, furniture or building - insurance premium - depreciation/unabsorbed depreciation	xxx
(d)	Family Pension – 33 1/3% of such income or ₹ 15,000, whichever is less	xxx
(e)	Interest on compensation/enhanced compensation received – 50% of such interest	xxx
(f)	Any other expenditure not in the nature of capital expenditure incurred wholly and exclusively for earning such income	xxx
	Income from Other Sources taxable at the rates given in Table 4.5.2	xxx

Table 4.5.1

Deductions not allowable [Section 58]	
(a)	Any personal expense of the assessee.
(b)	Any interest chargeable to tax under the Act, which is payable outside India on which tax has not been paid or deducted at source.
(c)	Any payment chargeable to tax under the head “Salaries”, if it is payable outside India unless tax has been paid thereon or deducted at source therefrom.
(d)	30% of sum payable to a resident on which tax is deductible at source, if such tax has not been deducted or after deduction has not been paid on or before the due date of filing return u/s 139(1).
(e)	Any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the AO, having regard to the FMV.
(f)	Any expenditure in respect of which a payment or aggregate payments exceeding ₹ 10,000 is made to a person in a day otherwise than by account payee cheque/bank draft or ECS through bank account.

Table 4.5.2
Tax on Income from Other Sources

Section	Income	Tax rate and conditions
115BB	Winnings from lottery or crossword puzzle or race including horse race or card game or other game of any sort or gambling or betting of any form or nature	@30% of such winnings (further increased by surcharge, if applicable, and health and education cess@4%) • No expenditure or allowance can be allowed from such income. • Deduction under Chapter VI-A is not allowable from such income. • Adjustment of unexhausted basic exemption limit is also not permitted against such income. • Set-off of losses is not permissible against such income.
115BBDA	Aggregate Dividend received by a specified assessee, resident in India, in excess of ₹ 10 lakhs	@10% of dividend in excess of ₹ 10 lakhs (further increased by surcharge, if applicable, and health and education cess@4%) • No deduction is allowable in respect of any expenditure or allowance against such income. • Set-off of losses is not permissible against such income.
“Specified assessee” – a person other than domestic company, a fund/ institution/ trust/ university/other educational institution/ hospital/ other medical institution or a charitable or religious trust or institution		
115BBE	Unexplained cash credits/ investments/ money, bullion, jewellery etc./ expenditure, etc. [referred to in section 68 and sections 69 to 69D]	@60% of such income plus surcharge @25% of tax (Effective rate of tax is 78%, including health and education cess@4%) • No deduction is allowable in respect of any expenditure or allowance against such income. • Set-off of losses is not permissible against such income.

Note: Other Income taxable under this head would be subject to tax at normal rates of tax

