Session- 2018-19

Subject Code : BCCC0007
Subject Name: Income Tax & Practices

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Course Introduction

This course has been designed keeping in mind the requirements of *students to know the importance of direct tax (Income Tax) in India.* **Direct taxes** are one type of **taxes** which an individual pays directly to the government, such as income **tax**. It is computed as a percentage on the total income of an individual.

Course Objective

- The objective of this course to familiarize the students with the legal regime of direct taxes.
- *To enable the students in regards to computation of Tax liability of an individual.*
- To acquire the ability to apply the knowledge of the provisions of the direct tax laws in actual practice.

Syllabus Covered: Module I

- **Basic Concepts:** Assessee, Income, Agricultural Income, Casual Income, Assessment year, Previous year, Gross total income, Total income, Person, Tax evasion, Tax avoidance and Tax planning. Residential status and Tax liability, Income which does not from part of total income
- **Income from house property**
- **Income from Salaries:** Basic Salary, Allowances, perquisites, Profits in lieu of salary, Provident Fund, Retirement Benefits

Syllabus Covered: Module II

- **Profits and Gains from business or profession**
- **Income from Capital Gains:** Transfer, Cost of Acquisition, Short-term and Long-term capital gains, Self-generated assets, Tax on Capital Gains, Exemptions of Income from capital Gains.
- **Income from other Sources**
- **Deductions from Gross Total Income:** Deductions u/s 80C to 80U.
- **Computation of Total Taxable Income and Tax-liability of Individuals**

Intended Outcomes

- ***After completion of the course, student will be able to:***
- *Have basic knowledge about taxation laws*
- *Understand principles and provisions in Income –tax Act, 1961.*
- *Understand the classification of income under various headings.*
- *Able to apply the main concepts and principles of Income Tax for computation of Income.*

Learning Resources

Text Books

- Ahuja, G. and Gupta, R. Systematic approach to income tax; Sahitya Bhawan publications, New Delhi
- Mehrotra H. C. Income Tax Law & Accounts; Sahitya Bhawan, Agra
- Jain. R.K, Income tax Law & Accounts; SBPD Publications, Agra

Reference Books

- Prasad, B. Income Tax Law & Practice; Wiley Publication, New Delhi
- Singhania V. K. Students' Guide to Income Income Tax, Taxmann, New Delhi

Examination Pattern

- One mid term examination of 30 marks
- End term Examination of 50 marks
- TA + Attendance are rewarded in 20 (15+5) marks


Thank you

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Income Tax- An Introduction

Presented by:

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Keypoints

- What is tax
- Why tax
- Type of taxes
- Meaning of Income tax
- Objects of charging income-tax

What is Tax

- Taxes are levied by the Governments to meet the common welfare expenditure of the society.

Why [illegible] are levied

- It constitute the basic source of revenue to the Government. It utilized for the meeting of expenses like defense, provision of education, health-care, infrastructure facilities etc.

Typ es

- Direct Tax
- Indirect Tax

Direct tax

Direct Taxes

- Wealth tax
- Gift tax
- Income tax

Direct taxes

- If it is levied directly on income or wealth of a person, then it is a direct tax. The person who pays the direct tax to the government cannot recover it from somebody else. i.e. the burden of a tax cannot be shifted. e.g. Income tax

Indirect tax(GST)

- **Tax on goods**
  - Central sales tax
    Value added tax
  - Excise duty
    Custom duty
- **Tax on services**
  - Service tax

Indi x

- If tax is levied on a price of good and service, then it is a indirect tax, i.e. Goods and Service tax(GST) & Custom Duty. In case of indirect taxes, the person paying the tax passes on the incidence to another person.

Meaning of Income tax

It’s a combination of two words:

Income + Tax= Income tax

Means such direct tax which imposed upon the income of a person.

Obje arging income-tax

- A permanent source of income
- Removing disparity
- Encouragement to savings and investment
- Capital formation

Basic Concepts

Presented by:

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Key points

- Features of Direct Taxes
- Features of Indirect Taxes

Features of Direct Taxes

- Income tax is a direct tax.
- Income tax is a Central tax.
- Income tax is levied on Net taxable income of previous year
- Exempted limit of income

atures of Direct Taxes contd.

- Income tax is payable by every person(Assessee)
- Income tax is levied at the rates applicable during the current year.
- Income tax is paid in current Assessment year
- Income tax is grouped in various slabs

Features of Direct Taxes contd.

- Progressive rates of income tax
- Incidence of tax on financially strong and rich persons
- Administration of income tax
- Distribution of income from income tax

Exer… mit of income

- For individual (having age less than 60)

Exempted limit = 2,50,000

- For individual (having age 60 & above but less than 80) called senior citizen

Exempted limit = 3,00,000

- For individual(having age 80 & above) called Super senior citizen

Exempted limit = 5,00,000

Income tax is grouped in various slabs

- For individual (having age less than 60)

INCOME SLAB	TAX RATE
UP TO 2,50,000	NIL
2,50,000 – 5,00,000	5%
5,00,000-10,00,000	20%
10,00,000 & ABOVE	30%

Income tax is grouped in various slabs

- For individual (having age 60 & above but less than 80)

INCOME SLAB	RATE
UP TO 3,00,000	NIL
3,00,000 – 5,00,000	5%
5,00,000-10,00,000	20%
10,00,000 & ABOVE	30%

Income tax is grouped in various slabs

- For individual(having age 80 & above)

INCOME SLAB	TAX RATE
UP TO 5,00,000	NIL
5,00,000-10,00,000	20%
10,00,000 & ABOVE	30%

Surcha

- If total taxable income of an individual exceeds from 50,00,000 to 1 crore, then 10% surcharge will be levied.
- If total taxable income of an individual exceeds 1 crore to 2 crore then 15% surcharge will be applicable.
- If total taxable income of an individual exceeds 2 crore to 5 crore then 25% surcharge will be applicable.
- If total taxable income of an individual exceeds 5 crore then 37% surcharge will be applicable.

Educat ss

- Education cess @ 2%
- Secondary and Higher education cess @ 1%
- Health cess @1%

Total Education cess: 4%

Rebate u/s 87 A

- For resident individuals having total income upto 5 lakh can get rebate of maximum 12,500 u/s 87A.
- W.e.f A.Y 2020-2021(F.Y 2019-2020) if total taxable income of an individual is upto 5 lakh then no tax will be paid.

Features of Indirect tax

- Clear shifting
- Indirectly determine
- Tax evasion is less
- Easy tax collect

Features of Indirect tax contd.

- Indirect taxes much larger in comparison to direct tax
- Indirect tax invites less resistance from the public

Practical Problem

- If Total income of Mr. Mahesh is 1,95,000 in the P.Y 2019-2020, compute income tax payable by him for A.Y 2020-2021
- Total income of Mr. Naresh is 7,30,000 in the P.Y 2019-2020, compute income tax payable by him for A.Y 2020-2021

Practical Problem

Total income of Mr. X is 5,00,000 in the P.Y 2019-2020, compute income tax payable by him for A.Y 2020-2021

Practical Problem

The total incomes of Mr. Abhishek, Mr. Abhash and Mr. Ashish (senior citizen) are 2,48,000, 2,88,000 and 11,50,000 respectively. Calculate the tax payable by each one of them for the Assessment year 2020-2021.

Practical Problem

Total income of Mr. Ashok (age 65 years) is 60,50,000 in the P.Y 2019-2020, compute income tax payable by him for A.Y 2020-2021. if his income is 1crore 20 lakh, then compute the amount of income tax of him.

Basic Concepts contd.

Presented by:

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Key points

- Components of Income Tax Laws
- Steps for Computation of total Income and Tax liability

Components of Income Tax Laws

- Income tax Act, 1961
- Annual finance Act
- Income tax Rules
- Circulars and Notifications
- Legal decisions

…ax Act, 1961

The levy of Income tax in India is governed by the Income-tax Act 1961, it came into force on 1st April, 1962.

Ann ce Act

Every year finance minister of the Government of India introduces the finance bill in the Parliament's budget session. When the finance bill is passed by both the houses of parliament and get the assent of President, it becomes the finance Act. Amendments are made every year to the income-tax Act, 1961 and other tax laws by the finance Act.

Income Tax Rules

The administration of direct taxes is looked after by the Central Board of Direct Taxes(CBDT). For the proper administration CBDT frames rules time to time, these rules are collectively called Income tax rules, 1962

Circulars and Notifications

- Circulars are issued by CBDT time to time for the guidance of officers. The department is bound by the circulars.
- Notifications are issued by the Central Government to give effect to the provisions of the Act. CBDT is also empowered to make and amend rules for the purposes of the Act by issue notifications.

