



INCOME TAX PLANNING AND MANAGEMENT

COURSE CODE: M21CM10DC

Postgraduate Programme in Commerce

Discipline Core Course

Self Learning Material



SREENARAYANAGURU
OPEN UNIVERSITY

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The State University for Education, Training and Research in Blended Format, Kerala

SREENARAYANAGURU OPEN UNIVERSITY

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To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

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Pathway

Access and Quality define Equity.

Income Tax Planning and Management

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Semester - III

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Self Learning Material
(With Model Question Paper Sets)



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Edition
January 2025

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ISBN 978-81-978764-2-4



9 788197 876424

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MESSAGE FROM VICE CHANCELLOR

Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed “blended format,” a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The University aims to offer you an engaging and thought-provoking educational journey. This learning material titled Business Policies and Strategic Management offered for MCom programme builds on the knowledge gained in undergraduate studies. It takes the basic understanding of business concepts and expands on them. The course combines theory and real-world practices to give learners a complete picture. We use case studies and examples to help explain complex ideas. Throughout the Blocks, learners will develop their analytical and decision-making skills, which are crucial for managing businesses effectively. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university’s student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Warm regards.
Dr. Jagathy Raj V. P.

01-01-2025

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01 BLOCK

Tax Planning and Income Tax Management

Block Content

- Unit - 1 Concepts of Tax Planning
- Unit - 2 Tax planning and management of different types of assesseees

Unit 1

Concepts of Tax Planning

Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ be aware of the concepts of Tax Planning and Tax Management
- ◆ recognise whether the taxes are essential for government revenue
- ◆ familiarise with the differences between Tax Planning and Tax Management

Background

Sir James Wilson instituted the first income tax in India in 1860 to overcome the government's losses as a result of the military mutiny in 1857. Subsequent revisions have been made to the Act. Amendments were made in the years 1886, 1917, 1918, 1922 and 1961. Finally, the Income Tax Act of 1961 became effective on April 1, 1962. It encompasses the entirety of India. The Income Tax Act of 1961 has undergone extensive amendments and revisions. The Indian constitution provides a precise definition of taxation. Taxation encompasses the levying of any tax or duty, whether it is a broad-based tax, a local tax, or a specific tax. The term "tax" should be interpreted in this manner. The government imposes taxes in order to fund society's common welfare expenses. Direct taxes and indirect taxes are the two categories of taxes. A direct tax is one that is imposed straight on an individual's income or wealth. A direct tax has no transferable burden. It cannot be retrieved by the government from another party. For example, income tax. A tax imposed on the cost of a good or service is known as an indirect tax. In this case, the taxpayer transfers the incident to a different party. For example, Customs Duty or GST.

Taxes serve as the primary means by which the government generates revenue. The government employs this revenue to cover the costs of defense, healthcare, infrastructure facilities, and education. The 7th schedule of Article 246 of the Constitution of India comprises three lists that specify the subjects on which Parliament and state legislatures are empowered to enact laws for the purpose of imposing taxes. The lists consist of the union list, state list, and concurrent list.

Annually, the finance minister of the Government of India presents the finance bill. Following the passage of the budget bill by both chambers of parliament, the President of India gives his approval. Every year, the Finance Act modifies the Income Tax Act of

1961. The Central Board of Direct Taxes (CBDT) is responsible for the administration of direct taxes.

The Income Tax Rules of 1962 are a set of regulations that are periodically framed by CBDT. Periodically, CBDT publishes circulars to dispel confusion about the intent and application of the Income Tax Act of 1961's provisions. To put the act's provisions into effect, the government releases notifications. In the event of a disagreement between the assessee and the department, the courts have the authority to decide on a range of matters.

The elements comprising the concept of tax, as defined by the Supreme Court, are as follows:

- The character of imposition is determined by its inherent nature, which dictates the specific event that triggers the imposition of a tax.
- Regarding the individual subject to the levy and responsible for paying the tax.
- The tax imposition rate
- The tax liability will be computed based on the rate at which the measure is applied.
- The current tax rate necessitates the need to strategically organize fiscal matters in order to minimize tax liability.

Keywords

Tax Planning, Tax Management, Direct Tax

Discussion

1.1.1 Tax Planning

- ◆ Strategic organisation of financial matters

Tax planning is a legitimate practice that operates within the boundaries of the law and is not a deceptive strategy used to evade taxes. It refers to the strategic organisation of one's financial matters in a manner that fully utilises all available exemptions, deductions, rebates, and relief provided by the law, with the aim of minimizing the tax burden on the taxpayer while remaining within legal boundaries. As an illustration, when someone buys equipment and machinery rather than renting it, they are taking advantage of depreciation. He has the exclusive authority to either purchase it or lease it.

Actually, exemptions, deductions, rebates and reliefs have been provided by the Legislature to achieve socio-economic



◆ Reduce tax liability

◆ Exemptions, deductions, rebates, reliefs

◆ Facilitate future investment

◆ Boost government tax revenue

◆ Multitude job prospects

goals. Deductions from gross total income in respect of profits from newly established industrial undertakings in industrial backward states or districts are mentioned in Section 80 IB. This section helps in the economic development of industrially backward states or districts. If an individual or a HUF deposits the amount in prescribed schemes under Section 80C, it also helps in the economic development of the nation. Briefly, if a person takes advantage of deductions, he can reduce tax liability and help in achieving the objectives of the Legislature, which are lawful, social and ethical.

It is important to prioritize tax planning when making investment decisions, experiencing significant life changes, setting long-term financial goals, and seeking tax-saving opportunities.

1.1.2 Need for Tax Planning

Tax planning is an act that falls within the legal parameters; it is not a gambit to evade taxes. Let us learn the need for Tax Planning in detail.

i. Decrease in Tax Liability

Tax planning enables the earner to allocate sufficient surpluses from their profits for personal and social needs. It facilitates future investments in business. This can only be achieved through tax planning. An individual can enhance their understanding of the different deductions, exemptions, and relief options provided by tax laws, as well as the requirements that must be met in order to qualify for them.

ii. Productive investment

Tax planning promotes fiscal discipline for taxpayers and minimizes the transfer of hard-earned money from individuals to the government. Saving money increases the taxpayer's ability to expand and grow, and it also boosts government tax revenue.

iii. Creation of job opportunities

The savings generated through tax planning are typically allocated towards initiating a new business venture or expanding an already established business. It generates a multitude of job prospects. Individuals who cannot effectively organize their personal matters can seek the assistance of professionals such as chartered accountants and lawyers. The individuals who offer services can be either private professionals or their employees.

iv. Litigation reduction

There is a legal dispute between taxpayers and tax administrators. When a taxpayer seeks to minimize their tax obliga-

◆ Minimise legal disputes

tion by exploiting a loophole, disagreements may arise with the tax administrator due to differences in interpretation. This can lead to legal disputes if the taxpayer's claims for deductions, exemptions, or relief are not accepted. Tax planning is an ongoing process that ensures compliance with loss provisions and helps minimize legal disputes.

◆ Increased sales, profits & revenue

v. Cost reduction

Implementing tax planning strategies can effectively lower overall production costs, leading to increased sales, profits, and revenue.

◆ Economic growth of nation

vi. Sustained economic expansion

Tax planning savings contribute to economic growth and play a crucial role in the development of underprivileged districts, states, and infrastructure facilities, thereby fostering the overall economic development of the nation.

◆ Follow the provisions of Act

1.1.3 Limitations of Tax Planning

◆ Time consuming

i. Tax planning can be conducted in accordance with the provisions of the Income Tax Act, Partnership law, Company law, and other relevant legislation. It is impossible to accomplish this task without involving others or without considering the broader context.

◆ Long term decisions

ii. Occasionally, when profit rises, so does the tax. It requires a lot of time for tax planning. Alternatively, the time allocated for planning can be utilised for more productive endeavours.

◆ Tax incentives

iii. The amendments in the Direct Tax Laws Amendment Act and the Finance Act have created obstacles in making long-term plans. As a result, taxpayers are hesitant to make long-term decisions for their economic activities, leading to a sluggish growth of the economy.

◆ Rectification

iv. Taxpayers who are unable to meet specific conditions are ineligible to receive tax incentives.

v. If a taxpayer has failed to request an exemption, deduction, or relief prior to the completion of the assessment, they are not eligible to claim it through the rectification of an error, appeal, or revision.

vi. If a decision is made to benefit certain family members at the expense of others in terms of individual property

◆ Social, moral and psychological implications

and income rights, it may result in irritations and imbalances within the family. Therefore, the social, moral, and psychological implications prevent us from exceeding a certain threshold for tax reduction.

◆ Understanding of tax laws

1.1.4 Precautions in Tax Planning

◆ Careful considerations
◆ Legitimate practice

i. Tax planning necessitates the examination of the tax consequences associated with any financial decision. Prior to making a decision, it is essential to conduct this type of analysis. If a decision is made without considering the law, it will be necessary to fulfil the tax obligations afterwards. Tax planning requires a comprehensive understanding of tax laws in order to identify the most advantageous option that minimises tax liability.

◆ Amendments to law

ii. Tax planning must not be undertaken independently; careful consideration must be given to related laws and economic factors. Section 80IE of the Income Tax Act allows for a deduction from the gross total income for profits earned from newly established industrial undertakings in the North Eastern States. However, this region may require additional expenses, such as transportation costs and increased salaries for trained and technical staff, which may offset the benefits of this incentive.

◆ Minimise tax

iii. Tax planning should not rely on the practice of tax avoidance. Tax avoidance involves exploiting specific legal loopholes. Whenever any loopholes are exposed, they will be thoroughly examined and addressed through amendments to the law. Planning that is based on such loopholes will inevitably fail.

◆ Court decisions

iv. Tax planning encompasses the analysis and consideration of various direct laws, including income tax and wealth tax. The tax savings achieved through tax planning should not lead to an increase in the payment of other taxes. The ultimate objective of tax planning should be to minimise the aggregate amount of all taxes.

v. If a decision is not in accordance with the intent of the Legislature, the law can be amended either retrospectively or prospectively. It does not rely on the rulings of the High Court and the Supreme Court. Legally, it is possible to avoid tax based on court decisions. Tax planning is a strategy used to minimise the amount of taxes owed within the timeframe specified by the law. Tax planning does not yield immediate profits.

◆ Planning future financial activity

vi. Tax planning involves strategising and preparing for a forthcoming financial activity. The tax manager should ensure that any tax benefits that were previously available but have been discontinued for the business starting in the current year are not overlooked or disregarded in tax planning. Otherwise, it could lead to an incorrect judgment.

◆ Understanding tax legislation

vii. Effective tax planning requires a comprehensive understanding of tax legislation. Tax planning is only feasible for an economic activity that offers various options. In such a scenario, the optimal option can be selected to minimise tax obligations. Engaging in tax planning does not involve claiming deductions for expenses that are explicitly permitted by the law. It demonstrates a lack of knowledge or understanding of the law.

Illustration

Mr. X invests in the Public Provident Fund so as to reduce tax liability. Comment on whether the act can be considered as tax planning.

Solution: Investment in PPF is a part of tax planning.

1.1.5 Tax Management

◆ Accurate financial records, filing of returns on time

Tax management involves adhering to the legal requirements set forth by the government. Effective tax planning necessitates the implementation of tax management strategies. Tax management encompasses the meticulous maintenance of records and the prompt submission of tax returns. It guarantees that all financial transactions are accurately recorded. This process facilitates the identification of eligible deductions and exemptions. Tax management is relevant to both individuals and businesses. It necessitates keeping abreast of evolving tax legislation. Implementing efficient tax strategies can help mitigate potential legal complications and minimise financial liabilities. It entails collaborating with tax experts for guidance and counsel. Concentrating on effective tax management involves maintaining accurate financial records and addressing any audit inquiries by filing tax returns on time and consistently throughout the year. Tax management encompasses the management of taxes in the present, as well as the analysis and planning of taxes in the past and future. Follow-up plans refer to forthcoming courses of action. Appealing revisions and rectifying mistakes are actions that have already occurred. Current activities include record maintenance, self-assessment, filing returns and other documents, and staying updated with any changes.

Tax management includes matters relating to:

1. Compliance with legal formalities
2. Taking steps to avail tax incentives.
3. Savings from consequences of non-compliance of statutory duties
4. Review of department orders and, if needed, apply for rectification of mistakes, filing of appeal, request for revision and the settlement of a case.

1.1.6 Difference between Tax Planning and Tax Management

Tax planning is the central element that allows for the creation of various incentives and ensures that the tax burden remains low. Tax management is a dynamic process that translates policy into tangible outcomes. The distinctions between tax planning and tax management are as follows:

◆ Crucial for business operations

◆ identifying tax savings, and resolving disputes

◆ Mandatory for taxpayers.

- i. Tax planning involves the identification of opportunities to save on taxes, while tax management involves the implementation of strategies to achieve these tax savings.
- ii. Tax planning is characterised by a long-term perspective, whereas tax management is focused on short-term considerations.
- iii. Tax planning encompasses the examination of tax consequences resulting from business decisions, while tax management involves the filing of tax returns, payment of taxes, and resolution of disputes.
- iv. The scope of tax planning is extensive, encompassing a wide range of tax-related matters, whereas tax management is limited to specific tax issues or situations. Tax professionals oversee tax planning, while tax management is the responsibility of both taxpayers and tax professionals.
- v. The primary emphasis of tax planning is on future tax obligations, whereas tax management encompasses the consideration of past, present, and future tax liabilities.
- vi. The objective of tax planning is to optimise tax savings and align with financial objectives. Tax management guarantees adherence to legal requirements and prevents the imposition of penalties or interest fees.
- vii. Tax planning is optional, whereas tax management is obligatory for all taxpayers.
- viii. Tax planning focuses on reducing the amount of tax paid, while tax management focuses on ensuring compliance with legal requirements.

◆ Fulfillment of criteria

- ix. Tax planning serves as a framework for making informed decisions. Tax management is a recurring aspect of a business.
- x. Tax planning focuses on the future advantages that result from current actions. Tax management encompasses the management of taxes in the present, as well as the analysis and planning of taxes in the past and future.
- xi. Tax planning involves the claiming of exemptions, deductions, and reliefs. The exemptions, deductions, and relief can be claimed in tax management by fulfilling the necessary conditions.

Summarised Overview

The Income Tax Act of 1961, introduced by Sir James Wilson in 1860, has been amended and revised numerous times. Taxation encompasses the levying of direct and indirect taxes, with direct taxes directly affecting an individual's income or wealth, and indirect taxes on the cost of a good or service. Taxes are the primary means by which the government generates revenue, covering costs of defense, healthcare, infrastructure facilities, and education. Tax planning is a legitimate practice that operates within the boundaries of the law and is not a deceptive strategy used to evade taxes. It involves strategic organization of financial matters to minimize the tax burden while remaining within legal boundaries. Tax planning is essential for making investment decisions, setting long-term financial goals, and seeking tax-saving opportunities. Tax planning involves strategizing and preparing for a forthcoming financial activity, ensuring tax benefits are not overlooked or disregarded. Tax management involves adhering to legal requirements and implementing tax management strategies, including meticulous record maintenance and prompt submission of tax returns. Tax planning is the central aspect of tax management, while tax management involves maintaining a TDS register for legal compliance. Tax planning and tax management are two distinct processes that help businesses save on taxes and align with financial objectives. Tax planning focuses on long-term savings opportunities, while tax management focuses on short-term considerations. Tax planning is overseen by tax professionals, while tax management is the responsibility of both taxpayers and professionals.

Self-Assessment Question

1. Why is tax planning considered essential for making investment decisions?
2. Explain the need for tax planning.
3. How do tax planning and tax management differ from each other?
4. Briefly explain tax management and its components.



5. What are the precautions to be taken in tax planning?
6. How does tax planning contribute to making investment decisions and setting long term financial goals?

Assignments

1. Make a brief description of concepts of Tax Planning and Tax Management.
2. Explain in what ways can businesses align their tax planning and management with their financial objectives
3. Point out the activities involved in tax management.

Suggested Reading

1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Agrawal, K. K. (2021). *Direct Tax Planning and Management*. Atlantic Publishers & Dist.
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5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.

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1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
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5. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya Bhawan Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



Unit 2

Tax Planning and Management of Different Types of Assessees

Learning Outcomes

Upon the completion of this unit, the learner will be able to:

- ◆ demonstrate knowledge of basic concepts of Tax Planning and Management of different types of assesses
- ◆ recognise the need and the scope of Tax Evasion and Avoidance
- ◆ identify the significance of tax planning and management

Background

One fundamental legal requirement in a nation is the taxation of income. Different tax rates are applied. This sum must be paid by citizens to the government. This is also used by the government for national development and infrastructure. However, taxes also lower an individual's take-home pay. They frequently search for ways to lessen this obligation because of this. Both tax avoidance and tax evasion are included in this measure. The definitions of tax evasion and tax avoidance are both used to lower tax liabilities. The difference between tax avoidance and evasion is that the former is legal, while the latter is not. Illegal ways to reduce taxes, such as concealing sources of income, are referred to as tax evasion. Legal consequences may result from it. The use of tax-free and government-provided tools to lower taxable income is known as tax avoidance. Paying less in taxes and having more money in hand are the results of tax evasion and avoidance. While tax avoidance uses legal loopholes to lower taxes owed, tax evasion is the illegal failure to pay taxes when they are due. Unrecorded sales, claiming bogus expenses, non-disclosure of income from benami transactions and non-payment of taxes are common forms of evasion. Because it lowers government revenue, tax evasion hurts economies.

Keywords

Tax evasion, Tax avoidance, Tax planning for individuals, firm and corporate

Discussion

1.2.1 Tax Evasion

Tax evasion refers to the deliberate act of reducing one's total income by making false claims or withholding information about one's actual income in order to decrease one's tax liability. The practice is not only illegal but also immoral, anti-social, and anti-national. Therefore, direct tax laws include provisions for imposing substantial penalties and initiating prosecution proceedings against individuals who evade taxes. To avoid paying taxes, a tax evader intentionally hides or excludes receipts, exaggerates expenses, and makes false claims for deductions. The steps taken by tax evaders to reduce taxable income are as follows: Engaging in the practice of categorising personal expenses as business expenses, withholding information about income from undisclosed (benami) transactions, failing to record sales, falsely claiming expenses, bad debt, and losses, failing to disclose capital gains from the sale of assets, and submitting fraudulent receipts for charitable donations in order to claim deductions under Section 80G.

- ♦ Illegal, immoral, anti social and anti national practice.

1.2.2 Tax Avoidance

Tax avoidance refers to the strategic practice of minimising tax liability within the boundaries of legal regulations. It is a strategy for minimizing the impact of taxes by taking advantage of specific legal loopholes. Tax avoidance refers to the use of legal methods to prevent or minimize tax liability that would otherwise be incurred by exploiting certain provisions or lack of provisions in the law. It does not include fraud, concealment, or any other illegal methods. Tax avoidance is a method that meets the legal requirements but goes against the intended purpose of the law. The act of avoiding taxes generates a feeling of unfairness and inequality among those who are unwilling or unable to benefit from it. It also results in a significant loss of essential public revenue and disrupts the economy by accumulating large amounts of undeclared income (black money), leading to inflation. Moreover, it is unethical to shift the responsibility of tax

- ♦ Reduce tax by availing loopholes in the law.



payment from cunning tax evaders to law-abiding citizen.

1.2.3 Difference between Tax Avoidance and Tax Evasion

Table 1.2.1

Tax Avoidance	Tax Evasion
Lawful	Unlawful
The principles and intentions of the law are disregarded.	The provisions of the law are violated.
There is no possibility of imposing a penalty.	Person is responsible for paying a penalty and facing prosecution.
Illicit funds are not generated and do not pose a threat to society.	Illicit funds are generated and utilized for non-productive endeavors.

1.2.4 Difference between Tax Planning and Tax Avoidance

Table 1.2.2

Tax Planning	Tax Avoidance
The principles and intentions of the law are adhered to.	Tax can be minimized by exploiting legal loopholes.
Permanent.	Temporary

1.2.5 Difference between Tax Planning and Tax Evasion

Table 1.2.3

Tax Planning	Tax Evasion
The Act operates strictly within the boundaries defined by the legislation and is not a deceptive strategy to evade taxation.	The deliberate act of a taxpayer intentionally misrepresenting facts and falsifying accounts.
Contributes to the economic advancement of the nation.	Produce illicit funds that are used for activities such as smuggling and bribery.
The tax planner indulges in his fruits without any restrictions and does not experience hypertension.	Tax evaders constantly live in a state of apprehension regarding the possibility of being subjected to a search and seizure.

Legal rights refer to the entitlements and privileges that individuals possess under the law, while social responsibility pertains to the moral duty and obligation individuals have towards society.

Commission of a criminal act accompanied by punishment and legal proceedings within the jurisdiction of the nation.

1.2.6 Difference between Tax Planning, Tax Avoidance and Tax Evasion

Below are the major differences between tax planning, tax avoidance and tax evasion.

Table 1.2.4

Basis	Tax Evasion	Tax Avoidance	Tax Planning
Nature	Tax evasion is a prohibited strategy used to decrease or evade taxes.	Tax avoidance refers to the lawful practice of minimizing taxable income and reducing the amount of taxes owed.	Tax planning encompasses strategic measures and arrangements aimed at minimizing tax liabilities and maximizing financial savings.
Motive	The purpose of tax evasion is to completely evade taxes on income or revenue. Engaging in deceit towards the authorities is necessary in order to reduce the amount of money paid.	The tax avoidance motive involves employing legal strategies to decrease taxable income. Government sanctioned investments can be utilized to generate income while avoiding tax obligations.	The objective is to decrease tax burdens and increase disposable income.
Consequences	Tax evasion is a felonious act. The consequences for the individual can include imprisonment and monetary penalties.	Tax avoidance is a lawful practice that does not result in any penalties. Nevertheless, if the individual demonstrates inaccurate deductions, they may be subject to charges.	Engaging in tax planning is a lawful and highly recommended practice for both individuals and companies.

Timing	Tax evasion occurs after the taxpayer's income tax is required to be paid.	Tax avoidance occurs prior to the individual incurring tax liability.	Tax planning is conducted prior to the commencement of the assessment year. An individual has the ability to make the required financial commitments in order to minimize tax obligations.
Method	Illegal methods include actions such as hiding documents or failing to report income.	Legitimate methods of tax planning prior to the assessment year	Engaging in tax-exempt investments and utilizing deductions for tax purposes.
Example	Engaging in income underreporting or concealing cash transactions when filing tax returns.	Investing in employee provident fund and National savings certificate.	Allocation of funds to the employee provident fund

1.2.7 Tax Planning for Individuals

1.2.7.1 Tax Planning based on residential status

An individual must not exceed a stay of 182 days in India during the preceding year, as exceeding this duration would classify them as a resident in India. If an Indian citizen is leaving India for employment reasons, they must not remain in India for more than 182 days in the preceding year. If an individual has spent 365 days or more in India within the four years prior to the previous year, they must not exceed a stay of 60 days in India during the previous year, otherwise they will be considered a resident of India. Individuals who are classified as Not Ordinarily Resident or Non-Resident are not eligible to receive foreign income in India. If he receives it in India, it will be included in his income based on the income received in India. If an Indian citizen or a person of Indian origin visits India, they should not exceed a stay of 182 days during the preceding year. In order to stay in India for more than 182 days, he must arrange his stay over two consecutive years, with each year consisting of 182 days.

- ◆ Resident, Not Ordinarily Resident, Non Resident

1.2.7.2 Tax Planning in Relation To Salaries

- ◆ House Rent Allowances versus Rent Free House

When an employer offers the choice between a rent-free house or a house rent allowance, the employee should assess their tax

- ◆ Assess tax liability

liability before making a decision. In certain instances, the provision of a house rent allowance can be advantageous, while in other cases, the provision of a rent-free house can be beneficial.

- ◆ Encashment of Earned Leave

Earned leave may not be encashed during the period of employment because it is added full in salary income. This may be encashed after resignation or retirement from employment or retirement. In this case, a major part of the amount would be exempted as provided in section 10(10AA).

- ◆ Resignation or Retirement

- ◆ Allowances Versus Facility

The exemptions may be granted generously. If an allowance is subject to full taxation and it is possible to offer a substitute facility instead of providing the allowance, then the facility should be provided. As an alternative, meals and refreshments can be provided instead of a lunch allowance.

- ◆ Exemptions

- ◆ Savings and investment

To obtain a deduction under Section 80C, an employee should save and invest in notified schemes. The transport allowance for individuals without disabilities will not be exempt if it exceeds Rs 1,600 per month (No exemption w.e.f. AY 2019—20). Medical expenses up to Rs 15,000 will not be eligible for reimbursement (w.e.f. AY 2019-20). An allowance of up to Rs 50,000 shall be permitted as a standard deduction from salary income.

- ◆ Save and Invest

- ◆ Salary versus fringe benefit

An employer has the option to decrease the cash portion of an employee's salary and instead offer fringe benefits that have a lower taxable value compared to the actual expenses incurred. Nevertheless, the monetary worth of specific benefits shall be included in the employee's salary income. Example: Car facility

- ◆ Cash portion, fringe benefits

- ◆ Advance salary versus loan

When an employee receives their salary in advance, it is included as part of the income for the previous year in which it was received. This results in an augmented tax burden for the employee. Therefore, instead of receiving an advance salary, one may opt to borrow from the employer, either interest-free or at a minimal interest rate. The loan amount is not included in the calculation of salary income for tax purposes. The disparity between the interest rate imposed by the State Bank of India (SBI) on a comparable loan and the interest paid by the employee on the loan amount will be considered as a taxable benefit.

- ◆ Borrow from employer

- ◆ Payment of part of salary in future

Some portion of the salary may be deferred and distributed at



◆ Retirement

a later time in the form of recognized provident fund, pension, and gratuity. Employer contributions to the provident fund, up to 12% of the employee's salary, are exempt from taxes. Additionally, the amount received from the fund is also exempt from taxes. Providing a pension may result in a decrease in the current salary. Upon retirement, the pension may be either tax-exempt or subject to a lower tax rate. Additionally, the commuted value of the pension and the gratuity amount are exempt from taxes upto certain limits.

◆ Allowances

Some allowances are completely exempt from taxation, while others are partially exempt and partially subject to taxation. Therefore, in order to decrease the amount of taxes owed, one may claim the following allowances from their employer.

◆ Educational allowance

1. An education allowance is exempt from taxes if it is given to support academic, research, and training activities at educational and research institutions. The exemption only applies to the actual expenses incurred for these purposes.

◆ Hostel expenses

2. The allowance for hostel expenses for children is exempt from taxes. This exemption applies to a maximum of two children and up to Rs 300 per child per month.

◆ House rent allowance

3. The children education allowance is exempt up to Rs 100 per month per child, with a maximum limit of two children.

4. The house rent allowance (HRA) received from an employer is exempt from taxes up to a specified limit.

◆ Uniform allowance

5. Uniform allowance refers to any allowance provided to cover the expenses related to the purchase or upkeep of a uniform worn during the performance of duties in a paid position. This allowance is exempt from taxation up to the amount actually spent for this purpose.

◆ Transport allowance

6. The transport allowance is an allowance given to an employee working in a transport system to cover their personal expenses while performing their duties in the transportation of goods or people from one location to another. This allowance is exempt from taxes up to 70% of the allowance amount or Rs 10,000 per month, whichever is lower. Nevertheless, if the employee receives a daily allowance, they are not eligible for exemption under this clause.

◆ Transport allowance exemption

7. Transport allowance, up to Rs 3,200 per month, will be exempt for employees who are blind, deaf and dumb, or orthopedically handicapped with lower extremity disabilities. This allowance is intended to cover the cost of commuting between their place of residence and their place of duty.

1.2.7.3 Tax Planning in relation to income from house property

◆ Buy or build house property

◆ If the taxpayer has sufficient funds to buy or build the house, they should allocate the funds towards tax-exempt securities.

◆ Living in own house

◆ If a taxpayer has the choice between living in their own house or renting it out, they should choose to live in their own house. This is because the annual value of a self-occupied house is considered to be zero.

◆ House property bought on loan

◆ A residential property can be acquired or built by obtaining a loan. The entire amount of interest on the loan is eligible for deduction when calculating taxable income from the property. This will result in a decrease in his taxable income.

◆ More than two properties

◆ If a taxpayer is utilizing more than two properties for personal residence, they must transfer one property to their daughter-in-law without any payment. Currently, the three houses will be considered to have no monetary value on an annual basis.

◆ Allocation of funds

◆ If there is unpaid rent, the taxpayer should make an effort to meet the requirements of Rule 4 in order to be eligible for a deduction related to unpaid rent.

◆ Personal habitation

◆ If an individual desires to acquire or build a dwelling for their personal habitation, they should seek financial assistance to fulfill this objective. The deduction for interest is applicable up to Rs 2,00,000 when calculating his income. This loss can be offset by either the income from other properties or income from other sources. The deduction of losses from house property against any other category of income will be limited to Rs 2 lakh for each assessment year.

◆ Interest payable outside India

◆ If the taxpayer has taken a loan for buying or building the house and the interest is to be paid outside of India, the tax on the interest should be deducted at the source. Otherwise, the deduction for interest will not be permitted when calculating the income.

◆ House rented out

◆ If the house has been rented out and the rent includes the value of benefits provided by the landlord to the tenant, the agreement deed should explicitly state the amount allocated for these facilities. Otherwise, these expenses will not be considered when calculating the annual value of the house.

◆ The deduction for municipal tax is permitted only for actu-



◆ Municipal tax

◆ Rented Multiple properties.

◆ Deductible expenses exceeding annual value.

◆ Borrowing money from financial institution

◆ Avoid illegal expenses

al payments made. Therefore, it is advisable to pay the tax before the conclusion of the fiscal year, whenever feasible.

- ◆ If a taxpayer has rented out multiple properties, they should transfer one or more of these properties to family members with the lowest income. Nevertheless, he should refrain from transferring the house to his spouse, daughter-in-law, or a minor child, as this would trigger the application of clubbing provisions.
- ◆ If the total deductible expenses exceed the annual value, a loss will be incurred from the house property. This loss can be offset against Income from other properties and/or Income from other sources (up to Rs 2,00,000). If the entire loss cannot be offset, the remaining loss can be carried forward and offset against the income from house property in the subsequent eight assessment years.
- ◆ If he borrows money from a financial institution to buy a residential house property between 1-4-2019 and 31-3-2022, he will be eligible to deduct the interest paid up to Rs 1,50,000 under section 80 EEA.

1.2.7.4 Strategic tax planning for business or professional profits and gains

The businessman should choose a business in which the income is either exempt from taxation or eligible for deduction at a predetermined rate. For instance, in the context of the hotel industry, he will receive a deduction from his gross total income. If the entrepreneur requires capital, it would be more prudent for them to seek a loan from acquaintances or family members rather than accepting gifts. Loan interest is considered a deductible expense, which effectively lowers the amount of taxes owed. Payments for expenses exceeding Rs 10,000 must be made through an account using methods such as cheque, draft, or electronic clearing system. Failure to do so will result in the expense being considered disallowed. In order to be eligible for depreciation deduction for the entire year, an individual conducting business must acquire and utilize a building, plant, machinery, or furniture for a minimum of 180 days during the previous fiscal year. When it comes to expenses, he should avoid incurring any expenses that are not eligible for deduction when calculating business income. He should avoid incurring any expenses that are illegal. For instance, he should provide the employee with an Income Tax allowance, which can be deducted as an expense, rather than making direct tax payments.

The entrepreneur should meticulously choose a location for their business. If the business is situated in an underdeveloped

district, special category state, or a free trade zone, the owner is eligible for exemption or deduction under section 10AA/80IB/80 IC. This helps to decrease the amount of tax that needs to be paid.

1.2.7.5 Capital gains tax planning

If the asset is long – term capital asset, its cost of acquisition are indexed for computation of capital gains. So, as far as possible, assets should be transferred after holding 12/24/36 months. This will reduce the amount of capital gains.

The tax rate on long term capital gains is lower.

The capital gains may be invested in prescribed assets/bonds within the prescribed time to reduce tax.

If an investor wants to sell listed shares or units of an equity oriented mutual fund, he should sell after holding for more than twelve months. On such long-term capital gains the tax is 10% exceeding Rs 1,00,000. For short-term capital gains, the tax rate is 15% without any exemption.

1.2.7.6 Tax Planning in relation to income from other sources

Taxpayers subject to the highest tax rate should consider investing their funds in tax-exempt bonds.

1.2.7.7 Tax planning in the context of clubbing of income

It is advisable for an individual to transfer their property to their parents, brother, or sister rather than their spouse or daughter-in-law. The revenue generated from such property will not be counted as part of the transferor's income. A member of a Hindu Undivided Family (HUF) should refrain from transferring his property to the HUF of which he is a member. He should transfer the property to a Hindu Undivided Family (HUF) of which he is not a member. The revenue generated from such property will be excluded from his total income.

If a Hindu Undivided Family (HUF) wishes to decrease its tax obligation, the Karta (the head of the family) should transfer the property to the members of the HUF. The income derived from transferred assets will be excluded from the income of the Hindu Undivided Family (HUF). If an individual transfers his property to his spouse, minor children, or daughter-in-law, he should invest it in tax-exempt bonds or investments to generate income that is not subject to taxation. If such a situation arises, the responsibility of the person transferring the liability will not be heightened. The parents should transfer the property to their adult children rather than their underage children, in order to exclude the income generated from the property from their own taxable income. If the minor child has a disability, the property

◆ Investment in shares

◆ Transfer property to members

◆ Revenue generation



can be transferred to them. The revenue generated from such property will not be considered as part of the parent's income. If a minor child is assisting in the operation of a business, it is appropriate to provide them with a fair compensation. He is acquiring this income through manual labor. Therefore, this income will not be considered as part of the parent's income.

1.2.8 Business Entity Structure

A business entity can take the form of an individual, a Hindu undivided family, a firm, or a joint stock company. The most advantageous form of business organization from a tax perspective is one that incurs the least amount of tax liability.

I. Individual

An individual is required to pay taxes on their entire income according to predetermined rates, based on a system of income brackets. Nevertheless, he does not have the right to subtract any compensation for his own labor or interest on capital or personal loans invested in the business when calculating his business income. An individual is eligible for deductions under sections 80C, 80CCC, 80CCE, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80GG, 80U, 80TTA, and 80TTB from their gross total income.

♦ Pay tax on entire income.

II. Tax rates applicable to Individuals, Hindu Undivided Families (HUFs), Associations of Persons (AOPs), or Body of Individuals (BOIs)

- ▶ Individual---Senior Citizen (who is of the age of 60 years or more but less than 80 years at any time during the previous year and is a resident in India)

On Rs 3,00,000 ----NIL

Next Rs 2,00,000-----@5%

Next Rs 5,00,000-----@20%

Next --- Balance-----@30%

- ▶ An individual who is 80 years of age or older at any point during the previous year and is a resident of India is considered a super senior citizen.

For an amount of Rs 5,00,000, the tax liability is zero. The next amount of Rs 5,00,000 will be @ 20%. The next balance is at 30%.

- ▶ Other individuals, Hindu Undivided Family (HUF), Association of Persons (AOP), or Body of Individuals (BOI)
For an amount of Rs 2,50,000, the tax liability is zero.

The next amount of Rs 2,50,000 @ 5%.
 The next amount is Rs 5,00,000 @20%.
 The next balance is at 30%.

Income Tax Slab for Individuals or HUF under Section 115BAC of the New Tax Regime for Assessment Year 2023-24.

Table 1.2.5

Total Income	Applicable Tax Rate
Upto Rs 2,50,000	Nil
Rs 2,50,001 to Rs 5,00,000	5%
Rs 5,00,001 to Rs 7,50,000	10%
Rs 7,50,001 to Rs 10,00,000	15%
Rs 10,00,001 to Rs 12,50,000	20%
Rs 12,50,001 to Rs 15,00,000	25%
above Rs 15,00,000	30%

Income Tax Slab for Individuals or HUF under Section 115BAC of the New Tax Regime for Assessment Year 2024-25.

Table 1.2.6

Total Income	Applicable Tax Rate
Upto Rs 3,00,000	Nil
Rs 3,00,001 to Rs 6,00,000	5%
Rs 6,00,001 to Rs 9,00,000	10%
Rs 9,00,001 to Rs 12,00,000	15%
Rs 12,00,001 to Rs 15,00,000	20%
above Rs 15,00,000	30%

Individuals and Hindu Undivided Families (HUFs) who choose to avail the option under section 115BAC are exempt from paying Alternate Minimum Tax. An individual or Hindu Undivided Family (HUF) without any business income can select one of two tax regimes annually based on their tax liability under each regime. Nevertheless, once an individual or Hindu Undivided Family (HUF) has chosen to exercise the option, it is not possible to retract it in relation to their business income. If an option is exercised in this situation, it will be valid for all future assessment years and can only be withdrawn once for a previous year, excluding the year in which it was exercised. After that, the individual or HUF will no longer be eligible to exercise this option, unless they no longer have any business income.

III. Alternate Minimum Tax (Sec 115JC to 115JF)

Alternative Minimum Tax (AMT) is a tax provi-



◆ Follow relevant provisions

sion outlined in sections 115JC to 115JF of the tax code. Individuals who are not part of a company are required to pay Alternative Minimum Tax (AMT) if the income tax they owe on their total income for a previous year, as per the regulations of the Income Tax Act, is lower than the AMT they owe for that same year. This applies if they have claimed deductions under Sections 80IA, 80IAB, 80IAC, 80IB, 80IBA, 80IC, 80IE, 80JJA, 80LA, 80QQB, 80RRB, or 10AA.

An Individual, Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI), or Artificial Juridical Person will not be subject to Alternative Minimum Tax (AMT) if their adjusted total income is less than Rs 20 lakh. Every individual subject to Alternative Minimum Tax (AMT) must obtain a report in the specified format from a Chartered Accountant and submit it electronically. This report must certify that the adjusted total income and AMT have been calculated in accordance with the relevant provisions.

The adjusted total income is considered to be the total income. The taxpayer is required to pay tax at a rate of 18.5% on the adjusted total income. Additionally, a surcharge of 10%, 15%, 25%, or 37% is applicable depending on whether the taxpayer is an individual, HUF, AOP, BOI, or in case of firm @ 12% if such income exceeds Rs 1 crore plus Health and Education Cess @ 4%.

Calculation of Adjusted Total Income under Section 115JC (2)

Table 1.2.7

	Aggregate earnings of the individual	xxxxx
Add	Deductions can be claimed from the gross total income for specific types of income under sections 80IA, 80IAB, 80IAC, 80IB, 80IBA, 80IC, 80IE, 80JJA, 80LA, 80QQB, or 80RRB.	xxxxx
Add	Deduction claimed under section 10AA for newly established units in Special Economic Zones.	xxxxx
	Deduction claimed u/s 35AD as reduced by the amount of depreciation allowable u/s 32	xxxxx
	Adjusted Total Income	xxxxx

IV. Income Tax Rebate

A resident of India with a total income not exceeding Rs 5,00,000 is eligible for a deduction of up to Rs 12,500 from their

income tax liability for any given assessment year.

V. Marginal Relief

◆ Total income exceed the prescribed limit

Marginal relief serves the purpose of preventing the amount of tax payable from exceeding the increase in total income when the income of an individual surpasses the prescribed limit. Health and education cess will not be eligible for marginal relief. The health and education cess is levied at a rate of 4% on the total amount of income tax and surcharge.