Fig. 4.5.3

Chargeability of dividend in the hands of the shareholder

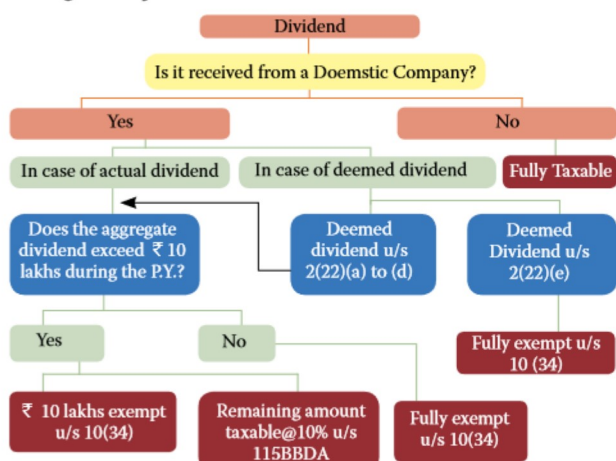


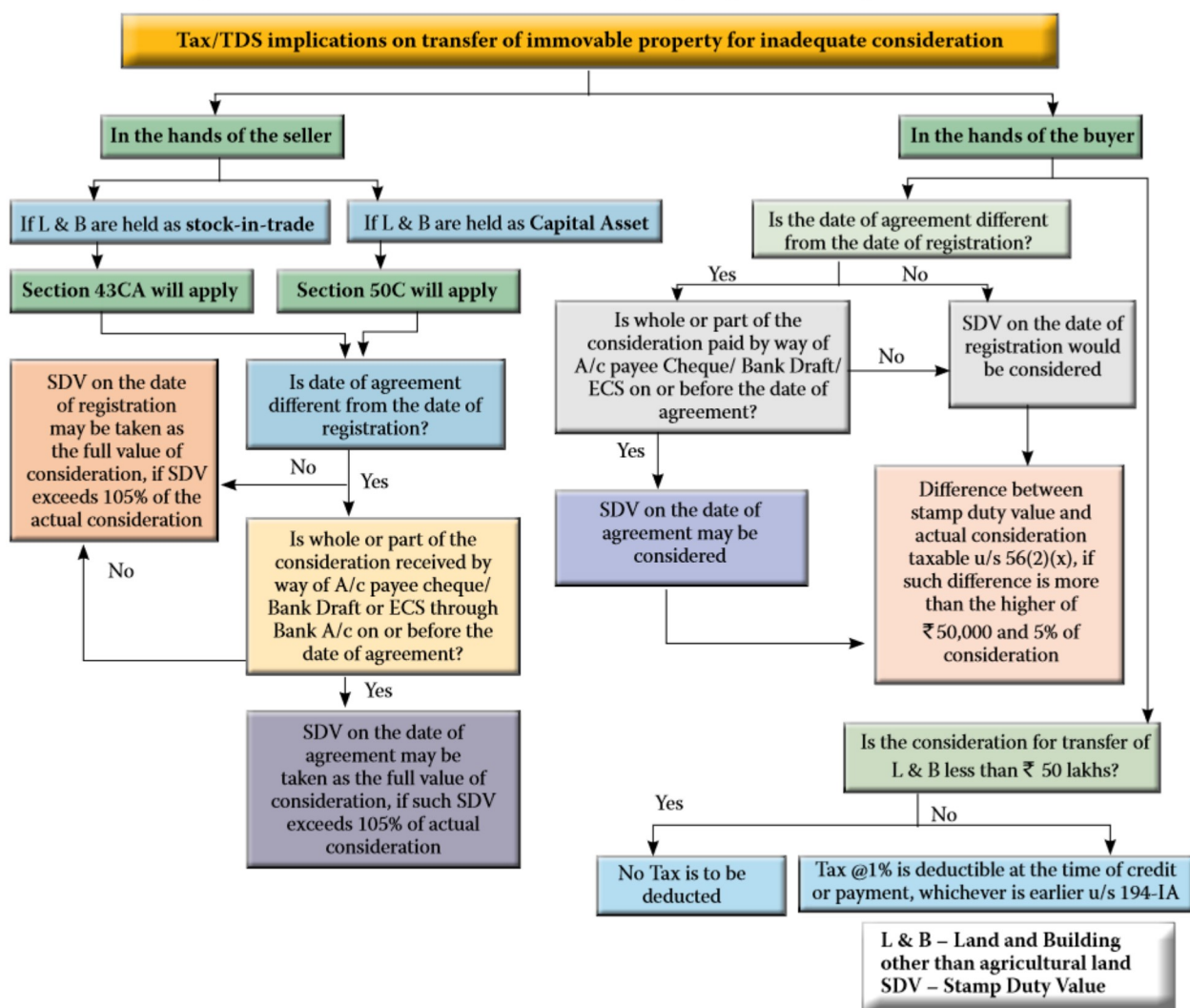
Table 4.5.4

Scheme of taxability of Gifts [Section 56(2)(x)]