Legal D

Case laws refer to decision given by Court.

Steps for Computation

- Determination of residential status
- Classification of income under different heads
- Computation of income under each head
- Clubbing of income of spouse, minor child etc.
- Set-off and carry forward of losses

Steps for Computation

- Computation of Gross total income (GTI)
- Deductions from GTI
- Computation of Total income(TI)
- Computation of tax liability

Important Definitions under IT Act, 1961

Presented by:

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Key points

- Assessment year
- Previous year and its exceptions
- Person
- Assessee

Key points

- Income
- Gross Total income
- Total income/Net taxable income
- Casual Income

Assessment year

As per Sec 2(9) of Income tax Act, 1961, an assessment year is a period of 12 months commencing on 1st April and ending 31st March. It is a year in which the income of the previous year is to be assessed. The current assessment year is 1st April 2020-31st March, 2021.

us year

As per Sec 3 of IT Act, Previous Year is that year in which income is earned or received. P.Y is a period of maximum 12 months which will certainly ends on 31^{st} march of every year. Now the P.Y is 1^{st} April 2019 to 31^{st} March 2020.

Exceptions of Previous Year

- Income of Non-resident from Shipping Business (172) - taxable @ 7.5% of the amount of freight fare etc.
- Income of a person Leaving India (174)
- Formation of AOP or BOI (174 A)
- Transfer of Property for the purpose of Avoiding Tax (175)
- Discontinued Business or Profession (176)

Sections 2 (31) of the Act has given an inclusive definition of a person as follows; “Person” includes

- An individual
- A Hindu undivided family
- A company
- A firm
- An association of person or body of individual (A co-operative society)
- A local authority (Municipality)
- Every artificial and juridical person, (Universities, ICAI, ICSI, Bar Council)

Assess

In a common way every tax payer is an assessee . According to sec 2(7) of Income-tax act 1961 assessee means:

- **Every person-**
  - who is liable to pay any tax
  - Who is liable to pay any other amount such as interest and penalty along with income tax.

Assessee contd.

- **Deemed Assessee-** A person who is liable to pay tax on the income of other person i.e., legal representative etc.
- **Assessee in Default** – A person has to fulfill legal obligations under income tax to pay tax on behalf of others, is said to be assessee in default if he fails to comply with the duties imposed upon him under the income tax Act. For this loss he is called assesse in default. For ex. Bank manager etc.

Featur… ne

- Monetary and non-monetary
- Legal and illegal income
- Income should be arised from outside
- Regular or irregular income
- Income received accrued

Gross T ne

It is total taxable income under all the five head before making deductions under sec.80-C to 80-U.

- Salary
- House Property
- Profits/Gains from Business or Profession
- Capital Gains
- Other Sources
- **Gross Total Income**

Total income/Taxable income

Total income is income of assessee from all sources on which he as to pay income tax. In other words it is income under all the five head after making deductions under sec.80-C to 80-U.

- Salary XX
- House Property XX
- Profits/Gains from Business or Profession XX
- Capital Gains XX
- Other Sources XX
- **Gross Total Income** XXX
- Less: Deductions under chapter VI-A (u/s. 80C to 80U) XX
- **Total Income** XXX

Casual income

Casual income is that income which is unexpected and unforeseen. It is not received from regular source of income. It is non-recurring income. E.g. winning from lotteries, crossword puzzles, races including horse races.

Income tax chargeable on such kind of income at a flat rate of 30%

History of Income Tax in India

Presented by:

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Assistant Professor

Key points

- Pre- Independence
- Post-Independence

Pre- Independence

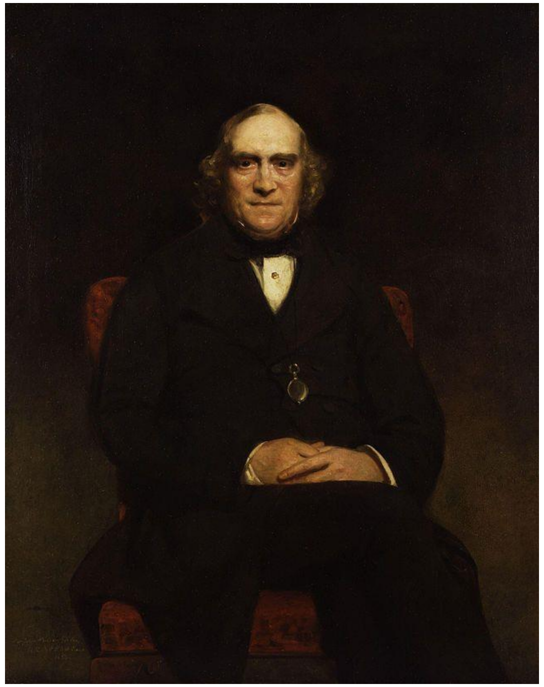
- Origin of Income tax, 1860
- Income tax Act, 1886
- Income tax Act, 1918
- Income tax Act, 1922

dependence

- Income Tax Act, 1961

Origin of income tax, 1860

Income tax was first introduced in India in 24 July 1860 by the British ruler Sir James Wilson , in order to meet heavy expenses and losses suffered by the British Government due to India’s first freedom movement of 1857. It was introduced as a temporary revenue measure only for five years.



tax Act, 1886

After many amendments done in the years 1863, 1867, 1873, 1880, Income tax, Act 1886 was introduced. Agricultural income was declared tax free in this Act.

Income tax Act, 1918

For the purpose of removing financial difficulties caused due to first world war, Income -Tax become a primary source of revenue for the Central Govt. then a new Income tax Act, 1918 was passed.

Income Tax Act, 1922

The income tax Act, 1918, which remained in force only for four years, was replace by a new Act of 1922. the important change in this Act was to impose income tax based on previous year.

Income [illegible] 1961

After independence in 1956, the government referred the Income Tax Act to the Law commission which submitted its report in 1958. Direct Taxes Administration Enquiry Commission was appointed in 1958 under the Chairmanship of Shri Mahavir Tyagi. On the basis of recommendations of both these bodies the present IT Act was enacted.

Agricultural Income

Presented by:

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Key points

- Introduction
- What is Agricultural income as per section 2(1A)
- Agricultural Activities/operations
- Partly agricultural income
- Integration of agricultural income with non-agricultural income for tax purposes

Introduction

Agriculture is the main part of the Indian economy. 70% of Indian population is based upon agriculture and derives its income from agricultural operations. But u/s 10(1) of the Act agricultural income is fully exempted from tax. As a result agricultural income does not form part of total income. The agricultural income is exempted from tax as under Article 270 of Indian Constitution.

is Agricultural income

The term "**Agricultural Income u**/s 2(1A) of the Act. Includes the following:

(i) any rent or revenue derived from land which is situated in India and is used for agricultural purposes [*Section 2(1A)(a)*]

(ii) any income derived from such land by agricultural operation including processing and sale of the agricultural produce so as to render it fit for the market or sale of such produce [*Section 2(1A)(b)*]

(iii) income derived from building or land used for agricultural operation as farm house. [*Section 2(1A)(c)*]

Agricultural Activities/operations

it is necessary that income must be the result of agricultural operations performed on agricultural land. Agriculture activities means:

Primary activities: ploughing, sowing, irrigating, manuring

Subsequent Activities: weeding, digging, pruning, cutting, harvesting etc.

, agricultural income

Sometimes, income comprises of both agricultural as well as non-agricultural income. Such a situation arises in case of certain ‘Agro based industries where agricultural produce is used as raw material and it (i.e., raw material) is produced by the same person (i.e., industrialist) who manufactures industrial product by using such raw material. Such industries (i.e., persons), earn income by selling the industrial product manufactured from self grown agricultural raw material.

Rules f[illegible]ining Partly Agricultural income

Income of manufacturer using agricultural product as raw material:

- Agricultural income= market value of agricultural produce
- Non- agricultural income= total sales- market value of agricultural produce

Partly Agricultural & partly business income

particulars	*Rule*	*Agricultural Income*	*Business Income*
Growing and Manufacture of Tea	8	60%	40%
Rubber manufacturing business	7A	65%	35%
Coffee grown and cured by seller	7B(1)	75%	25%
Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	7B(1A)	60%	40%

Integration of Agricultural Income

There is no tax on agricultural income since 1974-75 but if an assessee has non-agricultural income as well as agricultural income, such agricultural income is included in his Total Income for the purpose of computation of Income-tax on non-agricultural income. It is called as partial integration.