Table 1.2.8

Income	Marginal Relief
Surpassing 50 lakh rupees	The combined income tax and surcharge payable on such income shall not exceed the income tax payable on a net income of Rs 50 lakh by an amount greater than the income that exceeds Rs 50 lakh.
Exceeding Rs 1 Crore	The combined income tax and surcharge payable on such income shall not exceed the combined income tax and surcharge payable on a net income of Rs 1 Crore by an amount greater than the income that exceeds Rs 1 Crore.
Exceeding Rs 2 Crore	The combined income tax and surcharge payable on this income shall not exceed the combined income tax and surcharge payable on a net income of Rs 2 Crore by an amount greater than the income that exceeds Rs 2 Crore.
Exceeding Rs 5 Crore	The combined income tax and surcharge payable on such income shall not exceed the combined income tax and surcharge payable on a net income of Rs 5 Crore by an amount greater than the income that exceeds Rs 5 Crore.

1.2.9 Hindu Undivided Family (HUF)

◆ Tax on entire in-come

The term "Hindu Undivided Family" refers to a legal entity in Hindu law that consists of a family unit, where the members are all related and living together. A joint Hindu family is liable to pay taxes on its entire income according to the prescribed rates based on a slab system. The family has the ability to provide fair compensation to the Karta and other family members for their services to the business, and this compensation can be deducted when calculating the business income. Nevertheless, the interest on capital contributed by the coparceners for the business cannot be deducted when calculating business income. The family member who has received remuneration from the

family will report it as income under the category of Salaries. A Hindu Undivided Family (HUF) is eligible for the following deductions from its gross total income.

◆ Maximum limit for life insurance premiums, PPF

Section 80 C --- The maximum limit for life insurance premiums, public provident fund, NSC housing loan, etc., is Rs 1,50,000 under section 80C.

◆ Deduction limit for insurance premium

Section 80D --- The tax deduction limit for insurance premiums paid for the health of oneself, spouse, and dependent children, as well as contributions made to the Central Government Health Scheme, is up to Rs 25,000. Additionally, a separate limit of up to Rs 25,000 is applicable for insurance premiums paid for parents. The deduction of up to Rs 50,000 can be claimed when the premium is paid for a senior citizen.

◆ Medical treatment and maintenance expenses.

Section 80DD --- Regarding medical treatment and maintenance expenses for a dependent who is a person with disability, an amount of Rs 75,000 is deposited. In cases of severe disability, the amount deposited is Rs 1,25,000.

◆ Expenses on medical treatment.

Section 80DDB --- pertains to the deduction of expenses incurred on medical treatment of a specified disease or ailment, either for oneself or for a dependent. The deduction is limited to the amount paid, which should not exceed Rs 40,000. For senior citizens, the maximum amount paid is Rs 1,00,000 or less. For super senior citizens, the maximum amount paid is Rs 1,00,000 or less. The aforementioned sum shall be reduced by any amount received from an insurance company or reimbursed by an employer, and the remaining balance shall be eligible for deduction.

◆ Interest earned on savings bank a/c.

Section 80TTA --- refers to the provision in the Indian Income Tax Act that allows individuals to claim a deduction for the interest earned on their savings bank account, up to a maximum of Rs 10,000.

◆ Working Partners

1.2.10 Firm/Limited Liability Partnership

The partnership deed specifies the interest rate for capital or loans provided to the firm, which should not exceed 12% per annum. The partnership deed specifies that working partners will receive remuneration, which should not exceed the limits set on the first Rs 3,00,000 of the book profits. This remuneration will be calculated at 90% of the book profits or Rs 1,50,000, whichever amount is higher (unless 90% of the book profits is less than Rs 1,50,000 or there is a loss). The book profits are distributed at a rate of 60%.

As an individual, a partner must include the interest and remuneration received from the firm in their income under the category of Profits and Gains of Business or Profession. Under

section 10(2A), a partner's portion of the firm's total income is not subject to taxation. The partner has the right to claim deductions under sections 80C, 80CCC, 80CCE, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80GG, 80U, 80TTA, and 80TTB from their gross total income. If a firm's total income exceeds Rs 1 crore, it is obligated to pay a surcharge of 12%. The firm is obligated to pay a Health and Education cess at a rate of 4%. The concept of marginal relief, which is applicable to individuals, also applies to firms.

1.2.11 Company

A domestic company is obligated to pay taxes at a rate of 25% if its total turnover or gross receipts in the previous year 2021 – 22 do not exceed Rs 400 crore. In any other case, the tax rate is 30%. The surcharge is 7% if the total income is greater than Rs 1 Crore but less than or equal to Rs 10 crore. If the total income exceeds Rs 10 Crore, the surcharge is 12%. When calculating the company's business income, the company is allowed to subtract the full amount of interest paid on loans taken for business purposes, as well as the compensation paid to the managing director, directors, and other employees. In addition, a company is eligible for a higher deduction under section 80IB compared to other individuals. However, the amount of dividends distributed on its share capital cannot be subtracted when calculating the company's income. If a shareholder of the company has provided a loan to the company or is employed by the company, the interest income and salary will be considered as part of their income under the relevant categories. In addition, a shareholder who is an individual or Hindu Undivided Family (HUF) is eligible for the same deductions from their gross total income as specified for individuals or HUFs.

- ◆ Tax on total turnover or gross receipts

1.2.11.1 Marginal Relief

If the total income is more than Rs 1 Crore but less than Rs 10 crore, the combined income tax and surcharge payable on that income should not exceed the income tax payable on a total income of Rs 1 Crore by an amount greater than the income that exceeds Rs 1 Crore. When the total income surpasses Rs 10 Crore, the combined income tax and surcharge payable on that income should not exceed the combined income tax and surcharge payable on a total income of Rs 10 Crore by an amount greater than the income that exceeds Rs 10 Crore.

Taxes imposed on domestic businesses:

If a domestic company meets certain conditions, it has the option to pay tax at a rate of 25%.



- ◆ The company was established and officially registered on or after March 1, 2016.
- ◆ The company is exclusively involved in the manufacturing or production of specific articles or things, as well as conducting research and distributing the products it manufactures or produces.
- ◆ The company has not utilized any deductions from its income under various sections of the tax code, including section 10AA for units in Special Economic Zones, Section 32(1)(ia) for additional depreciation on plant or machinery, Section 33AB for deposits in the Tea Development Account, Section 33ABA for production of petroleum or natural gas in India, Section 35 for payments to outsiders for research or expenditure on in-house research, Section 35AD for capital expenditure on specified business, Section 35CCC for expenditure on agricultural extension projects, and Section 35CCD for expenditure on skill development projects. The only deduction that will be allowed is the deduction under Section 80JJAA. A brought forward loss refers to a loss that can be attributed to any of the aforementioned deductions. Additionally, this loss cannot be carried forward and offset in any future year. The calculation of depreciation under Section 32 will be determined according to the prescribed method for this section. Depreciation will be permitted at the designated rate, up to a maximum of 40% of the remaining value. The choice to fulfill tax obligations as outlined in this section must be carried out in the prescribed manner by the specified due date mentioned in Section 139(1) for submitting the initial income return. Once the option has been exercised for a specific year, it is not possible to retract it for that year or any other previous year.

◆ Tax on total turnover or gross receipts

◆ Reduction in tax obligation

◆ Deduction of expenses

1.2.11.2 Tax Liability Determination of Firm and Company

- ◆ Tax-free income: If a company is eligible for deductions under Sections 80IA, 80IB, etc., it cannot lower its tax liability by deducting the interest paid to money lenders and employee salaries before calculating its taxable income. Alternatively, a firm can stipulate in the partnership agreement that partners will not receive any interest on loans or capital they provide, and working partners will not be compensated. This will decrease the tax obligation of the firm and its partners.
- ◆ Remuneration: A business is free to give its employees whatever compensation they see fit, and that pay is deducted from its income. However, a partnership firm is allowed

to deduct expenses for paying its working partners' salaries in accordance with Section 40(b). This raises a firm's tax obligation.

◆ Ability to compensate

- ◆ Interest: A company has the ability to compensate its shareholders for loaning money by paying them interest at a rate determined by the company. However, a firm is not allowed to subtract interest on a loan obtained from its partners that exceeds an annual rate of 12% when calculating its income. This could potentially result in an elevated tax burden for the firm.

◆ Deduction on expenses on family planning

- ◆ Capital expenses for family planning: A company is eligible to receive a deduction under Section 36(1)(ix) for capital expenditure on family planning. This deduction is spread out over five equal installments, starting from the previous year in which the expenditure was incurred. However, a firm has the right to assert depreciation on the asset obtained for the purpose under Section 32. The disparity between the two totals could potentially augment the tax obligation of a firm.

◆ Capital withdrawal

- ◆ Withdrawal of Capital from business: Capital withdrawal from a business refers to the process of a shareholder choosing to no longer hold shares in the company and instead selling them. If he sells these shares 12 months after acquiring them, he will be eligible for indexation benefits and will be required to pay taxes on long-term capital gains at a reduced rate. If a partner chooses to withdraw from the firm, they will forfeit the privilege of receiving indexation on their invested amount. This will result in an increase in his tax obligation.

1.2.11.3 Planning and Managing Taxes

◆ Interest to partners

- ◆ In order to minimize the tax burden, the firm should provide partners with interest and compensation that can be deducted under Section 40(b).
- ◆ A firm has the option to provide interest to its partners based on their capital contribution or loan, with a maximum interest rate of 12% per annum. Interest rates exceeding 12% are considered ineligible expenses. In order to prevent this limitation, the partners can adopt an inter-deposit of funds scheme. Consequently, partners from one firm have the option to place their funds in another firm, and vice versa.
- ◆ If a firm pays a nominal salary to its partners and later decides to change its organizational structure from a partnership firm to a private or public company, while keeping the

remuneration for directors the same as that of partners, there will be no tax advantage.

♦ Meticulous examination

- ♦ If a deduction from gross total income is permitted for a specific number of assessment years, it is advisable to start the business at the beginning of the year in order to fully benefit from the deduction.
- ♦ The tax rates that apply to a Hindu Undivided Family (HUF) are identical to those that apply to an individual. However, every individual case necessitates a meticulous examination in order to obtain the utmost tax advantage.
- ♦ Considering the exemption limit applicable to firms, it is advisable to dissolve the firm and commence the business as an individual. If individuals and financial resources are necessary, the former partners can be hired as employees of the concern and their invested funds can be obtained as a loan. Interest on such loans would be eligible for deduction. Consequently, both the firm and the partners can significantly reduce their tax burden. If more owners capital is needed he can personally borrow from former partners and record this amount as his capital in the business's books.
- ♦ The tax rate for both firms and domestic companies is nearly equivalent to 30%. A surcharge of 12% will be applied if the total income of a firm exceeds Rs 1 Crore. For a domestic company, the surcharge rate is 7% if the total income is more than Rs 1 Crore but less than or equal to Rs 10 Crore, and 12% if the total income exceeds Rs 10 Crores. The health and education cess is set at a rate of 4%. If a firm disallows a portion of the remuneration, benefit, or perquisite given to partners when calculating its income, both the firm and its partners will have a higher tax liability compared to the tax liability of a company and its shareholders.

Summarised Overview

Tax evasion is the illegal and immoral act of reducing income by making false claims or withholding information to decrease tax liability. Tax avoidance is the strategic practice of minimizing tax liability within legal regulations, using legal loopholes to avoid or minimize liability. It generates unfairness, inequality, and leads to inflation. In India, tax planning, tax avoidance, and tax evasion are distinct concepts. Resident individuals must stay in India for at least 182 days, while non-residents must stay for 60 days or less. Salaries can be taxed based on residential status, and earned leave can be exempted after resignation or retirement. Allowances can be partially or fully exempt from

taxation, such as education allowances, hostel expenses, uniform allowances, transport allowances, and transport allowances for employees with disabilities. Understanding these differences can help individuals make informed decisions about their tax liabilities and potential tax implications. Understanding taxes requires a grasp of the essential concept of tax planning. It assists in formulating strategies to reduce responsibilities and conserve finances. That income can be utilized to enhance one's lifestyle or invest in a business. Therefore, tax planning is essential for both individuals and the overall economy. Tax planning is an essential financial tactic used by individuals and businesses to reduce their tax burden while remaining compliant with legal requirements. It encompasses various tactics and factors aimed at maximizing the administration of earnings, deductions, credits, and investments. Efficient tax planning can result in multiple advantages, such as safeguarding assets, attaining financial objectives, and mitigating financial vulnerability.

Self-Assessment Question

1. What economic impacts can arise from widespread tax avoidance?
2. Why is it considered unethical for tax evaders to shift their tax responsibilities onto law-abiding citizens?
3. What is tax evasion and how does it differ from tax avoidance?
4. How do direct tax laws penalize individuals who evade taxes?
5. What type of business income is preferable for the businessman in terms of taxation?
6. Who is eligible to receive compensation for their services to the business within a Hindu Undivided Family?
7. Under what circumstances can parents transfer property to a minor child without it being included in their taxable income?

Assignments

1. Describe the aspects of Tax Planning for Individuals.
2. Critically analyze the significance of tax evasion and avoidance.
3. Make a brief description of nature and scope of Tax Planning and Management.



Suggested Reading

1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
3. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
4. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
5. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya Bhawan Publications.

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1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
3. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
4. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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02 BLOCK

Tax Planning and Assessment of Individuals and Firms

Block Content

Unit - 1 Assessment of Individuals

Unit - 2 Assessment of Firms

Unit 1

Assessment of Individuals

Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ be aware of the scope of Income and Tax Incidence on Individuals
- ◆ get an idea on the steps for computation of taxable income
- ◆ familiarise with the Tax Planning of individual

Background

India's income tax system is a crucial tool for achieving balanced socioeconomic growth by providing concessions and incentives for various developmental objectives. Individuals with taxable income exceeding the minimum threshold are required to remit income tax in the current financial year on the income from the prior financial year, according to the rates applicable in the current financial year. The Annual Finance Act establishes tax rates, and tax is imposed on every person as stipulated in section 2(31). Income tax is levied on the total income of every person calculated in accordance with the provisions of this Act.

In India, income encompasses various categories such as profits and gains, dividends, voluntary contributions received by trusts established for charitable or religious objectives, scientific research associations, sports associations or institutions, universities or educational institutions, hospitals or similar institutions, or electoral trusts. The value of any perquisite or profit in lieu of salary taxable under the category Income from Salaries, special allowances or benefits specifically provided to the assessee to cover expenses incurred wholly, necessarily, and exclusively for the execution of duties, an allowance granted to the assessee to address personal expenses at the location of duty or to compensate for increased living costs, the value of any benefit or perquisite received by any assessee, any sum subject to income tax under the category Profits and Gains of Business or Profession, capital gains, the profits and gains from any insurance business conducted by a mutual insurance company or a cooperative society, or winnings from lotteries, crossword puzzles, horse races, card games, and other forms of gambling or betting. The gross total income refers to the sum of income derived from five distinct sources: Income from salaries, Income from house property, Profits and gains from



business or profession, Capital gains and Income from other sources. Total income refers to the sum remaining after applying deductions under sections 80C to 80U from the gross total income. The twelve-month period beginning on April 1st and ending on March 31st of the following year is the period in which an assessee is obligated to remit tax on the income earned in the preceding year.

Keywords

Income, Heads of Income, Deduction, Tax Liability

Discussion

2.1.1 Income

Income tax serves as a crucial instrument for attaining balanced socioeconomic growth by offering concessions and incentives for various developmental objectives. Individuals whose taxable income for the preceding financial year surpasses the minimum taxable threshold are obligated to remit income tax in the current financial year on the income from the prior financial year, according to the rates applicable in the current financial year. Income tax, as defined in Section 4, constitutes an annual levy imposed on income. The Annual Finance Act establishes tax rates. Tax is imposed on every person as defined in section 2(31). Income from the preceding year is subject to taxation in the subsequent assessment year at the rates pertinent to that assessment year. However, there are specific exceptions to this rule. Income tax shall be withheld at the source of income or remitted in advance as stipulated by the provisions of the Act. Tax is levied on the total income of every person calculated in accordance with the stipulations of this Act.

◆ Balanced So-
cio-Economic
Growth

2.1.2 Characteristics of Income Tax

- ◆ Central Tax – Levied and collected by the Central Government
- ◆ Direct Tax – A tax paid by the individual who ultimately bears the tax liability.
- ◆ Tax on Total Income/ Taxable Income -- Total Income is de-

terminated in accordance with the stipulations of the Income Tax Act.

- ◆ Progressive Tax Rates – The taxation on the aggregate income of an individual, Hindu Undivided Family (HUF), Association of Persons (AOP), or Body of Individuals (BOI) varies. As income rises, tax rates correspondingly escalate. The rate varies from 5% to 30%.
- ◆ Surcharge – Levied on the income tax amount. A surcharge of 10% applies to individuals, HUF, AOP, or BOI if total income exceeds Rs 50 lakh but does not exceed Rs 1 crore; a surcharge of 15% if total income exceeds Rs 1 crore but does not exceed Rs 2 crore; a surcharge of 25% if total income exceeds Rs 2 crore but does not exceed Rs 5 crore; and a surcharge of 37% if total income exceeds Rs 5 crore. If a firm's total income surpasses Rs 5 crore, a surcharge of 12% will be applied. For domestic companies, a surcharge of 12% applies if total income exceeds Rs 10 crore.
- ◆ Health and Education Cess --- 4% of the total income tax, inclusive of surcharge.
- ◆ Administration – Enforced and collected by the income tax department operating under the jurisdiction of the Central Board of Direct Taxes.
- ◆ Tax Exempt Threshold – If income surpasses the tax-exempt threshold, taxation is applied. Senior citizen (resident) aged 60 years or older but less than 80 years at any point during the preceding year, Rs 3 lakh. A super senior citizen (resident) aged 80 years or older at any point during the preceding year is entitled to Rs 5 lakh. AOP, BOI, and other individuals amounting to Rs 2,50,000. For firms, companies, and local entities, it is zero.
- ◆ The allocation of income tax revenue collected by the Government is distributed between the Central and State Governments according to the Finance Commission's recommendations.

2.1.3 Definitions of terms

Key definitions of terms utilized in the Income Tax Act 1961 are defined in sections 2 and 3 of the Act.

► Income Section 2(24)

Income is a significant term within the Income Tax Act. Income encompasses profits and gains; Dividend; voluntary



- ◆ Derived from five sources
- ◆ Annual tax charged on income

contributions received by a trust established for charitable or religious objectives, or by a scientific research association, a sports association or institution, any university or educational institution, any hospital or similar institution, or an electoral trust. The value of any perquisite or profit in lieu of salary taxable under the category Income from Salaries; any special allowance or benefit specifically provided to the assessee to cover expenses incurred wholly, necessarily, and exclusively for the execution of duties; an allowance granted to the assessee to address personal expenses at the location of duty or to compensate for increased living costs; the value of any benefit or perquisite received by any representative assessee; any sum subject to income tax under the category Profits and Gains of Business or Profession; any capital gains; the profits and gains from any insurance business conducted by a mutual insurance company or a cooperative society; any winnings from lotteries, crossword puzzles, horse races, card games, and other forms of gambling or betting.

► **Gross Total Income Section 80B (5)**

Gross total income refers to the sum of income derived from five distinct sources. The income for each category is calculated after applying allowable deductions specific to that category. Subsequently, carried forward losses will be subtracted to determine the assessable income. There are five categories of income: Income from salaries, Income from house property, Profits and gains from business or profession, Capital gains, and Income from other sources.

► **Total Income Section 2(45)**

Total Income refers to the sum remaining after applying deductions under sections 80C to 80U from the gross total income. The resultant sum is rounded to the nearest multiple of Rs 10.

2.1.4 Difference between Gross Total Income and Total Income

Table 2.1.1

Gross Total Income	Total Income
The sum of diverse income sources is referred to as Gross Total Income.	After deductions under sections 80C to 80U, the remaining amount is referred to as Total Income.
GTI is not approximated.	Total Income is rounded to the nearest multiple of Rs 10.

Tax is not imposed on Gross Total Income.	Tax is assessed on Total Income at the specified rates.
The Gross Total Income cannot be smaller to the Total Income	Total Income may be equivalent to or less than Gross Taxable Income (GTI)
Agricultural income is not included in the Gross Taxable Income (GTI)	If agricultural income surpasses Rs 5,000, it is incorporated into the Total Income of an individual or Hindu Undivided Family (HUF) to ascertain the tax liability of the assessee.

◆ Income earned in the preceding

► Assessment Year Section 2(9)

The twelve-month period beginning on April 1st and concluding on March 31st of the following year. An assessee is obligated to remit tax on the income earned in the preceding year during the subsequent financial year.

◆ Income generated period

► Previous Year Section 3

The year in which income is generated is referred to as the previous year, while the subsequent year in which this income is subject to taxation is termed the assessment year. Income tax is levied on the total income of the preceding year at the rates stipulated by the applicable Finance Act for the assessment year. The financial year concluding on 31st March will be consistent with the previous year for all assesseees and all income sources.

2.1.5 Difference between the Previous Year and the Assessment Year

Table 2.1.2

The Previous Year	The Assessment Year
Section 3 of the Income Tax Act pertains to the Previous Year.	Section 2(9) of the Income Tax Act pertains to the Assessment Year.
Refers to the financial year directly preceding the assessment year.	Refers to the twelve-month period beginning on April 1st each year and concluding on March 31st of the following year.
The previous year may consist of fewer than 12 months for newly established businesses or professions.	The Assessment Year will consistently span a period of 12 months.



The year during which income is generated is referred to as the Previous Year.	The subsequent year in which the preceding year's income becomes taxable is referred to as the Assessment Year.
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► Person Sec 2(31)

A person encompasses an individual, a Hindu Undivided Family, a company, a partnership, an Association of Persons (AOP) or Body of Individuals (BOI), whether incorporated or not, a local authority, and any artificial juridical entity or human being, including male, female, minor child, or mentally incapacitated individual.

2.1.6 Heads of Income

The total income is calculated based on the residential status of the taxpayer. Income is categorized into five distinct classifications:

◆ Five heads of income

- ◆ Income from Salaries
- ◆ Income from House Property
- ◆ Profits and Gains of Business or Profession
- ◆ Capital Gains
- ◆ Income from Other Sources

2.1.7 Procedure for computing total income and tax payable by an assessee

- i. Categorize the income into each of the five classifications and subsequently subtract the allowable deductions for each category as stipulated by the Act. The remaining balance under each category of income constitutes its assessable income.
- ii. The sum of the assessable income from each category, or the total of all such assessable incomes, is referred to as the Gross Total Income.
- iii. Deduct the allowable deductions under sections 80C to 80U of the Act from the Gross Total Income to calculate the total income. The remaining amount after deducting permissible expenses is referred to as Total Income.
- iv. The income tax liability is subsequently determined based on the total income in accordance with the rates established by the Finance Act for the pertinent assessment year and the rates specified under various sections of the Act.

► Computation of Total Income of an Individual

Table 2.1.3

1	Income from Salaries	xxx
2	Income from house property	xxx
3	Profits and Gains of Business or Profession	xxx
	Capital Gains:	xxx
4	Long Term Capital Gains Short Term Capital Gains	
	Income from Other Sources	
5	Casual Income (lottery, card game, horse race , betting) Other Incomes	xxx
	Gross Total Income	xxx
	Less: Deductions u/s 80C to 80U	xxx
	Total Income	xxx

2.1.8 Agricultural Income Section 2(1A)

◆ Rent or revenue generated from land located in India

Agricultural income refers to any rent or revenue generated from land located in India that is utilized for agricultural activities. It may encompass any revenue generated from a farmhouse. Any revenue generated from such land through agricultural activities, or any method employed by the cultivator or recipient of rent in kind, which prepares the produce for marketability or the sale of such produce.

2.1.9 Non-Agricultural Income

The following incomes are not generated from land utilized for agricultural purposes and are classified as non-agricultural incomes:

- ◆ Revenue from fisheries
- ◆ Revenue generated by the purchaser of a mature harvest
- ◆ Revenue from stone quarries
- ◆ Revenue generated from the sale of land for brick production
- ◆ Revenue from dairy farming and poultry farming
- ◆ Revenue from markets
- ◆ Revenue from mining royalties
- ◆ Revenue from cultivated grass, trees, or bamboo

- ◆ Dividend from an agricultural enterprise
- ◆ Revenue derived from interest on overdue agricultural land rent
- ◆ Revenue derived from land utilized for the storage of agricultural products
- ◆ Revenue generated from the supply of water for irrigation purposes.

2.1.10 Partly Agricultural income and Partly Non-Agricultural Income

To ascertain the non-agricultural income subject to taxation, the market value of any agricultural produce cultivated by the assessee and employed as raw material in the business shall be subtracted. No additional deductions will be permitted for the cultivation expenses incurred by the taxpayer as a cultivator. For this purpose, market value shall be defined as follows:

- ◆ For agricultural produce typically sold in the market, the value shall be determined based on the average price at which it was sold during the pertinent preceding year.
- ◆ In cases where agricultural produce is not typically sold in the market, its market value shall be determined by the sum of the cultivation expenses, the land revenue or rent paid for the land utilized, and the profit deemed reasonable by the Assessing Officer.

2.1.11 Agricultural Income and Tax Liability

Agricultural income is completely exempt from income tax liability. However, agricultural income influences the taxation of non-agricultural income for individuals, Hindu Undivided Families, Associations of Persons, and Bodies of Individuals whose total income, excluding agricultural income, surpasses the minimum taxable threshold, provided that the net agricultural income exceeds Rs 5,000.

Table 2.1.4

Computation of Income Tax of an Individual having Agricultural Income	
Total Income	XXX
Add: Agricultural Income	XXX
Aggregate Income	XXX
Tax on Aggregate Income:	XXX

I. Tax on income liable to tax at special rates:	XXX
a) Casual income @ 30%	XXX
b) Tax on STCG u/s 111A @ 15%	XXX
c) Tax on LTCG @ 20%	XXX
II. Tax on balance of income (Aggregate income- Income in (I) at normal rates)	XXX
Less: Tax on Agricultural income (Net agricultural income+ Rs 2,50,000/3,00,000/5,00,000 at normal rates)	XXX
Less: Rebate u/s 87A	XXX
Add: Surcharge, if any	XXX
Add: Health and Education Cess @ 4%	XXX
Tax Liability	XXX
Less: Tax deducted at source	XXX
Less: Tax paid in advance	XXX
Net Tax Payable/Refundable	XXX

2.1.12 Residential Status of an Assessee

The extent of an assessee's total income, in conjunction with their residential status, is ascertained based on their residence in India during the preceding year. Residence and citizenship are distinct concepts. The imposition of tax is unrelated to citizenship. An Indian individual may be classified as a non-resident, while a foreign national may be deemed a resident for income tax purposes. A person's residence may vary annually, but citizenship cannot be altered on a yearly basis. An individual may be a resident in multiple countries for the same preceding year.

◆ Assessee's total income

2.1.13 Types of Residents

Assessee's are classified into three categories based on residence, namely,

- ◆ Persons who are residents in India are referred to as ordinarily resident.
- ◆ Persons who are not ordinarily resident in India.
- ◆ Persons who are classified as non-resident.

► Residential status of Individuals

- I. He is considered a resident of India in any preceding year if he fulfills at least one condition of Part I Section 6(1) and both conditions of Part II Section 6(6). To qualify as a resident, one must fulfill at least one of the fundamental criteria.



Basic Conditions Sec 6(1)

An individual is considered a resident of India in any preceding year if they meet at least one of the following fundamental criteria:

- ◆ He resided in India for 182 days or more in the preceding year, or
- ◆ He was present in India for a minimum of 365 days during the four years prior to the preceding year and spent at least 60 days in India during the preceding year.
- ◆ In the subsequent cases the duration of 60 days will be replaced by 182 days:
- ◆ An Indian citizen or a person of Indian descent residing outside India who visits India in any preceding year.
- ◆ An Indian citizen traveling abroad for employment permitted by the Central Government or serving as a crew member on an Indian vessel.
- ◆ The duration of 182 days will be substituted with 120 days for individuals whose total income, excluding foreign income, surpasses Rs 15,00,000.
- ◆ Both the arrival and departure days are to be included in the calculation of the total number of days spent in India. Residency in India need not be uninterrupted. An individual of Indian origin refers to someone whose parents or at least one grandparent was born in India. The residential status is unrelated to citizenship or place of birth.

Additional Conditions Sec 6(6)

- ◆ He must have resided in India for a minimum of two out of the ten years preceding the relevant previous year.
- ◆ He must have spent a cumulative total of 730 days or more in India during the seven years immediately preceding the relevant previous year.

II. Not Ordinarily Resident

An individual is considered not ordinarily resident in India if they meet any one of the primary conditions outlined in Section 6(1) but fail to meet both supplementary conditions specified in Section 6(6).

III. Non-Resident

An individual who fails to meet any of the fundamental criteria outlined in Section 6(1) is classified as a Non-Resident. In

this instance, supplementary conditions are inconsequential.

► Residential status of Hindu Undivided Family under Section 6(2)

The residential status of a Hindu Undivided Family (HUF) is contingent upon the locus of control and the status of the Karta. The locus of control and management is where the leader and their authority are located. The control and management do not need to be located at the site where the business or profession is conducted. The location of the business may differ from the site of its governance and administration.

I. Ordinarily resident

If the control and management of HUF affairs is entirely or partially located in India and the Karta meets the supplementary conditions, he is considered ordinarily resident.

Additional Conditions Sec 6(6)

He has resided in India for at least two of the ten years preceding the relevant previous year.

He has resided in India for a cumulative duration of 730 days or more during the seven years immediately preceding the relevant previous year.

II. Not Ordinarily Resident

If the control and management of HUF affairs is entirely or partially located in India and its Karta fails to meet both additional conditions, it is classified as Not Ordinarily Resident.

III. Non-Resident

If the control and management of HUF affairs is entirely located outside India, it is classified as non-resident.

► Residential status of Firm and Association of Persons

I. Resident

A firm and an Association of Persons (AOP) are considered residents of India in any given previous year if the control and management of their affairs is located wholly or partially in India during that year.

II. Non-Resident

A firm and an Association of Persons (AOP) are classified as non-resident in India for any given previous year if the control and management of their affairs are entirely located outside India during that relevant previous year.



► Residential status of Companies Sec 6(3)

I. Resident

A company is considered a resident in India during any preceding year if it is an Indian company or if its place of effective management is situated in India during that year. The place of effective management refers to the location where essential management and commercial decisions, crucial for the overall operation of an entity, are fundamentally made.

II. Non - resident

A company is classified as non-resident in any given year if it is not an Indian company or its place of effective management is not located in India during that year.

► Residential status of every other person Sec 6(4)

I. Resident

A local authority or artificial juridical person is considered a resident of India in any given previous year if the control and management of its affairs is located wholly or partially in India during that relevant previous year.

II. Non-Resident

A person is classified as a non-resident in India for any preceding year if the control and management of their affairs is entirely located outside India during that relevant year.

2.1.14 Scope of Income on the basis of Residence or Incidence of Tax

The extent and occurrence of taxation on the total income of the taxpayer are contingent upon their residential status, as well as the location and timing of income accrual or receipt.

I. Incidence of tax of Resident and Ordinarily Resident Sec 5(1)

The total incomes of ordinary residents are as follows:

- ◆ Is received or considered received in India during that year by or on behalf of such individual, regardless of where it accrued or originated.
- ◆ Accrues, arises, or is considered to accrue or arise to him in India during that year, regardless of where it is received.
- ◆ Accrues or arises to him outside India during that year.

II. Incidence of tax of Not ordinarily Resident

- ◆ Is received or deemed to be received in India in such year by or on behalf of such person, whether accrued or arisen anywhere.
- ◆ Accrues or arises or is deemed to accrue or arise to him in India during such year, whether received anywhere.
- ◆ Accrues or arises to him outside India from a business controlled in or a profession set up in India.

III. Incidence of tax of Non-Resident

- ◆ Is received or deemed to be received in India in such year by or on behalf of such person whether accrued or arisen anywhere
- ◆ Accrues or arises or is deemed to accrue or arise to him in India during such year, whether received anywhere.

Table 2.1.5

Income	Ordinarily Resident	Not Ordinarily Resident	Non-Resident
Income received in India whether accrued or arisen in India or outside India	Yes	Yes	Yes
Income deemed to be received in India whether accrued or arisen in India or outside India	Yes	Yes	Yes
Income accruing or arising in India whether received in India or outside India	Yes	Yes	Yes
Income deemed to accrue or arise in India whether received in India or outside India	Yes	Yes	Yes

Income received and accrued or arisen outside India from a business controlled from outside India or a profession set up outside India	Yes	No	No
Income received or accrued or arisen outside India from a business controlled in or a profession set up in India	Yes	Yes	No
Income received and accrued or arisen outside India from any other sources	Yes	No	No
Income accrued or arisen and received outside India in earlier years but later on remitted to India during the previous year	No	No	No

Illustration 2.1.1

The following are the particulars of Mr. X's incomes during the Previous Year 2023-24. Compute Gross Total Income of Mr. X for the Assessment Year 2024-25, if he is Ordinarily Resident, Not Ordinarily resident and Non-Resident.

1. Agricultural income from land situated in Jodhpur	50,000
2. Income from house property in India (computed)	10,000
3. Income from business in India	20,000
4. Income from a business in Japan which is controlled from there	15,000
5. Interest from a foreign company received in Singapore and deposited in a bank there	30,000
6. Interest received from a non-resident against a loan given to him to run a business in India.	4,000
7. Profit of a hotel business at New York	6,000
8. Royalty received from Mr. Y a resident for technical services provided to run a business outside India.	3,000

9. Profit from business in China received in India	10,000
10. Income from assets in Maldives received in India	5,000

Solution

Computation of Gross Total Income
for the AY 2024-25

Income		Ordinarily Resident	Not Ordinarily Resident	Non-Resident
1	Agricultural income from land situated in Jodhpur (Exempt)	----	----	----
2	Income from house property in India (computed)	10,000	10,000	10,000
3	Income from business in India	20,000	20,000	20,000
4	Income from a business in Japan which is controlled from there	15,000	----	----
5	Interest from a foreign company received in Singapore and deposited in a bank there.	30,000	----	----
6	Interest received from a non-resident against a loan given to him to run a business in India.	4,000	4,000	4,000
7	Profit of a hotel business at New York	6,000	----	----
8	Royalty received from Mr. Y a resident for technical services provided to run a business outside India.	3,000	----	----
9	Profit from business in China received in India	10,000	10,000	10,000
10	Income from assets in Maldives received in India	5,000	5,000	5,000
Gross Total Income		1,03,000	49,000	49,000

Illustration 2.1.2

The following are the particulars of Mr. A's incomes during the Previous Year 2023-24. Compute Gross Total Income of Mr. A for the Assessment Year 2024-25, if he is Ordinarily Resident, Not Ordinarily resident and Non - Resident.



1. Fees from an Indian Company carrying on business in Ireland for technical services rendered in Ireland having been directly deposited by the company in his bank account in India.	10,000
2. Untaxed income of the previous year bought in India during the previous year	25,000
3. Dividend from an Indian Company	10,000
4. Share of income from Indian Partnership firm	6,000
5. Income from sale of house property at Chennai	20,000
6. Income from a business in Dubai (Rs 40,000 the income from a business which is controlled from India is included)	60,000
7. Interest on Indian debentures	7,000
8. Income from salary in India	12,000
9. Gift from brother from London	50,000
10. Interest on the Sri Lanka Government securities, half of which received in India	10,000
11. Interest received from Mr. B a non-resident against a loan provided to him for a business carried on in India.	4,000

Solution

Computation of Gross Total Income
For the AY 2024-25

	Income	Ordinarily Resident	Not Ordinarily Resident	Non-Resident
1	Fees from an Indian Company carrying on business in Ireland for technical services rendered in Ireland having been directly deposited by the company in his bank account in India.	10,000	10,000	10,000
2	Untaxed income of the previous year bought in India during the previous year	----	----	----
3	Dividend from an Indian Company	10,000	10,000	10,000
4	Share of income from Indian Partnership firm (exempt)	----	----	----
5	Income from sale of house property at Chennai	20,000	20,000	20,000
6	i) Income from a business in Dubai ii) Business controlled in India	60,000	40,000	----

7	Interest on Indian debentures	7,000	7,000	7,000
8	Income from salary in India	12,000	12,000	12,000
9	Gift from brother from London (Exempt)	----	----	----
10	Interest on the Sri Lanka Government securities, half of which received in India	10,000	5,000	5,000
11	Interest deemed to accrue in India	4,000	4,000	4,000
Gross Total Income		1,33,000	1,08,000	68,000

2.1.15 Income from Salaries

- ◆ Monetary value of taxable benefits and facilities

Any compensation provided by an employer to an employee in exchange for services rendered is termed salaries, as per Section 17(1). It encompasses the monetary value of taxable benefits and facilities provided by the employer. Salary encompasses wages as well. Salary received as an advance or in arrears is subject to taxation if it is received in the preceding year. Salary income constitutes the primary category of income and is taxable under sections 15 to 17 of the Income Tax Act. Salary may be taxed on an accrual basis or on a cash basis, whichever occurs first. Salary is considered due when the employee acquires the entitlement to receive it. Salary is classified as being on a receipt basis when any payment or allowance made to an employee in the preceding year is not yet due or has not become due. Salary that has been taxed on an accrual basis cannot be taxed again on a cash basis. Salary may be payable either on the final day of the month or on the first day of the subsequent month. Salary includes:

- ◆ Wages
- ◆ Gratuity
- ◆ Annuity or Pension
- ◆ Advance Salary
- ◆ Encashment of earned leave
- ◆ Any fees, commission, perquisites or profit in lieu of salary.
- ◆ Annual accretion to Recognised Provident Fund
- ◆ Taxable portion of the transferred balance
- ◆ Contribution made by the Central Government to the Agniveer Corpus Fund account of an individual u/s 80CCH.

2.1.15.1 Key points regarding Salaries

1. A relationship of employer and employee is required for



the amount received to be classified under the category of salary. All servants are employees, whereas an agent may or may not qualify as an employee. If an employee performs any work for their employer that is unrelated to their service, the compensation for such work will not be classified as salary. For instance, remuneration received by a university instructor for examination duties from their university.

2. The pension received by an employee post-retirement is subject to taxation as salary.
3. Any remuneration received by a partner from the firm in which he is a partner is subject to taxation under the category of Profits and Gains of Business or Profession.
4. Any family pension received by the widow or legal heirs of a deceased employee is subject to taxation under the category of Income from Other Sources.
5. When a salary is disbursed tax-free, the employee must incorporate in their total income the sum of the net salary received and the tax remitted on their behalf by the employer, except as stipulated under Sec 10(10CC).
6. The salary of a Member of Parliament is subject to taxation under the category of Income from Other Sources.
7. Payments made by an employer to an employee following the termination of employment are subject to taxation under the category of Salaries.

- ◆ Annuity

Annuity received by an employee from their employer are subject to taxation under the category of Salaries. If received from the current employer, it is taxable as salary; however, if received from a former employer, it is taxable as profit in lieu of salary under section 17(3)(ii).