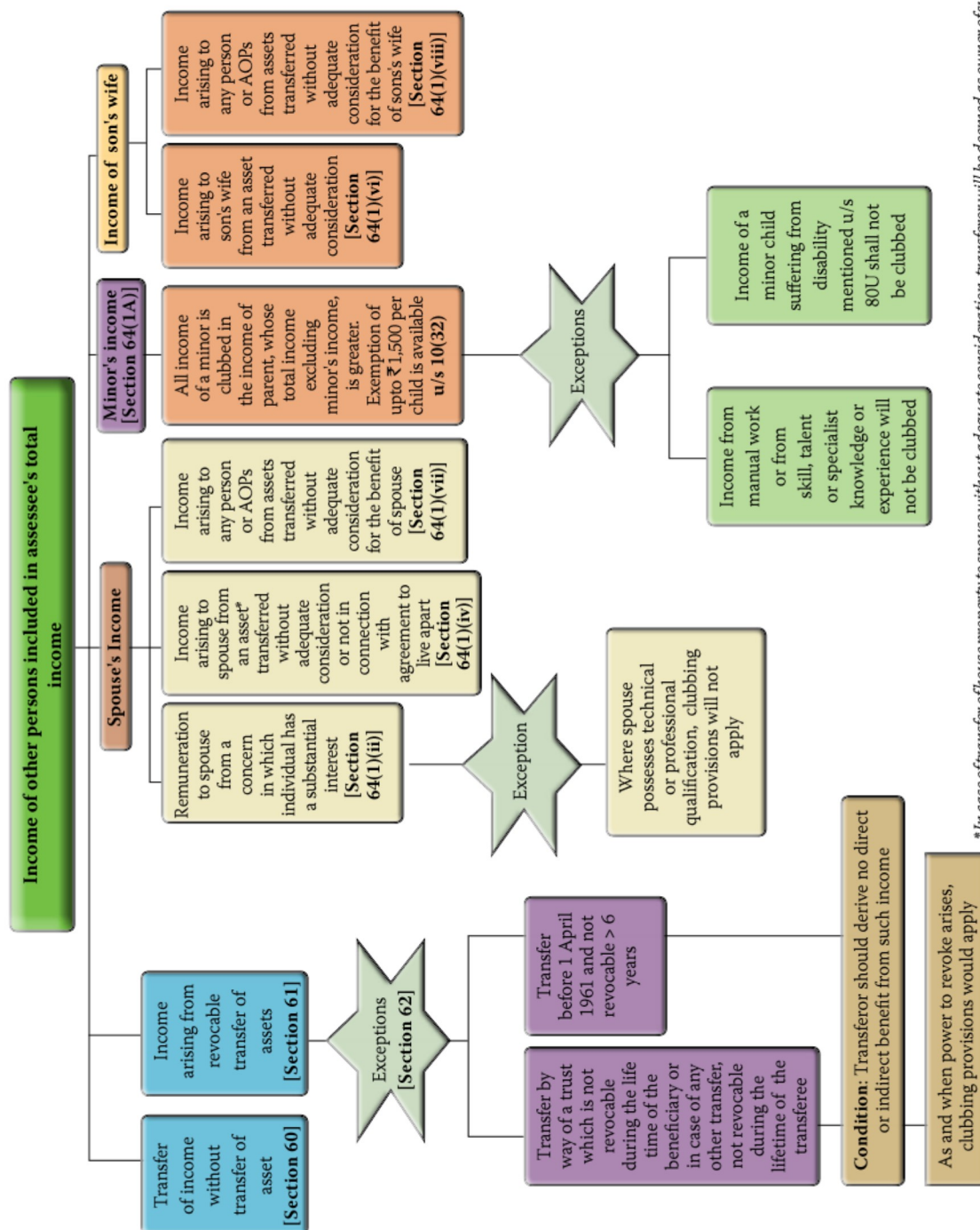
	Nature of asset	Taxable value
1	Money	The whole amount, if the aggregate value exceeds ₹ 50,000.
2	Movable property	(i) Received without consideration: The aggregate fair market value of the property, if it exceeds ₹ 50,000.
		(ii) Received for inadequate consideration: The difference between the aggregate FMV and the consideration, if such difference exceeds ₹ 50,000.
3	Immovable property [Refer Fig 4.5.5]	(i) Received without consideration: The stamp value of the property, if it exceeds ₹ 50,000.
		(ii) Received for inadequate consideration: The difference between stamp duty value and the consideration, if such difference is more than the higher of ₹ 50,000 and 5% of consideration.