Integration of Agricultural Income contd.

- The partial integration is done when the following two conditions are satisfied:
- non-agricultural income of the assessee exceeds the maximum exemption limit; and
- the Net Agricultural Income exceeds Rs. 5,000.

Residential Status

Presented by:

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Assistant Professor

Key points

- Residential Status for an individual
- Conditions to become a Resident
- Exceptions of Basic condition 2nd
- Ordinarily Resident
- Not- Ordinarily Resident
- Non- Resident

Residential Status for an Individual

- **Residential Status**
  - **Resident (conditions of Category A)**
    - **Ordinarily Resident (Additional Conditions of Category A)**
    - **Not-Ordinarily Resident (conditions of Category B)**
  - **Non- Resident**

Conditions of category A for Resident

An individual is resident in India if he satisfies any one of the basic conditions:

- An Individual is in India For 182 days or more during the previous year

or

- An Individual is in India For 60 days or more during the previous year and for the period of 365 days or more during 4 years immediately preceding the relevant previous year.

Practice Question

Mr. Naresh Tyagi comes to India every year for 5 months since 2001-02.

Determine his residential status for A.Y 2020-2021.

Exceptions of basic condition 2nd

Only basic condition no(i) of resident is applicable in the following two cases:

- If Indian citizen or person of Indian origin visits India during the P/Y for any purpose.
- When the Indian citizen leaves India during the previous year for employment outside India or as a member of crew (staff) of an Indian ship.

Ordinarily Resident

Individual is treated as Ordinarily Resident in India if he satisfies the both additional conditions of category A.

Additional Conditions of category A for ordinarily Resident

Additional conditions: must satisfy both conditions.

- He has been resident in India for at least 2 out of 10 previous years immediately preceding the relevant p/y. (he should satisfy any of the basic conditions for 2 years out of 10 years.)
- He has been present in India for 730 days or more during 7 years immediately preceding the relevant p/y.

Not -Ordinarily Resident

Individual who satisfies at least one of the basic conditions but does not satisfy the additional conditions of ordinarily resident, he will be Not-ordinarily resident.

Conditions of category B for Not- Ordinarily Resident

- He has been non-resident in India for at least 9 out of 10 previous years immediately preceding the relevant p/y. (he should not satisfy any of the basic conditions.)
- He has been present in India for 729 days or less during 7 years immediately preceding the relevant p/y.

Non- R

- Individual who does not satisfy any one of the basic condition to become resident, will be called non-resident.

Important points
Residential Status

Presented by:

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Assistant Professor

Key points

- Important points to remember regarding practical case
- Notes(very important)

Important Points regarding Residential status

- Person of Indian origin is a person who himself or any of his parents or any of his grand-parents (both maternal and paternal) was born in undivided India before 15th August 1947.
- Indian citizen means any individual who has obtained Indian citizenship.
- Employment also includes self-employment (own business or profession).

Notes (very important)

- Residential status is determined for every year separately.
- There is no condition that individual should stay regularly or at one place in India.
- The term “stay in India” includes stay in the territorial waters of India (i.e. 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat moored in the territorial waters of India would be sufficient to make the individual resident in India
- Period of 24 hours is taken to be one day.

Notes (Very Important)

- If the exact time of arrival is not known then the day of arrival shall be taken as complete day. Similarly if time of departure is not known it shall also be taken as complete day.
- The residence of an individual for income tax purpose has nothing to do with citizenship.
- In the case of leap year (2004, 2008 ,2012, 2016,2020) there will be 29 days in the month of February.

Residential Status

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Residential Status for an individual
- Conditions to become a Resident
- Practical Question

Residential Status for an Individual

- **Residential Status**
  - **Resident (conditions of Category A)**
    - **Ordinarily Resident (Additional Conditions of Category A)**
    - **Not-Ordinarily Resident (conditions of Category B)**
  - **Non- Resident**

Conditions of category A for Resident

An individual is resident in India if he satisfies any one of the basic conditions:

- An Individual is in India For 182 days or more during the previous year

or

- An Individual is in India For 60 days or more during the previous year and for the period of 365 days or more during 4 years immediately preceding the relevant previous year.

Practice Question

Mr. Naresh Tyagi comes to India every year for 5 months since 2001-02.

Determine his residential status for A.Y 2020-2021.

Solution

- First will satisfy weather Mr. Naresh is resident or not. Will check by basic conditions of category A, he has to fulfill any one basic condition out of two to become a resident.
- In this case he comes every year for 150days(30X5months). So He does not fulfill 1st condition to remain in India for182 days but he fulfills 2nd condition of category A because he was 600 days in 4 P.PY and also 150 days in P.Y. so he is a resident for A.Y 2020-21.

QUE

- Mr. Rajkumar came to India for the first time from America on 10^{th} June, 2019. he returned after staying in India upto 25Dec, 2019. Determine his residential status for A.Y 2020-2021.

Scope of Income

Presented by:

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Assistant Professor

Key points

- **Income received in India**
- **Income deemed to be received in India:**
- **Income accruing / arising in India**
- **Income deemed to accrue or arise in India**

I... ceived in India

- First Receipt/Not later receipt/Place of accrual does not include in receipt

Income deemed to be received in India

- Annual accretion in the previous year to the credit balance of the employee's RPF to the extent provided in the rules
- Transferred balance into RPF
- Contribution by Central Govt or any other employer
- Dividend declared ,distributed or paid
- Interium Dividend
- Tax deduction – No TDS outside India.

Income accruing / arising

- First come to show in existence/ Shown as income in accounts.

Income deemed to accrue or arise

- Income through or from any business connection in India
- Income through or from any property in India
- Income through or from any asset or source of Income in India
- Income through transfer of capital asset situated in India

Practical Case

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Practical Case 1
- Practical Case 2
- Practical Case 3
- Practical Case 4
- Practical Case 5

Prac se

Smt. Rajni born in America in 1966. her father was born in England in 1936 and her grandfather was born in Lahore in 1916. Determine his residential status for A.Y 2020-2021 if she visits in India for 180 days during previous year.

Practical Case

Mr. Mohan is from Madhya Pradesh. Heis doing business in Canada for the last 15 years. He comes to India every year for 1.5 month. Determine residential status for A.Y 2020-2021.

Practical Case

Mr. Prateek who is a citizen of India is working in Saudi Arabia. He came to India on 1st July, 2019 and went back to Saudi Arabia on 1st Feb, 2020. Determine residential status for A.Y 2020-2021. he went first time outside India on 1st Feb , 2016.

Practical Case

Mr. Raman , a citizen of India got an appointment letter from a foreign company, compute residential status for A.Y 2020-2021 in following conditions:

- If he leaves India on 1st Sept, 2019
- If he leaves India on 30th Oct, 2019

Practical Case

Dr. Krishan kumar, an Indian citizen was born in U.K. he came to India when he was of 12 years of age and went outside India at the age of 25. he left for U.K in may 2015 and again came back to India in March 2020. what is his residential status for A.Y 2020-2021.

Que

- Mr. Qureshi is an Indian Citizen. He went out of India first time on 16th Aug, 2019 in connection with research work to USA and came back to India on 27th Jan, 2020. determine his residential status for A.Y 2020-21.

Incidence of tax

Presented by:

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Assistant Professor

Key points

- **Incidence of Tax**

Incidence of Tax for different income

INCIDENCE OF TAX

PARTICULARS	OR	NOR	NR
Income received or deemed to be received in India whether earned in India or elsewhere	Yes	Yes	Yes
Income accrues or arises or is deemed to accrue or arise in India, whether received in India or elsewhere	Yes	Yes	yes
Income which accrues or arises outside India and received outside India from a business controlled from India	Yes	Yes	no
Income which accrues or arises outside India from any other source	Yes	no	no
Income which accrues or arises outside India and received outside India during the years preceding the Pys and remitted to india during the PY	No	No	No

15

Contd.

Indian Income

Foreign income

- If Indian Income- received/ accrued/ earned/ arise in India or outside India- taxable for all
- If foreign income received/ accrued/ earned/ arise in India will be taxable for all.