- ◆ Transferred Balance

Upon the initial recognition of an Unrecognised Provident Fund, the balance credited to the employees' provident fund account at that time is referred to as the Transferred Balance. The taxable segment of the employee's transferred balance will comprise the total annual accretions subject to taxation for each year of the unrecognized provident fund, assuming the fund has been recognized from its inception. This yearly accumulation constitutes a part of the employee's transferred balance.

- ◆ Pension

A pension is a regular payment provided by an employer to

an employee in recognition of prior service, payable post-retirement.

- ◆ Commuted Pension

When an employee relinquishes the right to receive a monthly pension, either wholly or partially, in exchange for a lump sum payment, it is referred to as Commuted Pension. The commuted value of a pension is exempt under section 10(10A), provided the following conditions are met:

- ◆ For Government employees –fully exempt.
- ◆ For others those who receive gratuity. 1/3 of the commuted value of pension which he is normally entitled to receive.
- ◆ For others those who do not receive gratuity, ½ of the commuted value of pension which he is normally entitled to receive.

- ◆ Gratuity Sec 10(10)

Gratuity is a compensation provided by the employer to an employee in recognition of the services previously rendered by the employee. Gratuity may be received by the employee upon retirement or by the legal heir in the event of the employee's death. Gratuity received by a retiring employee is taxable as Income from Salaries, while gratuity received by the legal heir of a deceased employee is taxable as Income from Other Sources. In both instances, gratuity is exempt up to a specified limit under section 10(10).

◆ Compensation provided by the employer to an employee

- ◆ All categories of Government employees and local authority employees are fully exempt from income tax on any death or retirement gratuity received. Section 10(10)(i).
- ◆ For non-government employees covered under Section 10(10)(ii) of the Payment of Gratuity Act 1972, the minimum of the following is exempt:
 - i. Gratuity actually received
 - ii. Notified limit of Rs 20,00,000
 - iii. 15 days salary based on salary last drawn for every completed year of service and part thereof in excess of six months. Computation of 15 days salary is computed by the following formula: Last Month Salary*15/ 26. Salary here means basic pay +Dearness Allowance. A period of more than 6 months will be taken as one year.



- ◆ For non-government employees, Section 10(10)(iii), not governed by the Payment of Gratuity Act 1972, exempts the lesser of the following:

- i. Gratuity actually received

- ii. Notified limit of Rs 20,00,000

- iii. one half months salary for each year of completed service. Calculation of $\frac{1}{2}$ months salary will be based on the average salary of last 10 months preceding the retirement or death as the case may be. Salary here means basic pay + dearness allowance given under the terms of employment + commission at a fixed percentage of turnover.

- ◆ Earned Leave Salary Sec 10(10AA)

An employee entitled to earned leave may utilize it in two manners. He may take leave similar to other types of leave, or an employee may forfeit his accrued leave in exchange for salary for that duration. This is referred to as leave encashment. The conversion of accrued leave into monetary compensation is referred to as leave salary. Entitlement to earned leave shall not surpass 30 days for each year of actual service. Leave encashment received while employed is entirely taxable. Leave encashment received upon retirement is exempt to the following extent:

- i. Fully exempt for Government employees

- ii. For non-government employees, exempt to the extent of the least of the following amounts:

- ◆ Amount actually received

- ◆ Notified limit of Rs 25,00,000

- ◆ 10 months average salary

- ◆ Average salary x Number of months leave due.

Leave due is calculated only for completed year of service. Salary includes basic salary + Dearness Allowance given under the terms of employment + Commission based upon a fixed percentage of turnover achieved by the employee.

- ◆ Allowances

Cash payments made by the employer to employees on a monthly basis, apart from salary, are referred to as allowances. From the perspective of income tax, there are three types of allowances:

◆ Cash payments made by the employer apart from salary

- ◆ Taxable Allowances
- ◆ Fully Exempted Allowances
- ◆ Allowances exempt up to Specified Limit

I. Taxable Allowance

- ◆ Dearness Allowance and Dearness Pay: Dearness Allowance is disbursed to employees to offset the increase in price levels. When dearness allowance is provided according to employment terms, it is incorporated into salary for calculating the exemption thresholds of house rent allowance, recognized provident fund, gratuity, and for assessing the value of a rent-free residence, as well as for retirement benefits considerations. When the entirety or a portion of the dearness allowance is transformed into dearness pay, it integrates into the basic salary.
- ◆ Tiffin Allowance for lunch and refreshments to the employees
- ◆ Servant Allowance
- ◆ City Compensatory Allowance
- ◆ Deputation Allowance is provided to an employee assigned from their permanent place of service to another institution on a temporary basis.
- ◆ Overtime Allowance
- ◆ Warden and Proctor Allowances are provided in educational institutions for serving in the capacities of warden or proctor.
- ◆ Family Allowance to armed personnel while on the field without family
- ◆ Project Allowance
- ◆ Marriage Allowance
- ◆ Rural Allowance
- ◆ Telephone Allowance
- ◆ Education Allowance
- ◆ Dinner Allowance
- ◆ Health Allowance
- ◆ Holiday Allowance



- ◆ Special Qualification Allowance
- ◆ Hill Allowance given to employees working in hilly areas if the place is located at less than 1000 meter height from sea level.
- ◆ Non practicing Allowance given to medical doctors who are in government service and are banned from doing private practice.

II. Fully Exempted Allowance

- ◆ Foreign allowances paid by the Government to employees posted abroad.
- ◆ Allowance paid by United Nation Organisation to its employees
- ◆ Sumptuary Allowances given to judges of High Court and Supreme Court.
- ◆ Per-diem Allowance paid for the purposes of use of hotel, boarding and lodging facilities to an employee.

III. Allowances exempt up to Specified Limit

A. House Rent Allowance Sec 10(13A)

- i. Employee who is residing in his own house or in a house where he does not pay any rent, entire HRA is taxable.
 - ii. Exempted upto the least of the following for those employees who is paying rent for residential accommodation:
 - ◆ Actual HRA received
 - ◆ Rent paid – 10% of salary
 - ◆ 50% of salary incase residing in Delhi, Mumbai, Chennai or Kolkata and 40% of salary in case residing other cities.
- ▶ Salary includes Basic Salary + DA (if form part of salary) + Commission (if fixed percentage of turnover).

B. Special Allowances incurred in the performance of duties of his office Sec 10(14)(i)

- ◆ Travel Allowance provided to cover the expenses incurred during tours or transfers is exempt up to the actual costs incurred.
- ◆ Conveyance Allowance granted to meet the expenditure in-

curred on conveyance in the performance of duties of an office or employment of profit is exempted up to actual expenses.

- ◆ The Daily Allowance provided during travel or transfer to cover standard daily expenses incurred by an employee due to absence from their usual place of duty is exempted up to the actual expenses incurred.
- ◆ The Helper Allowance, provided to cover expenses for a helper engaged in official duties, is exempt up to the actual costs incurred.
- ◆ Academic Allowance granted for encouraging the academic, research and other professional pursuits is exempted upto actual expenses.
- ◆ Uniform Allowance provided to cover expenses related to the acquisition or upkeep of uniforms worn while performing official duties is exempt up to the actual costs incurred.
- ◆ Children Education Allowance is exempt @ 100 per month per child up to a maximum of two children,
- ◆ Children Hostel Allowance is exempt @ 300 per month per child up to a maximum of two children.
- ◆ Transport Allowance is exempt up to Rs 3200 per month if the employee is blind or deaf and dumb or orthopedically handicapped with disability of lower extremities.
- ◆ Underground Allowance granted to an employee working in uncongenial, unnatural climate in underground mines will be exempt subject to a maximum of Rs 800 per annum.
- ◆ The Compensatory Field Area Allowance is exempt up to Rs 2,600 per month in designated regions of Sikkim, Arunachal Pradesh, Himachal Pradesh, Uttar Pradesh, Jammu and Kashmir, as well as throughout Manipur and Nagaland.
- ◆ Compensatory Modified Field Area Allowance is exempt up to Rs 1,000 per month, in specified areas of Punjab, Rajasthan, Sikkim, Himachal Pradesh, Arunachal Pradesh, Uttar Pradesh, Jammu and Kashmir, Haryana and West Bengal.
- ◆ Any special allowance, classified as counter-insurgency allowance, provided to armed forces personnel stationed away from their permanent location is exempt up to Rs 3,900 per month.



- ◆ Island duty allowance granted to the members of the armed forces in Andaman and Nicobar and Lakshadweep Group of Islands is exempt up to Rs 3,250 per month.
- ◆ Special Compensatory highly active field area allowance granted to the members of the armed forces is exempt up to Rs 4,200 per month in the whole of India.
- ◆ High altitude allowance granted to the members of the armed forces operating in high altitude areas is exempt up to Rs 1,060 per month for altitude of 9000 to 15000 feet. For altitude above 15000 feet is exempt up to Rs 1,600 per month.

Any allowance provided to an employee engaged in a transport system to cover personal expenses incurred while performing duties during transit from one location to another is exempt throughout India up to 70% of the allowance or Rs 10,000 per month, whichever is lower, on the condition that no daily allowance is received.

► Perquisites

A perquisite refers to any advantage associated with a position or office beyond salary or wages. It may be rendered in cash, in kind, or through services. If provided in kind, it must be quantifiable in monetary terms. Perquisite signifies a personal benefit. Perquisites may be categorized into the following types:

I. Tax free Perquisites

Tax-free benefits are not subject to valuation. The value of the following perquisites shall be excluded from an employee's salary income:

- ◆ Residential accommodation provided at site.
- ◆ Medical benefits
- ◆ Tax paid by the employer on the value of perquisites.
- ◆ Periodicals and journals required for the discharge of work.
- ◆ Scholarships to employees or their children paid by the employer.
- ◆ Expenses of telephones including mobile phones.
- ◆ Employers' contribution to Staff Group Insurance Scheme.
- ◆ Rent free house and conveyance facility provided to High Court Judges.

- ◆ Rent free house and conveyance facility provided to Supreme Court Judges.
- ◆ The transportation service offered by the employer from the residence to the workplace and vice versa.
- ◆ Tea or snacks provided in office or factory.
- ◆ Laptops and computers provided by the employer for the personal use of an employee or any member of his household.
- ◆ Interest free concessional loan if the amount of loan in an aggregate does not exceed Rs 20,000 during the previous year.
- ◆ Leave Travel Concession Section 10(5). Exemption is accessible to both Indians and foreigners. The exemption under this clause shall not surpass the actual expenses incurred for the purpose of such travel. The value of any leave travel concession granted to an individual by their employer for themselves and their family while traveling within India is exempt, as is any concession received from a former employer for travel after retirement or termination of service. Family encompasses the individual's spouse and children, as well as their parents, siblings, or any of these relatives who are wholly or primarily dependent on the individual. The exemption shall not apply to more than two surviving children of an individual after October 1, 1998. This regulation shall not pertain to children born prior to October 1, 1998, nor to subsequent births following the birth of a multiple.

The value of a rent-free furnished residence allocated to the Minister, designated parliamentary officers, or the Leader of the Opposition in Parliament.

II. Taxable Perquisites

i. Rent free accommodation Sec 17(2)(i)

When an employer offers residential accommodation at no cost or at a reduced rate to employees, the value of this benefit is subject to taxation as a perquisite. Accommodation encompasses a house, apartment, farmhouse, hotel, guesthouse, caravan, mobile home, ship, or other aquatic structures. For residential accommodation to be classified as a perquisite, it must be provided for the employee's benefit rather than to fulfill assigned duties.

- ◆ In case of Government employees

If accommodation is supplied by the Central Government or



any State Government to employees, the taxable value will be the license fees established by the Government. For furnished accommodation, the value of the perquisite shall be augmented by 10% per annum of the furniture's cost. If furniture is rented by the employer, the value of perquisites shall be adjusted to reflect the actual rental fees rather than 10% of the original cost of the furniture.

♦ In case of Non-Government employees

A. In the case of owned unfurnished accommodation, the cost is typically elevated in cities with high population density. The taxable value will be contingent upon the population of the city where the accommodation is offered. If the accommodation provided to an employee is unfurnished and owned by the employer, the value of the perquisite shall be:

Table 2.1.6

Population of City	Perquisite Value	
	Before 01-09-2023(2001 Census)	On or after 01-09-2023(2011 Census)
Below 10,00,000	7.5% of salary	5% of salary
10,00,000 to 14,99,999	10% of salary	5% of salary
15,00,000 to 24,99,999	10% of salary	7.5% of salary
25,00,000 to 40,00,000	15% of salary	7.5% of salary
Above 40,00,000	15% of salary	10% of salary
Population of City	Perquisite Value	
	Before 01-09-2023(2001 Census)	On or after 01-09-2023(2011 Census)
Below 10,00,000	7.5% of salary	5% of salary
10,00,000 to 14,99,999	10% of salary	5% of salary
15,00,000 to 24,99,999	10% of salary	7.5% of salary
25,00,000 to 40,00,000	15% of salary	7.5% of salary
Above 40,00,000	15% of salary	10% of salary

1. When accommodation is leased or rented by the employer, the perquisite value shall be the lesser of the actual lease rental amount or 15% of the salary prior to September 1, 2023, and 10% of the salary on or after September 1, 2023.
2. If the same accommodation is provided for multiple years: When the same accommodation is provided for more than one year, the valuation in subsequent years shall not surpass the initial year's valuation adjusted by the Cost Inflation Index. The first year refers to the financial year 2023-24 or the financial year in which the accommodation was granted to the employee, whichever occurs later. The perquisite value of rent-free accommodation in the following year shall be the lesser of the perquisite value calculated according to the aforementioned rules or the first-year perquisite value adjusted by the Cost Inflation Index. Adjusted first years = First year's perquisite value x CII of the subsequent year / CII of the first year.

◆ In case of furnished accommodation

If an employer offers fully or partially furnished accommodation to an employee, the taxable value may be determined by treating the accommodation as an unfurnished property. Add 10% annually of the original cost of all furniture, household appliances, gadgets, etc., owned by the employer and provided to the employee. If furniture is rented by the employer, the perquisite value shall be adjusted to reflect the actual rental charges rather than 10% of the original cost of the furniture.

◆ Accommodation at Concessional Rent

Value of unfurnished/furnished accommodation	xxxx
Less: Amount paid/payable by employee	xxxx
Value of Concessional Rent	xxxx

▶ Accommodation provided in a Hotel

If an employer provides accommodation to an employee in a hotel during a transfer, and the total duration does not exceed fifteen days, the value of such accommodation shall be considered as NIL. In all other instances, the value shall be determined as 24% of the salary disbursed or due for the preceding year, or the actual expenses incurred for such hotel, whichever is lower. If any sum is paid or payable by the employee, it shall be deducted, and the remaining amount shall represent the value of the perquisite.

► Accommodation provided at site

If accommodation is provided to an employee at a mining site, onshore oil exploration site, project execution site, dam site, power generation site, or offshore site, and it is temporary, has a plinth area exceeding 800 square feet, and is situated at least 8 kilometers from the boundaries of any municipality or cantonment board, or is located in a remote area, the value of such accommodation shall be considered Nil. A remote area is situated at least 40 km from a town with a population exceeding 20,000, according to the most recent All India Census.

► Accommodation at the Time of Transfer

In cases where an employee is transferred and provided accommodation at the new posting while retaining accommodation at the previous location, the value of the perquisite shall be assessed based on the accommodation with the lesser value. The value will be assessed based on the benefit accessible for a maximum duration of 90 days, and the value of the perquisite will be applied to both accommodations.

III. Perquisites taxable in the case of specified employees
Sec17(2)(iii)

The employees who fulfill any of the following three conditions are termed as Specified employees.

- a. An employee who concurrently serves as a director in the employer company, regardless of whether full-time or part-time, and whether maintaining that directorship for the entire year or a portion thereof, is classified as a specified employee.
- b. An employee is considered to possess a substantial interest in the employer-company if he is the beneficial owner of equity shares representing at least 20% of the voting power. He is designated as a specified employee.
- c. Any employee not encompassed by the aforementioned conditions whose income taxable under the category of Salaries, inclusive of all monetary compensation from one or multiple employers, but excluding the value of benefits or amenities provided in kind, exceeds Rs 50,000 is designated as a specified employee. To ascertain the Rs 50,000 limit, allowable deductions under Section 16 will be subtracted, and only the remaining amount will be evaluated to determine if it exceeds Rs 50,000. Salary for this purpose shall encompass all taxable monetary compensations but shall exclude the value of any non-monetary benefits or perquisites. Taxable monetary benefits or perquisites will also be

incorporated into salary for this purpose.

► Motor Car

1. When the vehicle is utilized entirely and exclusively for the execution of official responsibilities. The value shall be considered as zero.
2. When a vehicle is owned by the employer and utilized solely for the private or personal purposes of the employee or any member of their household, the value of the perquisite will be as follows:

Actual amount of expenses incurred on the running and maintenance of motor car	XXXX
Add: Remuneration paid to chauffer if any	XXXX
Depreciation @ 10% per annum of the actual cost of motor cars	XXXX

3. If a motor car is leased and utilized solely for the private or personal purposes of the employee or any member of their household, the value of the perquisite will be determined as follows:

Amount spent on running and maintaining the car	XXXX
Remuneration paid to chauffer if any	XXXX
Less: Amount charged from the employee	XXXX

4. The motor vehicle is utilized partially for the execution of duties and partially for the personal purposes of the employee or any member of their household, provided that all expenses related to its maintenance and operation are covered by the employer.

- ◆ Small car (cubic capacity doesnot exceed 1.6 litre) Rs 1,800 pm
 - ◆ Large car (cubic capacity exceed 1.6 litre) Rs 2,400 pm
- Add: if chauffeur is also provided Rs 900 pm

5. The motor vehicle is utilized partially for the execution of duties and partially for the personal purposes of the employee or any member of their household, provided that the expenses for maintenance and operation related to personal use are borne by the assessee.

- ◆ Small Car Rs 600 pm



- ◆ Large Car Rs 900 pm

Add: If chauffer is also provided Rs 900 pm

6. When an employer owns or hires multiple motor vehicles, and the employee or any household member is permitted to use these vehicles for work purposes, the value of the perquisite shall pertain to one vehicle.

- ◆ Small Car Rs 1,800 pm

- ◆ Large Car Rs 2,400 pm

Add: If chauffer is also provided Rs 900 pm

7. When an employer owns or leases multiple motor vehicles and permits the employee or any member of their household to utilize these vehicles for personal purposes, the value of the perquisite for the additional vehicles shall be calculated based on the assumption that they are used solely for private purposes. The valuation shall be determined as outlined in (2) if the vehicle is owned by the employer, or as described in (3) if the vehicle is leased by the employer.

8. Car owned by the employee

- i. The employer covers or reimburses the actual operating and maintenance expenses, and such reimbursement pertains solely to the vehicle's use for official purposes; value shall be considered Nil if the stipulated conditions are fulfilled.

- ii. When the reimbursement of car expenses is entirely for the personal use of the employee or any member of their household, the value shall be considered equivalent to the amount reimbursed.

- iii. In instances where the reimbursement of automobile expenses serves both official and personal purposes for the employee or any household member, the perquisite value for a small car shall be the actual expenditure incurred by the employer, minus Rs 1,800 per month, plus Rs 900 per month for a chauffeur, contingent upon the fulfillment of prescribed conditions. For a large vehicle, the perquisite value will be the actual expenditure incurred by the employer, minus Rs 2,400 per month and Rs 900 per month for a chauffeur, if applicable, provided that the stipulated conditions are met

9. If an employee uses an automotive conveyance, other than their personal car, and the employer covers or reimburses the actual operating and maintenance expenses for official

use only, the value shall be considered Nil, provided the stipulated conditions are met.

10. Automotive conveyance, excluding the employee's personal car, for which vehicle expense reimbursement is partially allocated for official and partially for personal use by the employee. The value of the perquisite shall be the actual expenditure incurred by the employer, less Rs 900 per month.

► Profit in lieu of Salary

Profit in lieu of salary encompasses the following:

The sum of any remuneration owed to or received by an assessee from their employer or former employer in relation to the cessation of employment or alterations to the associated terms and conditions.

- ◆ Any remuneration owed to or received by an assessee from an employer or a former employer. An employer's personal gift to an employee, not given in recognition of services rendered, is not subject to taxation for the employee.
- ◆ Any payment derived from an unrecognized provident fund or similar fund will be considered solely to the extent of the employer's contributions and the associated interest. Interest on an employee's own contribution is also subject to taxation, categorized under Income from Other Sources.
- ◆ Any payment received pursuant to a Keyman Insurance Policy, including the bonus amount.
- ◆ Any amount owed or received by an assessee from an individual prior to commencing employment with that individual or subsequent to the termination of their employment with that individual.

► Provident Fund

Provident signifies making provisions for the future. The Government has established various types of Provident Funds to encourage savings and provide for employees' retirement. Typically, both the employer and the employee contribute to the Provident Fund. They are as follows:

1. Statutory Provident Fund

This is the Provident Fund governed by the Provident Fund Act of 1925. This is typically upheld for government and semi-government employees. Any amount received from the Provident Fund is exempt under sections 10(11) and 10(12). The aforementioned exemption does not pertain to interest accrued



in the previous year in an individual's account if it pertains to contributions exceeding Rs 250,000 made by that individual in any prior year to that fund on or after April 1, 2021, and calculated in the prescribed manner. If an individual's contribution is made to a fund without any employer contribution, the exemption limit shall be Rs 5,00,000 rather than Rs 2,50,000.

2. Recognised Provident Fund

This fund is governed by the Employees Provident Fund and Miscellaneous Provisions Act of 1952. A fund not established under the Employee Provident Fund Act of 1952 must be explicitly recognized by the Chief Commissioner or Commissioner of Income Tax. This fund is managed by private sector entities.

Employer's contribution in excess of 12% of salary and interest on provident in excess of 9.5% are included in employee's income.

3. Unrecognised Provident Fund

Provident Fund which is neither statutory nor recognised. This is upheld in a private sector organization. It has received approval from the Provident Fund Commissioner, but not from the Commissioner of Income Tax.

4. Public Provident Fund

Each individual may contribute to this fund an amount ranging from a minimum of Rs 500 to a maximum of Rs 1,50,000 per annum. Deposits may be made in a maximum of 12 installments annually. An individual may establish a public provident fund account either for themselves or on behalf of a minor for whom they are the guardian. An account under this scheme may be established at a branch of the State Bank of India, its subsidiaries, or any branch of the nationalized banks sanctioned for this purpose by the Central Government.

► Transferred Balance

The balance of an Unrecognised Provident Fund that is transferred to a Recognised Provident Fund is referred to as the Transferred Balance. Upon recognition of a URPF by the Commissioner of Income Tax, the balance in the URPF will be deemed transferred to the RPF.

► Deductions

The income subject to taxation under the category of Salaries shall be calculated subsequent to the application of the following deductions:

i. Standard deduction Sec 16(ia)

Allowed standard deduction is upto Rs 50,000

ii. Entertainment Allowance Sec 16(ii)

The entertainment allowance provided by an employer to an employee is categorized under Salaries, and the subsequent deduction is allowed:

◆ In case of Government employee the least of the following shall be allowed:

- a. Statutory limit of Rs 5,000
- b. Actual amount received
- c. 1/5th of basic salary

◆ In case of other employees, Nil

iii. Employment Tax Sec 16(iii)

Any amount remitted by an assessee for employment tax, imposed by any statute, is permissible as a deduction.

Illustration 2.1.3

Mr. X is employed in a Private Company at Rs 60,000 per month, Rs 5,000 per month as dearness pay and Rs 9,000 per annum as commission during the previous year. He received Rs 1,500 per month as House Rent Allowance. He paid Rs 2,000 per month rent. Compute House Rent Allowance exempted from tax.

Solution

Computation of Exempted HRA

Amount exempted least of the following:

- | | |
|---|-------------|
| d. Actual HRA received | Rs 24,000 |
| e. Rent paid – 10% of salary (Rs 24,000-78,000) | Nil |
| f. 40% of salary | Rs 3,12,000 |
| Exempted HRA – | Nil |

Note: Salary Rs 7, 20,000 + Dearness Pay Rs 60,000 = Rs 7,80,000

Illustration 2.1.4

Mrs. Y is a District Magistrate of Pune. He is living in a furnished bungalow provided by the Government free of rent. His salary is Rs 1,10,000 per month. The rent of the unfurnished bungalow as per Government rules is Rs 3,000 per month, but its fair rental value is Rs 15,000 per month. He is provided furniture

costing Rs 1,50,000. Compute the value of rent-free house a a
perquisite for the purposes of income tax.

Solution

Computation of rent-free house

Rental value of rent free unfurnished house (as per Government rules)	Rs 36,000
Add: 10% of 1,50,000 for furnishings	Rs 15,000
Value of Rent-free furnished house	Rs 51,000

Illustration 2.1.5

A company took a house on rent and allotted it to its an em-
ployee, From the following information compute the value of
perquisite of accommodation.

Rent paid for the year	Rs 50,000
Salary	Rs 5,00,000
Cost of furniture provided in the house	Rs 50,000
Rent charged from employee’s salary per month	Rs 800

Solution

Computation of value of perquisite of accommodation

15% and 10% of salary or actual rent whichever is less	Rs 50,000
Add: 10% cost of furniture	Rs 5,000

	Rs 55,000
Less: Rent charged form employee	Rs 9,600
Value of Concessional Accommodation	Rs 45,400

Illustration 2.1.6

Mr. B is appointed in Delhi. He stayed in a hotel for 27 days
and thereafter shifted in a house provided by his employer. From
the following information compute the taxable value of perqui-
site stay in hotel:

- i. Room rent in a hotel Rs 900 per day
- ii. Salary for valuation of accommodation during the previ-
ous year Rs 6,50,000
- iii. The employer recovered Rs 150 per day from B regarding
stay in a hotel.



Solution

Computation of Taxable Value of Perquisite

Rs 24% of (Rs 6,50,000 x 27 / 365) Hotel room rent	Rs 18,000
Whichever is less (Rs 42,120 or 18,000)	Rs 18,000
Less: Amount recovered from B (Rs 150 x 27)	Rs 4,050
Taxable value of perquisite	Rs 13,950

Illustration 2.1.7

Compute the value of the perquisite of motor car if a car is owned by the employee:

- Expenses relating to running and maintaining of car and chauffeurs' salary paid by the employer Rs 55,000. The expenses relate to the use of a car for business purposes only and the prescribed conditions are satisfied.
- A small car is used partly for business and partly for personal purposes. The employee drives the car himself. The employer has spent Rs 60,000 during the previous year on running and maintaining the car. The prescribed conditions are satisfied.

Solution

Computation of Taxable Value of Perquisite

- Value of perquisite is Nil as the expenses are incurred solely for official purpose and the prescribed conditions are satisfied.
- A small car owned by the employee has been used partly for private purposes and partly for official purposes and the employer has incurred all the expenses and prescribed conditions are satisfied. The value of perquisite shall be:

Amount actually spent by employer	Rs 60,000
Less Rs 1800 pm for official purposes	Rs 21,600

Value of Perquisite	Rs 38,400

Illustration 2.1.8

The following are the particulars of the income of Mr. R for the Previous Year ended on 31st March 2024

- Salary Rs 70,000



- ii. Bonus equal to two months salary
- iii. Special allowance Rs 800 pm
- iv. Dog allowance – Rs 900 pm
- v. Employees contribution to a Recognised Provident Fund @ 15% of salary
- vi. Employer contribution to the fund @ 15% of the salary.
- vii. Interest credited to the provident fund @ 9.5% is Rs 36,000
- viii. He is provided with free lunch in the office. The cost per meal is Rs 40.
- ix. The employer has given a small car which he uses for personal and official purposes. He meets the expenses for the personal purpose from out of his pocket.
- x. Tour allowance as arrears Rs 5,000

Compute the income from salaries of Mr. Z for the Assessment Year 2024-25.

Solution

Computation of Income from Salaries
for the Assessment Year 2024-25

Salary	Rs 8,40,000
Bonus	Rs 1,40,000
Special allowance	Rs 9,600
Dog allowance	Rs 10,800
Employer's contribution to RPF in excess of 12% of salary	Rs 25,200
Lunch (exempt upto Rs 50 per meal)	---
Car @ Rs 600 per month	Rs 7,200
Tour Allowance (Exempt u/s 10(14)(i))	---

Gross Salaries	Rs 10,32,800
Less: Standard deduction u/s 16(ia)	Rs 50,000

Income from Salaries	Rs 9,82,800

Illustration 2.1.9

Compute taxable salary of Mr. A for the Assessment Year

2024-25

- i. Salary Rs 75,000 p.m
- ii. D.A. Rs 6,000 p.m
- iii. Entertainment Allowance Rs 1,000 p.m
- iv. Medical Allowances Rs 1,400 p.m
- v. City Compensation Allowance Rs 1000 p.m
- vi. Interest @ 10% p.a on credit balance of recognised provident fund amounted to Rs 60,000.
- vii. He has been provided with a large car for both official and personal use. Employer bears all the expenses of the car.
- viii. He is provided an unfurnished house by the employer in a city (population 11 lakh). The fair rental value of the house is Rs 90,000 p.a. Employer charges Rs 2,500 from him per month as rent.
- ix. Free use of health club facility provided by the company and cost of such facility is Rs 800 pm. This facility is available for each employee of the company.
- x. Employer's contribution to group insurance scheme Ra 500.

Solution

Computation of Taxable Salary
for the Assessment Year 2024-25

Salary	Rs 9, 00,000
Dearness Allowance	Rs 72,000
Entertainment Allowance	Rs 12,000
Medical Allowance	Rs 16,800
City Compensatory Allowance	Rs 12,000
Interest on PF in excess of 9.5%	Rs 3,000
Car (Rs 2400 x 12)	Rs 28,800
Concession in Rent	Rs 36,640
Health Club (Exempt)	---
Contribution to Group Insurance (Exempt)	---

Gross Salary	Rs 10, 81,240
Less: Standard deduction u/s 16(ia)	Rs 50,000



Taxable Salary	Rs 10, 31,240
Note	
Concession in rent:	
Salary for the purpose = Rs 9,00,000 + Rs 12,000+ Rs 12,000 +	
Rs 16,800 = Rs 9,40,800	
Rs 9,40,800 x 10% x 5/12 =	Rs 39,200
Add: Rs 9,40,800 x 5% x 7/12 =	Rs 27,440

	Rs 66,640
Less: Paid by the assessee	Rs 30,000

	Rs 36,640

Illustration 2.1.10

From the following information compute taxable income from salaries of Mr B for the Assessment Year 2024-25.

- i. Basic Salary Rs 25,000 pm
- ii. Dearness Allowance 20% of basic salary (account for retirement benefits)
- iii. Telephone Allowance Rs 800 pm
- iv. Medical insurance premium paid by the employer on the health of employee Rs 7,000
- v. The company spent Rs 2000 on his refresher course
- vi. The company has provided a free telephone at Mr. Bs residence and paid bill amounting to 4000.
- vii. Salary of housekeeper reimbursed by employer Rs 22,000.
- viii. Contribution in Approved Superannuation Fund Rs 1,20,000
- ix. His contribution to RPF is Rs 38000 and employer's contribution is Rs 40,000
- x. Mr. B paid employment tax Rs 3000.

Solution

Computation of Taxable Salary
for the Assessment Year 2024-25

Basic Salary	Rs 3,00,000
DA	Rs 60,000

Telephone Allowance	Rs 9600
Medical insurance premium paid by the employer on the health of employee (Exempt)	----
Refresher Course (Exempt)	----
Telephone (Exempt)	----
Salary of house keeper	Rs 22,000
Contribution in Approved Superannuation Fund (Tax free upto Rs 1,50,000)	----
Contribution to RPF (Rs 40,000 does not exceed 12% of salary Rs 43,200 and employer's contribution in RPF cannot exceed the contribution of employee)	-----
Gross Salaries	Rs 3,91,600
Less: Standard deduction u/s 16(ia)	Rs 50,000
Employment tax u/s 16(iii)	Rs 3,000
Taxable Income from Salaries	Rs 3,38,600

Illustration 2.1.11

The following particulars are of Mr. P's income:

- i. Salary (after deducting Rs 30,000 for income tax at source) Rs 3,20,000 p.a
- ii. Dearness allowance (under the terms of employment) Rs 35,000 p.a.
- iii. Education allowance (for 3 children) Rs 12,000 p.a
- iv. Medical allowance (actual medical expense Rs 10,000) Rs 28,000 p.a.
- v. Entertainment Allowance Rs 450 p.m
- vi. Rs 300 p.m as Tribal Area Allowance
- vii. Commission on sales @ 1% Rs 5,000
- viii. Rs 350 p.m as conveyance allowance which is used by him for private purposes.
- ix. Rs 40,000 as an allowance for reimbursement of personal expenses while on duty during the running of a truck.
- x. He has been provided with a large motor car for his official as well as personal use. The running and maintenance



costs are borne by the company.

- xi. The employer paid Rs 14,000 as income tax of Mr. P and deducted Rs 2,500 professional tax from his salary.

Solution

Computation of Taxable Salary
for the Assessment Year 2024-25

Salary(3,20,000+30,000)		Rs 3,50,000
DA (under terms of employment)		Rs 35,000
Education Allowance	Rs 12,000	
Less: Exempt Rs100pm for two children	Rs 2,400	Rs 9,600
Medical Allowance (taxable)		Rs 28,000
Entertainment Allowance		Rs 5,400
Tribal Area Allowance	Rs 3,600	
Less: Exempt (Rs200 x 12)	Rs 2,400	Rs 1,200
Commission on sales		Rs 5,000
Conveyance Allowance for private purposes		Rs 4,200
Running Allowance	Rs 40,000	
Less: Exempt(70% of 40,000)	28,000	Rs 12,000
Motor Car (Rs 2400 x12)		Rs 28,800
Income tax		Rs 14,000

Gross Salary		Rs 4, 93,200
Less: Standard deduction u/s 16(ia)	Rs 50,000	
Professional tax u/s 16(iii)	Rs 2,500	Rs 52,500

Income from Salary		Rs 4, 40,700

Illustration 2.1.12

Mr. D is a Government officer. During the previous year 2023-24 his emoluments were as under:

- i. Basic Salary Rs 10,000 per month. From 1st January 2024 his salary has been revised at Rs 30,000 per month.
- ii. City Compensatory Allowance Rs 250 per month. From 1st January 2024 payable CCA is Rs 400 per month.
- iii. Rent free house rent of which is Rs 300 per month according to Government rules. Fair rent of such house is Rs 1500 per month. Cost of furniture is Rs 30,000.

- iv. His contribution to statutory provident fund is 9%.
- v. Overtime allowance Rs 2,800
- vi. Entertainment allowance Rs 600 pm
- vii. Professional Tax Rs 400 and Income tax paid Rs 5,000 paid by the employee.

Solution

Computation of Taxable Salary for the Assessment Year 2024-25		
Salary (10,000x10)	Rs 1,00,000	
(30,000x2)	Rs 60,000	Rs 1,60,000
CCA (250x10)	Rs 2,500	
(400x2)	Rs 800	Rs 3,300
Rent free house (300x12)	Rs 3,600	
Furniture (10% of 30,000)	Rs 3,000	Rs 6,600
Overtime allowance		Rs 2,800
Entertainment Allowance		Rs 7,200

Gross Salary		Rs 1, 79,900
Less: Standard deduction u/s 16(ia)		Rs 50,000
Entertainment allowance(Government		Rs 5,000
Employee maximum upto Rs5,000) u/s 16(ii)		
Professional tax u/s 16(iii)	Rs 400	Rs 55,400

Taxable Salary		Rs 1, 24,500

Illustration 2.1.13

The following are the particulars of Mr. Ys income:

- i. Salary Rs 3,00,000 p.a.
- ii. DA(under terms of employment) Rs 30,000 p.a.
- iii. Medical Allowance Rs 20,000 p.a.
- iv. Rent free house in Pune(whose population exceeds 40 lakhs) the company paid Rs 9,200 per month as rent. The house is furnished and the rent of the furniture is Rs 19,000 p.a



- v. A domestic servant, a sweeper and a watchman were paid by the company @ Rs 1,500 per month each.
- vi. He has also been provided with gas, electricity and water facility and employer spent Rs 10,000 on these.
- vii. He has been provided with a large car for official and personal use. The maintenance and running expenses of the car (including the driver) are borne by the company.

Solution

Computation of Taxable Salary
for the Assessment Year 2024-25

Salary	Rs 3,00,000
DA (under terms of employment)	Rs 30,000
Medical Allowance	Rs 20,000
Rent free house	Rs 61,292
Servant, Sweeper, Watchman (4500x12)	Rs 54,000
Gas, electricity and water	Rs 10,000
Car (2400+900)x12	Rs 39,600

Gross Salary	Rs 5,14,892
Less: Standard deduction u/s 16(ia)	Rs 50,000
Income from Salaries	Rs 4,64,892

Notes

Rent free house	
Salary = Rs 3,00,000 + Rs 30,000+ Rs 20,000	Rs 3,50,000
Rs 3,50,000 x 15% x 5/12	Rs 21,875
Rs 3,50,000 x 10% x 7/12	Rs 20,417

Total	Rs 42,292
OR	
Rent paid (9200x12)	Rs 1, 10,400
Whichever is less	Rs 42,292
Add: Rent of furniture	Rs 19,000
Value of Rent free house	Rs 61,292



Illustration 2.1.14

From the following information compute taxable income from salaries of Mr. Z for the Assessment Year 2024-25.

- i. Basic Salary Rs 450,000 pa
- ii. House rent allowance Rs 10,000 pm
- iii. Mr. Z paid house rent Rs 5,000 pm. He is residing at Madurai.
- iv. He is provided free meal, such a facility is given for 255 days during the previous year. The cost per meal is Rs 70.
- v. Reimbursement of medical expenses for the treatment of Mr Z and his family members Rs 12,000.
- vi. On October 1, 2023 the company gives its music system to him for domestic use. Ownership is not transferred. Cost of music system (in April 2013) to the employer is Rs 14,000.

Solution

Computation of Taxable Salary for the Assessment Year 2024-25

Basic Salary	Rs 4,50,000
House of rent allowance	Rs 1,05,000
Free meal (Rs 70-50) x255	Rs 5,100
Reimbursement of medical expenses	Rs 12,000
Music system for domestic use (asset used more than ten years, hence Value of perquisite in Nil)	Nil

Gross Salary	Rs 5,72,100
Less: Standard deduction u/s 16(ia)	Rs 50,000

Taxable Income from Salaries	Rs 5,22,100

Notes

Least of the following is exempted HRA:

- a. Actual HRA received Rs 1,20,000



b. Rent paid – 10% of salary (Rs 60,000 – Rs 45,000)	Rs 15,000
c. 40% of salary	Rs 18,000

Exempted HRA	Rs 15,000

2.1.16 Income From House Property

Income derived from house property constitutes the second category of income. Income derived from property rental is subject to taxation under this category. The basis of charge under Income from House Property is the annual value of property (Sec 22), which includes any buildings or land appurtenant thereto, owned by the assessee and not utilized for the purposes of the assessee's business or profession. Income derived from land not associated with any building is taxable under the category of Income from Other Sources. The appurtenances of the building comprise a compound, playground, kitchen garden, courtyard, etc. For non-residential buildings, car parking areas, drying grounds, playgrounds, and access roads within the factory premises shall be considered land appurtenant to the buildings. The subsequent items constitute exceptions to the overarching principle that income derived from house property is subject to taxation under the category of Income from House Property:

◆ Income derived from rental property

- i. Building let out to authorities for locating Bank, Port Office, Police Station.
- ii. Building or staff quarters let out to employees and others
- iii. Composite letting of building with other assets
- iv. Paying guest accommodation

The taxpayer must possess ownership of the residential property. The owner of a property is the individual in whose name the property is registered. In the context of a mortgage, it is the mortgagor rather than the mortgagee. The individuals listed below are recognized as the proprietors of the property (Sec 27).