Fig 4.5.5

Tax/TDS implications on transfer of immovable property for inadequate consideration



CHAPTER 5: INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME



*In case of transfer of house property to spouse without adequate consideration, transferor will be deemed as owner of such property as per section 27(i).

CHAPTER 6: SET OFF AND CARRY FORWARD & SET OFF OF LOSSES

Inter-source and Inter-head set-off of losses [Sections 70 & 71]			
Section	Provision	Exceptions	
70	Inter-source set-off of losses under the same head of income Any loss in respect of one source shall be set off against income from any other source under the same head of income. For example, - loss from textile business can be set off against profit from printing business. - loss from one house property can be set off against income from another house property. - short-term capital loss (STCL) can be set off against both STCG and LTCG.	(i)	Loss from speculation business can be set off only against profits from another speculation business.
		(ii)	Loss from specified business u/s 35AD can be set off only against profits from any other specified business.
		(iii)	Long term capital loss (LTCL) can be set off only against LTCG.
		(iv)	Loss from the activity of owning and maintaining race horses can be set off only against income from the activity of owning and maintaining race horses.
71	Inter head adjustment Loss under one head of income can be set-off against income assessable under any other head of income. For example, business loss can be set-off against income from house property.	(i)	Loss under the head "PGBP" cannot be set off against income under the head "Salaries" .
		(ii)	Loss under the head "Capital gains" cannot be set off against income under any other head .
		(iii)	Speculation loss , losses from specified business u/s 35AD and loss from the activity of owning and maintaining race horses cannot be set off against income under any other head .
		(iv)	Loss from house property can be set off against income under any other head only to the extent of ₹ 2 lakhs . The remaining loss can be c/f for set off against income from house property of the succeeding year(s).

Losses which cannot be set off or carried forward

- (i) Loss from gambling, betting, card games etc.
- (ii) Loss from an exempt source [i.e., share of loss of partnership firm cannot be set off against any other income]

Maximum period of carry forward of losses & Manner of set off of brought forward losses			
Section	Nature of loss to be carried forward	Income against which the brought forward loss can be set off	Maximum period [from the end of the relevant A.Y.] for c/f of losses
32(2)	Unabsorbed depreciation	Income under any head other than salaries	Indefinite period
71B	Unabsorbed loss from house property	Income from house property	8 AYs
72	Unabsorbed business loss	PGBP	8 AYs
73	Loss from speculation business	Income from any speculation business	4 AYs
73A	Loss from specified business u/s 35AD	Profit from any specified business	Indefinite period
74	LTCL	LTCG	8 AYs
	STCL	STCG/LTCG	8 AYs
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4 AYs

Order of set off of losses

1.	Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
2.	Brought forward loss from business/profession [Section 72(1)]
3.	Unabsorbed depreciation [Section 32(2)]
4.	Unabsorbed capital expenditure on scientific research [Section 35(4)]
5.	Unabsorbed expenditure on family planning [Section 36(1)(ix)]

Note - As per section 80, filing of loss return under section 139(3) within the due date specified under section 139(1) is mandatory for carry forward of the above losses except loss from house property and unabsorbed depreciation.