Income from House Property

Presented by:

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Assistant Professor

Key points

- Computation of taxable income from house property
- General Notes

INCOME FROM HOUSE PROPERTY

TAXABLE INCOME FROM HOUSE PROPERTY

- **DETERMINATION OF GROSS ANNUAL VALUE (GAV)**
- **DETERMINATION OF NET ANNUAL VALUE (NAV)**
- **DEDUCTIONS OUT OF NET ANNUAL VALUE UNDER SEC 24**

HOUSE PROPERTY

Charging Section: Section 22 is the charging section, it provides that the annual value of

- property
- comprising of building and land appurtenant thereto,
- of which the assessee is the owner,
- is chargeable to tax under the head house property after deductions under section 24

SA[illegible]AL GAINS

- If the income is from sale of house property: it will be taxable under the head Capital Gains,
- however if the sale or purchase is part of a business: income is taxable under the head Business/ Profession.

Inclusion in house property

- **House property includes all types of properties i.e. residential houses, shops, godowns, cinema building, workshop building, hotel buildings etc.**
- If any person has any hotel building which has been let out, income from such hotel building shall be taxable under the head house property, but if he is running the hotel business income shall be taxable under the head Business/Profession.
- The income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income

Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Important points relating to income from House Property

ANT POINTS

- Property should be any building or house or open land attached or open lands appurtenant thereto.
- Ownership of Assessee upon Building
- Building situated in India
- Calculation of Annual value for tax purpose
- Let out of buildings is business of Assessee

IM… POINTS CONTD.

- Property used by owner for his own business or profession
- Two or more owners of house property
- Rent received from sub-tenant
- House used by assesse for his own residence
- Splitting of Composite rent

COMPOSITE RENT

It may be divided into two parts.

- When rent is received in respect of building as well as for different services provided in the building for example Lifts, Security, Power backup

■ In this case

➢ Sum attributable to different services shall be taxable under head PGBP/OS.

➢ Sum attributable to use of property shall be taxable under the head HP.

COMPOSITE RENT

● When rent is received in respect of building as well as for other assets like furniture, plant and machinery.

In this case

➢ if letting out of building and other assets are not separable then the amount received as rent will be taxable under head PGBP/OS.

➢ If letting out of building and other assets are separable then rent for building shall be taxable under head house property and rent from other assets shall be taxable under the head PGBP/OS.

Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Rules for Determination of Gross Annual Value (GAV)

INCOME FROM HOUSE PROPERTY

TAXABLE INCOME FROM HOUSE PROPERTY

- **DETERMINATION OF GROSS ANNUAL VALUE (GAV)**
- **DETERMINATION OF NET ANNUAL VALUE (NAV)**
- **DEDUCTIONS OUT OF NET ANNUAL VALUE UNDER SEC 24**

Rules for determination of GAV/NAV

A) Annual value of house property let out for full year:

1) Annual value of house property not covered by Rent Control Act
2) Annual value of house property covered by Rent Control Act

Annual value of house property not covered by Rent Control Act

- **GAV= MV or FR or AR (whichever is higher)**

Here,

MV= Municipal value

FR= Fair rent

AR= Actual rent

Annual value of house property covered by Rent Control Act

a) MV or FR or AR (whichever is higher)

b) SR or AR (whichever is higher)

Here, SR= standard rent by rent control Act

GAV= (a) or (b) (whichever is lower)

Computation of GAV

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Computation of Gross Annual Value (GAV)

Computation of GAV/NAV

Compute NAV of house property in the following cases:

- Annual rent 8000, MV 7,000
- Annual rent 8000, MV 11,000; local taxes 10%
- Annual rent 12,000, FR 15,000; MV 10,000; Municipal tax 1,000(paid by tenant)
- Annual rent 10,000, FR 12,000; Municipal tax 800 of which 40% is paid by landlord and these taxes are 5% of Municipal valuation

Solution condition 1

GAV= MV or AR(whichever is higher)

= 7,000 or 8,000

GAV= 8,000

Computation of NAV
(for the A.Y 2020-2021)

Particulars	Amount
GAV Less: MT	8,000 NIL
NAV	8,000

Solution condition 2

- GAV= MV or AR (whichever is higher) = 11,000 or 8,000

GAV= 11,000

MT= 11000*10%= 1100

Computation of NAV

(for the A.Y 2020-2021)

Particulars	Amount
GAV Less: local tax@10%	11,000 1100
NAV	9,900

Solut[illegible]ndition 3

Annual rent 12,000, FR 15,000; MV 10,000; Municipal tax 1,000(paid by tenant)

GAV= 15,000

Computation of NAV

(for the A.Y 2020-2021)

Particulars	Amount
GAV Less: MT(paid by tenant)	15,000 NIL
NAV	15,000

Solut[illegible]ndition 4

- 5% -----800; 100%---800*100/5= 16,000

MV= 16,000; GAV= AR or MVor FR

- = 16,000

Computation of NAV
(for the A.Y 2020-2021)

Particulars	Amount
GAV Less: MT(800*40%)	16,000 320
NAV	15,680

Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Determination of Gross Annual Value (GAV)

INCOME FROM HOUSE PROPERTY

TAXABLE INCOME FROM HOUSE PROPERTY

- **DETERMINATION OF GROSS ANNUAL VALUE (GAV)**
- **DETERMINATION OF NET ANNUAL VALUE (NAV)**
- **DEDUCTIONS OUT OF NET ANNUAL VALUE UNDER SEC 24**

ETERMINATION OF GAV

GAV can be calculated after taking four into consideration:

1) Municipal Valuation(MV)

2) Fair Rent (FR)

3) Standard Rent(SR) [under Rent Control Act)

4) Actual rent received (AR/ARR/RR)

Municip[illegible]on(MV)

Municipal Value is the value determined by the municipal authorities for levying municipal taxes.

Fair Rent (FR)

Fair rental value means which can be earned by the similar property in the similar locality.

Star ent(SR)

Standard rent is the rent fixed by the rent control act.

ual rent received (ARR)

This rent is received by the owner of the house by letting his house on rent.

Metho putation of income from house property

Particulars		Amount
Gross Annual Value (GAV)		---------
Less: Municipal taxes paid by the owner	---------	
Annual value (Net Annual Value)		---------
Less: Deduction under section 24		
1. Standard Deduction @ 30% of NAV u/s24(I)		---------
2. Interest on Loan u/s24(II)		---------
a. Current year	------	
b. Pre Construction Interest	------	
Taxable Income from house property		-------------

Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Determination of Annual Value when house property let out but remained vacant in Previous year

Rules for determination of GAV/NAV

B) Annual value of house property let out but remained vacant in Previous Year:

1) If house remains vacant throughout the year

2) If House remains vacant for any part of P.Y

If hou ns vacant throughout the year

If an assesse owns one house for self- residence but could not reside due to doing their service or business at any other place then,

NAV= NIL

If h[illegible]mains vacant for any part of the Previous year

a) If rent received or receivable is in excess of expected rent (ARR>ER)

b) Rent received or receivable is less than Expected rent (ARR<ER)

When ARR>ER

Then, GAV= ARR

- Here ER= MV or FR (whichever is higher)
- ER= Expected Rent

Note: ER could not exceed from SR, if ER>SR; then SR=ER

When ARR<ER

- Due to Vacancy of the house

- Other reasons including vacancy

Due to Vacancy of the house

- If ARR<ER (only due to vacancy of the house)

then, GAV= ARR

Other reasons including vacancy

- If ARR< ER(other reasons including vacancy)

Then, GAV= ER-Loss due to vacancy

Loss due to Vacancy=

Annual rent*Vacancy period/12

Computation of NAV

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Computation of Net Annual Value (NAV) of HP Let-out but remained vacant in P.Y

Computation of NAV

From the following particulars, compute the NAV:

Particulars	House A	House B
Municipal Valuation	45,500	60,500
Fair rent	49,500	58,000
Standard Rent	44,500	64,000
Actual Rent(Annual)	42,500	54,000
House Vacant for	2.5 months	3 months
Municipal taxes	4,550	6,050

Solution

- ARR>ER; Annual rent 42,500*9.5/12=33,646
- 33,646>44,500(not satisfied)
- ARR<ER
- ER= MV or FR (whichever is higher)
- ER=45,500 or 49,500
- ER= 49,500
- SR= 44,500; (ER>SR)
- SR= ER
- ER=44,500

Solution

- ARR<ER

1) Due to vacancy only (not satisfied)
2) Other reasons including vacancy

Annual rent= 42,500

ER=44,500

GAV= ER-loss due to vacancy

GAV= 44,500-42,500*2.5/12= 35,646

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Computation of Income from H.P

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Computation of Income from House Property

Computation of GAV/NAV

Mr. Naman is owner of four houses. The M.V of houses are 25,000; 32000; 24,000; and 60,000 respectively. MT are 10%. In first house naman resides himself and in second house he is running his business. The other two houses have been let-out on a monthly rent 1,000 and 5,500 respectively. The fourth house remained vacant for 4 months from April to July. The unrealized rent of past years in respect of fourth house is 50,000. compute the taxable income from H.P for the A.Y 2020-2021.