- a. A person who leases land and builds a house on it will be considered its owner.
- b. An individual possessing lease rights in a property under a lease lasting 12 years or more, including any potential extensions, shall be considered the owner of the property.
- c. A person permitted to maintain possession of any building in partial fulfillment of a contract shall be regarded as the

owner of that building.

- d. An individual who conveys any residential property to their spouse, without sufficient consideration or not as part of an agreement to live separately, or to a minor child who is not a married daughter, shall be regarded as the owner of the transferred property.
- e. A member of a Cooperative Society, company, or Association of Persons to whom a building or a portion thereof is allocated or leased under a housing scheme of the society, company, or association shall be considered the owner of that property.
- f. If ownership is contested in a court, the recipient of rental income or the individual in possession of the property is regarded as the owner

If the assessee occupies the property or a portion thereof for his own business or profession, and the profits from such business or profession are subject to taxation, the annual value of the property or its portion is exempt from taxation as income from house property. Furthermore, no deductions for rent expenses related to these premises will be permitted when calculating the profits of the business or profession.

Income derived from House Property located in a foreign nation is taxable solely for residents. If a foreign property is subject to taxation in India, it will be classified under the category of Income from House Property, and its annual value will be calculated as though the property is located in India. If a property is jointly owned by two or more individuals with definite and ascertainable shares, the income from that property shall not be assessed as an association of persons. Instead, each individual's share of the income shall be included in their respective total income. If any part of a co-owner's house is occupied by him as his residence, that portion will be classified as self-occupied, and its annual value will be deemed Nil. If a building is leased to an individual along with additional amenities for a composite rent, and the rent for the building can be distinguished from the rent for the amenities, the rents will be allocated accordingly. The portion attributable to the building will be taxed under Income from House Property, while the portion related to the amenities will be taxed under Income from Other Sources. If the composite rent cannot be apportioned, it will be taxed as Income from Other Sources.

2.1.16.1 Exemptions from Income from House Property

There are two categories of exemptions pertaining to income from house property.



- I. Income is included in gross total income
- II. Income is included in assessee's gross total income, but the deduction is allowed from gross total income.

I. Fully Exempted Incomes

- i. Annual Value of one palace of ex Indian Ruler
- ii. Income from farmhouse
- iii. Revenue generated from property owned by a local authority, trade union, charitable trust, political party, scientific research association, university or other educational institution established for educational purposes and not for profit; hospital or medical institution operating for philanthropic purposes and not for profit.
- iv. Income from two self-occupied houses
- v. Income from property used for assessee's own business or profession.
- vi. Income derived from a residence intended for personal use but unoccupied during the preceding year due to the individual's employment, business, or profession at an alternate location.

II. Deductions from Gross Total Income

- i. The income of a cooperative society derived from house property is permissible if its gross total income does not surpass Rs 20,000 and the society is not classified as a housing society, urban consumers' cooperative society, transport society, or a society engaged in manufacturing goods with the assistance of power.
- ii. Revenue generated by a co-operative society from leasing godowns or warehouses for the storage of commodities intended for sale, as per Section 80P (2).

2.1.16.2 Annual Value Sec 23

The income of an assessee from house property is determined based on its annual value. The annual value of a rental property shall be considered the amount for which the property could reasonably be expected to be leased annually. If the actual rent received by the owner exceeds this expected amount, the actual rent shall be deemed the annual value. Conversely, if the property was vacant for any duration during the previous year, resulting in actual rent received being less than the expected amount;

◆ Property expected to be leased annually

the actual rent shall be regarded as the annual value.

2.1.16.3 Determination of Gross Annual Value

- i. Fair Rent or Municipal value (whichever is higher)
- ii. Above mentioned higher value or Standard rent (whichever is lower) =Expected Rent
- iii. Expected rent or actual rent

The Actual Rent is the amount received by the owner from the tenant. The Municipal Rental Value is the rent established by local authorities for a property to impose local taxes. Fair Rental Value is the potential rent that a property can command. It is calculated based on the rental rates for comparable buildings in the same area. This represents the projected rental value. The Standard Rental Value is the rent established by the Rent Control Act. The Government may regulate rent in major cities under this act to safeguard tenants from exorbitant rental charges. This is the maximum rent that can be collected from the tenant under the prevailing act. Occasionally, rent encompasses expenses for amenities such as the salaries of the watchman and gardener. The cost should be deducted from the actual rent received, resulting in the Real Rental Value. The Expected Rental Value is a calculated figure based on the Municipal Rental Value, Fair Rental Value, and Standard Rental Value. The Expected Rental Value is determined by comparing the Municipal Rental Value with the Fair Rental Value, selecting the higher of the two, and then comparing that result with the Standard Rental Value, ultimately selecting the lower value as the Expected Rental Value.

2.1.16.4 Unrealised Rent

The portion of rent that the owner cannot collect shall not be included in the annual value if the conditions of Rule 4 are met. The tenancy is legitimate; the defaulting tenant has vacated or measures have been initiated to compel their departure from the property; the defaulting tenant does not occupy any other property belonging to the assessee; the assessee has undertaken all reasonable actions to initiate legal proceedings for the recovery of unpaid rent or demonstrates to the Assessing Officer that such proceedings would be futile.

◆ Rule 4 conditions satisfied

2.1.16.5 Determination of Expected Rent Sec 23(1)(a)

- I. In the absence of a fixed standard rent, the anticipated rent for the building shall be the greater of the following: the municipal value established by the local authority for the assessment of house tax; or Rental rates of comparable



properties in the same area (Fair Rent).

- II. When standard rent has been established, the expected rent of the building shall be the lesser of the following: The value established under I or the standard rent determined by the Rent Control Act of a State.

2.1.16.6 Determination of Actual Rent Sec 23(1)(b)

If the owner assumes the responsibility of supplying amenities such as a lift, water pump, electricity, and gardening services, the actual rent will be the rent received or receivable minus the expenses incurred for these amenities. If the tenant has fulfilled the landlord's obligations, the amount paid will be included in the rent received or receivable to determine the actual rent. No modifications will be applied to the calculation of the actual rent concerning the tax remitted by the tenant to the local authority for the occupied building; repair expenses incurred by the tenant; and hypothetical interest on the deposit received from the tenant.

2.1.16.7 Computation of Annual Value of a house

- I. In the event of a rented property that has neither been unoccupied at any point during the preceding year nor has any outstanding rent. The gross annual value will be the higher of the anticipated rent or the actual rent. The gross annual value shall have the municipal tax paid by the owner in the preceding year deducted, resulting in the annual value of the leased property.
- II. In the event of a rental property that remains unoccupied for all or any portion of the preceding year. If the house remains unoccupied for an entire year, the gross annual value will be zero. If the house was unoccupied for part of the previous year, the actual rent received or receivable will constitute the gross annual value, provided that the actual rent for the rental period exceeds the anticipated rent. If the actual rent received or receivable during the rental period is less than the anticipated rent due to vacancy, the actual rent received or receivable will constitute the gross annual value.
- III. In the event of a rented property that is not vacant at any point during the preceding year, yet has uncollected rent. The gross annual value of such a property will not be assessed similarly to that of a rented house that has been vacant at any point during the preceding year nor has any unrealized rent. The gross annual value will be subject

to the following deductions, resulting in the annual value balance.

- ◆ Taxes remitted by the owner to the local authority.
 - ◆ Unrealized rent, contingent upon the fulfillment of Rule 4 conditions.
- IV. If a rented house remains unoccupied for a portion of the preceding year and there is uncollected rent, the gross annual value of that house will be assessed similarly to a rented house that is vacant for the entirety or any segment of the previous year. The following deductions will be permitted from the gross annual value, resulting in the annual value balance.
- ◆ Taxes actually paid by the owner to the local authority
 - ◆ ii) Unrealised rent if conditions of Rule 4 are satisfied.

Standard deduction

The standard deduction of 30% of the annual value will be applied regardless of whether any expenses are incurred. If the homeowner occupies more than two residences for personal use, all self-occupied properties beyond the two are considered rented out. In this scenario, a standard deduction of 30% of the annual value shall be permitted. Regarding two houses classified as self-occupied, the standard deduction is not permitted.

Interest on loan taken in respect of house property

Interest on loans acquired for the purchase, construction, reconstruction, or repair of residential property is permissible as a deduction on an accrual basis. Interest accrued on unpaid interest is non-deductible. Brokerage or commission fees incurred for securing the loan are non-deductible. Interest on a new loan obtained solely to repay the original loan for the aforementioned purposes is permissible as a deduction.

Interest for preacquisition or preconstruction period

Interest payable on funds borrowed for the acquisition or construction of residential property, applicable to the period preceding the previous year of such acquisition or construction, shall be deducted in five equal installments starting from the previous year of the property's acquisition or construction. The interest amount shall exclude any portion of such interest permitted as a deduction under any other provision of the Act. The interest from previous years, to be deducted in five equal annual installments, shall be deducted alongside the interest of the current year.



Self Occupied for Residential Purposes Sec 23(2)

Buildings occupied by the owner for residential purposes can be categorized as follows: a house or portion of a house occupied by the owner for the entirety of the preceding year for personal residence (Sec 23(2)(a)), an unoccupied house (Sec 23(2)(b)), a house self-occupied for part of the previous year and rented out for the remainder (Sec 23(3)), and more than two houses occupied by the owner (Sec 23(4)).

If the property comprises a house or a portion of a house occupied by the owner for personal residence, or if the owner cannot occupy it due to employment, business, or professional obligations requiring residence elsewhere in a non-owned building, the annual value of the house or portion shall be deemed Nil.

The self-occupied house or any portion thereof must not have been rented out at any time during the preceding year. If a building has multiple floors, and all are self-occupied, the annual value of these floors shall be considered Nil. If a building has multiple floors, and one floor is owner-occupied while the others are rented out, the advantage of owner-occupancy will apply solely to the occupied floor. If the municipal valuation or tax for each floor is not individually known, it may be allocated between the self-occupied and rented portions on a rational basis. If the building's construction is finalized at any point during the preceding year and subsequently occupied by the owner, it will be regarded as self-occupied for the entirety of the previous year. The municipal taxes paid by the property owner are not deductible from the gross annual value to determine the net annual value. In such circumstances, the issue of vacant property or unrealized rent does not occur.

2.1.16.8 Deductions from Annual Value

When property is acquired, constructed, repaired, renewed, or reconstructed with borrowed capital, the maximum allowable deduction for interest shall be Rs 30,000. If house property is acquired or constructed with capital borrowed after March 31, 1999, the interest deduction shall be permitted up to Rs 2,00,000. The acquisition or construction must be finalized within five years following the conclusion of the financial year in which capital was obtained. To obtain the interest deduction, the assessee must provide a certificate from the creditor detailing the interest amount payable for the acquisition or construction of the property, or for the conversion of the entire or partial borrowed capital that remains outstanding as a new loan. A new loan refers to the entirety or a portion of a loan acquired by the assessee after capital has been borrowed for the purpose of repaying that capital. The total interest deductible for both self-occupied prop-

erties shall not surpass Rs 2,00,000.

2.1.16.9 House self-occupied for part of the previous year and let out for the part of the previous year. Sec 23(3)

The annual value of an owner-occupied residence shall not be zero if the house, or any portion thereof, was rented out at any time during the preceding year, or if the owner derived any other benefit from it. In this scenario, the property will be classified as a rental property, and the annual value will be assessed as that of leased buildings.

2.1.16.10 Where the owner of the houses occupies more than two houses for his residence Sec 23(4)

The total interest on loans obtained for the acquisition, construction, repair, or renovation of a house will be permitted as a deduction. The taxpayer should select properties in a manner that minimizes taxable income from real estate.

2.1.16.11 Property held as stock in trade Sec 23(5)

If a property, including any building or its associated land, is maintained as stock in trade and is not leased at any time during the preceding year, the annual value of the property, or any portion thereof, shall be deemed Nil for a period of up to two years following the conclusion of the financial year in which the competent authority issues the certificate of completion for the construction of the property.

2.1.16.12 Unrealised rent realized Sec 25A

Rent received in arrears or unrealized rent subsequently realized by an assessee shall be subject to income tax in the financial year in which such rent is received or realized, regardless of whether the assessee owns the property in that financial year. Thirty percent of the received rent arrears shall be permitted as a deduction.

2.1.16.13 Property owned by Co-owners Sec 26

If a house property is jointly owned by multiple individuals with definite and ascertainable shares, it shall not be assessed as an association of persons. Instead, each individual shall be assessed separately based on their respective shares of the income derived from the property. If a house property owned by co-owners is self-occupied by each co-owner, the annual value of the property for each co-owner will be zero. Each co-owner shall be entitled to a deduction of up to Rs 30,000 or Rs 2,00,000 for interest on funds borrowed for property-related purposes. If a house property or a portion thereof owned by co-owners is rented out, the income from that property will initially be calcu-



lated as if it were owned by a single individual. Subsequently, the computed income will be distributed among the co-owners according to their respective shares.

2.1.16.14 Loss from House Property

In the event of a loss due to interest on a loan, capped at Rs 30,000 or Rs 2,00,000 for self-occupied residential properties, such loss may initially be set off against income from house property, with any remaining loss applicable against income from other sources. The unabsorbed loss will be carried forward for eight assessment years to offset income solely from that property. The offset of losses under the category of Income from House Property against other income categories shall be limited to Rs 2,00,000 for any assessment year. The unabsorbed loss may be carried forward for eight subsequent years solely for set-off against income from house property.

Illustration 2.1.15

Compute Annual rental value from the following details:

Municipal Rental Value	Rs 50,000
Fair Rental Value	Rs 65,000
Actual Rent	Rs 59,000
Standard Rental Value	Rs 70,000

Solution

Computation of Annual Rental value	
MRV	Rs 50,000
FRV	Rs 65,000

Whichever is higher	Rs 65,000
Standard Rental Value	Rs 70,000

Whichever is lower	Rs 65,000
Actual Rent	Rs 59,000

Whichever is Higher is	
Annual Rental Value	Rs 65,000

Illustration 2.1.16

Mr. A is the owner of two houses which he uses for his residential purposes. He submits the following information in respect of these houses for the previous year 2023-24.

	I House	II House
Municipal Valuation	Rs 70,000	Rs 1,50,000
Fair rent	Rs 80,000	Rs 2,00,000
Municipal taxes paid	Rs 12,000	Rs 20,000
Fire insurance premia	Rs 2,000	Rs 3,000
Interest on loan is taken for the construction of the house	Rs 70,000	Rs 2,00,000

His other incomes are Rs 2,50,000. Compute his total income.

Solution

Computation of Income from House Property

For the Assessment Year 2024-25

Self Occupied Houses:

I House Annual Value	Rs Nil
II House Rental Value	Rs Nil
Less: Interest on loan u/s 24(b)	
Rs 70,000 + Rs 2,00,000	
Maximum deduction allowed upto Rs 2,00,000	Rs 2,00,000

Loss from House Property	(-)Rs 2,00,000

Computation of Total Income

For the Assessment Year 2024-25

Other Income	Rs 2,50,000
Less: Loss from House Property	Rs 2,00,000

Total Income	Rs 50,000

Illustration 2.1.17

Mr. Z owns two houses the particulars of which are as follows:

	I	II
Use of the asset	Self occupied	Rented for residence
Municipal Valuation	Rs 70,000	Rs 80,000
Standard rent under the Rent Control Act	Rs 85,000	Rs 60,000
Fair rent	Rs 1,20,000	Rs 1,00,000
Defacto Rent	----	Rs 80,000
Municipal taxes paid during the previous year	Rs 10,000	Rs 12,500
Fire insurance premium	Rs 1,200	Rs 10,000



Interest on loan is taken to construct the house	Rs 50,000	Rs 15,000
Rent of lease (due but outstanding)	Rs 2,000	Rs 2,000

Compute the taxable income of Mr. Z for the Assessment Year 2024-25 from the head Income from House Property. The house I is constructed in Jan 2024 and the house II in 2014.

Solution

Computation of Taxable Income from House Property
for the Assessment Year 2024-25

	Self occupied	Let out
Gross Annual Value	Nil	Rs 80,000
Less: Municipal taxes paid	---	Rs 12,500
Annual Value	Nil	Rs 67,500
Less: Standard deduction u/s 24(a) Which is 30% of annual value	---	Rs 20,250
Interest on loan u/s 24(b) (max upto Rs. 2,00,000)	Rs 50,000	Rs 15,000
Income from House Property	(-) Rs 50,000	Rs 32,250 = (-) Rs. 17,750
Loss from house property		= 17750

Notes

MRV	Rs 80,000
FRV	Rs 1,00,000

Higher	Rs 1,00,000
SRV	Rs 60,000

Lower (Expected Rent)	Rs 60,000
Actual Rent	Rs 80,000

Higher is GAV	Rs 80,000

Other expenses are not deductible.

Illustration 2.1.18

From the following information compute the annual value of the house:

Fair rent	Rs 2,00,000
Municipal value	Rs 2,20,000
Standard rent	Rs 3,00,000
Actual rent	Rs 20,000 pm

The house remained vacant for two months during the previous year. Unrealised rent Rs

40,000. Conditions of Rule 4 are satisfied Municipal tax paid by the owner Rs 20,000 and by the tenant Rs 20,000.

Solution

Computation of Annual Value of the house
for the Assessment Year 2024-25

Expected Rent		Rs 2,20,000
Actual rent (Rs 2,40,000 – Rs 40,000)		Rs 2,00,000
(House vacant for 2months 20000x10)		-----
Gross Annual Value		Rs 2,20,000
Less: Municipal tax paid by owner	Rs 20,000	
Less: Unrealised rent	Rs 40,000	Rs 60,000

Annual Value		Rs 1,60,000

Illustration 2.1.19

Mr. D has a house property let out for residential purposes. Actual rent realized is Rs 9000 p.m. Municipal rental value is Rs 8,500 p.m. Rent payable under the Rent Control Act is Rs 8,500 p.m. The rent payable for a similar house is Rs 9,000 p.m. He has paid local taxes @ 17%. The construction of property began in September 2018 and completed in February 2021. He had borrowed loan for the construction of the house property on which he has paid Rs 200,000 as interest upto 31.3.2020 and Rs 65,000 as interest during the previous year. Compute income from house property for the Assessment Year 2024-25.

Solution

Computation of Income from House Property
for the Assessment Year 2024-25

Gross Annual Value(9000x12)	=	Rs 1,08,000
Less: Municipal tax (on Municipal value)	=	Rs 17,340

Annual Value	=	Rs 90,660
Less: Standard deduction u/s 24(a)	Rs 27,198	
Less: Interest on loan u/s 24(b)	Rs 65,000	
1/5 th of interest upto 31.3.2020	Rs 40,000	Rs 1,32,198
(200000x1/5)		-----
Loss from House Property		(-) Rs 41,538



2.1.17 Profits and Gains of Business or Profession

Business is an economic endeavor conducted for the purpose of generating profit. It encompasses all trade, commerce, or manufacturing of any product. Offering services for profit generation is also encompassed within business activities. The profit from a singular transaction is also subject to taxation under this category. A profession is an occupation that necessitates academic qualifications and intellectual skills. It encompasses activities undertaken to generate income. The following are the incomes subject to income tax under section 28.

- ◆ Trade, commerce, or manufacturing of any product

- ◆ The income of any business or profession carried on by any person during the previous year are chargeable to tax.
- ◆ Any compensation due to or received by managing the whole or substantially the whole of the affairs of an Indian Company or of any other company in connection with the termination of his management or of his office or the modification of the terms and conditions of any contract relating thereto; any person holding an agency in India for any part of the activities relating to the business or any person in connection with the termination of an agency or the modification of the terms and conditions relating thereto; any person in connection with the vesting in the Government or in any corporation owned or controlled by the Government under any law for the management of any property or business; any person at or in connection with the termination or the modification of the terms and conditions of any contract relating to his business.
- ◆ Income of trade association derived by a trade, professional or similar association from specific services performed for its members.

Receipts in connection with foreign trade

- ◆ If the assessee's business involves investing in securities, the interest on those securities is taxable under the category of profits and gains of business or profession, or alternatively, it may be subject to taxation under the category of Income from Other Sources.

Any amount received from a Keyman Insurance Policy, including bonuses.

- ◆ The value of any benefit or perquisite, whether convertible into cash or in kind, or partially in cash and partially in kind, derived from business or professional activities, will

be assessed as income for the assessee under the category of Profits and Gains of Business or Profession.

- ◆ Revenue from speculative transactions. Speculative transactions refer to agreements for the purchase or sale of commodities, including stocks and shares, that are resolved without the actual delivery or transfer of the commodity or securities, as defined in Section 43(5).
- ◆ Any amount, whether received or receivable in cash or in kind, pertaining to the demolition, destruction, disposal, or transfer of capital assets, if the total expenditure on such capital assets has been fully deducted under section 35AD.
- ◆ Any amount, whether received or expected, in cash or kind, pursuant to an agreement to refrain from engaging in any business or professional activity, or to withhold sharing any know-how, patent, copyright, trademark, license, franchise, or any analogous business or commercial rights, or information or techniques that may facilitate the manufacture or processing of goods or the provision of services.

2.1.17.1 Rules regarding assessment of profits and gains of business or profession

◆ Conditions for assessment of business and professional income

- ◆ Tax is levied on the individual conducting the business or profession.
- ◆ Tax is imposed on the total income derived from all businesses or professions operated by an assessee.
- ◆ The profits and losses from a speculative business undertaken by an assessee are maintained separately.
- ◆ The underwriting commission earned by the assessee on shares subscribed by the public is classified as business income, whereas the underwriting commission on shares subscribed by the underwriter himself diminishes the cost of shares and is not subject to taxation.
- ◆ Business losses that are not of a capital nature and were incurred in the preceding year, which are incidental to the business conducted by the assessee, are deductible when calculating income under the category of business or profession.
- ◆ The expenses incurred by a company prior to incorporation are not permissible, whereas those incurred post-incorporation but prior to the commencement of business are permissible.



- ◆ General commercial principles to consider when assessing the actual profits of a business. The expenses incurred by the assessee for an isolated transaction in the years preceding the accounting year shall be permitted as a deduction.
- ◆ The business or profession is conducted by an assessee at any point during the preceding year.
- ◆ Profits generated from the liquidation of a business through the sale of assets in a single transaction are classified as capital gains rather than taxable business profits.
- ◆ No tax is owed on projected or hypothetical profits.
- ◆ Tax is owed on the income of all businesses or professions, regardless of their legality. Expenses incurred to generate income from an illegal business, which are incidental to that business, may be deducted from the income earned from the illegal enterprise. Losses incurred from an unlawful enterprise cannot be offset against the profits of a legitimate business.

2.1.17.2 Computation of profits of business or profession

Profits must be calculated using the accounting method consistently utilized by the taxpayer. Expenses and losses incurred during the relevant previous year are permitted as deductions. The losses and expenses must be ancillary to the business operations. Only expenses related to the assessee's business are permitted as deductions. If a business has ceased operations prior to the beginning of the preceding year, its expenses are not permissible as a deduction against the income of any other business belonging to the taxpayer. Certain expenses, while neither explicitly permitted nor prohibited, are deductible in calculating business or professional profits based on general commercial principles, provided they are not of a capital or personal nature. Any expenditure incurred for the sake of commercial expediency is permissible as a deduction. Expenses incurred by one business cannot be set off against the income of another business.

◆ Only expenses related to business are permissible for deduction

- ◆ While computing profits of business or profession the following deductions are expressly allowed by sections 30 to 37:
- ◆ Expenditures related to commercial premises (Sec 30) In instances where the premises are occupied by the assessee as a tenant, the rent paid for such premises is applicable. If he has committed to cover the expenses for repairs to the premises, the sum disbursed for those repairs. Any

payment made for land revenue, local taxes, or municipal taxes. The sum of any premium paid for insurance coverage against the risk of damage or destruction of the property. In instances where the premises are occupied by the assessee as the owner, expenses related to repairs, land revenue, local taxes, municipal taxes, and insurance premiums for the building are applicable.

- ◆ Maintenance and insurance of machinery, equipment, and furnishings (Sec 31).
- ◆ Regarding machinery, plant, and furniture utilized for business or professional purposes, the following deductions are permissible. Expenditure incurred on current repairs of machinery, equipment, and furnishings. The total premium paid for insurance coverage against the risk of damage or destruction of these assets.
- ◆ Depreciation and capital allowance
- ◆ Tea Development Account, Coffee Development Account, and Rubber Development Account (Section 33AB)
- ◆ The assessee must deposit funds into a designated account with the National Bank for Agriculture and Rural Development, as per the scheme sanctioned by the Tea Board, Coffee Board, or Rubber Board, or alternatively, deposit any amount into an account established by the assessee in accordance with the deposit scheme formulated by the respective board. The deposit must be completed within six months from the conclusion of the preceding year or prior to submitting the income return, whichever occurs first. For the calculation of taxable profits from the aforementioned business, a deduction will be permitted for the deposit amount or 40% of the business profits, whichever is lesser.
- ◆ Deductions will be permitted for activities related to the prospecting, extraction, or production of petroleum or natural gas, or both, within India (Sec 33 ABA). A deduction will be permitted if the Central Government has established an agreement with the assessee. The assessee has, prior to the conclusion of the previous year, deposited the amount into a designated account with the State Bank of India for the purposes outlined in a scheme sanctioned by the Government of India in the Ministry of Petroleum and Natural Gas, or into a Site Restoration Account for the objectives specified in a scheme established by the aforementioned Ministry.
- ◆ Investment in scientific research (Section 35)

◆ Deduction will be actual amount or 40% of profits w.e.l



- ◆ If the assessee conducts scientific research pertaining to their own business, any revenue expenditure incurred on scientific research during the previous year shall be fully permitted. If the assessee donates any amount to an approved research association, university, college, or other institution for scientific research, a 100% deduction of the contributed sum is permitted, regardless of its relation to the assessee's business. The entirety of the amount disbursed to a sanctioned research association or to a university, college, or other institution for the purpose of conducting research in social science or statistical research is permissible as a deduction, irrespective of its relevance to the business of the taxpayer.
- ◆ Capital expenditure on scientific research incurred by the assessee as per Section 35(1)(iv)

◆ 100% deduction-
for capital expenditure on scientific research

All capital expenditures on scientific research pertinent to the business conducted by the assessee are fully permitted for the applicable previous year. No deductions shall be permitted for expenditures related to the acquisition of land. Capital expenditure on scientific research that cannot be utilized due to insufficient profits under the category of Profits and Gains of Business or Profession, or any other category, will be carried forward as unabsorbed.

- ◆ Amount disbursed to a National Laboratory, an accredited University, or an Indian Institute of Technology for an authorized scientific research initiative.

◆ 100% deduction

The payment made by an assessee to a National Laboratory, a recognized University, an Indian Institute of Technology, or an approved individual for conducting scientific research programs sanctioned by the designated authority will qualify for a 100% deduction of the amount paid.

- ◆ Expenditure on in-house research under Section 35(2AB).
- ◆ A deduction equal to 100% of the expenses incurred by a company on in-house research and development facilities shall be permitted. The deduction is not permissible if the expenditure pertains to land or buildings.
- ◆ Capital expenditure for acquiring the right to utilize spectrum for telecommunications services (Sec 35ABA)
- ◆ Capital expenditure for acquiring a license to provide telecommunication services (Sec 35ABB)

Capital expenditures related to the acquisition of rights to operate telecommunication services, incurred either prior to the

commencement of the business or during any previous year, for which payment has been made to obtain a license, will be permitted as a deduction in equal installments over the applicable previous years.

- ◆ Deduction for expenditure on designated business (Sec 35AD)

An assessee is permitted a deduction for the entirety of any capital expenditure incurred solely for the purposes of a specified business conducted during the previous year in which the expenditure is made. Capital expenditures for which payments to an individual in a single day, made other than via an account payee cheque, account payee bank draft, electronic clearing system through a bank account, or other prescribed electronic methods, exceed Rs 10,000 shall not be permitted as a deduction. The deduction will be permitted in the preceding year when the specified business operations begin, provided the expenditure is incurred before the commencement and is capitalized in the assessee's books on the date operations commence.

- ◆ Remittance to the Rural Development Fund (Section 35CCA)

- ◆ This section permits a 100% deduction for an assessee who contributes any amount to the National Fund for Rural Development or the National Poverty Eradication Fund.

- ◆ Expenditure on agricultural extension initiative (Section 35CCC)

- ◆ When an assessee incurs expenditure on an agricultural extension project recognized by the Board, a deduction equal to 100% of that expenditure shall be permitted.

- ◆ Expenditure on any skill development initiative (Sec 35CCD)

- ◆ Companies that incur expenses on any skill development project designated by the Board shall be permitted a deduction equal to 100% of such expenses.

- ◆ Amortization of specific preliminary expenses under Section 35D

- ◆ If an Indian company or a non-corporate resident in India incurs preliminary expenditures of the specified nature, the assessee shall be permitted a deduction equal to one-fifth of such expenditure for each of the five consecutive previous years, commencing with the previous year in which the business begins, the extension work concludes, or the

new unit initiates production or operation, as applicable. The subsequent expenditure is encompassed within preliminary expenses. Expenses associated with the preparation of a feasibility report, project report, conducting market surveys, or any other surveys essential for the taxpayer's business, as well as engineering services pertinent to the taxpayer's operations. Legal fees for formulating any contract between the taxpayer and another party concerning the establishment or operation of the taxpayer's business. If the assessee is a company, in addition to the aforementioned expenses, the following expenses are also classified as preliminary expenses. Legal fees for the preparation of the Memorandum and Articles of Association, printing costs for these documents, registration fees for the company, expenses related to the issuance of shares or debentures, including underwriting commissions, brokerage fees, and costs associated with drafting, typing, printing, and advertising the prospectus.

- ◆ Expenditure related to the amalgamation or demerger of an undertaking (Sec 35DD)
- ◆ An Indian Company that incurs expenses solely for the purpose of amalgamation or demerger of an undertaking shall be permitted a deduction of 20% of such expenses for each of the five consecutive previous years commencing with the year in which the amalgamation or demerger occurs.
- ◆ Expenses related to voluntary retirement (Section 35DDA)
- ◆ An assessee who pays an employee a sum related to voluntary retirement in any previous year shall be permitted a deduction of 20% of that expenditure for each of the subsequent five previous years, commencing with the year in which the expenditure was incurred.
- ◆ Investment in mineral prospecting for development purposes (Sec 35E)
- ◆ If an Indian Company or any resident individual in India incurs expenses solely for the prospecting of specified minerals or for the development of mines or other natural deposits of such minerals, the taxpayer shall be permitted a deduction amounting to one-tenth of such expenses for each of the ten consecutive previous years, commencing from the year of commercial production.
- ◆ The premium paid for insurance against the risk of damage or destruction of stocks or stores utilized for business or

professional purposes is permissible as a deduction.

- ◆ The premium paid by a federal milk cooperative society for the life insurance of cattle owned by a member of an affiliated primary milk cooperative society is permitted as a deduction.
- ◆ Any bonus or commission disbursed to an employee for services rendered shall be deductible solely if such amount cannot be distributed as profits or dividends in any manner.
- ◆ A pro rata discount on a zero coupon bond, considering the bond's duration, shall be permitted as a deduction.
- ◆ The sum contributed by the assessee as an employer to a recognized provident fund or an approved superannuation fund is permissible as a deduction.
- ◆ Any legitimate expenditure incurred by a company to promote family planning among its employees is permissible as a deduction. If the expenditure is capital in nature, it will be permitted as a deduction in five equal annual installments starting from the preceding year in which the expenditure is incurred. The unutilized portion of capital expenditure on family planning is handled similarly to unutilized depreciation

2.1.17.3 Allowable Losses

- ◆ Losses incurred from robbery or dacoities are non-deductible. If it is incidental to business, it will be permitted as a deduction, contingent upon specific circumstances and conditions. Losses resulting from bank robbery will be permitted, as the bank is required to retain a certain amount of cash outside the vault for transactions.
- ◆ The financial loss incurred from an employee's embezzlement of business funds during the execution of their official responsibilities is permissible as a deduction. A theft perpetrated by an employee or an external individual through unlawful entry into the business premises after hours are permissible.
- ◆ If it is customary in business to provide advance payments to suppliers, and the supplier fails to fulfill the order or refund the advance, the loss incurred by the assessee is incidental to the business and is permissible.

2.1.17.4 Deductions expressly disallowed

Expenditures by any assessee on advertisements in souvenirs



published by a political party, payments made to non-residents or foreign companies outside or within India on which tax is deductible at source but has not been deducted or, if deducted, has not been remitted, and payments to residents on which tax is deductible at source but has not been deducted or, if deducted, has not been remitted, shall result in the disallowance of only 30% of such payments. Additionally, salaries payable to non-residents or outside India on which tax has not been deducted at source or, if deducted, has not been paid, as well as tax voluntarily paid by the employer on the value of perquisites provided to employees, are also included in this context.

If a firm charges interest on capital or loans to partners exceeding 12% per annum. Compensation, including salaries, commissions, bonuses, or remuneration, for working partners that exceeds the established limit. In the case of an Association of Persons or Body of Individuals, the disbursement of interest, salaries, commissions, bonuses, or remuneration to members is prohibited.

2.1.17.5 Profits chargeable to tax

- ◆ Sale of the assets used for scientific research
- ◆ Recovery after discontinuance of business or profession
- ◆ Profit on sale of assets on which depreciation is claimed on straight line method.
- ◆ Recovery of any loss or expenditure allowed as a deduction in an earlier year
- ◆ Bad debts recovered

2.1.17.6 Depreciation

Depreciation refers to the reduction in asset value due to wear and tear resulting from their utilization in business over time. Debiting the profit and loss account as a business expense is permissible. Assets qualifying for depreciation are specified under section 32(1). Assets comprise tangible and intangible categories. Furniture, plants, machinery, and similar items are tangible assets. Copyrights, trademarks, and franchises are classified as intangible assets. A block of assets under section 2(11) refers to a collection of tangible and intangible assets, excluding goodwill from intangible assets, for which a uniform percentage of depreciation is mandated. To claim a depreciation allowance, the asset must be wholly or partially owned by the assessee and utilized for the purposes of the assessee's business or profession. Depreciation may be claimed using the Straight Line Method or the Written Down Value method. Written down value refers

- ◆ Reduction in asset value due to wear and tear

to the actual cost incurred by the assessee for assets acquired in the previous year, and for assets acquired prior to the previous year, it is the actual cost to the assessee minus the depreciation that has been permitted. Depreciation is computed on the aggregate of assets rather than on individual assets. Only 50% of the standard depreciation will be permitted if an asset acquired and utilized in the business is employed for fewer than 180 days during the preceding year. Depreciation is permitted on motor cars manufactured outside India that are acquired after March 31, 2001, and utilized for business or professional purposes in India. No depreciation is permissible for a building leased or rented and utilized for business purposes, as the assessee is not the owner of the building.

2.1.17.7 Unabsorbed Depreciation

If the total current depreciation allowance is not fully deductible due to insufficient income, the remaining unutilized amount is referred to as Unabsorbed Depreciation. If the profits of a business are insufficient to fully deduct the allowable depreciation in a given year, the remaining unabsorbed depreciation shall be applied against the profits of any other business or profession conducted by the individual. If any portion of unabsorbed depreciation remains, it can be offset against income under any other category for that assessment year. If unabsorbed depreciation cannot be entirely offset, the unutilized amount shall be carried forward to the subsequent assessment year. The unabsorbed depreciation will be added to the allowable depreciation for the subsequent previous year or for the following years until it is completely deducted. Unabsorbed depreciation will be considered as a component of the current year's depreciation. If there is a carried forward business loss alongside unabsorbed depreciation, it is necessary to deduct the carried forward loss and unabsorbed depreciation from the current year's profits, calculated as the business profits before depreciation minus the current year's depreciation. If any unabsorbed depreciation remains, it may be offset against income under a different category.

- ◆ That portion on current depreciation not fully deductible due to insufficient income

2.1.17.8 Rates of Depreciation on Written Down Value Method

For buildings primarily utilized for residential purposes, excluding hotels and boarding houses, the depreciation rate is 5%.

- ◆ For buildings not primarily designated for residential use, as well as those acquired post-31.8.2002 for the installation of machinery and equipment integral to water supply projects or water treatment systems, utilized for the business of providing infrastructure, the depreciation rate is 10%. This

includes furniture, fittings, and electrical installations.

- ◆ The standard depreciation rate for all machinery or equipment, excluding specific machines and plants, as well as motor vehicles acquired or utilized between April 1, 1990, and August 23, 2019, is 15%. Ocean-going ships and vessels typically operating on inland waters, excluding speed boats, have a depreciation rate of 20%.
- ◆ The depreciation rate for intangible assets is 25%. The depreciation rate for motor cars, excluding those utilized in a hire business, acquired between 23.8.2019 and 31.3.2020 and employed on or before 31.3.2020, as well as for motor cars acquired on or after 23.8.2019 but prior to 1.4.2020 and utilized before 1.4.2020, is 30%.
- ◆ Buildings obtained after August 31, 2002, for the installation of machinery and plants integral to water supply projects or water treatment systems, utilized for the business of providing infrastructure facilities, and consisting of purely temporary structures, are subject to a depreciation rate of 40%.
- ◆ Machinery associated with environmental protection and pollution control, energy-saving devices, books owned by the assessee operating lending libraries, glass or plastic containers utilized for refills, computers, life-saving medical equipment, annual publication books, airplanes, and aero engines, as well as renewable energy device assets, are subject to a depreciation rate of 40%.
- ◆ Motor buses, motor lorries, and motor taxis utilized in a hire business acquired between 23.8.2019 and 31.3.2020, and employed on or before 31.3.2020, are subject to a depreciation rate of 45%.

Illustration 2.1.20

The following is the profit and loss account of Mr. X for the year ending 31st March 2024. Compute Mr. X income from the business for the relevant assessment year.

Particulars	Rs	Particulars	Rs
To Rent	4,000	By Gross Profit c/d	60,000
To General Charges	3,500	By Misc Receipts	300
To Interest on Capital	2,000	By Bad Debts Recovered	650

To Audit Fee	1,000	By Interest on Government Securities	3,200
To Bad debts	850	By Discounts	550
To Staff Salaries	8,200	By Profit on sale of machinery	7,200
To Reserve for bad debts	500	By Profit on smuggling business	75,000
To Income Tax	2,200		
To Law Charges	3,500		
To Compensation to a retrenched employee	2,700		
To Cost of extension of office premises	2,000		
To Depreciation	6,200		
To Charity and Donation	450		
To Entertainment Exp	11,500		
To Net Profit	97,900		
Total	1,46,500	Total	1,46,500

Additional Information

1. Depreciation on fixed assets chargeable according to Income Tax Rules amount to Rs 8,300.
2. Bad debts recovered includes an item of Rs 500 the claim for which was disallowed in the related year of assessment.