CHAPTER 7: DEDUCTIONS FROM GROSS TOTAL INCOME

Deductions in respect of certain payments							
Section	Eligible Assessee	Eligible Payments	Permissible Deduction				
80C	Individual or HUF	Contribution to PPF, Payment of LIC premium, etc. Sums paid or deposited in the PY by way of - Life insurance premium - Contribution to PPF/ SPF/ RPF and approved superannuation fund - Repayment of housing loan taken from Govt., bank, LIC, specified employer etc. - Tuition fees to any Indian university, college, school for full-time education of any two children - Term deposit for a fixed period of not less than 5 years with scheduled bank - Subscription to notified bonds of NABARD - Five year post office time deposit - Senior Citizen's Savings Scheme Account etc.	Sum paid or deposited, subject to a maximum of ₹ 1,50,000 Section 80CCE Maximum permissible dedn. u/s 80C, 80CCC & 80CCD(1) is ₹ 1,50,000.				
80CCC	Individual	Contribution to certain pension funds Any amount paid or deposited to keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund.	Amount paid or deposited, subject to a maximum of ₹ 1,50,000				
80CCD	Individuals employed by the Central Govt. or any other employer; Any other individual assessee.	Contribution to Pension Scheme of Central Govt. An individual employed by the Central Govt. on or after 1.1.2004 or any other employer or any other assessee, being an individual, who has paid or deposited any amount in his account under a notified pension scheme [National Pension Scheme & Atal Pension Yojana]	Employee's Contribution/ Individual Contribution In case of a salaried individual, dedn. of own contribution u/s 80CCD(1) is restricted to 10% of his salary. In any other case, dedn. u/s 80CCD(1) is restricted to 20% of GTI. Further, additional deduction of upto ₹ 50,000 is available u/s 80CCD(1B). Employer's Contribution The entire employer's contribution would be included in the salary of the employee. The dedn. of employer's contribution u/s 80CCD(2) would be restricted to 10% of salary. However, the limit ₹ 1.50 lakh u/s 80CCE does not apply to dedn. u/s 80CCD(2) and 80CCD(1B).				
80D	Individual and HUF	Medical Insurance Premium (1) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of – <table><tr><td>in case of an individual</td><td>self, spouse and dependent children</td></tr><tr><td>in case of HUF</td><td>Any member of HUF</td></tr></table> (2) In case of an individual, contribution, otherwise than by way of cash, to CGHS or any other scheme as notified by Central Govt. (3) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of parents, whether or not dependent on the individual. Notes: (i) Any amount paid, otherwise than by way of cash, on account of medical expenditure incurred on the health of the assessee or his family member or his parent, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person. (ii) Payment, including cash payment, for preventive health check up of himself, spouse, dependent children and parents.	in case of an individual	self, spouse and dependent children	in case of HUF	Any member of HUF	
in case of an individual	self, spouse and dependent children						
in case of HUF	Any member of HUF						