Computation of Income from HP (For the A.Y 2020-2021)

Particulars	Amount
Ist house(self-occupied)	
NAV	NIL
Second house(used for self-b/s)	NIL
IIIrd house(let-out)	
GAV	24,000
Less: MT	2,400
NAV	21,600
Less: SD u/s 24(i) 30% on NAV	6,480
Income from house property(III)	15,120
IV house(let-out)	
GAV	44000
Less: MT	6,000
NAV	38,000
Less: SD u/s 24(i)30% on NAV	11,400
Income from house property(IV)	26,600
Taxable Income from H.P	41,720

Working Note

Calculation of GAV of IIIrd house

- MV=24000
- ARR=1000*12=12000
- GAV=MV or AR(whichever is higher)
- GAV= 24,000

Worl te

Calculation of GAV of IV house

- MV= 60,000; ARR=5500*8=44,000
- FR=5500*12=66,000
- VP= 4 months
- ARR<ER (satisfied)----1) due to vacancy GAV=ARR
- 66,000<66,000
- GAV=ARR
- GAV=44,000

Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Determination of Annual Value of house property used by owner for full year
- Annual Value of house property cannot be let-out

Rules for determination of GAV/NAV

C) Annual value of house property used by owner for full year

1) If only one house for self residence
2) More than one house for self residence
3) Use of partial property by owner for full previous year
4) Use of whole or part of the property by the owner for part of the year and let-out for remaining part of the year

If only use for self-residence

NAV= NIL

Mo[illegible]ne house for self-residence

Annual Value of one house shall be nil and other houses will be treated as let out. Owner can select any house as self residence having maximum GAV for self residence.

Use of partial property by owner for full previous year

- The portion used by owner will be treated as separate unit and NAV will be nil.
- Remaining part of the property shall also be treated as separate unit and computed as let-out house.

Use of whole or part of the property by the owner for part of the year and let out for remaining part of the year

It will be treated as let-out for full year.

AV of HP cannot be let-out

- If neither it is let-out nor it is used for self residence

then, NAV= NIL

Deductions u/s 24(II)under Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Interest on loan u/s 24(II)
- Interest on loan for pre construction period for self-occupied house and Let-out houses

Practical Problem

Mr. Prateek is the owner of a big house whose Municipal valuation is 36,000. $1/3^{rd}$ portion of the house is let out on a rent @ 5,600 per month and remaining $2/3^{rd}$ portion is occupied by him for his own residence. The construction of this house started in June 2015 and completed on 1^{st} Nov, 2016. he paid the following expenses:

Practical Problem contd.

- Municipal taxes 3,600
- Ground rent 720
- Insurance premium 600
- Property tax 720
- Collection charges 400
- Mr. prateek had taken a loan of 2,00,000 on 1st July ,2014 for construction of this house. The loan has not paid back and interest @ 12% p.a is payable on it. Compute the income from H.P for A.Y 2020-2021.

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Computation of income from House property

For the A.Y 2020-2021

Particulars	Amount
1/3 letout	
GAV	67,200
Less: MT(1/3)	1200
NAV	66,000
Less: deduction u/s 24	
SD @30% on NAV 19,800	
Interest on loan(1/3 of 32400) 10,800	30,600
Income from house property letout	35,400

Solution

Computation of income from House property

For the A.Y 2020-2021

2/3 portion (self occupied)	
NAV	NIL
Less: deduction u/s 24	
Interest on loan(2/3 of 32,400)	21,600
Loss from self occupied house	(21,600)
Income from H.P=35,400-21,600=13,800	

Working Note

Amount of deduction=

interest of previous year + 1/5th of interest of Pre-construction period(not deducted so far)

- 24,000+1/5 of PCP=24,000+1/5 of 42,000
- 24,000+8400= 32,400
- PCP interest = 1st July2014 to 31st march 2016=21M
- 24,000*21/12=42,000

Deductions u/s 24 under Income from House Property

Presented by:

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Assistant Professor

Key points

- Standard deduction for let out houses u/s 24(I)
- Interest on loan u/s 24(II)
- Interest on loan for pre construction period for self-occupied house and Let-out houses

Standard Deduction U/s 24(I)

It is given for the purpose of repairing of the house let-out on rent. Repair charges includes whitewash, paint, interior decoration etc. it is given 30% on NAV

Interest on Loan for Self-Occupied houses u/s 24(II)

Loan taken before 1st April, 1999 for

-Construction

-Purchase

-Repair

-Renewal/Reconstruction

Amount of Deduction=

Actual or 30,000(whichever is less)

Loan taken on or after 1st April, 1999 for

Repair & Reconstruction

Deduction= Actual or 30,000 (whichever is less)

Construction & Purchase Deduction = up to 2,00,000 (maximum)

Interest on Loan for let-out houses u/s 24(II)

Amount of Deduction= No Limit(any amount paid as a interest of loan)will be deducted.

Amount of deduction=

interest of previous year + 1/5th of interest of Pre-construction period(not deducted so far)

Important Note

- Calculation of pre-construction period will be from the date of getting the loan till 31st march immediately preceding the year in which construction is completed.
- Deduction of interest on loan for pre-construction period is allowed only up to 5 years, commencing of P.Y in which construction is completed.

Computation of Income from House Property

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Computation of Income from H.P in different cases

Practical Problem

Dr. Desai owns the following house properties:

a) 5 flats in Ahmedabad, each flat is let-out on a monthly rent of 2,000. owner has incurred the following exp. Local taxes 9,000; repair charges 10,000; lease rent 3,000 per annum per flat; fire insurance premium 12,000. Two flats remained vacant for three months during the P.Y 2019-20

Practical Problem contd.

b) A residential house in Nasik which is self-occupied. Its annual letting value 30,000. he paid 4,500 as municipal taxes in previous year and 6,000 as interest on loan borrowed for the construction of this house.

c) A house in Poona remained vacant throughout the P.Y as neither Mr. Desai was able to occupy it nor it was let out to any tenant on rent. Annual letting value estimated 18,000. he paid municipal taxes 2,400 and ground rent 300 for this house.

Compute income from house property for the A.Y 2020-2021.

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Computation of income from House property

For the A.Y 2020-2021

Particulars		Amount
ARR= 3houses (2000*12*3)=72,000 ARR= 2 houses(2000*9*2)= 36,000 Total ARR =1,08,000		
GAV Less:MT NAV Less: deduction u/s 24 SD @30% on NAV Interest on loan Income from flats at Ahmedabad	 29,700 12,000 	1,08,000 9,000 99,000 41,700 57,300

Solution

Computation of income from House property

For the A.Y 2020-2021

Particulars	Amount
NAV(self – occupied)	NIL
Less: deduction of interest on loan	6,000
Loss from house at nasik	(6,000)

Solution(c)

Computation of income from House property

For the A.Y 2020-2021

Particulars	Amount
House at Poona	
NAV	NIL
Income from H.P(57,300-6,000)	51,300

Computation of PCP under Income from House Property

Presented by:

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Assistant Professor

Key points

- Computation of PCP Interest on loan for self-occupied house and Let-out houses

Practical Problem

For the A.Y 2020-21, compute income from H.P on the basis of the following information

- Municipal value 40,000
- Municipal taxes paid 8,000
- House was self occupied. It contains two units. But one unit of the house was let-out @1,500 p.m from 1.10.2019. the following expenses were incurred in respect of the house:
- Fire insurance premium 800
- Ground rent 1,000
- Land revenue 1,200

A loan of 40,000 was taken on April 1, 2015 @ 15% p.a. for the construction of this house. The house was completed on 31.5.2017 and only half the loan was repaid till 31.3.2019.