Solution

Computation of Income from Business for the Assessment Year 2024-25

	Rs	Rs
Net Profit as per Profit and Loss account		97,900
Add: Expenses disallowed		
Interest on Capital	2,000	
Reserve for bad debts	500	
Income tax	2,200	
Charity and Donation	450	
Depreciation	6,200	11,350
		1,09,250



Less: Bad Debts recovered not taxable	500	
Profit on sale of machinery	75,000	
Allowable Depreciation	8,300	
Income from other sources: Interest on Government Securities	3,200	(87000)
Income from Business		22,250

Illustration 2.1.21

Mr. B is a practicing Chartered Accountant. He maintains his accounts on cash basis. Following is the Receipts and Payments account for the year ended 31st March 2024:

Receipts	Amount	Payments	Amount
To Balance c/d	8,500	By Income Tax	48,000
To Dividend (Gross)	6,000	By Office rent	40,000
To Rent from property	4,500	By Personal expenses	1,60,000
To Examiner fees from university	800	By Salary of audit clerk	29,000
To Audit Fees	6,00,000	By Salaries	35,000
To Income from other accounting work	1,50,000	By Allowance of articled clerk	2,000
To Fees for conducting Income tax appeal	8,000	By Municipal Tax	600
		By Membership fees	1,000
		By Life Insurance Premium	1,200
		By Insurance of House Property	500
		By Motor Car purchased	2,00,000
		By Expenses of Motor Car	900
		By Balance c/d	2,59,600
Total	7,77,800	Total	7,77,800

Having regarded to the fact that one third of motor car expenses is in respect of his professional practice. Compute professional income of Mr. B. Assuming the rate of depreciation on car @ 15%.

Solution

Computation of Income from Profession for the Assessment Year 2024-25

Gross Professional Earnings:	Rs	Rs
Audit Fees	6,00,000	
Fee for conducting Income tax appeal	8,000	
Income from other accounting work	1,50,000	
Examiner fees from university	800	7,58,800
Less: Admissible Expenses:		
Salaries	35,000	
Allowance of articled clerk	2,000	
Salary of audit clerk	29,000	
Office rent	40,000	
Membership Fees	1,000	
Car Expenses: 1/3 rd	300	
Depreciation on car: 1/3 rd	10,000	1,17,300
Professional Income		6,41,500

Illustration 2.1.22

Dr Y is a Medical Practitioner. He gives you the following summary of cash book for the year ending 31.3.2024:

Particulars	Amount	Particulars	Amount
To Balance	20,000	By Rent of clinic	20,000
To Consultation Fee	80,000	By Surgical equipments	50,000
To Gifts and presents	10,000	By Staff Salaries	30,000
To Visiting Fee	50,000	By Purchase of medicines	20,000
To Sale of medicine	30,000	By Motor Car expenses	6,500
To Dividend from UTI (Gross)	7,000	By Purchase of Motor Car	1,40,000
To Life Insurance maturity	80,000	By Household expenses	5,000
To Interest from National Savings Certificate	5,000	By Balance	10,500
Total	2,82,000	Total	2,82,000



Other Information:

- ◆ Household expenses include Rs 2,000 for life insurance premium.
- ◆ Gifts and presents include Rs 2,000 from relatives
- ◆ 50% of motor car expenses incurred in connection with the profession. Car was purchased in January 2024.
- ◆ Opening stock of medicine was Rs 5,000 and closing stock was Rs 8,000.

Compute his income from profession for the Assessment Year 2024-25.

Solution

Computation of Income from Profession
for the Assessment Year 2024-25

Particulars	Amount	Amount
Profession receipts:		
Consultation Fee	80,000	
Gifts (10,000-2,000)	8,000	
Visiting Fee	50,000	
Sale of Medicines	30,000	1,68,000
Expenses:		
Staff Salaries	30,000	
Rent of clinic	20,000	
Medicines (5000+20000-8000)	17,000	
Motor Car Expenses	3,250	
Depreciation on Car	5,250	
Depreciation on Surgical Equipments @ 15%	7,500	83,000
Income from Profession		85,000

Note: Motor Car used for less than 180 days during the previous year on Rs 1,40,000 @ 7.5%

Less: 50% for personal use

Illustration 2.1.23

Mr. Z runs a drug industry. For the year ending 31st March 2024 following information is available:

- ◆ Net Profit as per Profit and Loss account Rs 8,00,000
- ◆ Guest house expenses Rs 5,000
- ◆ Donation to Prime Ministers National Relief Fund Rs 1,00,000
- ◆ Employees Remuneration and Perquisites Rs 80,000
- ◆ Contribution to Recognised Provident Fund Rs 8,000

- ◆ Dividend from an Indian Company (Gross) Rs 50,000
 - ◆ Penalty relating to income tax case Rs 20,000
 - ◆ Patent purchased by him in 2023-24 Rs 25,000
 - ◆ Books donated to poor students Rs 20,000
 - ◆ Capital expenses for scientific research Rs 1,12,000
- Compute Income from business and Gross Total Income.

Solution

Computation of Income from Business
For the Assessment Year 2024-25

Particulars	Amount	Amount
Net profit as per Profit and Loss Account		8,00,000
Add: Expenses disallowed		
Penalty	20,000	
Books donated to poor students	20,000	
Donation to PMs National Relief Fund	1,00,000	
Patent cost after depreciation @ 25%	18,750	1,58,750
		9,58,750
Less: Dividend being non - business income	50,000	
Income from Business		9,08,750

Computation of Gross Total Income
for the Assessment Year 2024-25

	Amount
Income from Business	9,08,750
Income from Other Sources: Dividend from an Indian Company	50,000
Gross Total Income	9,58,750

Illustration 2.1.24

A Banking Company has prepared the following Profit and Loss Account for the year ended March 31, 2024:

Particulars	Amount	Particulars	Amount
To Interest paid on deposits	3,00,000	By Commission	50,000
To Rent and Taxes	25,000	By Interest on loans	3,80,000

To Postage Charges	15,000	By Interest on securities	1,50,000
To Stationery and Printing	10,000	By Interest on cash credits	80,000
To Other expenses	10,000	By Interest on overdraft	75,000
To Bad debts provision	45,000	By Underwriting Commission	32,000
To Depreciation	45,000	By Rent of buildings	65,000
To Salaries and Allowances	1,40,000	By Profit on sale of shares underwritten	60,000
To Provision for Income Tax	2,50,000		
To Profit to Balance Sheet	52,000		
Total	8,92,000	Total	8,92,000

Compute the Business Income of the Banking Company for the relevant Assessment Year.

Solution

Computation of Income from Business
For the Assessment Year 2024-25

Particulars	Amount	Amount
Net Profit		52,000
Add: Disallowed Items		
Provision for Income Tax	2,50,000	
Excess bad debts provision	15,505	
Income from Business		3,17,505

Notes:

- ◆ Bad debts provision allowed 8.5% of Rs 52,000+2,50,000+45,000= Rs 29,495. Excess= Rs 45,000-29,495=Rs 15,505.

For banking companies, provision for bad debts is allowed at 8.5% of total income before making this deduction and deductions under section 80C to 80U.

- ◆ Assessee is not the owner of the buildings and mortgage of property is the business of the assessee. Hence rental incomes are assessable under the head Profits and Gains of

Business or Profession.

Illustration 2.1.25

Mr. Y is a Chartered Accountant. He has prepared the following income and expenditure account for the year ending 31st March 2024:

Income and Expenditure Account

Expenditure	Amount	Income	Amount
To Personal expenses	3,00,000	By Tax Consultancy fess	3,00,000
To Office expenses	12,000	By Dividends (Gross)	9,000
To Donation to NDF	400	By Audit Fees	3,90,000
To Employees Salary	4,500	By Gift from Father-in-law	6,500
To Books (other than annual publications)	600	By Profit on sale of an asset	5,000
To Interest	800		
To Income tax	1,25,000		
To Car expenses	1,500		
To Net Surplus	2,65,700		
Total	7,10,500	Total	7,10,500

You are required to compute his income from profession for the Assessment Year 2024-25. Loan has been taken to purchase an office building. Mr. Y is the owner of a building. Its written down value is Rs 60,000 on 1st April 2023. The building is used for Mr. Ys office. Besides furniture cost is Rs 30,000. Its WDV on 1st April 2023 is Rs 25,000. Allowed depreciation @ 10% on building and @ 10% on furniture under Income Tax Act. Allow depreciation on books @ 40%. The car is used equally in official and personal purposes and the depreciation allowed for official work is Rs 600. Rs 1200 domestic servant salary is included in the employee's salary.

Solution

Computation of Income from Profession
for the Assessment Year 2024-25

Particulars	Amount	Amount
Net Surplus asper Income and Expenditure Account		2,65,700



Add: Items Disallowed		
Personal expenses	3,00,000	
Income Tax	1,25,000	
Books	600	
Donation to NDF	400	
Salary of domestic servant	1,200	
Car expenses for personal use	750	4,27,950
		6,93,650
Less: Allowable expenses not yet charged:		
Depreciation on office building @ 10%	6,000	
Depreciation on furniture @ 10%	2,500	
Depreciation on books @ 40%	240	
Depreciation on car for office use	600	9,340
		6,84,310
Less: Income exempt or not chargeable under this head:		
Dividend	9,000	
Gift from father-in-law	6,500	
Profit on sale of an asset	5,000	20,500
Income from Profession		6,63,810

2.1.18 Income from Capital Gains

Profits or gains arising from the transfer of a capital asset in the previous year are taxable under the head Capital Gains. Income classified as capital gain must meet the following criteria:

- ◆ The asset transferred must be a capital asset.
- ◆ It should be transferred by the assessee in the preceding year.
- ◆ There must be profits and gains resulting from the transfer.

2.1.18.1 Capital Assets Sec 2(14)

Any property owned by an assessee, regardless of its relation to their business or profession, is classified as Capital Assets. Nonetheless, it excludes consumable goods, inventory, personal belongings, agricultural land located in rural regions, Gold Bonds, Special Bearer Bonds, and Gold Deposit Bonds. Agricultural land in India is permissible provided it is not located within the boundaries of any municipality or cantonment board with a

- ◆ Owner of property is assessee.
- ◆ Short term and Long term Assets

population of 10,000 or more, or within an area not exceeding two kilometers from such limits with a population exceeding 10,000 but not surpassing 100,000, or within six kilometers from the local limits with a population exceeding 1,00,000 but not exceeding 10,00,000, or within eight kilometers from the local limits with a population exceeding 10,00,000.

2.1.18.2 Types of Capital Assets

1. Short - term Capital Asset Sec 2(42A)

- ◆ Asset held for not more than 36 months
- ◆ In case of financial asset not more than 12 months

Capital asset held by an assessee for not more than 36 months immediately before the date of transfer is Short term Capital Asset. Capital gains resulting from the transfer of a short-term capital asset are referred to as Short-Term Capital Gains. In the case of a financial asset being security listed in a recognised stock exchange in India or a unit of the Unit Trust of India or a unit of an equity oriented fund or zero coupon bond, the short term capital asset will mean security or unit or zero coupon bond held by the assessee for not more than 12 months instead of 36 months as in case of other assets. For a financial asset allocated without payment based on the possession of another financial asset, the holding period shall commence from the date of allocation of the financial asset. If an unlisted share of a company, land, or building is held by the assessee for no more than 24 months prior to its transfer, it will be classified as a short-term capital asset. An asset used for business or profession on which depreciation is allowed on the basis of written down value method is always treated as a short-term capital assets.

2. Long - term Capital Asset Sec 2(29AA)

- ◆ Asset held for more than 36 months

Capital asset possessed by an assessee for over 36 months prior to the date of transfer. Capital gains resulting from the transfer of a long-term capital asset are referred to as Long-Term Capital Gains. In the case of listed securities or units of UTI or units of equity oriented fund or zero coupon bond held by an assessee the long term capital asset will mean such assets held by the assessee for more than 12 months. If the assessee possesses unlisted shares of a company, land, or a building, or a combination thereof, a long-term capital asset is defined as any asset held by the assessee for a duration exceeding 24 months. If land and buildings are transferred before 31.3.2017, the period is 36 months; if transferred on or after 1.4.2017, the period is 24 months.

2.1.18.3 Transfer of Capital Asset Sec 2(47)

Transfer concerning a capital asset encompasses the sale, exchange, relinquishment of the asset, or the extinguishment of any associated rights, as well as its compulsory acquisition un-



- ◆ Sale, exchange
relinquishment etc
of capital asset

der applicable law. It also includes the conversion of the asset by the owner into stock in trade for a business operated by them, the maturity or redemption of a zero coupon bond, the conversion of a business into a limited company, or any transaction permitting the possession of immovable property to be taken or retained in partial performance of a contract as defined in the Transfer of Property Act 1882, along with any transaction that results in the transfer of enjoyment of any immovable property.

2.1.18.4 Computation of Capital Gains Sec 48

I. Calculation of Short -Term Capital Gains

Deduct the following amounts from the total value of the consideration received or accruing from the transfer of the capital asset –

- The acquisition cost of the capital asset.
- The expense associated with any enhancement thereof and
- The expenses incurred entirely and solely in relation to such transfer.

Capital Gains = Full value of Consideration – (Cost of acquisition + Cost of improvement + Selling expenses).

A short-term capital loss from the transfer of a short-term capital asset can be offset against any short-term or long-term capital gain. The payment made for securities transaction tax shall not be permitted as a deduction.

II. Computation of long-term capital gains

Deduct the subsequent amounts from the total value of the consideration obtained or arising from the transfer of the capital asset –

- Indexed cost of acquisition of the asset
- Indexed cost of any improvement of the asset
- Expenditure incurred in connection with the transfer of the asset.

The payment made for securities transaction tax shall not be permitted as a deduction. A long-term capital loss from the transfer of a long-term capital asset can only be offset against other long-term capital gains. The Cost Inflation Index for a prior year refers to the index determined by the Central Government, considering 75% of the average increase in the Consumer Price Index for the year immediately preceding that prior year.

Indexed cost of acquisition = Cost of acquisition x Cost infla-

tion index for the year in which the asset is sold divided by Cost inflation index for the first year in which the asset was held or cost inflation index on 1.4.2001 whichever is later.

◆ Indexed cost refers to taking into account changes in the value of money over time

Indexed cost of improvement = Cost of improvement x Cost inflation index for the year in which the asset is sold divided by Cost inflation index for the year in which the improvement to asset took place.

Expenditures incurred for improvements before April 1, 2001, shall not be deductible. The regulations concerning indexed cost of acquisition and indexed cost of improvement shall not be applicable to the long-term capital gains resulting from the transfer of long-term capital assets, specifically bonds, debentures, equity shares in a company, units of an equity-oriented fund, or units of a business trust.

2.1.18.5 Full Value of Consideration

◆ Price at which an asset is transferred

The full value of consideration refers to the price at which an asset is transacted. In an exchange, the fair market value of the property received on the date of the exchange will represent the total value of consideration. When shares, debentures, or warrants obtained through an Employees Stock Option Plan or Scheme are transferred as a gift or to an irrevocable trust, the market value on the transfer date will be considered the total value of the consideration received or accrued from the transfer for capital gains calculation. If the consideration received or accruing from the transfer of a capital asset, specifically a share of a company that is not publicly traded (Sec 50CA), is less than the fair market value of that share, as determined by prescribed methods, the determined value shall be considered the full value of the consideration received or accruing from the transfer. This section's provisions do not apply to any consideration received or accruing from transfers by that class of individuals, subject to prescribed conditions. If the consideration received or accruing from the transfer of a capital asset by an assessee is indeterminate, the fair market value of the asset on the transfer date shall be regarded as the total value of the consideration for calculating chargeable capital gains. If the consideration received or accruing from the transfer of a capital asset, specifically land or a building, is less than the value determined or assessed by any State Government authority for stamp duty purposes, then that assessed value shall be regarded as the full value of the consideration received or accruing from the transfer. If the value determined by the stamp valuation authority does not surpass 110% of the consideration, the consideration received or accruing shall be regarded as the total value of consideration. When the assessee asserts to any Assessing Officer that the value determined

or evaluated by the stamp valuation authority surpasses the fair market value of the property on the date of transfer. In instances where the value determined or evaluated by the stamp valuation authority has not been contested in any appeal or revision, nor has any reference been made to any other authority, court, or the High Court. The Assessing Officer may refer the valuation of the capital asset to a Valuation Officer.

2.1.18.6 Cost of Acquisition

The value at which the asset is obtained by the assessee is referred to as the Cost of Acquisition. It encompasses all costs associated with obtaining an asset, along with all expenses incurred in the acquisition of the asset. Interest incurred on funds borrowed for the acquisition of a capital asset shall be included in the cost of acquisition, provided that such interest has not been deducted under any other provision.

◆ All costs and expenses associated with obtaining an asset

- ◆ If an assessee receives shares of the amalgamated company, which is an Indian entity, in exchange for shares in the amalgamating company, the acquisition cost of these shares will be equivalent to the cost of the shares in the amalgamating company.
- ◆ The acquisition cost of shares in the resulting company shall correspond to the proportion of the cost of acquisition of shares held by the assessee in the demerged company, relative to the net book value of the assets transferred in the demerger, compared to the net worth of the demerged company immediately prior to the merger. Net worth refers to the total of the paid-up share capital and general reserves as recorded in the financial statements of the demerged company immediately prior to the demerger.
- ◆ The acquisition cost of the original shares owned by the shareholder in the demerged company shall be considered diminished by the amount calculated as the cost of shares in the resulting company.
- ◆ The cost of equity shares allocated to a shareholder of a recognized stock exchange in India, pursuant to a demutualization scheme sanctioned by SEBI, shall equate to the cost of acquisition of their original membership in the exchange.
- ◆ Capital gains resulting from the transfer of specified securities or sweat equity shares shall have their cost of acquisition determined by the fair market value considered in the calculation of the perquisite value.
- ◆ Where a private company or unlisted public company is

converted into a limited liability partnership, the cost of acquisition of capital asset to the partner shall be deemed to be the cost of acquisition of shares in the company immediately before its conversion.

◆ Provisions relating to determining cost of acquisition

- ◆ When the aforementioned asset is acquired by the assessee in exchange for a transfer of shares in a special purpose vehicle, the acquisition cost of the unit shall be considered equivalent to the cost of the shares.
- ◆ When a company issues equity shares in exchange for its preference shares, the cost of the equity shares will be equivalent to the cost of the preference shares for which the asset is acquired.
- ◆ The expense of a new unit or units shall be considered the acquisition cost to him. The acquisition cost of a unit or units in the segregated portfolio shall correspond to the ratio of the net asset value of the assets transferred to the segregated portfolio to the net asset value of the total portfolio immediately prior to the segregation, multiplied by the acquisition cost of the units held by the assessee in the total portfolio. The cost of acquisition of the original units held by the unit holder in the main portfolio shall be considered diminished by the amount determined as the cost of acquisition of a unit or units in the segregated portfolio. If the capital asset is acquired by the assessee, the acquisition cost of that asset shall be considered equivalent to the cost of acquiring the interest in the joint venture.
- ◆ In instances where a capital asset has previously been subject to negotiation for transfer, any advance or other funds received and retained by the assessee in relation to such negotiation shall be subtracted from the acquisition cost, written down value, or fair market value, as applicable, when calculating the cost of acquisition. Advances received and forfeited on or after April 1, 2014, shall be considered the income of the assessee and taxable under the category of Income from Other Sources. It shall not be subtracted from the asset's cost.
- ◆ The acquisition cost of immovable property shall be determined by the stamp duty value. The acquisition cost of property, excluding immovable property, shall be determined by its fair market value.
- ◆ The acquisition cost of the asset declared and evaluated under the Income Declaration Scheme shall be considered the fair market value of the asset utilized for the objectives of

the scheme.

- ◆ When capital gains result from the transfer of a capital asset converted from inventory, the acquisition cost shall be considered the fair market value that has been accounted for this purpose.
- ◆ When an electronic gold receipt issued by a Vault Manager is transferred to an individual, the acquisition cost of the asset for the purposes of the transfer shall be considered the cost of gold held by the individual in whose name the Electronic Gold Receipt is issued. When gold is issued against an Electronic Gold Receipt, which subsequently becomes the property of an individual as consideration for a transfer, the acquisition cost of the asset for that transfer shall be regarded as the cost of the Electronic Gold Receipt held by that individual.
- ◆ If the capital asset was acquired by the assessee prior to 1.4.2001, the assessee may choose to consider either the acquisition cost of the asset or its fair market value as of 1.4.2001 as the basis for the asset's valuation.
- ◆ For shares or securities acquired prior to April 1, 2001, the acquisition cost will be determined as either the actual cost or the fair market value as of April 1, 2001, whichever is more advantageous to the assessee. If acquired after March 31, 2001, the actual cost will be the acquisition cost.
- ◆ The cost of bonus shares received by the assessee without payment, based on their holding of a financial asset, where the bonus shares were received prior to April 1, 2001, is the fair market value as of April 1, 2001. In all other instances, it is nil.
- ◆ The acquisition cost of a capital asset, including goodwill associated with a business or profession, trademarks, brand names, intangible assets, rights to manufacture or produce items, rights to conduct business or profession, tenancy rights, stage carriage permits, loom hours, or any other rights, shall be assessed as follows. If the asset is acquired from a prior owner, the purchase price is the relevant amount. In all other instances, Nil. If the previous owner has transferred the asset to the assessee, the cost at which the previous owner acquired the asset applies.
- ◆ In instances where an assessee, through the possession of a share or other security, gains the right to subscribe to additional shares or securities via a rights issue, the cost of ac-

quisition shall be determined by the assessee's entitlement to the rights issue and the actual amount paid for acquisition. If the assessee relinquished the right in favor of another individual, Nil. If the assessee has acquired the right to subscribe for additional shares, the total cost includes the purchase price for the right and the amount paid to the company for obtaining the share rights.

- ◆ If an asset is obtained by an assessee under certain conditions, the acquisition cost of the asset will be considered as the price paid by the previous owner for the property. The increase will reflect the expenses related to asset enhancements made by the prior owner or the assessee. Circumstances are on any distribution of asset on the total or partial partition of a Hindu Undivided Family or on any distribution of assets on the liquidation of a company or under a gift or will or under a transfer to a revocable or an irrevocable trust or on a succession of a sole proprietary concern or on the transfer of a capital asset by the predecessor cooperative bank to the successor cooperative bank in a business reorganization or on the transfer of shares in the predecessor cooperative bank in lieu of shares allotted in the successor cooperative bank in a business reorganization or on the transfer of a capital asset by a private company or unlisted public company at the time of conversion into a limited liability partnership or on the transfer of a capital asset or intangible asset by an affirm to a company as a result of a succession of the firm by a company or on transfer by a parent company to its Indian subsidiary company which is wholly owned by the parent company or on the transfer by a subsidiary company to its Indian holding company which owns the whole of the share capital of the subsidiary company or on the transfer of a capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company or on the transfer of a capital asset in a scheme of amalgamation of a banking company with a banking institution sanctioned and brought into force by the Central Government or when any of the members of a HUF converts his self-acquired property into HUF property.

◆ When an asset obtained by certain conditions, the previous owner acquisition cost will be considered

2.1.18.7 Cost of Improvement Sec 55(1)(b)

The cost of improvement refers to capital expenditure associated with modifications and enhancements to a capital asset. The expense associated with enhancing a capital asset, whether goodwill or another intangible asset, or the right to manufacture, produce, or process any item, conducts any business or profession, or any other entitlement, shall be deemed Nil. Furthermore,

◆ Capital expenditure for modification and enhancement



for any other capital asset, expenditures incurred before April 1, 2001, shall not be recognized as improvement costs and will be disregarded. Capital costs incurred for additions and alterations on or after April 1, 2001, shall be classified as improvement costs and deducted when calculating capital gains.

2.1.18.8 Selling Expenses

Expenditures incurred solely and exclusively related to the transfer of a capital asset are permissible when calculating capital gains. Such expenses may encompass advertising costs, broker commissions, and registration fees incurred by the assessee. If vacant possession is to be given as part of the agreement of sale the payment of consideration to tenants for vacating the property is deductible as selling expenses.

Net Consideration = Full value of consideration less selling expenses.

2.1.18.9 Listed Securities

Securities encompass shares, scrips, stocks, bonds, debentures, debenture stock, or other similar marketable securities from any incorporated company or corporate entity; Government securities; instruments designated as securities by the Central Government; and rights or interests in securities.

2.1.18.10 Slump Sale Sec 2(42C)

It refers to the transfer of one or more enterprises by any method for a fixed monetary amount, without allocating values to the specific assets and liabilities involved in the transfer.

2.1.18.11 Capital Gains exempt from tax

1. Capital Gains arising on the transfer of property used for residence Sec 54.

Capital gains resulting from the transfer of a house or its associated land are exempt, contingent upon the following conditions. The property is owned by either an individual or a Hindu Undivided Family. The property was utilized as a residence. The revenue generated from such real estate is taxable under the category Income from House Property. The exemption will apply solely to residential property that the taxpayer has owned for more than 24 months prior to the transfer. The assessee has acquired one residential house in India within one year prior to or two years subsequent to the date of transfer, or has constructed one residential house in India within three years following the date of transfer.

Quantum of exemption

- a. The capital gains from the transfer of the residential house are exempt up to the lower of the cost of the newly purchased or constructed residential house or Rs 10 crore.
- b. If the assessee does not utilize the capital gain for acquiring a new house before the due date for submitting the income tax return, but deposits it in an account established under the Capital Gains Account Scheme 1988 with a bank authorized by the Central Government before the due date, he will be eligible for exemption.

If the amount of capital gain does not exceed two crore rupees, the assessee may purchase or construct two residential houses in India instead of one

2. Capital gains arising from the transfer of agricultural land Sec 54B

Capital gains from the transfer of agricultural land located in an urban area are exempt, provided the following conditions are met. The agricultural land is possessed by an individual or a Hindu Undivided Family (HUF). The agricultural land was utilized for agricultural purposes by the assessee, his parents, or a Hindu Undivided Family (HUF) during the two years prior to the transfer date. The assessee has acquired additional land for agricultural purposes within two years from the date of transfer.

Quantum of exemption

- a. The capital gains from the transfer of agricultural land are exempt up to the amount of the cost of the newly acquired agricultural land.
 - b. If the assessee does not utilize the capital gains for acquiring new agricultural land before the due date for submitting the income return, but instead deposits the amount in an account established under the Capital Gains Account Scheme 1988 on or before the due date, he will be eligible for exemption.
- ### 3. Capital gains on compulsory acquisition of land and buildings Sec 54D

Capital gains arising on the transfer by way of compulsory acquisition under any law of land or building is exempt subject to the following conditions. The property must be utilized by the assessee for the operation of an industrial enterprise. The taxpayer utilized this land or building for the operations of an industrial enterprise for a minimum of two years prior to the date of transfer. The assessee has, within three years of the transfer,

acquired another land or building or constructed a building to relocate or reestablish the industrial undertaking or to establish a new industrial undertaking in that building.

Quantum of exemption

- a. If the capital gains are less than or equal to the expenditure on new land or building, the total capital gains will be exempt from taxation. Only the excess of capital gains over the cost of acquisition or construction shall be subject to taxation.
 - b. If the capital gains are not employed by the assessee for the acquisition or construction of new land and buildings prior to the deadline for submitting the income tax return, the funds must be deposited in an account established under the Capital Gains Account Scheme 1988 by the due date for filing the return to qualify for exemption.
4. Capital gains arising from the transfer of a long-term capital asset invested in long term specified asset Sec 54EC

A long-term specified asset refers to any bond that is redeemable after three years and issued by the National Highways Authority of India between April 1, 2007, and April 1, 2018; the Rural Electrification Corporation Limited within the same date range; the Power Finance Corporation Limited from June 15, 2017, to April 1, 2018; or the Indian Railway Finance Corporation Limited from August 8, 2017, to April 1, 2018. The investment in the designated long-term asset by an assessee during the financial year of the original asset's transfer and the following financial year shall not surpass Rs 50 lakh.

If an assessee transfers a long-term capital asset and invests the capital gains in specified long-term assets, the assessee shall be eligible for exemption under the following conditions. The new asset must be acquired within six months from the date of the original asset's transfer.

If the cost of the new asset is equal to or exceeds the total capital gains, the entire capital gains shall be exempt. If it is lesser, the invested amount shall be exempt. If the new asset is transferred or converted into cash within three years from the acquisition date, the exempted capital gains amount will be subject to taxation as long-term capital gains for the preceding year in which the new asset is transferred.

Investments shall be made in Bonds redeemable after five years and issued on or after 1 – 4 - 2018 by the National Highway Authority of India or Rural Electrification Corporation Limited or any other bond notified by the Central Government in this behalf.

If the assessee has claimed an exemption for a new asset under this section based on such cost, they will not be eligible for a deduction under section 80C.

5. Capital gains arising from the transfer of a long-term capital asset invested in units of a specified firm Sec 54EE

A unit issued prior to April 1, 2019, of any fund designated by the Central Government constitutes an investment asset. The stipulations of this section mirror those of Sec 54EC, except for the asset designated for the investment of long-term capital gains.

6. Exemption from tax on long - term capital gains on an investment of the consideration in a residential house Sec 54F

Long-term capital gains are exempt under this provision if the specified conditions are met. The assessee is either an individual or a Hindu Undivided Family. The taxpayer has disposed of a long-term capital asset that is not a residential property. The taxpayer does not possess more than one residential property as of the date of the transfer of the original assets. The taxpayer acquires a residential property in India within one year prior to or two years following the date of transfer or constructs one residential house within three years after the transfer date. Construction means completion. The income from newly acquired residential house is chargeable under the head Income from House Property.

Quantum of exemption

- a. If the cost of the newly acquired or constructed house is equal to or greater than the net consideration from the transferred capital asset, the total capital gains from the transfer will be exempt from taxation.
- b. If the cost of a new house is lower than the net consideration for the transferred asset, the exemption from long-term capital gains will be proportionately granted based on the investment of net consideration for either the purchase or construction of the residential house. Exempted amount = Capital gains x (Cost of a new house or Rs 10 crore, whichever is lesser) divided by Net sale consideration.
- c. If the net consideration is not employed for the purchase or construction of a residential house, and the net consideration or a portion thereof is deposited by the assessee in the Capital Gains Account Scheme prior to the deadline for submitting the income tax return, he will qualify for exemption.



7. Exemption of capital gains on transfer of assets in the case of shifting of Industrial Undertaking from the urban area Sec 54G

◆ Provision relating relocation from urban area to nonurban area

Capital gains from the relocation of an industrial undertaking from an urban area to a non-urban area are exempt, provided the specified conditions are met. The taxpayer conveys a capital asset, either long-term or short-term, characterized as plant, machinery, building, or land. Exemption is not applicable to capital gains arising from the transfer of other assets. Such assets ought to have been utilized for the operations of the industrial enterprise located in an urban area. The asset ought to have been transferred in relation to the relocation of the undertaking to a non-urban area. The capital gains must be employed by the assessee within one year prior to or three years after the date of transfer for the following specified purposes. Acquiring new machinery, land, or buildings, or constructing facilities for business operations in the relocated area and transferring the original asset and relocating the establishment of the undertaking to that area. Incurring expenditures for additional purposes as delineated in a scheme established by the Central Government. The newly acquired machinery, plant, land, or building must be retained by the assessee for three years from the acquisition date.

Quantum of exemption

Provided the aforementioned conditions are met, the treatment of capital gains will be as follows: capital gains resulting from such transfer shall be exempt to the extent that these gains have been allocated for the specified purposes. If the capital gains exceed the associated costs and expenses related to any of the purposes specified, and the capital gains are utilized by the assessee within one year prior to or three years following the date of transfer, the surplus of the capital gains over these costs and expenses will be subject to taxation as capital gains. If the capital gains are equal to or less than the associated costs and expenses, the total capital gains will be exempt from taxation. If the capital gains are not allocated or employed by the assessee for the costs and expenses associated with any of the aforementioned purposes within one year prior to the transfer of the original capital asset, or if they are not utilized for any of the purposes before the due date for submitting the income tax return, the assessee must deposit the amount in the Capital Gains Account Scheme 1988 on or before the due date for filing the return to qualify for exemption.

8. Exemption of capital gains on shifting of industrial undertaking from an urban area to any Special Economic Zone Sec 54GA



◆ Provision relating to urban area to SEZ

Capital gains from relocating an industrial undertaking from an urban area to a Special Economic Zone are exempt, provided the specified conditions are met. The taxpayer conveys a long-term or short-term capital asset, specifically plant, machinery, buildings, land, or any rights associated with buildings or land. The asset must have been utilized for the business operations of an industrial enterprise located in an urban area. The asset ought to have been transferred in relation to the relocation of the undertaking to any Special Economic Zone, whether situated in an urban area or elsewhere. Capital gains must be employed within one year prior to or three years after the transfer date for the specified purposes: Acquire machinery or equipment, obtain land or a building, or construct a building for business purposes within the Special Economic Zone. Incurs costs associated with relocating the original asset and transferring the establishment of the enterprise to the Special Economic Zone. Incurs expenditures for additional purposes as specified in a scheme established by the Central Government. Capital gains shall be exempt to the degree that such gains have been employed for the aforementioned purposes. If the assessee does not appropriate or utilize the capital gains for the specified purposes before the due date for filing the return, they must deposit the amount in the Capital Gains Account Scheme 1988 by the due date for filing the income return and utilize it according to the scheme. The sum already expended for the aforementioned purposes, in conjunction with the deposited amount, shall be considered the total utilized for the new asset.

If the new asset is transferred within three years of its purchase, acquisition, construction, or transfer, the capital gains shall be calculated as follows. The value of the new asset will be considered as zero, and the net consideration will represent the capital gains amount. The expense of the new asset will be the cost diminished by the capital gains amount. The capital gains will be the net proceeds minus the cost of the new asset. If the deposited amount is not fully or partially utilized for its intended purposes within three years from the date of transfer, the unutilized amount will be classified as capital gains for the preceding year in which the three-year period expires, and the assessee will be permitted to withdraw the amount in accordance with the specified scheme.

9. Exemption of long-term capital gains on transfer of residential property Sec 54GB

An exemption is granted to an individual or a Hindu Undivided Family. A long-term capital asset, specifically a residential property, must be transferred prior to April 1, 2017, or, in the

case of an eligible startup, before April 1, 2022.

Conditions for exemption

The taxpayer employs the net proceeds from the subscription of equity shares in an eligible company prior to the deadline for submitting the income tax return. If his investment in equity shares is less than the net consideration, the corresponding capital gain shall be exempt. The company employs the funds within one year from the subscription date of equity shares by the assessee for the acquisition of new assets, specifically plant and machinery. If an eligible startup is technology-driven, the new asset shall also encompass computers or computer software. If the company fails to employ the consideration obtained from the issuance of shares to the assessee for the acquisition of new plant or machinery prior to the deadline for submitting the income return by the assessee, the unutilized consideration must be deposited in a designated bank or institution under the specified scheme.

- ◆ Provision relating to get exemption in capital gain

Withdrawal of exemption

If the deposited amount in the designated bank is not utilized by the company within the specified period, the corresponding capital gains shall be subject to taxation for the assessee in the previous year following the expiration of one year from the date of subscription to equity shares by the assessee. If the assessee divests or conveys the shares, or if the company divests or conveys the newly acquired plant or machinery within five years from the acquisition date. The exempted capital gains will be considered as the capital gains of the preceding year in which the shares, new plant, machinery, computer, or computer software is transferred or sold. Any gain from the transfer of shares to the assessee shall be subject to taxation in his possession. The company shall be liable to pay tax on any gain from the transfer of plant or machinery to itself.

- ◆ The exempted capital gain will be considered as capital gain if it's not invested in shares, new plant, machinery, etc, within one year

An Eligible Company refers to a company incorporated in India between 1st April of the preceding year pertinent to the assessment year in which the capital gain is realized and the deadline for submitting the income tax return. The company is involved in the production of a product or in a qualifying business activity. It is a company in which the assessee possesses over 25% of the share capital or more than 25% of the voting rights subsequent to their share subscription. It is a company that qualifies as a small or medium enterprise or an eligible startup.

2.1.18.12 Tax on Long term Capital Gains Sec 112

For individuals or Hindu Undivided Families residing in India, the rate is 20%. If the total income of a resident individual or

- ◆ The tax rate of LTCG is 20% subject to conditions

resident Hindu Undivided Family (HUF) is below the threshold exempt from income tax, the exempt amount shall be deducted from the total income, and tax shall be levied at a rate of 20% on the remaining balance. For other assesseees, the rate is 20%. The tax on long-term capital gains (LTCG) from the transfer of listed securities or zero coupon bonds will be levied at 10% of LTCG calculated without indexing the acquisition cost, or at 20% of LTCG calculated with indexed acquisition cost, whichever is lower. It is important to acknowledge that debentures are not indexed.

2.1.18.13 Surcharge on income tax

For a firm, cooperative society, or local authority, the rate is 12% if the total income surpasses Rs 1 crore. For a domestic company, a tax rate of 7% applies if the total income exceeds Rs 1 crore but does not surpass Rs 10 crore. If total income surpasses Rs 10 crore, a rate of 12% applies.

- ◆ Health and education cess 4%

► Health and Education Cess

A health and education cess of 4% shall be imposed on the income tax and surcharge.

2.1.18.14 Tax on Short-term capital gains on transfer of equity shares in a company or units of an equity-oriented fund or units of a business trust Sec 111A

- ◆ STCG will be taxed at 15% plus surcharge

If an assessee's total income includes short-term capital gains from the transfer of equity shares in a company, units of an equity-oriented fund, or units of a business trust, a short-term capital gains tax will be levied at a rate of 15% plus surcharge. The surcharge rate on Income Tax is 10% for total incomes exceeding Rs 50 lakh but not surpassing Rs 1 crore. The surcharge rate on Income Tax is 15% when the total income surpasses Rs 1 crore.

2.1.18.15 Tax on Long-term capital gains on transfer of equity shares in a company or units of an equity-oriented fund or units of a business trust Sec 112A

The tax rate on long-term capital gains, calculated without indexing the acquisition cost, exceeds Rs 1 lakh at a rate of 10%. LTCG up to Rs 1 lakh will be exempt. Surcharge on Income Tax is levied at a rate of 10% for total incomes exceeding Rs 50 lakh but not surpassing Rs 1 crore. Surcharge on Income Tax is levied at a rate of 15% when total income surpasses Rs 1 crore.

Illustration 2.1.26

Compute the taxable capital gains. Indexed cost of residential house is Rs 5 crore. House sold in the previous year 2023-24 is Rs 9 crore. Two new residential houses purchased in the Previ-

ous Year 2023-24 is Rs 1 crore each.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount (in crores)
Sale Price	9
Less: Indexed Cost	5
Long Term Capital Gain	4
Less: Two residential houses purchased (Exemption u/s 54)	1
Taxable Capital Gain	3

Note: Capital gain exceed Rs 2 crore. So, exemption is available in respect of one residential house.