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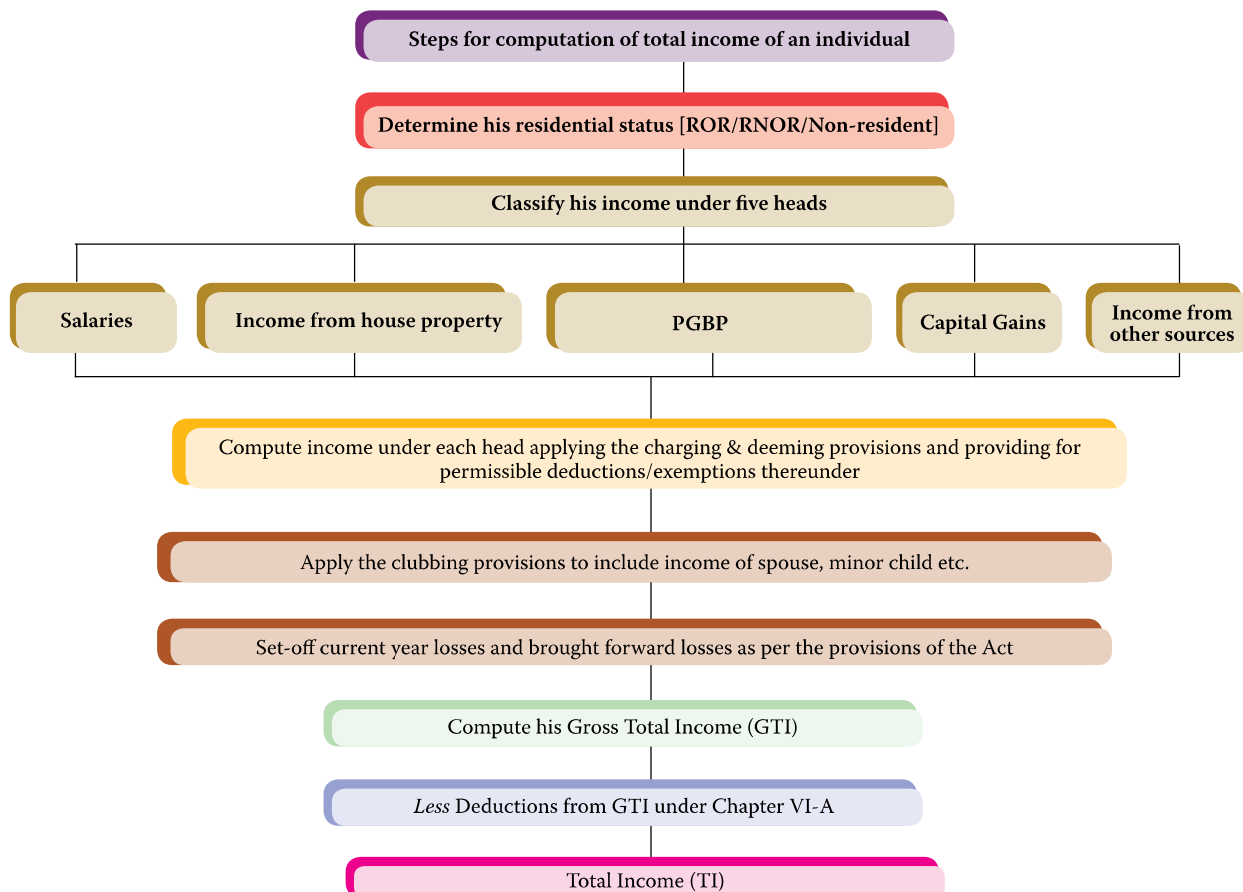
80DD	Resident Individual or HUF	Maintenance including medical treatment of a dependant disabled Any amount incurred for the medical treatment (including nursing), training and rehabilitation of a dependent disabled and / or Any amount paid or deposited under the scheme framed in this behalf by the LIC or any other insurer or Administrator or Specified Company and approved by Board. Meaning of Dependant <table><tr><th>In case of (1)</th><th>Dependant (2)</th></tr><tr><td>An individual</td><td>Spouse, children, parents, brothers, sisters</td></tr><tr><td>A HUF</td><td>Any member</td></tr></table> Persons mentioned in column (2) should be wholly or mainly dependant on the person mentioned in corresponding column (1) for support and maintenance. Such persons should not have claimed dedn. u/s 80U in computing TI of that year.	In case of (1)	Dependant (2)	An individual	Spouse, children, parents, brothers, sisters	A HUF	Any member	Flat deduction of ₹ 75,000. In case of severe disability (i.e. person with 80% or more disability) the flat deduction shall be ₹ 1,25,000.									
In case of (1)	Dependant (2)																	
An individual	Spouse, children, parents, brothers, sisters																	
A HUF	Any member																	
80DDB	Resident Individual or HUF	Deduction for medical treatment of specified diseases or ailments Amount paid for specified diseases or ailment <table><tr><th>Assessee</th><th>Amount spent</th></tr><tr><td>An individual</td><td>For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance</td></tr><tr><td>A HUF</td><td>For any member</td></tr></table>	Assessee	Amount spent	An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance	A HUF	For any member	Actual sum paid or ₹ 40,000 (₹ 1,00,000, if the payment is for medical treatment of a senior citizen), whichever is less, <i>minus</i> the amount received from the insurance company or reimbursed by the employer.									
Assessee	Amount spent																	
An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance																	
A HUF	For any member																	
80E	Individual	Interest on loan taken for higher education Interest on loan taken from any financial institution or approved charitable institution. Such loan is taken for pursuing his higher education or higher education of his or her relative i.e., spouse or children of the individual or the student for whom the individual is the legal guardian.	The dedn. is available for interest payment in the initial A.Y. (year of commencement of interest payment) and seven AYs immediately succeeding the initial A.Y. (or) until the interest is paid in full by the assessee, whichever is earlier.															
80EE	Individuals	Deduction for interest on loan borrowed from any financial institution (bank/housing finance company) for acquisition of residential house property (In case the property is self-occupied, the dedn. would be over and above the dedn. of ₹ 2 lakhs u/s 24; In case the property is let-out, entire interest can be claimed as dedn. u/s 24 while computing income from house property. However, dedn. u/s 80EE can be claimed during the pre-construction period, when dedn. u/s 24 is not permissible. Such interest on which dedn. u/s 80EE has been claimed cannot be included in pre-construction interest for dedn. u/s 24 later on in instalments).	Dedn. of upto ₹ 50,000 would be allowed in respect of interest on loan taken from a financial institution. Conditions: (1) Loan should be sanctioned during P.Y.2016-17 (2) Loan sanctioned ≤ ₹ 35 lakhs (3) Value of house ≤ ₹ 50 lakhs (4) The assessee should not own any residential house on the date of sanction of loan.															
80G	All assessees	Donations to certain funds, charitable institutions etc. There are four categories of deductions – <table><tr><th></th><th>Category</th><th>Donee</th></tr><tr><td>(I)</td><td>100% deduction of amount donated, without any qualifying limit.</td><td>Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund etc.</td></tr><tr><td>(II)</td><td>50% deduction of amount donated, without any qualifying limit.</td><td>Prime Minister's Drought Relief Fund, Jawaharlal Nehru Memorial Fund, Indira Gandhi Memorial Trust, Rajiv Gandhi Foundation.</td></tr><tr><td>(III)</td><td>100% deduction of amount donated, subject to qualifying limit.</td><td>Govt. or local authority, institution for promotion of family planning etc.</td></tr><tr><td>(IV)</td><td>50% deduction of amount donated, subject to qualifying limit.</td><td>Govt. or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.</td></tr></table>		Category	Donee	(I)	100% deduction of amount donated, without any qualifying limit.	Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund etc.	(II)	50% deduction of amount donated, without any qualifying limit.	Prime Minister's Drought Relief Fund, Jawaharlal Nehru Memorial Fund, Indira Gandhi Memorial Trust, Rajiv Gandhi Foundation.	(III)	100% deduction of amount donated, subject to qualifying limit.	Govt. or local authority, institution for promotion of family planning etc.	(IV)	50% deduction of amount donated, subject to qualifying limit.	Govt. or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.	
	Category	Donee																
(I)	100% deduction of amount donated, without any qualifying limit.	Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund etc.																
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(III)	100% deduction of amount donated, subject to qualifying limit.	Govt. or local authority, institution for promotion of family planning etc.																
(IV)	50% deduction of amount donated, subject to qualifying limit.	Govt. or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.																