Computation of Interest of PCP

- Loan amount= 40,000@15%= 6,000p.a
- PCP= 1st April, 2015 to 31st March, 2017

= 6000*24/12=12000

Loan amt on 1st April 2019= 20,000 @15%

Amt of interest= interest of P.Y+1/5 of PCP

= 3,000+1/5 of 12,000

= 3,000+2,400

= 5,400

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- One unit is self occupied for full year

NAV = Nil

Less: interest on loan (1/2 of 5,400) = 2,700

Loss from self-occupied unit = (2,700)

GAV of Let out

MV=20,000

ARR= 9,000

FR=18,000

MV or FR or ARR(whichever is higher)

Solution

- Second unit (let out)

GAV		20,000
Less: MT		4,000
NAV		16,000
Less: deduction u/s 24		
SD 30% on NAV	4,800	
Interest on loan	2,700	7,500
Income from let out unit		8,500
Taxable income from H.P(8,500-2,700)		5,800

Computation of Taxable Income from Salary

Presented by:

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Assistant Professor

Key points

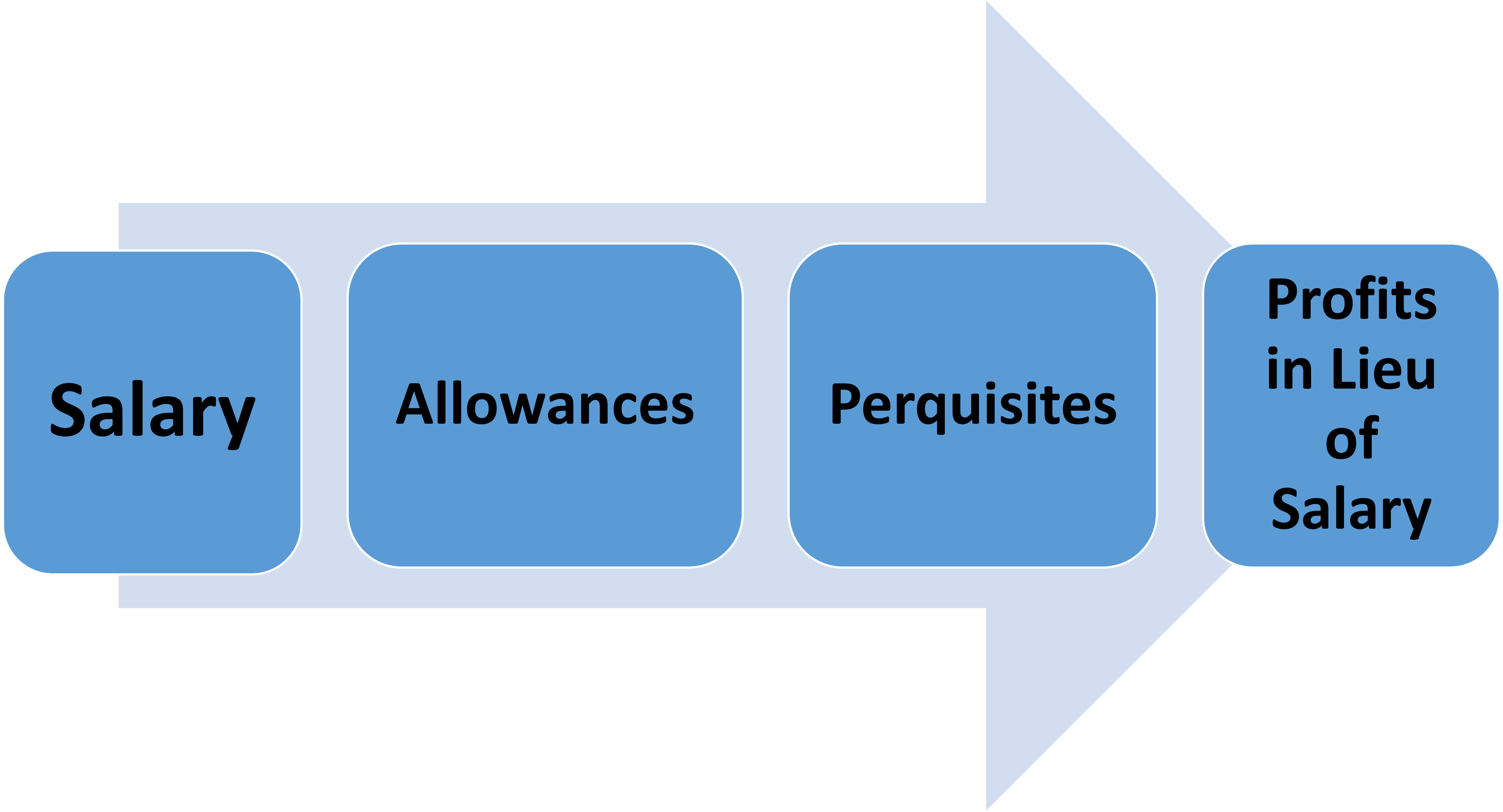
- Computation of taxable income from salary

Process of Computation

TAXABLE INCOME FROM SALARY

- **COMPUTATION OF GROSS SALARY**
- **DEDUCTIONS OUT OF GROSS SALARY UNDER SEC 16**
- **COMPUTATION OF NET TAXABLE SALARY**

Computation of Gross Salary



Salary includes

- Basic salary/wages
- Bonus
- Commission, fee, interim relief
- Overtime payments
- Annuity
- Advance salary & arrears of salary
- Annual accretion in employees Recognized Provident fund (RPF)
- Contribution made by central Govt. in P.Y under notified pension scheme
- Retirement benefits

Retir benefits

- Encashment of earned leave
- Gratuity
- Pension
- Amount received on voluntary retirement
- Compensation on retrenchment

Allowances

- Fully exempted allowances
- Partly exempted allowances
- Fully taxable allowances

Perquisites

- Taxable perquisites for all employees
- Taxable perquisites for specified employees
- Tax-free perquisites for all employees

Income from Salary

Presented by:

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Assistant Professor

Key points

- Meaning of salary
- Process of Computation of taxable income from salary
- Important points regarding salaries

Meaning of Salary

- Those cash receipts which an employee gets from an employer.
- From IT point of view, any remuneration is called salary which is paid by an employer to his employees, monthly or time to time in return of their services. Its includes monetary benefits of those perquisites along with cash receipts.

Process of Computation

- **TAXABLE INCOME FROM SALARY**
  - **COMPUTATION OF GROSS SALARY**
  - **DEDUCTIONS OUT OF GROSS SALARY UNDER SEC 16**
  - **COMPUTATION OF NET TAXABLE SALARY**

Important points regarding salaries

- An employer may be an individual, a firm, company, or any other institution
- Employer and employee relationship
- Salary from more than one employer
- Deduction from salary by the employer
- Salary becomes taxable on due basis

Contd.

- Payment after retirement
- Time of accrual of salary
- Salary received in advance
- Arrears of salary
- Salary on the basis of salary grade
- Basic salary on the basis on grade pay

Computation of Basic Salary

Presented by:

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Key points

- Computation of Basic salary/wages

Practical Problem

- Mr. Ramkishan has been getting a salary @10,800 since 1st April, 2019. he has been allowed an increment of 600 on 1st August, 2019 and an increment of 900 on 1st June,2020. compute the basic salary for A.Y 2020-2021.

Computation of BS

P.Y 1^{st} April 2019-31^{st} March 2020

1^{st} April, 2019- 31^{st} July 2019= 10,800

4*10,800 =43,200

1^{st} Aug, 2019-31^{st} Mar2020=10,800+600=11,400

8*11,400 =91,200

Basic Salary = 1,34,400

Practical Problem

- Mr. Amit was appointed as an Assistant Engineer in a Government department on 1st July, 2016 in the pay-scale of 11,000-300-17,000. salary becomes due on first day of the next month.

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- P.Y= 1march 2019-29th Feb 2020

11,000-300-17,000

1st July2016=11,000

1st july 2017= 11,300

1st July 2018=11,600

1st July 2019=11900

From 1st March 2019-30 june 2019=4*11,600 =46,400

From 1st July 2019-29,Feb 2020= 8*11900 =95,200

Basic salary = 1,41,600

Rules for computation of Basic Salary

Presented by:

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Assistant Professor

Key points

- Rules for computation of Basic salary/wages

Basic Salary/Wages

- In case of Government Employees and Semi- Govt. employees

- In case of Non- Govt. employees

In case of Govt. Employees & Semi- Govt. employees

- It is assumed that salary is due on first day of next month:
- i.e.; 1^{st} March, 2019-29^{th} Feb, 2020

In case of Non- Govt. employees

- It is assumed that salary is due on last day of Current month:
- i.e.; 1^{st} April, 2019-31^{st}, March, 2020

Retirement Benefits

Presented by:

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Assistant Professor

Key points

- **Retirement Benefits**

-Encashment of Earned Leave(EL)

Rules of Encashment of Earned Leave

- Encashment of earned leave during tenure of services: fully taxable
- Encashment of earned leave at the time of retirement/death:

1) For Govt. Employees
2) For Non-Govt. Employees

nent of earned leave at the time of Retirement/death

- For Govt. Employees: Fully Exempted
- For Non-Govt. Employees: least of the following shall be exempted

1) Actual amount received -------
2) Fixed by C.G 3,00,000
3) 10*AMS(average monthly salary) --------
4) No. of months leave due*AMS --------

Least out of above four= exempted

Taxable= Actual- Exempted

nt notes

- AMS: Average salary of last 10 months preceding the date of retirement
- Meaning of salary

=Basic pay + DP + DA (under the terms of employment) + Comm. based on turnover at fixed %.