Illustration 2.1.27

Mr. A sells his residential house in Coimbatore on 19th September 2023 for Rs 42,00,000 and incurs an expenditure of Rs 2,00,000 in connection with the transfer. Cost of acquisition of the house for him in 1998 was Rs 1,50,000 and on 1.4.2001 the fair market value was Rs 7,50,000. On 12th February 2024 he deposits Rs 10,00,000 in the Capital Gain Account Scheme. Compute the taxable capital gains for the Assessment Year 2024-25. The cost inflation index for 2001-02 was 100 and for 2023-24 it was 348.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount
Sale Proceeds of residential house	42,00,000
Less: Expenses incurred	2,00,000
Net Sale Consideration	40,00,000
Less: Indexed cost of acquisition (Rs 7,50,000 x 348 /100)	26,10,000
Long term Capital Gains	13,90,000
Less: Deposit in Capital Gains Account Scheme	10,00,000
Taxable Capital Gains	3,90,000

Illustration 2.1.28

Mr. D furnishes the following information. He built a house in 2001-02 at the cost of Rs 3 lakh for self residence. On 1.9.2023

he sold his house for Rs 18,00,000 and purchased a new flat on 1.2.2024 for Rs 6,00,000. Stamp fee paid Rs 1,00,000 for registration. He paid 2% brokerage on sale and purchase of the property. Compute capital gains. If the new flat is of Rs 12,00,000 how much capital gains shall be taxable? The cost of inflation index for 2001 – 02 was 100 and 2023 – 24 was 348.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount	Amount
Selling price of residential house		18,00,000
Less: Brokerage @ 2%		36,000
Net Sale Consideration		17,64,000
Less: Indexed Cost of the house (Rs 3,00,000 x 348/100)		10,44,000
Long term Capital Gains		7,20,000
Less: Cost of the new flat purchased		
Cost	6,00,000	
Registration charges	1,00,000	
Brokerage	12,000	7,12,000
Taxable Capital Gains		8,000

Illustration 2.1.29

Agricultural land situated in Agra purchased in 2004-05 Rs 1,50,000 sold for Rs 10,00,000 on 1.6.2023. The assessee purchased another piece of agricultural land on 1.9.2023 for Rs 4,50,000. Compute the capital gains chargeable to tax for the Assessment Year 2024-25. The cost inflation index in 2004-05 was 113 and in 2023-24 it was 348.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount
Sale Price	10,00,000
Less: Indexed cost of acquisition (Rs 1,50,000 x 348/113)	4,61,947
Long term Capital Gains	5,38,053
Less: Cost of new agricultural land purchased	4,50,000
Capital Gains chargeable to tax	88,053



Illustration 2.1.30

Mr D purchased a plot of land on 29.9.2004 for Rs 12,00,000. He sold it on 30.11.2023 for Rs 92,00,000 and invested Rs 53,00,000 in bonds issued by National Highways Authority of India on 10.1.2024. Cost inflation index are 2004-05:113 and 2023-24:348. Compute capital gains chargeable to tax for the Assessment Year 2024-05.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount
Sale Consideration	92,00,000
Less: Indexed Cost (Rs 12,00,000 x 348/113)	36,95,575
Long term Capital Gains	55,04,425
Less: Exempt upto Rs 50,00,000 if amount is invested within six months from the date of transfer of LTCA	50,00,000
Taxable Capital Gains	5,04,425

Illustration 2.1.31

Mr. Z submits the following particulars about the sale of assets during the year 2023-24.

Selling price of Silver Rs 18,00,000. Cost of Acquisition is Rs 4,00,000. Year of Acquisition is 2007-08. Compute the amount of taxable capital gains. Cost inflation index 2007-08 is 129 and 2023-24 is 348.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount
Selling Price	18,00,000
Less: Indexed Cost (Rs 4,00,000 x 348 /129)	10,79,070
Taxable Capital Gains	7,20,930

Illustration 2.1.32

Mr. X sold a long-term capital asset (listed securities) for Rs 20,00,000 in September 2023. It was purchased in September 2001 for Rs 2,00,000. In November 2023 he purchased bonds redeemable after five years issued by the NHAI for Rs 9,00,000, Equity shares for Rs 1,50,000 and a residential house in Pune for Rs 6,00,000. In September 2023 he did not own any other resi-

dential house though he owned a big house property in Kolkata. Compute taxable capital gains of the assessee.

Solution

Computation of Taxable Capital Gains
for the Assessment Year 2024-25

	Amount	Amount
Sale Proceeds		20,00,000
Less: Indexed Cost (2,00,000 x 348 /100)		6,96,000
Long term Capital Gains		13,04,000
Less: Exemptions		
Amount invested in specified bonds within 6 months from the date of transfer of LTCA	9,00,000	
Amount invested in equity shares (No exemption)	-----	
Residential house u/s 54F (13,04,000 x 6,00,000 / 20,00,000)	3,91,200	12,91,200
Taxable Capital Gains		12,800

Illustration 2.1.33

From the following information compute the taxable capital gains:

- a. Mr. S purchased a house property in July 2010 for Rs 4,00,000.
- b. His son Mr. Y acquired the property by inheritance on 5th February 2011 after the death of his father.
- c. Fair market value of the property on 5th February 2011 was Rs 4,50,000.
- d. Y sold the property on 12th July 2023 for Rs 32,00,000.
- e. Stamp Valuation Authority valued the property Rs 38,00,000 which is not objected by the seller or the buyer of the house
- f. On 13th December 2023, Y purchased a residential flat for Rs 17,00,000 and invested Rs 8,00,000 in bonds issued by the NHAI redeemable after 5 years. The cost inflation index for 2010-11 was 167 and for 2023-24 was 348.



Solution

Computation of Taxable Capital Gains for the Assessment Year 2024-25

	Amount	Amount
Sale Consideration		38,00,000
Less: Indexed Cost (4,00,000x348/167)		8,33,533
Long term Capital Gains		29,66,467
Less: Cost of the new house u/s 54	17,00,000	
NHAI Bonds u/s 54EC	8,00,000	25,00,000
Taxable Capital Gains		4,66,467

Note: Sale consideration shall be the actual consideration (Rs 32,00,000) or value determined for stamp duty purpose (Rs 38,00,000) whichever is higher.

2.1.19 Income from Other Sources

This is the final source of income. Any income that is taxable under the Act but does not fall under any of the first four categories of income is taxable under this category. Revenues from alternative sources are categorized as specific incomes and miscellaneous incomes. Specific incomes are taxable under section 56(2).

Specific incomes subject to taxation under the category of income from other sources encompass the following.

Dividend, Income by way of interest on securities. Income from winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature. Income from machinery, plant or furniture let on hire if the income is not chargeable to income tax under the head Profits and Gains of Business or Profession. Any sum received by the assessee from his employees as contribution to any provident fund or superannuation fund or any fund set up under Employees State Insurance Act 1948. Any sum received under Keyman Insurance Policy including bonus on such policy, if such income is not chargeable to income tax under the head Profits and Gains of Business or Profession or under the head Income from Salaries. Income from letting on hire machinery, plant or furniture and also buildings and the letting of the buildings is inseparable from the letting of the said machinery, plant or furniture if it is not chargeable to income tax under the head Profits and Gains of Business or Profession. Any

◆ Income that does not fall under any of the first four categories

◆ Final source of income

person receives in any previous year from any person. Interest received on compensation or on enhanced compensation shall be deemed to be the income of the previous year in which it is received. Maturity proceeds of one or more life insurance policies taken on or after 1.4.2023 will be taxed as per the tax slab. From the Assessment Year 2024-25 no exemption will be given in respect of the amount received under a life insurance policy if the amount of premium paid on or after 1.4.2023 exceeds Rs 5 lakh. Interest received on compensation or on enhanced compensation shall be deemed to be the income of the previous year in which it is received. Any sum of money received as an advance in the course of negotiations for the transfer of a capital asset and such negotiation fails the amount so forfeited. Any compensation or other payment due to or received by any person in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be chargeable to income tax under the head Income from Other Sources. Where a closely held company issues shares to a resident person for a consideration exceeding the face value of such shares the deemed income shall be considered received less fair market value of the shares. The tax leviable on such income is popularly known as Angel Tax. Any specified sum received by a unit holder from a business trust during the previous year with respect to a unit held by him at any time during the previous year.

Other incomes subject to taxation under the category of income from other sources encompass the following.

I. Other Incomes

Directors fee. Income of royalty. Remuneration received by a teacher or a lawyer for doing examination work. Agricultural income from land situated outside India. Income from markets and fisheries. Income of a tenant from sub letting the whole or a part of the house property. Rent of land not appurtenant to any building. Remuneration received for writing articles in Journals. Income from leasehold property. Rent of trademark. Salary of a Member of a Parliament, Member of Legislative Assembly. Interest received by an employee on his own contributions to an unrecognized provident fund. Insurance Commission not chargeable under the head Profits and Gains of Business or Profession. Gratuity received by a director who is not an employee of the company. Directors Commission for giving guarantee to the bank. Directors Commission for underwriting shares of a new company. Amount withdrawn from deposit in National Savings Scheme on which deduction has been allowed including interest thereon. Tips received by a waiter or taxi driver not being given by his employer. Receipts by cricketers selected to play for India

test matches in India, other matches in India and matches outside India. Family pension received by the widow and heirs of deceased employees. But pension received by the widow of an employee of the UNO; Family pension received by any member of the family of gallantry awardee; Family pension received by the widow or children or nominated person of a member of the armed forces of the union where the death of such member occurred in the course of operational duties are exempt. Income from undisclosed sources like unexplained money, unexplained expenditure, cash credits which are unexplained, unexplained investments and amount borrowed on Hundi otherwise than through an account payee cheque drawn on a bank.

1. Property

Property encompasses shares and securities, archaeological collections, jewelry, real estate including land and buildings, drawings, sculptures, paintings, bullion, or any artistic creation.

2. Relatives

A relative refers to the individual's spouse, siblings, siblings of the spouse, siblings of either parent, any direct ascendant or descendant of the individual, and any direct ascendant or descendant of the individual's spouse. In the context of a Hindu Undivided Family (HUF), any family member is included.

3. Family

Family encompasses the individual's spouse and children, as well as parents, siblings, and other relatives who are wholly or primarily dependent on the individual.

4. Accumulated Profits

Accumulated profits encompass all company profits up to the distribution date, excluding capital gains realized prior to April 1, 1946, or subsequent to March 31, 1948, and before April 1, 1956. Accumulated profits encompass all profits of the company up to the date of distribution or liquidation. However, when the liquidation results from the compulsory acquisition of an undertaking by the Government or a Government company, accumulated profits do not encompass any profits of the company from the three consecutive years immediately preceding the previous year in which the liquidation occurred. If a company enters liquidation on March 31, 2020, the accumulated profits prior to April 1, 2016, shall not be considered as part of the accumulated profits. The accumulated profits or losses of the amalgamating company on the date of amalgamation shall be incorporated into

the accumulated profits of the amalgamated company.

5. Dividends

A dividend refers to the amount received by a shareholder from a company's profit distribution, regardless of whether it originates from taxable or tax-exempt income. It is irrelevant whether it is received in monetary form or as goods. Any dividend declared by a company at its annual general meeting shall be considered income for the preceding year in which it is declared. It constitutes a standard dividend under section 8(a). A deemed dividend under section 2(22) is considered income for the previous year in which it is distributed or paid. An interim dividend under section 8(b) is declared by a company at any point before its annual general meeting for the fiscal year. Any interim dividend shall be considered income for the preceding year in which the company unconditionally makes the amount available to the entitled member. The date of dividend declaration is irrelevant as long as the amount remains undistributed. Distributions or payments made by a company to its shareholders are classified as dividends to the extent of the company's accumulated profits. Any allocation of debentures, deposit certificates, or bonus shares to preference shareholders. Any allocation upon liquidation. Any distribution that involves the disbursement of all or any assets of the company. Any allocation regarding the diminution of its capital. Any payment made by a closely held company as an advance or loan to a shareholder possessing at least 10% of the voting power, or to any entity in which such shareholder is a member or partner and holds a significant interest. Any trade advance provided to a shareholder or entity from accumulated profits shall not be classified as a deemed dividend. Dividends received from a domestic corporation are subject to taxation for the recipient. Dividends received from the Cooperative Society shall be incorporated into the income. However, the foreign company is to be included net in the income. Nevertheless, when an assessee asserts a claim for double taxation relief, the total amount must be incorporated into income.

◆ Dividend declared by the company at its annual general meeting

Dividend paid by an Indian company outside India shall be deemed to accrue or arise in India. Dividend paid by a foreign company outside India is not deemed to accrue or arise in India. If an Indian shareholder receives a dividend from a foreign company that has withheld tax at source but failed to remit the deducted tax to the Government of India, the withheld tax amount shall not be considered part of the Indian shareholder's dividend income. If dividends for multiple years are declared and subsequently paid in a lump sum in a later year, the dividends shall be considered income for the preceding year in which they were

◆ Provision relating to foreign company dividend



declared.

6. Winnings from lotteries, crossword puzzles, card games and other games, gambling or betting and winnings from races including horse races Sec 115BB.

Winnings from lotteries, crossword puzzles, card games, gambling, betting, and races are classified as casual income and are subject to taxation under the category of Income from Other Sources. No tax shall be deducted at source if winnings from lotteries, crossword puzzles, card games, gambling, or betting do not exceed Rs 10,000, or if winnings from races do not exceed Rs 10,000. Therefore, the received amount shall be incorporated into the income. If the winnings surpass the aforementioned limits, a tax of 30% shall be deducted. The total sum shall be incorporated into income.

7. Tax on winnings from online games Sec 115BBJ

If an assessee's total income includes winnings from any online game, the income tax owed shall be the sum of the tax calculated on net winnings from such games during the previous year at a rate of 30%, and the tax that would have been applicable had the total income been decreased by the net winnings.

2.1.20 Securities

A document recognizing the debt incurred by the Government or another authority from the general public is referred to as Securities. It is retained by an investor or creditor as a security for the right to receive payment. Interest on securities does not accumulate daily but is payable on specified fixed dates indicated on the securities. Interest on securities is chargeable to tax on the basis of accounting method followed by the assessee. If the assessee does not consistently utilize an accounting method, the income from interest on securities shall be taxable in the previous year it becomes due, regardless of whether it is received later. If the assessee employs the cash system of accounting, interest will be taxed on a receipt basis. Income derived from interest on securities is subject to taxation under the category Income from Other Sources when the securities are maintained as investments. Securities held as stock in trade are taxable under the category of Profits and Gains of Business or Profession. When securities are bought or sold between the two interest rates the transaction is either cum interest or ex interest. The nature of the transaction notwithstanding, the interest on securities is considered entirely the income of the individual who possesses ownership at the moment the interest is payable. Commissions

♦ A right to receive payment

or other expenses related to the purchase or sale of securities are not subtracted from Interest on Securities. Expenses incurred at the time of purchasing securities are incorporated into the cost of the securities, whereas expenses incurred upon the sale of securities are subtracted from the selling price. If the acquisition and disposition of securities do not constitute the primary business of the assessee and the securities are held as an investment to generate interest, the profit from the sale of securities qualifies as a capital gain and is subject to taxation under the category of Capital Gains. If the acquisition and disposition of securities constitute the business of the assessee, then the profit derived from the sale of securities is taxable under the category of Profits and Gains of Business or Profession. To ascertain profit or loss from the sale of securities, expenses related to the sale are permitted as deductible expenses.

Types of Securities

I. Tax free Government Securities

These securities are those for which the interest is entirely exempt from taxation under section 10(15). Interest on securities is excluded from total income and is not subject to taxation. The interest on the specified securities is entirely tax-exempt. Interest on issued bonds or debentures of public sector enterprises. Interest on securities maintained by the Welfare Commissioner for Bhopal Gas Victims at the Reserve Bank. Interest on 7% Capital Investment Bonds for individuals and Hindu Undivided Families. For all assesseees:

◆ Tax exempted

- ◆ National Plan Certificates (10 Years)
- ◆ National Plan Savings Certificates (12 Years)
- ◆ Post Office Cash Certificates (5 Years)
- ◆ Treasury Savings Deposit Certificates(10 Years)
- ◆ Post Office National Savings Certificates (12 Years/ 7 Years)
- ◆ Post Office Cumulative Time Deposit Account (15 Years)
- ◆ Public Account in Post Office (Upto Rs 5000)
- ◆ 12 Year National Savings Annuity Certificate
- ◆ National Defence Gold Bonds 1980
- ◆ Special Bearer Bonds 1991
- ◆ Fixed Deposit Scheme governed by the Government Savings Certificates Rules 1968.



- ◆ Fixed Deposit Scheme governed by the Post Office Rules 1968.
- ◆ Post Office Savings Bank Account:
 - i. Individual account – Maximum exemption limit Rs 3500
 - ii. Joint account – Maximum exemption limit Rs 7,000.

II. Less Tax Government Securities

- ◆ Lower tax implications

Securities issued by either the Central Government or a State Government are classified as Government Securities with lower tax implications. These securities are subject to taxation; however, no tax is withheld at the source. Consequently, the interest on such securities will not be grossed up. Tax will be withheld at the source on interest from Savings Bonds 2003 if the interest payable surpasses Rs 10,000 within the financial year.

III. Tax free Non-Government Securities

- ◆ Assessee is not required to pay tax out of personal funds

These are issued by a local authority or statutory corporation or a company in the form of debentures or bonds. These are termed tax-free because the assessee is not required to pay tax out of personal funds. The tax remitted by the company on this interest is considered to have been paid on behalf of the assessee. Consequently, the tax levied on any interest owed to an assessee is incorporated into their interest income. The interest owed to an assessee is grossed up and subsequently incorporated into their income. The tax paid by the company on this interest is subtracted from the total tax owed by the assessee.

IV. Less Tax Non-Government Securities / Taxable Securities

Income tax is deducted at source on the amount of interest calculated at the percentage stated on the securities and balance of the amount of interest left after deduction of the aforesaid income tax is paid to the security holder. If the interest rate is specified, it is not grossed up since it already represents the gross interest amount, from which income tax must be deducted. If the net interest amount received for these securities is provided, it must be grossed up. The total interest amount is incorporated into the income of an assessee. If the interest rate is specified, only the interest on tax-exempt commercial securities is grossed up, while interest on all other securities remains unadjusted. Interest on tax-exempt commercial securities is consistently grossed up, regardless of whether the percentage rate or the received amount is specified. Interest on tax-exempt securities is increased when the received amount is disclosed.

2.1.21 Calculation of Gross Amount

- I. In the course of a domestic company
 - i. On interest on securities = Interest received x 100 /90
 - ii. On interest other than interest on securities = Interest received x 100/90
 - iii. On income from winnings from lotteries and crossword puzzles = Winning received x 100/70
- II. In the event of an individual who is a resident of India
 - i. Interest received on Tax free Government Securities – Ex-empt
 - ii. Interest received on Less Tax Central or State Government Securities – Not to be gross up
 - iii. Interest received on other debentures and other securities = Interest received x 100/90
 - iv. On income from winnings from lotteries and crossword puzzles = Winning received x 100/70
 - v. Interest received on Savings Bonds if interest exceeds Rs 10,000 = Interest received x 100/90
 - vi. Interest received on debentures of a local authority or a Corporation or debentures of a Company listed in a recognised stock exchange in India = Interest received x 100/90

Rate of Deduction of Tax at Source

For a domestic company, the tax rate on interest, excluding interest on securities, is 10%. The tax rate for a domestic company on earnings from lotteries, crossword puzzles, card games, other games, and horse races is 30%.

The tax rate for a domestic company engaged in online gaming is 30%.

In case of a domestic company, on any other income @ 10%.

In case of a person other than a company and who is the resident in India:

- a. On insurance commission @ 5%
- b. On interest other than interest on securities @ 10%.
- c. On interest on any other security including debentures of a company not listed in a recognised stock exchange in India @ 10%

◆ Rate of tax deduction is 10%

◆ Casual incomes are taxed at 30%



- d. On winnings from lotteries, crossword puzzles, card games or other games and horse races, @ 30%
- e. On online games @ 30%
- f. On any other income @ 10%.
- g. On interest payable on any debentures or securities for money issued by or on behalf of any local authority or a corporation established by a Central or State Act; any debentures issued by a Company where such debentures are listed in a recognised stock exchange in India; security of the Central or a State Government --- @ 10%.

2.1.22 Allowable Deductions Sec 57

The income taxable under the category Income from Other Sources shall be calculated after applying the subsequent deductions:

- ◆ Any reasonable commission or remuneration paid to a bank or another entity for the purpose of collecting interest on securities on behalf of the assessee is deductible.
- ◆ Interest on loans utilized for investment in securities will be deductible if employed for that specific purpose.
- ◆ In the event of subletting a residence, expenses related to rent and repairs for the sublet portion are deductible.
- ◆ Any additional expenses incurred solely and exclusively for the purpose of generating such income.
- ◆ From interest accrued on compensation or augmented compensation, 50% of this income shall be deducted, and no additional deductions shall be permitted in this regard. The deduction for interest expense shall not exceed 20% of dividend income or income from mutual fund units.
- ◆ If employee contributions to the provident fund are classified as the income of the assessee and included in their income from other sources, a deduction for the amount credited by the employer to the employee's account in the relevant fund by the due date will be permitted under this category.
- ◆ In case of income derived from the leasing of machinery, plant, or furniture, with or without accompanying buildings, which is subject to taxation under the specified category. Deductions for Income from Other Sources shall be permitted in the same manner as those allowed under the category of Profits and Gains of Business or Profession. Ex-

penses related to the maintenance of machinery, equipment, furniture, or structures. Depreciation on structures, equipment, facilities, or furnishings. Insurance premium paid for the protection of buildings, machinery, plants, or furniture against the risk of damage or destruction of these assets.

- ◆ A deduction equal to 33 1/3% of the family pension income received by widows or heirs of a deceased employee, or Rs 15,000, whichever is lesser, will be permitted.

2.1.23 Amount Not Deductible Sec 58

The following amounts shall not be deductible when calculating income under the category Income from Other Sources.

- Any personal expenses of the assessee.
- Any sum paid on account of Wealth Tax
- Expenses incurred in relation to exempted income is not deductible.
- Any interest subject to this Act, payable outside India, must be paid without tax deduction at source or without the payment of tax.
- Cash transactions surpassing Rs 10,000/Rs 35,000. Section 40A(3) stipulates the disallowance of 100% of expenditures for payments exceeding Rs 10,000 or Rs 35,000, unless made via an account payee cheque, an account payee bank draft, electronic clearing system through a bank account, or other prescribed electronic methods.
- Expenses or losses associated with income derived from lotteries, crossword puzzles, races, including horse races, card games, gambling, or any form of betting shall not be deductible when calculating the aforementioned income. This prohibition will not pertain to the income of an assessee who owns horses maintained for participation in horse races derived from the activity of ownership and maintenance of those horses.

◆ The amount not deductible in income from other sources

2.1.24 Bond Washing Transactions Sec 94

It is a mechanism employed by high-income taxpayers to evade tax by transferring securities to low-income taxpayers just prior to the interest payment deadline. Interest on securities is payable semi - annually or annually, with fixed dates. Since the total interest is considered the income of the individual who owns it at the time it becomes payable, some astute individuals sell their securities to friends or relatives shortly before the interest due date and repurchase them a few days after the interest



has been paid. Consequently, they do not retain ownership of the securities on the interest due date and are not obligated to pay tax on the income derived from these securities on that date. They sell their securities to individuals whose total income, including interest from securities, does not surpass the minimum taxable threshold. If the business income exceeds this threshold, the individual will incur tax at a reduced rate, which is discreetly remitted by the seller on behalf of the buyer. Consequently, his scheme results in a revenue loss for the Income Tax Department. To prevent this device from evading tax, it has been stipulated that the Assessing Officer may incorporate income from interest on securities into the total income of the actual owner of the securities who seeks to evade taxation through this method.

The Assessing Officer shall not implement the aforementioned rule in the following circumstances. If the assessee demonstrates to the satisfaction of the Assessing Officer that there has been no evasion of income tax, or if the assessee establishes that the evasion of income tax is exceptional and not systematic, and that there was no evasion of income tax in any of the three preceding years, the Assessing Officer possesses the authority to compel the assessee to provide the necessary information regarding such transactions.

Illustration 2.1.34

Mr. X' s investment during the year ended 31st March 2024 consisted the following:

- ◆ 7% Securities of a Foreign Government Rs 18,000
- ◆ 8% Government Bonds Rs 16,000
- ◆ 6% Government Securities Rs 22,000
- ◆ 6% Agra Municipal Bonds Rs 12,000
- ◆ 8% Bombay Port Trust Bonds Rs 25,000
- ◆ Interest credited to Sukanya Samridhi account Rs 10,000
- ◆ He paid Rs 200 as commission for collecting the taxable interest on securities. Compute his income under the head Income from Other Sources.

Solution

Computation of Income from Other Sources
for Assessment Year 2024-25

	Amount	Amount
7% Securities of a Foreign Government	1,260	
8% Government Bonds	1,280	
6% Government Securities	1,320	



6% Agra Municipal Bonds	720	
8% Bombay Port Trust Bonds	2,000	
Interest credited to Sukanya Samridhi Account	Exempt	6,580
Less: Collection Charges		200
Income from Other Sources		6,380

Illustration 2.1.35

Mr. B a resident in India earned the following incomes during the Financial Year 2023-24. You are required to compute Income from Other Sources of Mr. B for the Assessment Year 2024-25.

- ◆ Interest on postal savings bank account Rs 250
- ◆ Interest on securities Rs 5,000
- ◆ Interest on deposits with Industrial Finance Corporation of India Rs 400
- ◆ Directors Fee Rs 3,000
- ◆ Dividend from foreign company Rs 900
- ◆ Ground rent for land in Agra Rs 8,000
- ◆ Rent from sub - letting a house Rs 18,000
- ◆ Rent payable by Mr. B for the sub let house Rs 8,000
- ◆ Other expenses incurred on this sub let house Rs 2000
- ◆ Winnings from Horse Race Rs 25,000
- ◆ Income from agricultural land in Nepal Rs 3,500

Solution

Computation of Income from Other Sources
for Assessment Year 2024-25

	Amount	Amount	Amount
Interest on postal savings bank account	Exempt		Exempt
Interest on securities			5,000
Interest on deposits with Industrial Finance Corporation of India			400
Directors Fee			3,000
Dividend from foreign company			900
Ground rent for land in Agra			8,000
Winnings from Horse Race			25,000
Income from agricultural land in Nepal			3,500
Rent from sub - letting a house		18,000	

Less: Rent payable for the sub - let house	8,000		
Other expenses incurred on this sub - let house	2,000	10,000	8,000
Income from Other Sources			53,800

Illustration 2.1.36

Mr. Y gets the following gifts in September 2023. State its taxability under each situation for the Assessment Year 2024-25.

- ◆ Gift of Rs 20,000 from his brother's father in law.
- ◆ Gift of Rs 15,000 from his friend.
- ◆ Gift of Rs 12,000 each from his two friends on his marriage
- ◆ Gift of jewellery worth Rs 1,20,000 from his fiancée
- ◆ Gift of Rs 52,000 from his father's brother.
- ◆ Gift of Rs 30,000 from his wife's friend on the occasion of marriage.
- ◆ Gift of Rs 90,000 from his father's brother

Solution

Computation of Income from Other Sources
for Assessment Year 2024-25

	Amount
Gift from brothers father in law	20,000
Gift from his friend	15,000
Gift on occasion of marriage	Exempt
Gift from his fiancée	1,20,000
Gift from fathers' brother	52,000
Gift on the occasion of marriage	Exempt
Gift from fathers brother	Exempt
Income from Other Sources	2,07,000

Illustration 2.1.37

Mr. D a resident received in cash the following income as interest on securities during the Previous Year ending 31.3.2024. Compute the income under the head Income from Other Sources for the Assessment Year 2024-25 assuming that the interest is paid in each case on 30th June and 31st December.

- ◆ Rs 10,000 as interest on Government Securities
- ◆ Rs 11,000 as interest on tax free debentures of YXZ Ltd (not listed on any stock exchange)
- ◆ Rs 14,000 as interest on debentures of ABC Ltd (not listed on any stock exchange)

- ◆ Rs 12,000 as interest on debentures of MNP Ltd (listed on Delhi Stock Exchange)
- ◆ Rs 6,000 as interest on debentures issued by the local authority.

Solution

Computation of Income from Other Sources
for Assessment Year 2024-25

	Amount
Government Securities	10,000
Debentures of YXZ Ltd (not listed) (11,000 x 100/90)	12,222
Debentures of ABC Ltd (not listed) (14,000 x 100/90)	15,556
Debentures of MNP Ltd (listed) (12,000x100/90)	13,333
Debentures issued by the local authority (6,000x100/90)	6,667
Income from Other Sources	57,778

Illustration 2.1.38

Mr. H furnishes the following particulars of his income for the Previous Year 2023-24. Compute his gross total income.

- ◆ Winnings from lotteries (Net) received Rs 20,000
- ◆ Interest on bank deposits Rs3,000
- ◆ Dividend on preference shares (Gross) Rs 2,800
- ◆ Dividend on equity shares Rs 1,000
- ◆ Directors sitting fees received Rs1,500
- ◆ Ground rent Rs 800
- ◆ Income from undisclosed sources Rs 12,000
- ◆ Income from letting on hire of building and machinery under one composite lease Rs 3,000
- ◆ The following deductions are claimed by him:
 - i. Allowable depreciation on building and machinery Rs 5,000
 - ii. Fire insurance on building and machinery Rs 250
 - iii. Collection charges of dividend Rs 100.



Solution

Computation of Income from Other Sources for Assessment Year 2024-25

	Amount	Amount
Winnings from lotteries (20,000 x 100/70)	28,571	
Interest on bank deposits	3,000	
Dividend on preference shares	2,800	
Dividend on equity shares	1,000	
Directors sitting fees	1,500	
Ground rent	800	
Income from undisclosed sources	12,000	
Income from letting on hire of building and machinery	3,000	52,671
Less: depreciation on building and machinery	5,000	
Fire insurance on building and machinery	250	
Collection charges	Nil	5,250
Income from Other Sources		47,421

Illustration 2.1.39

Mr. Z's particulars of income are as follows. Compute income from other sources.

- ◆ Dividend from an Indian Company Rs 6,000 (Gross).
- ◆ Dividend received Rs 7,000 from Cooperative Society
- ◆ Share in HUF income Rs 10,000
- ◆ Salary as an MLA Rs 35,000 and daily allowance Rs 5,000
- ◆ Speculation business profit Rs 8,000 and Rs 1,000 from cricket gambling
- ◆ Agricultural income in Srilanka Rs 20,000 was not brought in India. Rs 20,000 income from agricultural land situated at Lucknow.

Solution

Computation of Income from Other Sources for Assessment Year 2024-25

	Amount
Dividend from an Indian Company	6,000
Dividend received from Cooperative Society	7,000
Share in HUF income	Exempt

Salary as an MLA (Daily allowance is exempt)	35,000
Cricket gambling	1,000
Agricultural income in Srilanka	20,000
Agricultural income in Lucknow.	Exempt
Income from Other Sources	69,000

Note: Speculation business profit is assessable under the head Profits and Gains of Business or Profession.

Illustration 2.1.40

From the following information compute income from other sources.

- ◆ Undisclosed income Rs 2,50,000
- ◆ Winnings from lottery Rs 85,000 (Net)
- ◆ Family pension Rs 70,000
- ◆ Interest on Post Office Savings Bank account Rs 5,000
- ◆ Interest on enhanced compensation of Rs 50,000 received as per court decree during the previous year.
- ◆ Rs 80,000 received by the assessee from his friends on the occasion of the marriage of his son.

Solution

Computation of Income from Other Sources
for Assessment Year 2024-25

	Amount	Amount
Undisclosed income		2,50,000
Winnings from lottery (85,000 x 100/70)		1,21,429
Family pension	70,000	
Less: one third of Rs 70,000 or Rs 15,000 whichever is less)	15,000	55,000
Interest on Post Office Savings Bank account	5,000	
Less: Exempt up to Rs 3,500	3,500	1,500
Interest on enhanced compensation	50,000	
Less: Deduction allowed @ 50%	25,000	25,000
Gift on marriage is not received by the bridegroom		80,000
Income from Other Sources		5,32,929

Illustration 2.1.41

During the previous year Mr. N received the following gifts:

- ◆ Gift from his friend Rs 30,000

- ◆ Gift from his spouse Rs 30,000
- ◆ Gift from brother Rs 55,000
- ◆ Gift from his another friend Rs 30,000
- ◆ Gift from a friend on marriage Rs 40,000
- ◆ Gift from father's friend Rs 10,000
- ◆ Gift received house property from a friend (without consideration stamp duty value) Rs 4,00,000
- ◆ Received by a will from grandmother Rs 2,50,000.

Solution

Compute the income from other sources for the Assessment Year 2024-25.

	Amount
Gift from his friend	30,000
Gift from spouse	Exempt
Gift from brother	Exempt
Gift from another friend	30,000
Gift from a friend on marriage	Exempt
Gift from fathers' friend	10,000
House property (immovable property value exceeds Rs 50,000)	4,00,000
Gift by a will	Exempt
Income from Other Sources	4,70,000

2.1.25 Clubbing of Incomes

An assessee is liable for taxation solely on their own income. In specific instances, the assessee may be liable for taxation on both their own income and the income of another individual. This is included to mitigate the practice of evading or diminishing tax liability. Consequently, the taxpayer may convey his assets or income to others to mitigate tax liability. To deter the evasion of tax, the incomes are incorporated into the taxpayer's total income for tax computation. The practice of incorporating the income of others into an assessee's income is referred to as clubbing.

The income of other individuals included in the assessee's total income is specified under sections 60 to 64. If an individual assigns their income from an asset to another individual without relinquishing ownership of the asset, the income generated from that asset shall be considered the income of the transferor and shall be included into their total income. Income generated for any individual due to the revocable transfer of assets shall be considered the income of the transferor and shall be included



◆ Incorporating the income of others into an assessee's income

into their total income. A revocable transfer for this purpose refers to a transfer that includes any clause allowing for the direct or indirect retransfer of all or part of the income or assets back to the transferor, or a transfer that grants the transferor any right to regain control, directly or indirectly, over all or part of the income or assets. If even a minor portion of the income from the transferred asset benefits the transferor, the entirety of the income must be included in the transferor's income.

The income of a spouse derived from salary, commission, fees, or any other form of remuneration from an entity in which the individual has a substantial interest shall be included in the individual's total income. The term spouse refers to a husband or wife. If the payment of the aforementioned remuneration is solely attributable to the technical or professional qualifications of the spouse, the remuneration received by the spouse shall not be aggregated with the individual's income. If an individual transfers an asset to their spouse, either directly or indirectly, without adequate consideration or in connection with a separation agreement, the income generated from that asset will be attributed to the transferor's income. If the consideration is insufficient, proportional income shall be incorporated into the transferor's income. If an individual transfers assets after May 31, 1973, without sufficient consideration to his daughter-in-law, any income generated from those assets will be incorporated into the transferor's total income. If an individual transfers assets to another person or entity without receiving adequate consideration, the income generated from those assets shall be included in the transferor's income to the extent that it benefits their spouse, either immediately or in the future.

If an asset is transferred to another person without sufficient consideration for the benefit of the individual's spouse and other parties, the income derived from that asset, corresponding to the benefit received by the spouse, shall be included in the individual's total income. Any income generated by any person or association from assets transferred by an individual after May 31, 1973, except for adequate consideration, shall be included in the total income of the individual or transferor to the extent that the income from such assets benefits his son's wife, either immediately or deferred. The income of a minor shall be incorporated into the income of their parents. The income of a physically or mentally disabled minor shall not be considered part of either parent's income. The total income of the minor child shall be calculated independently. The provisions for incorporating a minor child's income into a parent's income apply when the parents' marriage is intact, affecting the parent with the higher total income, or when the marriage is dissolved, impacting the

parent who supported the minor child in the preceding year. The subsequent earnings of a minor child shall be excluded from the parent's income. Income derived from manual labor performed by the minor or from endeavors utilizing his skill, talent, or specialized knowledge and experience. Post 31.12.1969, if an individual transfers property for insufficient consideration or converts self-acquired property into the Hindu Undivided Family's property of which he is a member, the income derived from such property shall be attributed to the individual rather than the HUF. It will be incorporated into the individual's total income. If the converted property is later partitioned, the income derived from it by the spouse of the individual will be included in the income of the individual who converted the property, even after the partition. A transaction conducted in the name of an individual other than the actual party to evade taxation is termed a binami transaction, and the individual in whose name the transaction is executed is referred to as the benamidar. If the Assessing Officer deems a transfer to be a binami transaction, he will attribute the income from that transaction to the actual beneficiary and impose tax accordingly. No tax shall be imposed on the benamidar for binami transactions. If an individual transfers any assets, directly or indirectly, to their spouse or their son's wife, and those assets are subsequently invested by the transferee in a business, but not as a capital contribution as a partner in a firm or through admission to the benefits of partnership, the amount calculated as specified will be included in the transferor's income:

<i>Value of the assets transferred by</i>	
<i>Transferor on the 1st day of previous year</i>	
-----	<i>X profit share of transferee</i>
<i>Total investment on the 1st day of previous</i>	<i>from the business</i>
<i>year by the transferee</i>	

The interest earned or expected from a capital contribution as a partner in a firm will be incorporated into the income of the transferor.

i. Minor Child

A minor child includes a stepchild and an adopted child. When a minor child's income is incorporated into a parent's income, the parent is entitled to an exemption on the included income or Rs 1,500 per minor child, whichever is lesser, under section 10(32).

ii. Substantial Interest

An individual is considered to possess a significant interest if



he and his relatives beneficially own equity shares with at least 20% voting power in the company at any point during the preceding year. In any other scenario, if the concern is not a corporation, he and his relatives are entitled to a minimum of 20% of the profits of the concern at any point during the preceding year.

iii. Recovery of Tax Sec 65

The tax on the income of the third party, which has been incorporated into the assessee's income, may be collected from either the assessee or the third party. The liability of the other party is confined to the segment of the tax imposed on the assessee that corresponds to the income included. The liability of the other party commences upon the service of the notice of demand by the Assessing Officer in this regard. If the transferred asset is jointly held by two or more individuals, they shall be jointly and severally liable for the payment of the tax.

In specific cases, certain amounts are classified as income for the assessee, despite not being genuinely income in nature. The purpose of classifying the amount as income is to prevent tax evasion. The subsequent are the considered incomes:

1. Cash Credit Sec 68

If any amount is recorded in an assessee's books for a previous year and the assessee provides no explanation regarding its nature and source, or if the explanation is deemed unsatisfactory by the Assessing Officer, the credited amount may be subject to income tax as the assessee's income for that year. This applies particularly if the credited amount is a loan, borrowing, or any similarly designated sum. Any explanation provided by the assessee will be considered unsatisfactory unless the individual in whose name the credit is recorded also offers an explanation regarding the nature and source of the credited amount, which must be deemed satisfactory by the Assessing Officer.

In cases where the assessee is a corporation and the credited amount comprises share application money, share capital, share premium, or any similarly designated sum, any explanation provided by the corporation shall be considered unsatisfactory unless the resident individual whose name is recorded in the company's books also provides an explanation regarding the nature and source of the credited amount, which the Assessing Officer subsequently deems satisfactory. Nonetheless, the aforementioned provisions shall be inapplicable if the individual under whose name the amount is recorded is a venture capital fund or venture capital company. The origin of the funds or any other amount supplied by the lender to the borrower, which is also recorded in the accounts of the assessee, must be elucidated.