80G	All assessees	Calculation of Qualifying limit for Category III & IV donations: Step 1: Compute adjusted total income , i.e., the GTI as reduced by the following: <table><tr><td>1.</td><td>Deductions under Chapter VI-A, except u/s 80G</td></tr><tr><td>2.</td><td>Short term capital gains taxable u/s 111A</td></tr><tr><td>3.</td><td>Long term capital gains taxable u/s 112 & 112A</td></tr></table> Step 2: Calculate 10% of adjusted total income. Step 3: Calculate the actual donation, which is subject to qualifying limit [Total of Category III and IV donations, shown in the table above] Step 4: Lower of Step 2 or Step 3 is the maximum permissible dedn. Step 5: The said dedn. is adjusted first against donations qualifying for 100% dedn. (i.e., Category III donations). Thereafter, 50% of balance qualifies for dedn. u/s 80G. Note - No deduction shall be allowed for donation paid in cash in excess of ₹ 2,000 and donation in kind.		1.	Deductions under Chapter VI-A, except u/s 80G	2.	Short term capital gains taxable u/s 111A	3.	Long term capital gains taxable u/s 112 & 112A
1.	Deductions under Chapter VI-A, except u/s 80G								
2.	Short term capital gains taxable u/s 111A								
3.	Long term capital gains taxable u/s 112 & 112A								
80GG	Individual not in receipt of house rent allowance	Rent paid for residential accommodation	Least of the following is allowable as deduction: (1) 25% of total income; (2) Rent paid – 10% of total income (3) ₹ 5,000 p.m. No dedn. if any residential accommodation is owned by the assessee/his spouse/minor child/HUF at the place where he ordinarily resides or performs the duties of his office or employment or carries on his business or profession.						
80GGB	Indian company	Contributions to political parties Any sum contributed by it to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash)						
80GGC	Any person, other than local authority and an artificial juridical person funded by the Govt.	Contributions to political parties Amount contributed to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash)						
Deductions in respect of Certain Incomes									
Section	Eligible Assessee	Eligible Income	Permissible Deduction						
80JAA	An assessee to whom section 44AB applies, whose GTI includes profits and gains derived from business	Deduction in respect of employment of new employees	30% of additional employee cost incurred in the previous year. Dedn. is allowable for 3 AYs including A.Y. relevant to the previous year in which such employment is provided. [Note - For meaning of additional employee cost and other conditions for claim of deduction under this section, refer study material]						
80QQB	Resident individual, being an author	Royalty income, etc., of authors of certain books other than text books Consideration for assignment or grant of any of his interests in the copyright of any book, being a work of literary, artistic or scientific nature or royalty or copyright fee received as lumpsum or otherwise.	Income derived, in the exercise of profession or ₹ 3,00,000, whichever is less. In respect of royalty or copyright fee received otherwise than by way of lumpsum, income to be restricted to 15% of value of books sold during the relevant P.Y.						
80RRB	Resident individual, being a patentee	Royalty on patents Royalty in respect of a patent registered on or after 1.4.2003	Whole of such income or ₹ 3,00,000, whichever is less.						
Deductions in respect of Other Income									
Section	Eligible Assessee	Eligible Income	Permissible Deduction						
80TTA	Individual or a HUF, other than a resident senior citizen	Interest on deposits in savings account Interest on deposits in a savings account with a bank/ a co-operative society engaged in banking business or a post office (not being time deposits, which are repayable on expiry of fixed periods)	Actual interest subject to a maximum of ₹ 10,000 .						
80TTB	Resident senior citizen (i.e. an individual of the age of 60 years or more at any time during the P.Y.)	Interest on deposits with banking company, co-operative society engaged in the business of banking or a post office.	Actual interest or ₹ 50,000 , whichever is less.						