No. of months leave due= take complete year only

*As per income tax one month leave will be granted for one complete year of service.

Practical problem

- Mr. Ganesh is an employee in a limited concern. He received 30,000 as encashment of earned leaves at the time of his retirement on 31st March, 2020. He was drawing 4,000 p.m. at the time of his retirement. He was getting this salary since April, 2019. He had 12 months' leave to his credit at the time of retirement. The company allows earned leave of 33 days for every year of actual service. He served for 20 years and had availed 10 months of leaves. Compute exempt and taxable amount of earned leave encashment.

Solution

- For Non-Govt. Employees: least of the following shall be exempted

1)	Actual amount received	30,000
2)	Fixed by C.G	3,00,000
3)	10*AMS(4,000*10)	40,000
4)	No. of months leave due*AMS	
	10*4000	40,000

Taxable= Actual- Exempted

Taxable= 30,000-30,000

Taxable = Nil

Working note

- AMS= 10 months immediately preceding's from the date of retirement (31^{st} March 2020)
- Salary from 1^{st} June 2019 to 31^{st} March 2020.

AMS= 4000*10/10=4,000

Retirement Benefits

Presented by:

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Assistant Professor

Key points

- **Retirement Benefits**

-Gratuity

Gratuity

- It is a lump-sum amount paid by an employer to his employee for his past services. If employee expires during the service then the amount of gratuity shall be received by his legal representative and it will be taxable under other sources of income. If he gets gratuity after retirement then taxable under salary

Rules of computation of Gratuity

1) For Govt. Employees- Fully exempted

2) For Non-Govt. Employees

- Employees who covered under payment of Gratuity Act, 1972

- Employees who does not covered under payment of Gratuity Act, 1972

Employees who covered under payment of Gratuity Act, 1972

1) Actual Gratuity received -------
2) Fixed by C.G 20,00,000
3) Year Served*AMS*15/26 --------

Least out of above three= exempted

Taxable= Actual- Exempted

nt notes

- AMS: Salary at the date of retirement

- Meaning of salary

=Basic pay + DP + DA +commission at fixed % on sale

Year Served= change 6 or more months in one year

...oyees who does not covered under payment of Gratuity Act, 1972

1) Actual Gratuity received -------
2) Fixed by C.G 20,00,000
3) Year Served*AMS*1/2 --------

Least out of above three= exempted

Taxable= Actual- Exempted

Impo otes

- AMS: Average salary of 10 months immediately preceding's from the date of retirement

Salary =Basic pay + DP + DA(under the terms of employment) +commission at fixed % on sale

Year Served= take complete year only

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Retirement Benefits
Pension

Presented by:

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Key points

- **Retirement Benefits**

-Pension

Pensi

- Pension is another retirement benefit given by employer to his employee after the retirement will be taxable under salary head. If pension is given to family members of deceased employee then it will be taxable under other sources of Income and called family pension.

Type or Form of Pension

- Uncommuted form of pension- when pension is given on monthly basis it will be called uncommuted pension & will be taxable for all.

- Commuted form of pension-sometimes the pension is given in lump-sum form out of whole pension and some part is given on monthly basis.

Commuted form of pension

1) Commuted pension to Govt. Employees- Fully exempted

2) Commuted pension to Non-Govt. Employees-will be taxable as per following rules:

- When employee gets gratuity along with pension
- When employee does not gets gratuity along with pension

When employee gets gratuity along with pension

- $1/3^{rd}$ part of total pension shall be exempted.
- Total pension = commuted value of pension/commuted part of pension
- Taxable = Actual(received)-exempted

When employee does not gets gratuity along with pension

- ½ part of total pension shall be exempted.
- Total pension = commuted value of pension/commuted part of pension
- Taxable = Actual(received)-exempted

RPF & Allowances

Presented by:

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Assistant Professor

Key points

- Rules for Recognized Provident Fund

- Allowances

Rules for Recognized Provident Fund

- An employer has to contribute in a employees recognized provident fund. It will be taxable if contribution of employer is in excess of 12% of employee’s salary. Here salary means:
- Salary= BP+DP+DA (under the terms of employment) + com. at fixed rate on sale

Interest On Recognized Provident Fund

- Interest on RPF=exempt up to 9.5%, if interest is in excess of 9.5% then will be taxable

Allowances

- Allowances is that sum which an employer pays to his employees to meet some special type of expenses. These special type of expenses may be his personal expenses or may relate to perform his official duties.

Types of Allowances

- Fully exempted Allowances
- Partly exempted/partly taxable Allowance
- Fully taxable Allowance

Fully Exempted Allowance

- Foreign or overseas allowance: it is paid by Indian Government to employees who are citizen of India for their services outside India.
- Special allowance for official duties(exempted up to actual expenditure only)
- Allowances to High Court & Supreme Court Judges.
- Allowances received from UNO(United Nations Organizations)

Special allowance for official duties

- Travelling Allowance
- Daily allowance
- Conveyance allowance
- Helper allowance
- Academic allowance
- Uniform allowance

Partly exempted/ Partly Taxable Allowances)

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- **Allowance**

-Partly exempted allowance/ Partly taxable allowance

1) House Rent Allowance(HRA): employee gets HRA from employer whether he is living in his own house or rented house.

- If employee is living in his own house: it will be fully taxable.
- If employee is living in a rented house

If employee is living in rented house

Least of the following shall be exempted:

- Actual HRA received ----
- Rent paid-10% of employees salary ----
- 50% of employees salary(in case of metropolitan cities) or 40% of employees salary(in case of other cities) ----

Exempted= least of the above

Taxable= Actual-exempted

Salary purpose

- Salary= BP+DP+DA(under the terms of employment)+commission at fixed % on sale

2) Entertainment Allowance: An employer gives this allowance to his employees on the reception of the customers. The whole amount of EA will be included in gross salary and deduction will be given as per the following rules:

on- Government employees

- No deduction will be allowed

Fo ment employees

Least of the following shall be deducted out of gross salary:

- Actual EA received -------
- Maximum or fixed by Govt. 5,000
- 1/5th or 20% of employee's salary -------

Salary = only basic pay will be considered.

Cont

3) Transport Allowance: exempted up to 3,200 per month in case of blind and orthopedically disabled employees

4) Underground allowance: exempted up to 800 p.m

Conti

5) Education allowance: exempted up to 100 per month per child up to two children.

6) Hostel allowance: exempted up to 300 per month per child up to two children.

Conto

7) Special allowances to employees of transport agencies: exempted up to 70% of such allowance received or 10,000 per month(whichever is less)

Note: for exemption of this allowance employee should not get daily allowance

Cond

8) Tribal area allowance: exempted up to 200 per month for the following states: UP, MP, TN, Uttaranchal, Karnataka, Chhattisgarh, Orissa, Bihar, Tripura, Assam, Jharkhand and WB.

9) Special allowance for meet out the personal expenditures during the service(refer Pg.no.91-92)

Fully Taxable Allowances

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- **Allowance**

Fully taxable allowance

Fully taxable Allowance

1. Dearness allowance(DA)
2. Dearness pay(DP)
3. Additional dearness allowance
4. City compensatory allowance(CCA)
5. Rural allowance

Fully taxable Allowance contd.

6. Non-Practicing allowance

7. Medical Allowance

8. Servant allowance

9. Proctor allowance

10. Wardenship allowance

Fully taxable Allowance contd.

11. Tiffin allowance

12. Dog Allowance

13. Over- time allowance

14. Deputation allowance

15. Night allowance

16. Other taxable allowance-family allowance, marriage allowance, dinner allowance, holiday allowance.

Tax-Free Perquisites for All employees

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- **Tax-free perquisites for all employees**
- **Profit in lieu of Salary**

Tax- free Perquisites for all Employees

- Medical facility (if treatment is done in Govt. hospital)
- Facility of refreshment
- Facility of entertainment
- Facility of telephone /telephone bill
- Free meals
- Refresher course
- Facility of free ration to members of armed forces

Contd.