2. Unrecorded and Unexplained Investments Sec 69

If, in the pertinent preceding year, the assessee has made investments not documented in the financial records and fails to provide an explanation regarding the nature and source of the invested funds, or if the explanation provided is deemed unsatisfactory, the value of the investments may be considered the income of the assessee for that year.

3. Unrecorded and Unexplained Money Sec 69A

If, during any financial year, the assessee is identified as the owner of unreported money, jewellery, bullion, or valuable items and fails to provide an explanation regarding the nature and source of acquisition of these assets, or if the explanation provided is deemed unsatisfactory, the monetary value of the money, bullion, jewellery, or other valuable items may be regarded as the income of the assessee for that financial year.

4. Amount of investments not fully disclosed in books of accounts Sec 69B

If, during any financial year, the assessee has invested in or is identified as the owner of jewellery, bullion, or other valuable items, and the Assessing Officer determines that the actual expenditure on these items exceeds the recorded amount in the books of account, and the assessee either provides no explanation for the excess or offers an unsatisfactory explanation, the excess amount may be considered the income of the assessee for that financial year.

5. Unexplained Expenditure Sec 69C

If an assessee incurs expenditure in a financial year and cannot adequately explain the source of such expenditure, the amount of the inadequately explained expenditure will be classified as the assessee's income for that financial year.

6. Amount borrowed or Repaid on Hundi Sec 69D

Borrowings on hundies and their repayments must be conducted via Account Payee cheques; otherwise, the borrowed or repaid amount will be classified as the income of the individual for the preceding year in which the transaction occurs. The repayment amount shall encompass the interest on the borrowed sum. If any sum borrowed on a hundi is classified as the borrower's income, he shall not be subject to reassessment upon repayment of that sum.

2.1.26 Set - Off of Losses

Set off of losses means setting off losses against income of the same year. The provisions regarding set off of losses are as under:

1. Set - off of losses under the same head of income Sec 70

If the net outcome for any assessment year regarding a source classified under any income category results in a loss, the taxpayer is entitled to set off the amount of such loss against income from any other source within the same income category. This is also referred to as inter-source adjustment.

The subsequent instances constitute exceptions to the aforementioned general rule. Losses incurred from speculative activities can only be set off against income derived from other speculative activities. Losses from a designated business can only be set off against income from other designated businesses. Long-term capital losses can only be set off against long-term capital gains. Losses incurred from the ownership and upkeep of racehorses shall be set off against income derived from the ownership and maintenance of racehorses. Losses incurred from lotteries, crossword puzzles, gambling, card games, or betting cannot be set off against this income or any other income. No losses from any category of income may be set off against such incomes. A loss from an exempt source of income cannot be set off against any taxable income.

2. Set - off of losses against income under the other heads of income Sec 71(1)

If, after offsetting a loss within the same category of income, a residual loss persists, the remaining loss shall be applied against income from any other category.

3. Loss from Business or Profession

Losses incurred from a business or profession may be set off against any other income within the same category, as well as against income from different categories, excluding Income from Salaries. Unabsorbed depreciation is not classified as a loss from business or profession and may be set off against income categorized under Income from Salaries.

4. Speculation Loss Sec 73(1)

Losses incurred in speculation activities may only be set off against profits and gains from another speculation business conducted by the assessee. Losses from house property, losses from



non-speculative business or profession, and losses under the category of income from other sources may be set off against the profits of speculative business.

5. Loss of specified business Sec 73A (1)

Losses from a designated business can only be set off against profits from another designated business.

6. Losses from the activity of owning and maintaining race horses Sec 74A (3)

Losses incurred from the ownership and maintenance of race-horses in any assessment year shall be set off solely against income derived from the ownership and maintenance of racehorses, and not against any other income.

7. Capital Losses

Short-term losses may be set off solely against other short-term capital gains or long-term capital gains. Long-term capital losses may only be set off against long-term capital gains.

8. Losses of lottery, crossword puzzles, gambling, card games or betting.

These losses cannot be set off against any income

9. Loss of Association of Persons or Body of Individuals or Firm

The loss of AOP, BOI, or a Firm that cannot be set off intra- or inter-head as per the previously outlined provisions cannot be distributed among the members or partners, who are not entitled to deduct their share of the loss from their personal incomes.

2.1.27 Carry - Forward and Set - off of Losses

If losses cannot be set off in the assessment year they were incurred, any unutilized portion of those losses may be carried forward to subsequent years for offset against income, provided the losses were ascertained through a return submitted by the assessee within the timeframe stipulated under section 139 (1) and the same assessee experienced the loss. Table 2.1.7 present the loss against which set of carry forward can be made.

Any loss other than mentioned in table 2.1.7 cannot be carried forward and set off in succeeding year.

Table 2.1.7

Carry Forward and Set - off of Losses : At a Glance

	Loss	Set off
1.	Loss from house property	In the following eight years, income from house property
2.	Loss from business or profession	In the following eight years, income from business or profession
3.	Loss from speculation	In the following four years, income from speculation
4.	Loss from specified business	Income from the specified business. No time limit is prescribed for carry forward and set off
5.	Short term capital loss	In the following eight years: short term capital gains, long term capital gains
6.	Long term capital loss	In the following eight years, long term capital gains
7.	Loss from the activity of owning and maintaining race horses	In the following four years, income from owning and maintaining race horses.

2.1.28 Deductions from Gross Total Income

Deductions regarding payments

- ◆ **Deduction for Life Insurance Premium and contributions to the Provident Fund (Sec. 80C)** : This includes Premium paid on Life Insurance Policy, contribution by an individual to any provident fund to which Provident Fund Act, 1925 applies, contribution towards Public Provident Fund (PPF), contribution made by an employee towards Recognised Provident Fund (RPF), contribution made by an employee towards an approved superannuation fund, contribution towards Statutory Provident Fund (SPF) , deposit in National Saving Certificates (NSC VIII Issue), Sum paid or deposited in Sukanya Samridhi Account, subscription towards notified units of mutual fund or UTI etc. The individual or Hindu Undivided Family is eligible for the deduction. The deduction amount is up to Rs 1,50,000.
- ◆ **Deduction for contributions to specific pension funds**

(Sec 80CCC) : The individual is entitled to the deduction upto the amount paid or Rs 1,50,000, whichever is less.

♦ **Deduction for contributions to the Central Government pension scheme (Sec 80CCD) :** The assessee eligible for deduction is (i) An employee of the Central Government (ii) An employee of any other employer, or (iii) An assessee being an individual . The quantum of deduction is as follows:

- i. Amount deposited by the employee or 10% of his salary, whichever is less; and
- ii. In case of other individual, upto 20% of his gross total income in the previous year.

Whether or not any deduction is allowed under 3(i) or (ii) amount upto ₹50,000 can be deposited in pension scheme and it will also be eligible for deduction.

- iii. Amount contributed by the Central Government or 14% of salary, whichever is less.

♦ **Total sum of deductions (Sec 80CCE) :** The individual is entitled to the deduction. Concerning deductions under sections 80C, 80CCC, and 80CCD. The maximum deduction amount is Rs 1,50,000.

♦ **Deduction for contributions to the Agnipath Scheme (Sec 80CCH) :** The individual is entitled to the deduction. Concerning subscriptions to the Agniveer Corpus Fund on or subsequent to November 1, 2022. The quantum of deduction refers to the sum paid or deposited into the Agniveer Corpus Fund account.

♦ **Deduction for Medical Insurance Premiums (Section 80D) :** The assessee eligible for deduction is an individual or Hindu Undivided Family (HUF). The Quantum of Deduction refers to medical insurance premiums paid through any method other than cash for the insurance of one's health, as well as that of a spouse or dependent children, up to Rs 25,000, and for parents (additional deduction) up to Rs 25,000; members of a Hindu Undivided Family (HUF) are also eligible for up to Rs 25,000. For senior citizens, a deductible of up to Rs 50,000 applies.

♦ **Deduction for maintenance and medical treatment of a dependent individual with a disability (Sec 80DD) :** The individual or Hindu Undivided Family is eligible for the deduction. It concerns with expenses related to medical treatment, training, and rehabilitation of a disabled dependent,

or amounts disbursed under any program established by the LIC or other insurers. The deduction amount is Rs 75,000 for disability and Rs 1,25,000 for severe disability.

- ◆ **Deduction for Medical Treatment (Section 80DDB) :** Assessee entitled to deduction is an individual or a Hindu Undivided Family. Quantum of deduction is amount paid or Rs 40,000 whichever is less. For senior citizens, the deduction shall be the amount paid or Rs 1,00,000 whichever is less. The amount received from an insurer or reimbursed by the employer shall be deducted from the aforementioned total, and the remaining balance shall be permitted.
- ◆ **Deduction for interest on loans acquired for higher education (Sec 80E) :** The individual is entitled to the deduction. It concerns with the payment of interest on loans acquired for personal and familial higher education. The quantum of deduction refers to the actual amount disbursed.
- ◆ **Deduction for interest on loans for residential property (Sec 80EE) :** The individual is entitled to the deduction. The deduction amount is up to Rs 50,000, provided that the loan is sanctioned between 1-4-2016 and 31-3-2017 and the amount of loan for acquisition of residential property does not exceed Rs.35,00,000.
- ◆ **Deduction in respect of interest on loan taken for a certain house property (Sec 80EEA) :** Assessee not entitled to claim deduction u/s 80EE shall claim deduction upto Rs 150000, provided the loan is sanction during 1st April 2019 to 31st March 2022 and stamp duty of this property does not exceed 45 lakhs.
- ◆ **Deduction in respect of interest on loan taken to purchase electric vehicle (Sec 80 EEB) :** Assessee entitled to deduction is an individual. Quantum of deduction is upto Rs 1,50,000, provided that loan was sanctioned during 1st April 2019 to 31st March 2023.
- ◆ **Deduction in respect of donations to certain funds, charitable institutions (Sec 80 G) :** The individual is entitled to the deduction. Concerning contributions to sanctioned funds or organizations in the form of monetary amounts. The deduction quantum is 50%, and in specific instances, it is 100% of the eligible donation amount.
- ◆ **Deduction for rent paid (Sec 80GG) :** The individual is entitled to the deduction. Concerning housing rental expenses exceeding 10% of Total Income for self-employed individuals and salaried employees without House Rent Al-



lowance. The maximum quantum of deduction is 25% of total income or Rs 5,000 per month, whichever is lesser.

- ◆ **Deduction in respect of certain donations for scientific research or rural development (Sec 80GGA) :** The deduction is applicable to all assessees. Concerning payments made to a Research Association, University, or College for scientific, social, or statistical research, or to an association or institution involved in rural development programs or training individuals for such programs. The deduction amount is 100% of the payment made.
- ◆ **Deduction in respect of contributions given by an Indian Company to Political Parties (Sec 80 GGB) :** Assessee entitled to deduction is for Indian Companies. The Quantum of Deduction constitutes 100% of the amount disbursed.
- ◆ **Deduction in respect of contributions given by any person other than Indian Company to Political Parties (Sec 80GGC) :** The deduction is applicable to all assessees, excluding local authorities, juridical persons, and Indian companies. The Quantum of Deduction constitutes 100% of the amount disbursed.

Deductions regarding income

- ◆ **Deduction pertaining to profits and gains from enterprises involved in infrastructure development (Sec 80IA):** The Quantum of Deduction constitutes 100% of profits for duration of ten assessment years.
- ◆ **Deduction in respect of profits and gains by an undertaking or enterprise engaged in the development of Special Economic Zone (Sec 80IAB) :** Quantum of Deduction is 100% for ten consecutive assessment years.
- ◆ **Deduction in respect of profits and gains from specified business (Sec 80IAC) :** Quantum of Deduction is 100% for three consecutive assessment years.
- ◆ **Deduction in respect of profits and gains other than infrastructure development undertakings (Sec 80IB):** Quantum of Deduction is 100% of such profits for five years and 25% (30% in case of a company) for next five years.
- ◆ **Deduction in respect of profits and gains from housing projects (Sec 80IBA) :** Quantum of Deduction is 100% of profits.
- ◆ **Deduction for profits and gains from enterprises in Special Category States (Sec 80IC):** The Quantum of Deduc-

tion is 100% of profits for the first five assessment years, followed by 30% for companies and 25% for others in the subsequent five assessment years.

- ◆ **Deduction in respect of profits and gains in respect of certain undertakings in North Eastern States (Sec 80 IE):** The Quantum of Deduction constitutes 100% of profits for duration of ten consecutive assessment years.
- ◆ **Deduction in respect of profits from the business of collecting and processing of bio degradable waste (Sec 80JJA):** Quantum of Deduction is 100% of such profits for initial five assessment years.
- ◆ **Deduction in respect of employment of new employees (Sec 80JJAA):** Quantum of Deduction is 30% of additional wages paid to the new regular workmen employed by the assessee during the previous year.
- ◆ **Deduction in respect of certain incomes of offshore banking units or International Financial Services Centre (Sec 80 LA):** Quantum of Deduction is 100% of such income for five assessment years and thereafter 50% of such income for five assessment years.
- ◆ **Deduction in respect of certain inter corporate dividend (Sec 80M) :** When the Gross Total Income of a domestic company in a given previous year encompasses any income derived from dividends received from another domestic company, a foreign company, or a business trust. The dividend received from another domestic company, a foreign company, or a business trust, which does not exceed the amount of dividend, distributed by it on or before the due date, shall be permitted as a deduction in calculating the total income of the domestic company.
- ◆ **Deduction in respect of income of co-operative societies (Sec 80P) :** Assessee entitled to deduction is Cooperative Society. The deduction amount is 100% of income derived from activities related to agriculture, marketing, banking, dairying, and similar sectors. ₹50,000 for other activities and ₹1,00,000 for Consumers Cooperative Society for other activities.
- ◆ **Deduction in respect of certain income of producer companies (Sec 80PA):** Quantum of Deductions is 100% of the profits.
- ◆ **Deduction in respect of royalty income of authors of certain books other than text books (Sec 80QQB):** Quantum



of deduction is whole of such income (royalty maximum @15% of the value of such books sold less expenses attributable to such income) or Rs 3,00,000 whichever is less .

- ◆ **Deduction in respect of royalty on patents (Sec 80 RRB)** : Quantum of deduction is whole of such income or Rs 3,00,000 whichever is less .
- ◆ **Deduction in respect of interest on savings account (Sec 80TTA)** : Quantum of deduction is whole of such income or upto Rs 10,000 whichever is less .
- ◆ **Deduction in respect of interest on deposits in case of a senior citizen (Sec 80TTB)**: Quantum of deduction is whole of such income upto Rs 50,000 whichever is less.
- ◆ **Deduction in the case of a person with disability (Sec 80 U)**: Quantum of deduction is Rs 75,000 in case of disability and Rs 1,25,000 in case of severe disability.

2.1.29 Procedure for Computing Total Income

Initially, determine the different sources of income that should be incorporated into total income based on residency. The incomes will be calculated in accordance with the different sections of the Act under the categories of income from salaries, income from house property, profits and gains from business or profession, capital gains, and income from other sources. The income of others will be incorporated under sections 60 to 64 in the relevant categories during the computation of income across various heads. The effect will then be applied to the unabsorbed losses and allowances carried forward from previous years. The gross total income will be reduced by the amounts permitted under sections 80C to 80U. The balance will represent the total income. The total income calculated pursuant to the Act's provisions shall be rounded to the nearest multiple of ten rupees.

Illustration 2.1.42

From the following particulars of the income of Mr. X for the year ended on 31st March 2024, compute total income for the Assessment Year 2024-25:

- ◆ Salary Rs 1,50,000
- ◆ Interest received from Government Securities Rs 5,000
- ◆ Dividend received from a Cooperative Society Rs 500
- ◆ Dividend received on equity shares of Z Ltd Rs 3,000 (Net)
- ◆ Income received on units of Mutual Fund Rs 9,000(Gross)
- ◆ He owns a poultry farm also. Its profits for the previous year

amounted to Rs 45,000

- ◆ He sold his residential house of 8th April 2023 for Rs 5,00,000 which he had purchased for Rs 50,000 in 1998 and its fair market value on 1.4.2001 was Rs 1,00,000
- ◆ Other LTCG Rs 60,000.
- ◆ He paid Rs 9,000 to a Political Party by cheque.
- ◆ He purchased National Savings Certificates VIII Issue on 31.3.2024 for Rs 6,000.

Cost of Inflation Index in 2001-02 was 100 and in 2023-24 it was 348.

Solution

Computation of Total Income
for the Assessment Year 2024-25

Income from Salary	Amount	Amount
Salary	1,50,000	
Less Standard deduction u/s 16(ia)	50,000	1,00,000
Income from Business		
Poultry farm		45,000
Capital Gains		
Sale Price of residential house	5,00,000	
Less: Indexed cost (1,00,000 x 348/100)	3,48,000	
	1,52,000	
Other LTCG	60,000	2,12,000
Income from Other Sources		
Interest received from Government Securities	5,000	
Dividend received from a Cooperative Society	500	
Dividend received on equity shares	3,000	
Income received on units of Mutual Fund	9,000	17,500
Gross Total Income		3,74,500
Less: Deductions u/s 80C: NSC VIII Issue	6,000	
Deductions u/s 80GGC	9,000	15,000
Total Income		3,59,500



Illustration 2.1.43

Mr. B has the following income for the Previous Year ended 31st March 2024:

- ◆ Business Profits Rs 6,50,000
- ◆ Short term Capital Gains Rs 10,000
- ◆ Long term Capital Gains relating to land and buildings Rs 12,000
- ◆ Long term capital gains relating to other Capital Assets Rs 14,000
- ◆ Long term Capital Loss on sale of an asset Rs 15,000
- ◆ Compensation for Loss of agency Rs 1,18,000

Compute the total income of Mr. B for the Assessment Year 2024-25.

Solution

Computation of Total Income
for the Assessment Year 2024-25

Income from Business:	Amount	Amount
Business Profits	6,50,000	
Compensation for loss of agency	1.18.000	7,68,000
Capital Gains:		
LTCG from land and building	12,000	
LTCG from other assets	14,000	
	26,000	
Less: LTCL on sale of an asset	15,000	
	11,000	
Add: STCG	10,000	21,000
Gross Total Income		7,89,000
Less: Deduction		Nil
Total Income		7.89.000

Illustration 2.1.44

Mr. Y who is totally blind submits the following information. Compute his total income.

- ◆ Salary Rs 3,00,000
- ◆ Rent received from house Rs 32,000 p.m
- ◆ Dividend from Cooperative Society Rs 10,000
- ◆ Short-term capital gain Rs 15,000
- ◆ Deposited in PPF Rs 8,000

- ◆ Accrued interest on NSC VIII issue Rs 5,000
- ◆ Paid Life Insurance Premium Rs 8,000.

Solution

Computation of Total Income
for the Assessment Year 2024-25

Income from Salaries	Amount	Amount
Salary	3,00,000	
Less Standard deduction u/s 16(ia)	50,000	2,50,000
Income from House Property		
Gross Annual Value	3,84,000	
Less: Municipal Tax	Nil	
Annual Value	3,84,000	
Less: Standard deduction u/s 24(a) @ 30%	1,15,200	2,68,800
Capital Gains		
STCG		15,000
Income from other sources		
Dividend from Cooperative Society	10,000	
Interest	5,000	15,000
Gross Total Income		5,48,800
Less: Deduction u/s 80C (8000+5000+8000)	21,000	
Deduction u/s 80U (Totally blind)	1,25,000	1,46,000
Total Income		4,02,800

Illustration 2.1.45

Mr. X is a lecturer. Following are the details of his income for the Previous Year 2023-24:

- ◆ Basic Salary per month @ Rs 15,000.
- ◆ Dearness Allowance @ 100 percent of salary
- ◆ Transport Allowance Rs 55,000.
- ◆ Remuneration as an examiner Rs 6,000.

Mr. X is a member of SPF to which he contributes 8% of his salary, the University is contributing an equal amount. During the previous year, he spent Rs 4,200 on books purchased for teaching purpose.

His other incomes are:

- ◆ Interest on Post Office Savings Bank Account in joint names Rs 10,000.
- ◆ Interest on Savings account in a Bank Rs 8,000.



Compute Mr. X's total income for the Assessment Year 2024-25.

Solution

Computation of Total Income
for the Assessment Year 2024-25

Income from Salaries:	Amount	Amount
Salary		1,80,000
DA		1,80,000
Transport Allowance		55,000
Contribution to SPF		Exempt
Gross Salary		4,15,000
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		3,65,000
Income from other sources:		
Examinership	6,000	
Interest on Post Office Savings Bank Account in joint names (10,000-7,000 Exempt)	3,000	
Interest on Savings account in a Bank	8,000	17,000
Gross Total Income		3,82,000
Less: Deduction u/s 80C: SPF	14,400	
Deduction u/s 80 TTA: Interest on Savings accounts deductible upto Rs 10,000	10,000	24,400
Total Income		357,600

Illustration 2.1.46

From the following information compute the total income of an individual for the Assessment Year 2024-25:

- ◆ Salary after deduction of provident fund contribution and income tax Rs 3,50,000.
- ◆ Income tax deducted on salary Rs 5,000
- ◆ His contribution to RPF Rs 15000
- ◆ Employer's contribution to RPF Rs 15,000
- ◆ Conveyance Allowance spent for the performance of duty Rs 14,000
- ◆ Interest credited to provident fund Rs 8,000 @ 9%.
- ◆ Dividend received from domestic company Rs 7,000(Gross).
- ◆ Life insurance premium paid Rs 3,000.

Solution

Computation of Total Income
for the Assessment Year 2024-25

	Amount	Amount
Income from Salaries:		
Salary received	3,50,000	
Add: Income tax deducted at source	5,000	
Add: Provident Fund contribution of the employee	15,000	
	3,70,000	
Conveyance Allowance spent for the performance of duty (exempt)	Exempt	
Less: Standard deduction u/s 16(ia)	50,000	3,20,000
Income from Other Sources:		
Dividend from domestic company		7,000
Gross Total Income		3,27,000
Less: Deduction u/s 80C (15,000+3,000)	18,000	
Total Income		3,09,000

Illustration 2.1.47

From the following information compute tax liability of Mr. X for the Assessment Year 2024-25:

- ◆ Income from House Property (Computed) Rs 70,000
- ◆ Income from Business Rs 10,00,000
- ◆ Long term Capital Gains u/s 112 Rs 52,000
- ◆ Interest on Government Securities Rs 11,000
- ◆ Deposited in PPF Rs 65,000
- ◆ Amount withdrawn from Public Provident Fund Rs 55,000
- ◆ Purchased NSC VIII issue Rs 32,000
- ◆ Subscription to eligible issue of capital Rs 40,000

Solution

Computation of Tax Liability
for the Assessment Year 2024-25

	Amount	Amount
Income from House Property		70,000
Income from Business		10,00,000
Long term Capital Gains		52,000
Interest on Government Securities		11,000
Gross Total Income		11,33,000

Less: Deduction u/s 80C (Max Rs1,50,000)(65,000+32,000+40,000)		1,37,000
Total Income		9,96,000
Tax on LTCG Rs 52,000@20%	10,400	
Tax on Rs 2,50,000	Nil	
Tax on Rs 2,50,000 @ 5%	12,500	
Tax on Rs 4,44,000 @ 20%	88,800	
	1,11,700	
Add: Health and Education Cess @ 4%	4,468	
Tax Liability		1,16,168

Illustration 2.1.48

The income of a disabled individual for the Assessment Year 2024-25 consists of the following:

- ◆ Income from House Property (computed) Rs 40,000
- ◆ Income from business Rs 4,50,000
- ◆ One fourth share in the profit from a firm Rs 65,000
- ◆ Interest on time deposit Rs 25,000

Compute his tax liability for the Assessment Year 2024-25 if his wife has also a taxable income of Rs 5,00,000.

Solution

Computation of Tax Liability
for the Assessment Year 2024-25

	Amount	Amount
Income from House Property		40,000
Income from business		4,50,000
One fourth share in the profit from a firm		Exempt
Interest on time deposit		25,000
Gross Total Income		5,15,000
Less: Deduction for disability u/s 80 U		75,000
Total Income		4,40,000
Tax on Rs 2,50,000	Nil	
Tax on Rs 1,90,000 @ 5%	9,500	
Less: Rebate u/s 87A	9,500	
Tax Liability		Nil

Illustration 2.1.49

Mr. D retired from Government service. During the previous

year he received the following:

- ◆ Salary Rs 2,50,000
- ◆ Dearness Allowance Rs 2,50,000
- ◆ Commuted pension Rs 15,00,000
- ◆ Gratuity Rs 14,00,000
- ◆ Pension Rs 5,00,000
- ◆ Encashment of earned leave Rs 10,00,000
- ◆ Provident Fund Rs 6,00,000

He contributed to LIC Pension Fund u/s 80CCC Rs 1,50,000 and deposited in PPF Rs 75,000. Compute his total income for the Assessment Year 2024-25.

Solution

Computation of Tax Liability
for the Assessment Year 2024-25

	Amount	Amount
Salary		2,50,000
Dearness Allowance		2,50,000
Pension		5,00,000
		10,00,000
Less: Standard deduction u/s 16(ia)		50,000
Income from Salary being Gross Total Income		9,50,000
Less: Deduction u/s 80CCE:		
Contribution to LIC Pension Fund u/s 80CCC (Max Rs 1,50,000) The maximum including 80C is Rs. 1,50,000	1,50,000	1,50,000
Total Income		7,50,000

Illustration 2.1.50

The following particulars are of income from various sources of Mr. Y for the Assessment Year 2024-25:

- ◆ Income from House Property Rs 1,40,000
- ◆ Interest on bank deposit Rs 20,000 (gross)
- ◆ Lottery prize Rs 28,000 (net)
- ◆ Dividend received on shares of a domestic company Rs 10,000(gross)
- ◆ Donation to PM National Defence Fund Rs 3,000
- ◆ He spent Rs 40,000 on the treatment of disabled dependent.

Compute the total income of Mr. Y.



Solution

Computation of Total Income for the Assessment Year 2024-25

	Amount	Amount
Income from House Property		1,40,000
Income from Other Sources:		
Interest on bank deposit	20,000	
Lottery prize	40,000	
Dividend received on shares of a domestic company	10,000	70,000
Gross Total Income		2,10,000
Less: Deductions		
Donation to PM National Defence Fund u/s 80G	3,000	
Treatment of disabled dependent u/s 80DD	75,000	78,000
Total Income		1,32,000

Summarised Overview

Individuals with taxable income exceeding the minimum threshold are required to remit income tax in the current financial year on the income from the prior financial year, according to the rates applicable in the current financial year in India. The Annual Finance Act establishes tax rates, and tax is imposed on every person as stipulated in section 2(31). Income tax is levied on the total income of each individual calculated in accordance with the provisions of this Act. In India, income includes various categories such as profits and gains, dividends, voluntary contributions, scientific research associations, sports associations, universities, hospitals, and electoral trusts. The gross total income refers to the sum of income derived from five distinct sources: income from salaries, income from house property, profits and gains from business or profession, capital gains, and income from other sources. Total income refers to the sum remaining after applying deductions under sections 80C to 80U from the gross total income. The twelve-month period beginning on April 1st and concluding on March 31st of the following year is the period in which an assessee is obligated to remit tax on the income earned in the preceding year during the subsequent financial year. The total income should be calculated based on residency, including income from salaries, house property, business profits, capital gains, and other sources. Unabsorbed losses and allowances from previous years will be applied. The gross total income will be reduced by permitted amounts, and the total income will be rounded to the nearest multiple of ten rupees.

Self-Assessment Question

1. Define income
2. What are the different heads of total income?
3. Differentiate between gross total income & total income
4. Write a brief note on the residential status of:
 - a. Individuals
 - b. HUF
 - c. Company
5. The following are the particulars of Mr. X 's incomes during the Previous Year 2023-24. Compute Gross Total Income of Mr. X for the Assessment Year 2024-25, if he is Ordinarily Resident, Not Ordinarily resident and Non - Resident.

(Rs)	Amount
Fees from an Indian Company carrying on business at Ireland for technical services rendered at Ireland having been directly deposited by the company in his bank account in India.	20,000
Untaxed income of the previous year brought in India during the previous year	50,000
Dividend from an Indian Company	20,000
Share of income from Indian Partnership firm	12,000
Income from sale of house property at Mumbai	40,000
Income from a business in Dubai (Rs 40,000 the income from a business which is controlled from India is included)	1,20,000
Interest on Indian debentures	14,000
Income from salary in India	24,000
Gift from brother from London	1,00,000
Interest on the Sri Lanka Government securities, half of which received in India	20,000
Interest received from Mr. B a non - resident against a loan provided to him for a business carried on in India.	8,000

6. Compute taxable salary of Mr. Y for the Assessment Year 2024-25
 - i. Salary Rs 1,50,000 p.m
 - ii. D.A. Rs 12,000 p.m



- iii. Entertainment Allowance Rs 2,000 p.m
 - iv. Medical Allowances Rs 2,800 p.m
 - v. City Compensation Allowance Rs 2000 p.m
 - vi. Interest @ 10% p.a on credit balance of recognised provident fund amounted to Rs 1,20,000
 - vii. He has been provided with a large car for both official and personal use. Employer bears all the expenses of the car.
 - viii. He is provided an unfurnished house by the employer in a city (population 12 lakh). The fair rental value of the house is Rs 1,80,000 p.a. Employer charges Rs 5,000 from him per month as rent.
 - ix. Free use of health club facility provided by the company and cost of such facility is Rs 1,600 pm. This facility is available for each employee of the company.
 - x. Employer's contribution to group insurance scheme Rs. 1,000.
7. Mr. B is the owner of two houses which he uses for his residential purposes. He submits the following information in respect of these houses for the previous year 2023-24.

	I House	II House
Municipal Valuation	1,40,000	300,000
Fair rent	1,60,000	4,00,000
Municipal taxes paid	24,000	40,000
Fire insurance premia	4,000	6,000
Interest on loan is taken for the construction of the house	140,000	4,00,000

His other incomes are Rs 5,00,000. Compute his total income.

8. Mr. Y runs a drug industry. For the year ending 31st March 2024 following information is available:

Net Profit as per Profit and Loss account Rs 1,60,000
 Guest house expenses Rs 10,000
 Donation to Prime Ministers National Relief Fund Rs 2,00,000
 Employees Remuneration and Perquisites Rs 1,60,000
 Contribution to Recognised Provident Fund Rs 16,000
 Dividend from an Indian Company (Gross) Rs 1,00,000
 Penalty relating to income tax case Rs 40,000
 Patent purchased by him in 2023-24 Rs 50,000

Books donated to poor students Rs 40,000

Capital expenses for scientific research Rs 2,24,000.

Compute Income from business and Gross Total Income.

9. From the following information compute income from other sources.

Undisclosed income Rs 5,00,000

Winnings from lottery Rs 1,70,000 (Net)

Family pension Rs 1,40,000

Interest on Post Office Savings Bank account Rs 10,000

Interest on enhanced compensation of Rs 1,00,000 received as per court decree during the previous year.

Rs 1,60,000 received by the assessee from his friends on the occasion of the marriage of his son.

10. Mr. D submits the following particulars about the sale of assets during the year 2023-24.

Selling price of Silver Rs 36,00,000. Cost of Acquisition is Rs 8,00,000. Year of Acquisition is 2007-08. Compute the amount of taxable capital gains. Cost inflation index 2007-08 is 129 and 2023-24 is 348.

11. Mr. J who is totally blind submits the following information. Compute his total income.

Salary Rs 6,00,000

Rent received from house Rs 64,000 p.m

Dividend from Cooperative Society Rs 20,000

Short term capital gain Rs 30,000

Deposited in PPF Rs 16,000

Accrued interest on NSC VIII issue Rs 10,000

Paid Life Insurance Premium Rs 16,000

12. The income of a disabled individual for the Assessment Year 2024-25 consists of the following:

1. Income from House Property (computed) Rs 80,000
2. Income from business Rs 9,00,000
3. One fourth share in the profit from a firm Rs 1,30,000
4. Interest on time deposit Rs 50,000

Compute his tax liability for the Assessment Year 2024-25 if his wife has also a taxable income of Rs 10,00,000.



Assignments

1. Discuss the scope of Income on the basis of Residence or Incidence of Tax.
2. Point out Capital Gains exempt from tax.
3. Explain deductions from Gross Total Income

Suggested Reading

1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Agrawal, K. K. (2021). *Direct Tax Planning and Management*. Atlantic Publishers & Dist.
4. Girish, A., & Ravi, G. (2023). *Direct Taxes*. Bharat Law House Pvt. Ltd
5. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
6. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.

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1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
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5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
6. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya Bhawan Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU



Unit 2

Assessment of Firms

Learning Outcomes

Upon the completion of this unit, the learner will be able to:

- ◆ recognise the need and the scope of assessment of firms
- ◆ demonstrate knowledge of basic concepts of incidence of tax of firms
- ◆ identify the significance of computation of book profit

Background

A partnership is a relationship between individuals who agree to share profits from a business. Partnerships can be limited liability or unlimited liability, with limited liability limiting partners' liability to capital contributions. Firms can be classified into two categories: those that meet the Income Tax Act's criteria (section 184) and those that don't. Partners must be of legal age and mentally capable, with at least two adults. Minors can be partners, but at least two adults are required. Hindu Undivided Families are ineligible, and family managers cannot engage in personal partnerships. A company cannot form a partnership with another company or individual. However, partners from one firm can become partners in another, or all partners from two firms can unite to form a larger partnership. A firm is classified as such if its partnership is documented and a certified copy of the partnership deed is provided with the previous year's income return. This classification remains for subsequent years, provided no changes occur. If a firm fails to comply with section 144 provisions, it will be assessed as a firm.

Keywords

Firm, Partner, Book Profit, Tax Liability

Discussion

2.2.1 ASSESSMENT OF FIRMS

◆ Types of Partnerships

A partnership is a relationship among individuals who have consented to share the profits of a business operated by any or all of them on behalf of the group. The individuals are referred to as partners, and collectively they constitute a firm. Partnership firms can be classified into two primary categories. Limited liability partnerships and unlimited liability partnerships. In limited liability partnerships, partners' liability is confined to the amount of capital they have contributed to the firm. In unlimited liability partnerships, the partners bear unlimited liability. It means the creditors and money lenders of the firm can recover their dues from the assets of the firms as well as from the personal assets of the partners. Limited liability partnerships and unlimited liability partnerships can be classified into two categories. First one, firm fulfills the conditions of section 184 of the Income Tax Act and secondly, Firm doesn't fulfill the conditions of section 184 of the Income Tax Act.

◆ The interest and remuneration payable to partners are deductible if a firm meets the criteria outlined in section 184

If a firm meets the criteria outlined in section 184 of the Income Tax Act, the interest and remuneration payable to partners are deductible when calculating income subject to the provisions of section 40(b) under the category of Profits and Gains of Business or Profession. If a firm does not meet the criteria outlined in section 184 of the Income Tax Act, the provisions of section 185 apply, and in calculating the income taxable under the category of Profits and Gains of Business or Profession, the interest and remuneration payable to partners are not deductible. Individuals who are of legal age and possess sound mental capacity may serve as partners in a firm. There is no doubt that a minor can be admitted to the benefits of the partnership but there must be at least two adults to form a legal partnership.

◆ Ineligibility to become partner and forming partnership

A Hindu Undivided Family is ineligible to be a partner in a partnership firm. The family manager cannot engage in a partnership with the family in a personal capacity. The family manager or any family member may act as a partner on behalf of the family with an outsider. The members of the family do not become partners in that firm. The firm's creditors may pursue the joint family assets, including the shares of non-partner coparceners, to recover their debts. A company is prohibited from forming a partnership with another company or an individual. Nevertheless, a partner of one firm may become a partner in another firm, or all partners from two firms may unite to form a larger partnership. The determination of whether identical part-

ners establish two distinct firms under separate agreements hinges on the parties' intentions, as well as evidence regarding the intertwining of management, finances, and other aspects of the respective businesses.

2.2.1.1 Assessment of firm (Sec 184)

A firm will be classified as such if the partnership is documented through an instrument that defines the individual shares of the partners. A certified copy of the partnership deed must accompany the firm's income tax return for the previous year pertinent to the assessment year for which the firm is first assessed. Once a firm is classified as such for any assessment year, it shall retain this classification for all subsequent years, provided there is no alteration in the firm's constitution. Should any modification transpire in the preceding year, the firm must provide a certified copy of the amended partnership deed alongside the income return for the pertinent previous year. If there is on the part of the firm any failure to comply with the provisions of section 144, the firm shall be assessed as a firm. In this instance, the subsequent provisions shall be applicable:

- i. No deductions for interest, salary, bonus, commission, or any form of remuneration paid by the firm to its partners shall be permitted when calculating income under the category of Profits and Gains of Business or Profession.
- ii. Interest, salary, bonus, commission, or remuneration shall not be taxable for partners under the category of Profits and Gains of Business or Profession.

2.2.1.2 Assessment of firm when section 184 not complied with (Sec 185)

If a firm fails to adhere to the stipulations of section 184 for any assessment year, it shall be evaluated as a firm for that assessment year. No deductions for interest, salary, bonus, commission, or any form of remuneration paid by the firm to its partners shall be permitted when calculating income taxable under the category of Profits and Gains of Business or Profession. Interest, salary, bonus, commission, or remuneration shall not be taxable to partners under the category of Profits and Gains of Business or Profession.

◆ When a firm fails to comply with Section 184

In computing a firm's income from business or profession, any interest, salary, bonus, commission, or remuneration owed to or received by a partner from the firm, limited to the amount disallowed under section 40(b), shall be included under the category of Profits and Gains of Business or Profession. Compensation encompasses salary, bonuses, commissions, and similar

◆ Payments allowed and disallowed

forms of remuneration. Section 40(b) stipulates that the following expenses shall be disallowed. Compensation, including salary, bonus, commission, or any other remuneration, allocated to any partner of the firm who is not an active partner is prohibited. Remuneration to any working partner that are unauthorized or not in accordance with the partnership deed are prohibited. Interest payments to any partner that are unauthorized or not in accordance with the partnership deed are prohibited. Payment of remuneration authorized by and in accordance with the terms of partnership deed relating to any period falling prior to the date of partnership deed for which such payment was neither authorized by nor in accordance with any earlier partnership deed to any working partner is disallowed. Remuneration payments sanctioned by the provisions of the prior partnership deed to any working partner for any ensuing period are permissible as deductions. Consequently, it should be payable subsequent to the date of the partnership deed. Under the aforementioned circumstances, the disbursement of interest to any partner is prohibited. Any payment of interest permitted by the provisions of the prior partnership deed to any partner for any subsequent period is allowable as a deduction. Consequently, it should be payable subsequent to the date of the partnership deed. Interest payments authorized by the partnership deed for any period subsequent to the deed's date to any partner exceeding 12% per annum are prohibited. Remuneration payments to any working partner that exceed the specified limit, as authorized by the partnership deed for any period following the date of the deed, are prohibited. The designated threshold applies to the initial Rs 3,00,000 of book profit or, in the event of a loss, Rs 1,50,000 or 90% of book profits, whichever is greater. On the balance of book profit at 60%.