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Other Deductions			
Section	Eligible Assessee	Condition for deduction	Permissible Deduction
80U	Resident Individual	Deduction in case of a person with disability Any person, who is certified by the medical authority to be a person with disability.	Flat dedn. of ₹ 75,000, in case of a person with disability. Flat dedn. of ₹ 1,25,000, in case of a person with severe disability (80% or more disability).

CHAPTER 8: COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS



Computation of tax payable by an individual	
Step	Manner of computation of tax payable
1	Tax on total income (TI) [Compute tax on TI by applying – • the special rates of tax on LTCG/STCG/Casual income/dividend > ₹ 10 lakh; and • the slab rates of tax on the remaining TI, after adjusting the basic exemption limit]
2	Add: Surcharge on tax computed in step (1) @10%, if his TI > ₹ 50 lakh but ≤ ₹ 1 crore; @15%, if his TI > ₹ 1 crore Less: Rebate u/s 87A from tax computed in step (1) [tax payable or ₹ 2,500, whichever is less, if TI ≤ ₹ 3,50,000]
3	Tax computed in step (1) plus surcharge computed in step (2), if applicable (or) minus rebate computed in step (2), if applicable
4	Add: Health and education cess @4% on the amt computed in Step 3
5	Total tax payable [Amount computed in step 3 + Cess computed in Step 4]
6	Less: Tax deducted at source (TDS)/ Tax collected at source (TCS) /Advance tax paid
7	Net tax payable/ refundable [Amount computed in step 5 - advance tax paid, TDS/TCS in Step 6]