- Residence and conveyance facility to High court & Supreme Court judges
- Contribution made by employer in different schemes
- Sports club facility to employees
- Payment of accident insurance premium of employees
- Foreign perquisites

Note: Refer page no. 96 to 100

Profit in lieu of salary

- Compensation on change in terms and conditions
- Salary of information period for retrenchment
- Amount received from unrecognized PF
- Any lump sum amount received by employee before commencement of service or after expiring of service

Deductions U/S 16

Presented by:

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Assistant Professor

Key points

- **Deductions under section 16 out of Gross Salary**

Deduction from Gross salary u/s 16

- Standard deduction u/s 16(I)
- Deduction of entertainment allowance u/s16(II)
- Deduction of employment tax /professional tax u/s 16(III)

Standard deduction u/s 16(I)

Least of the following shall be deducted from Gross salary

- 50,000 or actual amount of Gross salary (whichever is less)

Deduction of entertainment allowance u/s16(II)

- Deduction is allowed only for Government employee. (Already done in partly exempted allowance. Kindly refer.)

Dedu employment tax /professional tax u/s 16(III)

- This tax is charged by State Govt. and shall be deducted from Gross salary.

Perquisites and taxable Perquisites for all employees

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- **Perquisites**
- **Taxable perquisites for all employees**

Perquisites

1) Taxable perquisites for all employees

2) Taxable perquisites for specified employees

3) Tax-free perquisites for all employees

Perq

It is a personal benefit which is given to employee due to his services or designation. The facility is provided by without charging any amount or at concessional amount. It can be given in cash or kind but generally it is given in kind.

Taxable perquisites for all employees

- Rent- free accommodation/house
- Concessional rent-free house or accommodation
- Payment of employee’s obligations by employer(refer on page no. 94)

Valuation of Rent free House

- For Govt. employees

1) Unfurnished house/ accommodation

2) Furnished house/accommodation

- For Non- Government employees

1) Unfurnished house/ accommodation

2) Furnished house/accommodation

…vt. employees

- <u>In case of Unfurnished house:</u>

Taxable Value of rent free unfurnished house(RFUH) =Licensing fee of the house

- <u>In case of furnished house:</u>

Taxable Value of RFFH=licensing fee of the house +10% furnishing cost or hire charges of furnishing

For Non- Government employees

- <u>In case of Unfurnished house:</u>

1) If house is owned by employer

2) If house is taken on hire by employer

If house is owned by employer

Taxable value of RFUH=7.5% of employee's salary(for cities where population is up to 10 lakh)

Or

10% of employee's salary(for cities where population exceeds 10 lakh up to 25 lakhs)

Or

15% of employee's salary(for cities where population exceeds 25 lakh)

If house is taken on hire by employer

- Taxable value of RFUH= 15% of employees salary or Actual rent paid by employer (whichever is less)

For Non- Government employees

- In case of furnished house:

Taxable value of RFFH= value of unfurnished house +10% cost of furnishing or hire charges of furnishing

Salary meaning for rent free house

- Salary= BP(except advance and arrear of salary)+ bonus + commission+ DP+ DA(under the terms)+all taxable allowances+ monetary payments.

Taxable Perquisites for Specified employees

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- **Perquisites taxable for specified employees**
- **Tax-free perquisites for all employees**

Taxable perquisites for specified employees

- According to sec 17(2) clause 3 specified employee will be if he fulfills any one condition out of 3

1) If employee is a director full time or part time in employer's company
2) If employee has acquired 20% or more equity shares in employer co.
3) If total monetary receipts of employee exceeds 50,000 after deduction u/s 16

Taxable [illegible]es for Specified Employees

- Perquisite of domestic servant/household servant
- Perquisite of gas/ electricity and water
- Perquisite of Free education facility
- Perquisite of Car

Valuation of perquisite of domestic servant

1) If servant is appointed by employer: taxable for specified employee

2) If servant is appointed by employee or reimburse by employer: taxable for all employees

Perquisite of gas/ electricity and water

- If employer is manufacturer of such facility: will be taxable for specified employee
- If facility is provided by employer from outside or connection in the name of employee- taxable for all employee

Perquisite of Free education facility

- If school is owned by employer: exempted up to 1000 per month per child and exceed amount will be taxable for specified employee.
- If payment of fees made by employer: taxable for all employees

Perquisite of Car

- If car is provided by employer: taxable for specified employee
- If the owner of the car is employee: taxable for all employees

x Act, 1961

In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962.

It applies to the whole of India (including Jammu and Kashmir). This Act of 1961 has since been amended number of times.

Tax Planning

Presented by:

Dr. Mini Jain

Assistant Professor

Key points

- Tax planning
- Tax avoidance
- Tax evasion
- Comparison between tax planning and tax avoidance
- Comparison between tax avoidance and tax evasion

Introduction

Tax Pla

Tax planning is an art and the exercise of arranging financial affairs of tax payers so as to reduce the tax payment which would be necessary.

Tax planning is a way by which you arrange your financial affairs in such a manner that without breaking up any law you take full advantage of all Exemptions, Deductions, Rebate and Reliefs allowed by law so that your tax liability will be reduced.

Essential Elements/ characteristics of Tax Planning

- Tax Planning is legally recognized
- Planning in connection with income, expenditure and investment.
- Tax planning is moral
- Tax planning is in accordance with Government policy.
- Tax planning reduces tax-liability and increases after income tax income
- Tax planning is a continuous process

Objectives of Tax Planning

# of Tax Planning

- Short Term Tax Planning
- Long Term Tax Planning
- Investment Tax Planning
- Organizational Tax Planning
- Estate tax planning

Importance Of Tax Planning

- **For Tax payer :-** Tax payer has to pay less tax by using tax planning because he is using all available exemptions, deductions, reliefs, and rebates. All of this is done within the boundaries of Law.
- **For Government :-** To use deduction or exemptions you have to invest money in some scheme which results in your money being transferred back to government and then they can use it to develop the country.
- **For Society :-** If government invests or starts any new project or if tax payer invests his saved money, it will generate employment. Government can invest in better projects which develop society.

Tax Avoidance

It is a technique by which income, expenditure and investments of an assessee are so arranged that without violating tax laws his tax – liability is reduced to the minimum by taking advantage of the loopholes of tax laws. It is not illegal and hence, not prohibited. It excludes fraud, concealment or other illegal measures.

Social evils of tax avoidance:

1) Substantial loss of much needed public revenue, particularly in a welfare state;
2) Serious disturbance caused to the economy of the country by generating black money directly causing inflation
3) Sense of injustice and inequality

Tax Eva

It is a technique of reducing tax liability or avoiding tax liability by violating tax laws. It is absolutely illegal. It is violation of tax laws intentionally, knowingly and with the clear intention of defrauding the exchequer. an assessee who is guilty of tax evasion may be punished by way of penalty or prosecution. Thus it is a punishable crime. Tax Evasion is an illegal act as well as an immoral, anti-social and anti-national act.

Tax Eva des

- Knowingly stating an untrue statement;
- Submitting misleading documents;
- Not maintaining proper and correct accounts of income earned if required;
- Omission of material facts at the time of assessment;
- Suppressing the relevant facts at the time of assessment;
- Adopting unfair means or methods to evade tax liability;
- Unrecorded sales;
- Claiming bogus expenses, bad debts and losses;
- Submission of bogus receipts for charitable donations for deduction u/s 80G

Tax planning/Tax avoidance

Tax planning

- It is legal and moral
- It is beneficial to the society or nation
- It intends to get full benefits of all tax concessions, relief's, rebates and exemptions.
- It is strictly in accordance with law and observe the real intention of law.
- It helps in sound economic development of the country
- It is based on full and real facts. There is no misrepresentation of facts.
- It requires full & deep knowledge of law

Tax avoidance

- It is legal but immoral and illegitimate
- It is harmful for society and nation
- Tax avoidance benefits are taken of the loopholes or lacunas of law.
- It defeats the main intention of law.
- It creates black money and gives rise to black money
- It is based on imaginary or misrepresentation or twisting of facts.
- It requires full & deep knowledge of law and requires courage to misinterpret it.

Tax avoidance/ Tax Evasion

Tax avoidance

- It is legal but immoral and illegitimate
- Tax avoidance benefits are taken of the loopholes or lacunas of law.
- It defeats the main intention of law.
- It is based on imaginary or misrepresentation
- Tax avoidance is not punishable.
- It is an intentional tax planning before the actual tax liability arise.

Tax Evasion

- It is illegal and against the tax laws
- In tax evasion an attempt is made to evade tax liability by violating the laws
- It breaks the law
- It is based on omission of material facts.
- Tax evasion is punishable
- Tax evasion is an intentional attempt to avoid payment of tax after the liability to tax has arisen