2.2.1.3 Explanations to Sec 40(b)

A partner in a firm acting on behalf of or for the benefit of others is referred to as a partner in a representative capacity. Interest paid by the firm to an individual, other than in their capacity as a partner representing the firm, shall not be considered for the purposes of this section. Interest disbursed by the firm to an individual acting as a partner in a representative role, as well as interest paid to the represented individual, shall be considered for the purposes of this section. Book Profit refers to the net profit as per the Profit and Loss Account for the preceding fiscal year, calculated in accordance with the stipulations outlined in sections 28 to 44DB, augmented by the total remuneration disbursed or owed to all partners of the firm, provided that this amount was deducted during the net profit calculation. A Working Partner refers to an individual who is actively involved in managing the operations of the business or profession of the firms in which

they hold partnership status. A non-working partner may be a financing partner, dormant partner, or sleeping partner. Occasionally, the remuneration allocated to each working partner is not explicitly detailed in the partnership deed. It contains only the fact that the Working partners shall be paid the remuneration permissible u/s 40(b). In certain instances, the deed specifies that the remuneration for working partners will be determined at the conclusion of the accounting year. In this connection the Board has clarified that the partnership deed must specifically state the amount of remuneration payable to each working partner or how the remuneration will be computed otherwise no deduction will be allowed u/s 40(b) regarding remuneration to working partners.

2.2.1.4 Computation of Income of a Partner from the Firm

1. When a partner receives interest in accordance with the partnership deed, provided it does not exceed 12% per annum, such income is classified as business income and included under the category of Profits and Gains of Business or Profession.
2. If a partner leases his buildings to the firm, the rent he receives will be taxed under the category Income from House Property.
3. If a firm offers rent-free accommodation and complimentary electricity to a partner, such expenses are disallowed for the firm, rendering the amount non-assessable for the partner; otherwise, it would result in double taxation.
4. The profit share of a partner in the firm is exempt under section 10(2A). Therefore, it will be excluded from his income. The sum received by a retiring partner upon retirement from the firm, attributed to goodwill, will not be liable for taxation as capital gains in their possession.
5. Wherever any salary, bonus, commission or other remuneration is received by a partner as per the provisions of the partnership deed it is not taxable under the head Income from Salaries because a partner of the firm is not an employee of the firm. Therefore, this amount is subject to taxation under the category of Profits and Gains of Business or Profession. If a firm disburses interest, salary, bonus, commission, or other remuneration to partners that exceeds the permissible limit under section 40(b), the excess amount shall not be incorporated into the partner's taxable income, as it would have already been accounted for in the firm's total income, thereby preventing double taxation.
6. In calculating a partner's income subject to taxation under

◆ Incomes to be considered

the category of Profits and Gains of Business or Profession, the subsequent deductions may be asserted. Any interest he incurs on capital borrowed for investment in the firm. The firm's utilization of funds for business activities or tax obligations is irrelevant. The partner is entitled to an interest deduction on borrowed capital. Such interest is permissible even in the absence of income for the accounting year. Any interest he pays to the firm on his capital deficit. Partners may be obligated to uphold a minimum balance in their Capital Accounts. If a partner neglects to uphold it, he may be obligated to remit interest to the firm at the designated rate. Consequently, interest paid or owed to the firm is deductible. Interest paid to the firm on amounts withdrawn for personal advance tax and personal expenses is not deductible from the firm's interest income. Any other expense incurred by the partner to earn the remuneration from the firm. Examples include the costs associated with the car's maintenance and depreciation, as well as the travel expenses incurred by him to earn remuneration from the firm.

◆ Setting - off of losses

► Treatment of Losses

The firm shall address carried-forward losses as follows: 1) Long-term capital losses may be offset against long-term capital gains of the firm within the subsequent eight years. 2) Speculative business losses may be offset against the speculative business income of the firm within the following four years. 3) Non-speculative business losses may be offset against any business profits of the firm within the following eight years. 4) Short-term capital losses may be offset against long-term capital gains of the firm within the subsequent eight years. 5) Unabsorbed depreciation may be offset against both long-term and short-term capital gains of the firm for a period of up to eight years. The years will be calculated from the year in which the loss occurred.

2.2.1.5 Adjustment of Profit and Loss Account

When a Profit and Loss Account is provided to calculate the firm's total income, the profit or loss as per the account shall be adjusted similarly to the computation of income under the category of Profits and Gains of Business or Profession. Subsequently, the firm's income from non-business sources is aggregated with the previously calculated business income, resulting in the gross total income of the firm. The gross total income will have permissible deductions under sections 80C to 80U subtracted, resulting in the firm's total income. The subsequent sections pertain to firm, 80G, 80GGA, 80GGC, 80IA, 80IAB, 80IAC, 80IB, 80IBA, 80IC, 80IE, 80JJA, and 80JJAA. Nevertheless, the deductions specified in the aforementioned sections will not be permitted against short-term and long-term capital gains.

2.2.1.6 Computation of Book Profit

In computing a firm's income, profit must be ascertained to adhere to the stipulations of section 40(b). A proforma is provided below to elucidate the method for calculating book profit.

Table 2.2.1 Proforma of Computation of Book Profit of the Firm

	Amount
Net Profit as per Profit and Loss Account	xxx
Add: (i) Remuneration to partners if debited to Profit and Loss Account	xxx
(ii) Inadmissible items (not covered u/s 28 to 44DB)	xxx
(iii) Disallowance of interest in excess of 12% p.a.	xxx
	xxx
Less: (iv) Income from all other sources credited to Profit and Loss Account	xxx
(v) Admissible items which are disallowed in (i) above	xxx
Book Profit	xxx

Brought forward unabsorbed business loss is not deductible to arrive at the Book Profit.

Non - business incomes and their concerned non - business expenses are not included in computing Book Profit.

Table 2.2.2 Proforma of Computation of Total Income of the Firm

	Amount
Book Profit of the Firm	xxx
Less: Remuneration paid to working partners:	xxx
Least of the following two:	xxx
Actual Remuneration or Statutory Limit u/s 40(b)	xxx
Profits and Gains of Business or Profession of the firm	xxx
Add: Income from all other sources	xxx
Gross Total Income	xxx
Less: Deductions u/s 80C to 80U	xxx
Total Income	xxx
Less: Tax payable by the firm	xxx
Distributable Income to be distributed among the partners according to their profit sharing ratio	xxx

Computation of Tax

For the Assessment Year 2024-25 income tax will be levied at the following rates. Sec 167A.

- ◆ STCG u/s 111A – 15%
- ◆ LTCG u/s 112- 10% or 20%
- ◆ LTCG u/s 112A – 10%
- ◆ Winnings from lotteries, card games, crossword puzzles, horse race – 30%
- ◆ Other income – 30%

Surcharge @ 12% if total income exceeds Rs 1 crore. Health and Education Cess @ 4% on the amount of income tax and surcharge.

Marginal Relief

If total income surpasses one crore rupees, the total income tax and surcharge payable shall not exceed the income tax on one crore rupees by more than the amount exceeding one crore.

Health and Education Cess

On the amount of income tax and surcharge @ 4%.

Illustration 2.2.1

X, Y and Z are partners of a firm with equal shares. The Profit and Loss Account for the year ended 31.3.2024 shows a Net Profit of Rs 2,70,000 after debiting Rs 6,000 for interest paid to X at 20%. Rs 50,000 for salary paid to Y and Rs 40,000 for rent of the business premises paid to Z. Compute book profit of the firm. The firm fulfills the conditions of Sec.184.

Solution

Computation of Book Profit of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per Profit and Loss Account		2,70,000
Add: Remuneration to partners debited in P&L A/c:		
Salary to Y	50,000	
Interest to X in excess of 12% (6000/20x12=3,600. 6,000-3,600=2,400)	2,400	52,400
Book Profit		3,22,400

Notes: Rent of business premises is deductible.



Illustration 2.2.2

X, Y and Z are three equal partners in a firm of which Z is a sleeping partner. The firm's P&L A/c for the year ended 31.3.2024 is given below:

Profit and Loss Account
for the year ended 31.3.2024

Particulars	Amount	Particulars	Amount
To Salaries	42,000	By Gross Profit	2,80,500
To Rent, rates	10,000	By Discount	10,000
To Depreciation	7,000		
To Advertisement	15,000		
To Bad debt Reserve	5,000		
To Fire Insurance Premium	2,500		
To Partners Salary			
X 15,000			
Y 10,000	25,000		
To Commission			
X 10,000			
Z 5,000	15,000		
To Interest on Capital @ 9%			
X 5,000			
Y 6,000			
Z 8,000	19,000		
To Net Profit			
X 50,000			
Y 50,000			
Z 50,000	1,50,000		
Total	2,90,500	Total	2,90,500

Depreciation was excess debited by Rs 3,000.

Rent includes rent of Z's godown Rs 2,500.

Compute Book Profit and firm's Total Income for the relevant Assessment Year. The firm fulfills the conditions of Sec 184.

Solution

Computation of Book Profit of the Firm for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per P&L A/c		1,50,000
Add: Inadmissible Items		
Remuneration to partners		
X 15,000		
Y 10,000	25,000	
Commission to partners		
X 10,000		
Z 5,000	15,000	
Bad debt Reserve	5,000	
Depreciation (in excess)	3,000	
Interest on Capital in excess of 12%	NIL	48,000
Book Profit		1,98,000

Computation of Total Income of the Firm for the Assessment Year 2024-25

	Amount	Amount
Book Profit		1,98,000
Less: Remuneration to working partners (least of (a) and (b))		
a) Actual Remuneration to working partner only	35,000	
b) Statutory Limit (Rs 1,50,000 or 90% of Book Profit which ever is high)	1,78,200	35,000
Total Income		1,63,000

Illustration 2.2.3

A, B and C are partners in a firm with equal shares. The P & L A/c of the firm for the year ended 31.3.2024 is as under:

Profit and Loss Account for the year ended 31.3.2024

Particulars	Amount	Particulars	Amount
To Interest on Capital @ 12%		By Gross Profit	9,000



A 9,000		By Net Loss	
B 8,000		A 1,25,000	
C 7,000	24,000	B 1,25,000	
Salary		C 1,25,000	3,75,000
A 1,20,000			
B 1,20,000			
C 1,20,000	3,60,000		
	3,84,000		3,84,000

Compute Book Profit and Total Income of the firm for the Assessment Year 2024-25. The firm fulfills the conditions of Sec 184.

Solution

Computation of Book Profit & Total Income of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Net Loss as per P&L A/c		(-)3,75,000
Add: Remuneration to all partners		3,60,000
Interest on Capital in excess of 12%	Nil	
Book Loss		(-) 15,000
Less: Remuneration to working partners (least of (a) and (b))		
a) Actual Remuneration	3,60,000	
b) Statutory limit	1,50,000	(-) 1,50,000
Business Loss		(-) 1,65,000

Note: Loss can be carried forward and set off by the firm in subsequent years.

Illustration 2.2.4

A, B and C are partners in a firm which fulfills the conditions of Section 184, sharing profits and losses in the proportion of 3:2:1 respectively. The firms P&L A/c for the year ended 31.3.2024 showed net profit of Rs 2,50,000 after debiting the following amounts:

- ◆ Salary of Rs 5,000 pm paid to C
- ◆ Commission paid to B is Rs 42,000
- ◆ Donation to approved body Rs 4,000 by cheque.
- ◆ Rent of Rs 19,000 paid to A for the portion of the building owned by A in which the firms office was situated. Fair Rental Value of the building is Rs 10,000.

- ◆ Expenses on current repairs of the business premises belonging to partner A Rs 1,000.
- ◆ Salary to B's son Rs 62,000. B's son is qualified management graduate and was serving another concern on Rs 6,000 pm.

The Net Profit of Rs 2,50,000 included Rs 10,000 from interest on Government Securities. Compute total income of the firm for the Assessment Year 2024-25 assuming that it is a professional firm.

Solution

Computation of Total Income of the Firm for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per P&L A/c		2,50,000
Add: Inadmissible Items		
Salary to C	60,000	
Commission paid to B	42,000	
Donation	4,000	
Excess rent paid to A	9,000	
Expenses on repairs in building	1,000	
Salary to B's son	Nil	1,16,000
		3,66,000
Less: Interest on Government Securities		10,000
Book Profit		3,56,000
Less: Remuneration to working partners (least of (a) and (b))		
a) Actual Remuneration	1,02,000	
b) Statutory Limit		
Rs 1,50,000 or For first 3,00,000 @ 90% & for balance @ 60%	3,03,600	1,02,000
Income from Business		2,54,000
Income from Other Source		
Interest on Government Securities		10,000
Gross Total Income		2,64,000
Less: Deductions u/s 80 G		
Donation to approved body (50%)		2,000
Total Income		2,62,000

Note: B's son is not a partner of firm.

Illustration 2.2.5

X, Y and Z are equal partners in a firm which disclosed a

net income of Rs 1,60,000 for the year ended 31st March 2024. Besides the firm has house property income of Rs 55,000 before deducting local taxes paid and repairs in the house property amounting to Rs 7,000 and Rs 8,000 respectively. During the year the long - term capital gains are Rs 40,000.

The net income has been calculated taking into account the following:

- ◆ Rs 12,000 paid as rent to Y for the premises
- ◆ Rs 50,000 paid to Z as salary and Rs 15,000 paid as salary to A who was admitted to the firm as an equal partner in place of X. Z and A are working partners.
- ◆ Admissible depreciation on office furniture is Rs 4,500.
- ◆ General expenses Rs 30,000
- ◆ Bad debt reserve Rs 12,000

Compute total income of firm and tax liability assuming that firm does not fulfill the conditions of Section 184.

Solution

Computation of Total Income of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per P&L A/c		1,60,000
Add: Inadmissible Items		
Salary	65,000	
Bad debt reserve	12,000	77,000
Income from Business		2,37,000
Actual Rent being Gross Annual Value	55,000	
Less: Municipal tax paid	7,000	
Annual Value	48,000	
Less: Standard deduction @ 30% of Annual Value	14,400	
Income from House Property		33,600
Income from Capital Gain		
LTCG		40,000
Total Income		3,10,600

Computation of Tax Liability of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Tax on LTCG @ 20%	8,000	

Tax on other income @ 30%	81,180	
		89,180
Add: Health and Education Cess @ 4%		3,567
Tax Liability		92,747
Rounded off to Rs 92,750		

Illustration 2.2.6

A and B are active partners and C and D are sleeping partners in a limited liability partnership. Profit and Loss Account showed a net profit of Rs 30,000. The profit has been arrived at after allowing salary and interest to partners as per deed, which are as follows.

	A	B	C	D
Salary	25,000	24,000		
Interest @ 12%	3,000	5,000	6,000	5,000

Further, LTCG of LLP are Rs 50,000. The partners share in profit or loss are equal. You are required to compute the total income of LLP and its tax liability.

Solution

Computation of Total Income of LLP for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per P&L A/c		30,000
Add: Inadmissible Items		
Salary		49,000
Book Profit		79,000
Less: Remuneration to working partners (least of (a) and (b))		
a) Actual Remuneration	49,000	
b) Statutory Limit (1,50,000 or 90% of book profit)	1,50,000	49,000
Income from Business		30,000
Income from Capital Gain		
LTCG		50,000
Total Income		80,000

Computation of Tax Liability of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Tax on LTCG @ 20%	10,000	
Tax on other income @ 30%	9,000	19,000
Add: Health and Education Cess @ 4%		760
Tax Liability		19,760

Illustration 2.2.7

A, B and C are partners in a firm sharing profit and losses in the proportions of 2:2:1 respectively. The P&L A/c for the year ended 31.3.2024 is as follows:

Particulars	Amount	Particulars	Amount
To Sundry expenses	1,00,000	By Gross Profit b/d	4,70,000
To Interest on Capital @ 15% A-15,000 B-15,000 C-15,000	45,000	By Interest on Securities	12,000
To Salary to B	70,000		
To Rent to B	30,000		
To Commission to C	35,000		
To Net Profit	2,02,000		
Total	4,82,000	Total	4,82,000

Compute

Calculate the total income of the firm. The firm fulfills the condition of section 184. Also calculate taxable income from business of the three partners in the firm. B and C are working partners.

Solution

Computation of Total Income of the Firm
for the Assessment Year 2024-25

	Amount	Amount
Net Profit as per P&L A/c		2,02,000
Add: Inadmissible Items		
Remuneration to partners	1,05,000	
Interest on Capital (in excess of 12%)	9,000	1,14,000
		3,16,000

Less: Interest on Securities	12,000	
Book Profit		3,04,000
Less: Remuneration to working partners (least of (a) and (b))		
a) Actual Remuneration	1,05,000	
b) Statutory limit		
Rs 1,50,000 or For first 3,00,000 @ 90% & for balance @ 60%	2,72,400	1,05,000
Income from Business		1,99,000
Income from other source:		
Interest on Securities		12,000
Total Income		2,11,000

Computation of Taxable Income from Business of the Partners
for the Assessment Year 2024-25

	A (Rs)	B (Rs)	C (Rs)
Interest on Capital (upto 12%)	12,000	12,000	12,000
Remuneration to working partners			
Salary to B		70,000	
Commission to C			35,000
Total Income	12,000	82,000	47,000

Summarised Overview

A partnership is a group of individuals who agree to share profits from a business. Firms can be limited liability or unlimited liability. Limited liability partners have limited liability, while unlimited liability allows creditors and lenders to recover dues from both firm and partners' assets. Firms can be classified as either fulfilling or not fulfilling income tax requirements. The partnership deed classifies income as business income if it does not exceed 12% per annum. Rent received from leasing buildings is taxed under Income from House Property. Rent-free accommodation and electricity are disallowed for the firm, making the amount non-assessable for the partner. The profit share of a partner is exempt under section 10(2A), and a retiring partner's goodwill is not liable for taxation as capital gains. Remuneration received by a partner is not taxable under Income from Salaries but subject to Profits and Gains of Business or Profession. Subsequent deductions may be asserted, such as interest on borrowed capital, capital deficit, and personal expenses. However, interest paid or owed to the firm is not deductible from the firm's interest income.



Self-Assessment Question

- X, Y and Z are partners of a firm with equal shares. The Profit and Loss Account for the year ended 31.3.2024 shows a Net Profit of Rs 2,70,000 after debiting Rs 6,000 for interest paid to X at 20%. Rs 50,000 for salary paid to Y and Rs 40,000 for rent of the business premises paid to Z. Compute book profit of the firm. The firm fulfills the conditions of Sec.184.
- Partners A, B, and C share profits equally in their firm. The Profit and Loss Account for the year ended March 31, 2024, shows:
 - ◆ Net Profit: ₹3,00,000
 - ◆ Interest paid to Partner A at 15%: ₹9,000
 - ◆ Salary paid to Partner B: ₹60,000
 - ◆ Rent paid to Partner C for business premises: ₹50,000
 Compute the book profit of the firm.
- P, Q, and R are three equal partners in a firm, with R being a sleeping partner. The firm's Profit and Loss Account for the year ended 31.03.2025 is as follows:

Profit and Loss Account for the year ended 31.03.2025

Particulars	A m o u n t (₹)	Particulars	Amount (₹)
To Salaries	50,000	By Gross Profit	3,00,000
To Rent and Rates	15,000	By Discount	20,000
To Depreciation	8,000		
To Advertisement	20,000		
To Bad Debts Reserve	6,000		
To Fire Insurance Premium	3,000		
To Partners' Salary:	30,000		
P: 18,000			
Q: 12,000			
To Commission to Partners:	15,000		
P: 9,000			
R: 6,000			
To Interest on Capital @ 8%:	16,000		
P: 4,000			
Q: 5,000			

R: 7,000			
To Net Profit:	1,57,000		
P: 55,000			
Q: 55,000			
R: 55,000			
Total	3,28,000	Total	3,20,000

Additional Information

- ◆ Depreciation was excess debited by ₹2,000.
 - ◆ Rent includes ₹3,500 paid to Partner R for the use of his storage facility.
1. Compute the Book Profit of the firm.
 2. Determine the firm's Total Income for the relevant Assessment Year, assuming the firm fulfills the conditions of Section 184 of the Income Tax Act.
4. A, B and C are partners in a firm which fulfills the conditions of Section 184, sharing profits and losses in the proportion of 2:2:1 respectively. The firm's P&L A/c for the year ended 31.3.2024 showed net profit of Rs 3,50,000 after debiting the following amounts:
- a. Salary of Rs 5,000 pm paid to C
 - b. Commission paid to B is Rs 45,000
 - c. Donation to approved body Rs 5,000 by cheque.
 - d. Expenses on current repairs of the business premises belonging to partner A Rs 6,000.
 - e. Salary to B's son Rs 70,000. B's son is qualified management graduate and was serving another concern on Rs 5,000 pm.
 - f. Rent of Rs 20,000 paid to A for the portion of the building owned by A in which the firm's office was situated. Fair Rental Value of the building is Rs 10,000

The Net Profit of Rs 3,50,000 included Rs 20,000 from interest on Government Securities. Compute total income of the firm for the Assessment Year 2024-25 assuming that it is a professional firm.

5. A, B and C are partners in a firm sharing profit and losses in the proportions of 2:2:1 respectively. The P&L A/c for the year ended 31.3.2024 is as follows:

Particulars	Amount	Particulars	Amount
To Sundry expenses	1,00,000	By Gross Profit b/d	5,50,000
To Interest on Capital @ 15% A-15,000 B-15,000 C-15,000	45,000	By Interest on Securities	14,000
To Salary to B	60,000		



To Rent to B	29,000		
To Commission to C	35,000		
To Net Profit	2,95,000		
Total	5,64,000	Total	5,64,000

Compute

Calculate the total income of the firm. The firm fulfills the condition of section 184. Also calculate taxable income from business of the three partners in the firm. B and C are working partners.

6. X, Y and Z are equal partners in a firm which disclosed a net income of Rs 1,80,000 for the year ended 31st March 2024. Besides the firm has house property income of Rs 85,000 before deducting local taxes paid and repairs in the house property amounting to Rs 8,000 and Rs 9,000 respectively. During the year the long - term capital gains are Rs 60,000.

The net income has been calculated taking into account the following:

- Rs 15,000 paid as rent to Y for the premises
- Rs 60,000 paid to Z as salary and Rs 15,000 paid as salary to A who was admitted to the firm as an equal partner in place of X. Z and A are working partners.
- Admissible depreciation on office furniture is Rs 6,500.
- General expenses Rs 50,000
- Bad debt reserve Rs 14,000

Compute total income of firm and tax liability assuming that firm does not fulfill the conditions of Section 184.

7. J, K and L are equal partners in a firm which disclosed a net income of Rs 3,20,000 for the year ended 31st March 2024. Besides the firm has house property income of Rs 1,10,000 before deducting local taxes paid and repairs in the house property amounting to Rs 14,000 and Rs 16,000 respectively. During the year the long - term capital gains are Rs 80,000.

The net income has been calculated taking into account the following:

- Rs 24,000 paid as rent to K for the premises
- Rs 1,00,000 paid to L as salary and Rs 30,000 paid as salary to A who was admitted to the firm as an equal partner in place of J. L and A are working partners.
- Admissible depreciation on office furniture is Rs 9,000.
- General expenses Rs 60,000
- Bad debt reserve Rs 24,000

Compute total income of firm and tax liability assuming that firm doesn't fulfill the conditions of Section 184.

8. D, E and F are partners in a firm which fulfills the conditions of Section 184, sharing profits and losses in the proportion of 3:2:1 respectively. The firm's P&L A/c for the year ended 31.3.2024 showed net profit of Rs 4,80,000 after debiting the following amounts:
- Salary of Rs 10,000 pm paid to F
 - Commission paid to E is Rs 84,000
 - Donation to approved body Rs 8,000 by cheque.
 - Rent of Rs 38,000 paid to D for the portion of the building owned by D in which the firm's office was situated. Fair Rental Value of the building is Rs 20,000.
 - Expenses on current repairs of the business premises belonging to partner D Rs 2,000.
 - Salary to E's son Rs 1,24,000. E's son is a qualified management graduate and was serving another concern on Rs 12,000 pm.

The Net Profit of Rs 5,00,000 included Rs 20,000 from interest on Government Securities. Compute total income of the firm for the Assessment Year 2024-25 assuming that it is a professional firm.

Assignments

1. Make a brief description of scope of Income and Incidence of tax of firms.
2. Explain the process of computation of Income of a Partner from the Firm
3. In computing a firm's income, profit must be ascertained to adhere to the stipulations of section 40(b). Explain
4. Explain the computation of book profit of the firm

Suggested Reading

1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes (21st ed.)*. Bharat Law House Pvt. Ltd



4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
6. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya

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1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU



03 BLOCK

Tax Planning and Assessment of Companies

Block Content

- Unit - 1 Basic Concepts
- Unit - 2 Taxable Income and Tax Liability

Unit 1

Basic Concepts

Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ be aware of the concepts of the companies
- ◆ demonstrate knowledge of residential status of companies
- ◆ familiarise with the different types of companies

Background

A company must remit tax on every rupee of its total income at a uniform rate, regardless of its status. Companies can be Indian, foreign-based, or designated by the Central Board of Direct Taxes. Widely-held Companies have significant public interest, while Closely-held Companies have minimal public interest. Domestic companies have established dividend declaration and payment arrangements within India, while foreign companies have not. Public sector companies are formed under Central or State Acts or government companies. A company must remit tax on every rupee of its total income at a uniform rate, without any exemption threshold. A company includes Indian companies, corporate entities established under foreign legislation, institutions assessed as companies up to 1970-71, and entities designated by the Central Board of Direct Taxes. An Indian Company is a corporation registered under the Companies Act, 2013, including those in Jammu and Kashmir, Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry. The company must have a registered office in India. A domestic company is an Indian or other entity that has established the necessary arrangements for declaring and paying dividends from its income subject to taxation within India. A foreign company is an entity that is not an Indian entity and has not established the necessary arrangements for dividend declaration and payment in India.

A non-profit company aims to advance beneficial purposes like art, charity, commerce, or religion, reinvesting profits into these objectives and forbidding dividend distribution to members. A company's residential status is based on the place where effective management is located. Effective management refers to the location where crucial decisions and management are made for an entity's overall operation.



Keywords

Company, Assessment, Residential Status, Companies Act

Discussion

Assessment of Companies

A company must remit tax on every rupee of its total income at a uniform rate, with no exemption threshold applicable.

3.1.1 COMPANY (Sec. 2(17))

A company refers to:

- i. Any Indian company, or
- ii. Any corporate entity established under the legislation of a foreign country or
- iii. Any institution, association, or entity that was subject to assessment or assessed as a company for any Assessment Year up to 1970-71.
- iv. Any institution, association or entity regardless of incorporation status and nationality, designated by a general or special order of the Central Board of Direct Taxes as a company.

◆ Remit tax at a uniform rate

Principal Officer (Sec. 2(35))

A Principal Officer refers to:

- i. The secretary, treasurer, manager, or agent of the company, or
- ii. Any individual associated with the management or administration of the company who has received a notice from the Assessing Officer indicating the intention to designate him as the Principal Officer of the company.

3.1.2 TYPES OF COMPANIES

1. Company in which the Public are Substantially Interested (Sec. 2(18))

A company is considered one in which the public holds significant interest in the following instances:

- a. It is a company owned by the Government or the Reserve Bank of India, or in which at least 40% of shares are held by

- the Government, the Reserve Bank of India, or a corporation owned by the Reserve Bank of India; or
- b. It is a company registered under Section 8 of the Companies Act, 2013; or
 - c. It is a company, having no share capital and it is declared by order of the Central Board of Direct Taxes to be a company in which the public are substantially interested; or
 - d. It is a mutual benefit finance company, i.e., a company which carries on, as its principal business, business of acceptance of deposits from its members and which is declared by the Central Government to be a Nidhi or Mutual Benefit Society; or
 - e. It is a company wherein shares carrying not less than 50% of the voting power are held by one or more co-operative societies throughout the relevant previous year; or
 - f. It is a company which is not a private company under the Companies Act, 2013, and its equity shares were, as on the last day of the relevant previous year, listed in a recognised stock exchange in India; or
 - g. It is a company which is not a private company and whose equity shares carrying not less than 50% (40% in case of an industrial company) of the voting power were beneficially held throughout the previous year by the Government, a statutory corporation or any other company in which the public are substantially interested or a wholly owned subsidiary of such a company.

If a foreign company holds the majority of equity shares in a public company, in which the public has significant interest, that public company would be considered one in which the public has substantial interest.

◆ Significant and Minimal public interest

A company in which the public holds significant interest is referred to as a Widely Held Company, whereas a company with minimal public interest is known as a Closely Held Company. An individual possessing beneficial ownership of equity shares with at least 20% of the voting power is considered to have a substantial interest in the company.

2. Indian Company (Sec. 2(26))

An Indian Company refers to a company established and registered in accordance with the Companies Act, 2013. It encompasses a corporation formed under a Central or State Act, as well as any institution, association, or entity designated by the Central Board of Direct Taxes as a company under Section 2(17). A company established and registered under any prevailing law

- ◆ Registered office in India

in the State of Jammu and Kashmir is designated as an Indian company. A company established and registered under any prevailing law in Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry is referred to as an Indian company. The registered or principal office of the company, corporation, institution, association, or entity must be situated in India.

3. Domestic Company (Sec. 2(22A))

A domestic company refers to an Indian company or any other company that has established the requisite arrangements for the declaration and payment of dividends, derived from its income subject to taxation under this Act, within India.

4. Foreign Company (Sec. 2(23A))

A foreign company is defined as a company that is neither an Indian company nor has established the requisite arrangements for the declaration and payment of dividends in India.

5. Public Sector Company (Sec. 2(36A))

It refers to any corporation formed by or under any Central or State Act, or a Government Company as defined in section 2(71) of the Companies Act, 2013.

6. Company registered under Section 8 of Companies Act, 2013

The company is established to advance art, charity, commerce, religion, or other beneficial purposes, operating on a non-profit basis, with the intention of reinvesting any profits or income into the enhancement of these objectives, while forbidding the distribution of dividends to its members. A company may be incorporated under Section 8 of the Companies Act, 2013.

3.1.3 Residential Status of Companies Sec (3)

I. Resident (Ordinarily Resident)

A company is considered a resident in India for any preceding year if:

- ◆ It is an Indian Company or
- ◆ Its place of effective management in that year is in India.

II. Not ordinarily Resident

A company is never Not ordinarily resident.

III. Non - resident

If a company fails to meet both aforementioned residency

- ◆ Resident & Non-Resident

conditions, it is classified as a non-resident company. This indicates that the company is neither an Indian entity nor is its effective management is located in India.

The place of effective management refers to the location where essential management and commercial decisions critical to the overall operation of an entity are fundamentally made.

Illustration

ABC Co. is an Indian Company carrying on business in India as well as in Africa. Its income accruing or arising in Africa in the Previous Year 2023-24 far exceeded its income accruing or arising in India.

Solution

As ABC Co. is an Indian company, it qualifies as a resident company. It is irrelevant whether foreign income exceed Indian income or contrary.

Summarised Overview

A company must remit tax on every rupee of its total income at a uniform rate, with no exemption threshold applicable. A company can be an Indian company, a corporate entity established under foreign legislation, an institution, association, or entity that was subject to assessment or assessed as a company for any Assessment Year up to 1970-71, or any institution, association, or entity designated by a general or special order of the Central Board of Direct Taxes. A company in which the public holds significant interest is referred to as a Widely Held Company, while a company with minimal public interest is known as a Closely Held Company. An Indian company is a corporation formed under a Central or State Act, and its registered or principal office must be situated in India.

A domestic company refers to an Indian company or any other company that has established the requisite arrangements for the declaration and payment of dividends within India. A foreign company is defined as a company that is neither an Indian company nor has established the requisite arrangements for the declaration and payment of dividends in India. A public sector company is any corporation formed by or pursuant to any Central or State Act, or a Government Company as defined in Section 2(71) of the Companies Act, 2013. A company registered under Section 8 of the Companies Act, 2013 to advance art, charity, commerce, religion, or other beneficial purposes, operating on a non-profit basis.



Self-Assessment Question

1. What are the criteria for a company to be considered as an Indian Company?
2. How is a company categorized if the public holds significant interest?
3. Under what circumstances a company is considered as Non-Resident?
4. How is the place of effective management defined in the context of company residency?
5. What conditions must a company meet to be classified as a Resident (Ordinarily Resident) in India?

Assignments

1. Make a brief description of the types of companies
2. Explain about the residential status of companies.
3. What is the difference between a Widely Held Company and a Closely Held Company?

Suggested Reading

1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Agrawal, K. K. (2021). *Direct Tax Planning and Management*. Atlantic Publishers & Dist.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes*. Bharat Law House Pvt. Ltd
4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.

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1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
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4. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
5. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya Bhawan Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



SGOU

Unit 2

Taxable Income and Tax Liability

Learning Outcomes

Upon the completion of this unit, the learner will be able to:

- ◆ demonstrate knowledge of basic concepts of Minimum Alternative Tax and Tax Credit of Companies
- ◆ recognise the scope of Tax Liability of Companies
- ◆ identify the significance of computation of Taxable Income of Companies

Background

The Income Tax Act mandates companies to submit their income tax returns, with the principal officer submitting on their behalf. Minimum Alternate Tax (MAT) offers concessions and incentives. A company must submit its income tax return within the specified timeframe, with the principal officer submitting it on behalf of the company. A company pays taxes on its income independently, not on behalf of shareholders. It is obligated to pay tax on its entire income at a uniform rate, except for specific rates set by the Act. The Assessing Officer must determine the reasonable profits of a business if the assessee's close relationship with another individual exceeds ordinary business expectations. The Minimum Alternate Tax (MAT) aims to include "zero tax companies" in the tax system, despite generating significant profits and dividends. A company's tax liability is determined by either applying the standard Income Tax Law's standard tax liability or calculating 15% tax on book profit.

Keywords

Total Income, MAT, Tax Credit, Book Profit, Tax Liability.



3.2.1 ASSESSMENT OF COMPANIES

A company must submit its income tax return in accordance with Section 139(1) of the Income Tax Act within the stipulated timeframe, similar to other assesseees. The company's principal officer submits the income tax return on the company's behalf. Subsequently, the Assessing Officer adheres to the identical procedure for the company's assessment. The deadline for a company to file its income tax return is September 30th of the Assessment year.

3.2.2 Important points regarding Assessment of Companies

A company is liable to pay income tax on its aggregate income.

- ◆ In calculating Total Income, deductions under the following sections are permissible for a corporation from its Gross Total Income: 80G, 80GGA, 80GGB, 80-IA, 80-IAB, 80-IB, 80-IC, 80-IE, 80JJA, 80JJAA, 80LA, 80M, and 80PA.
- ◆ A company is evaluated under its own name. The tax remitted by a company is not considered to have been paid on behalf of its shareholders.
- ◆ Income tax is assessed on a company's total income at a uniform rate. Various types of companies are subject to distinct tax rates and income classifications, resulting in differing tax rates.
- ◆ If a company's tax liability is below 15% (plus any applicable surcharge and health and education cess) of its book profits, it must pay tax at the rate of 15% (plus any applicable surcharge and health and education cess) on its book profits.

A domestic corporation is obligated to pay tax under Section 115QA on distributed income resulting from share buy-backs.

3.2.3 COMPUTATION OF TOTAL INCOME OF A COMPANY

The total income of a company is calculated as follows:

- ◆ Determine the taxable income for each category after sub-

tracting the losses and allowances carried forward from previous years.

- ◆ The total of the balances in each head is referred to as Gross Total Income.
- ◆ Deduct from the Gross Total Income the deductions specified under the following Sections: 80G, 80GGA, 80GGB, 80-IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, 80-IC, 80-IE, 80JJA, 80JJAA, 80LA, 80M, and 80PA.
- ◆ The remaining balance constitutes the total income.

3.2.4 COMPUTATION OF TAX ON COMPANIES

A company is evaluated under its own designation, meaning it pays taxes on its income as an independent entity. The tax remitted by a corporation is not considered to have been paid on behalf of its shareholders. A company is obligated to pay income tax on its entire income, regardless of how minimal it may be. Income tax is levied on total income at a uniform rate, except for incomes subject to specific rates established by the Act.

3.2.5 Rates of Income Tax Applicable to Companies

The rates of income tax which are applicable to companies for the Assessment Years 2024-25 are as under:

I. In the case of a Domestic Company

- i. Winnings from lotteries etc. u/s 115BB - 30%
- ii. Short-term capital gain specified in Sec. 111A - 15%
- iii. Long-term capital gains u/s 112 - 10%/20%
- iv. LTCG u/s 112A - 10%
- v. Other income - 30%

Surcharge

- i. @7% on the amount of income tax, if total income exceeds ₹1 crore but does not exceed ₹10 crore;
- ii. @ 12% if total income exceeds ₹10 crore.

Marginal Relief

- i. If total income exceeds ₹1 crore but does not exceed ₹10 crore, the total income tax and surcharge payable on such income shall not exceed the income tax payable on ₹1



crore by more than the amount exceeding ₹1 Crore.

- ii. When total income exceeds ₹10 Crore, the total income tax and surcharge payable on that income shall not exceed the total income tax and surcharge applicable to ₹10 Crore by an amount greater than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income-tax and surcharge @ 4%.

II. In the case of a company that is not a domestic company

- i. On income derived from royalties received from the Government or an Indian entity in connection with an agreement executed after 31st March 1961, but before 1st April 1976 - 50%
- ii. On income derived from fees for technical services rendered to the Government or an Indian entity pursuant to an agreement established between 29th February 1964 and 1st April 1976 - 50%

Regarding income under (i) and (ii), an agreement must be established with the Government or an Indian entity, which requires approval from the Central Government.

- iii. Winnings from lotteries etc. u/s 115BB - 30%
- iv. Short-term capital gains u/s 111A - 15%
- v. Long-term capital gains u/s 112 - 10%/20%
- vi. LTCG u/s 112A - 10%
- vii. Other income - 40%

Surcharge

- i. @2% on the income tax amount if total income exceeds 1 Crore but does not exceed 10 Crore.
- ii. @ 5% if total income exceeds 10 Crore.

Marginal Relief

Where total income exceeds:

- i. ₹1 Crore but does not exceed ₹10 Crore The cumulative income tax and surcharge on such income shall not surpass the income tax payable on a total income of ₹ 1 Crore by more than the amount exceeding ₹ 1 Crore.
- ii. If total income exceeds ₹10 Crore, the total income tax and surcharge payable shall not exceed the amount applicable to a total income of ₹10 Crore by more than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income tax and surcharge @ 4%.

► Tax on Income of Certain Domestic Manufacturing Companies (Sec. 115BA)

A domestic company is entitled to pay tax at a rate of 25% (plus any applicable surcharge and health and education cess) if it fulfills the following criteria:

Conditions:

- a. The company was established and registered on or after March 1, 2016.
- b. The company is solely involved in the manufacture or production of articles and related research or distribution of those manufactured articles and
- c. The company has not claimed deductions from its income in accordance with the following sections:
 - i. 10AA-Unit in special economic zone; or
 - ii. 32(1) (ia) Additional depreciation on plant or machinery, or
 - iii. 32AC-Investment in new plant or machinery; or
 - iv. 32AD-Investment in new plant or machinery in notified backward areas in certain cases.
 - v. 33AB-Deposit in Tea Development Account etc.; or
 - vi. 33ABA-Production of petroleum or natural gas in India; or
 - vii. 35-Payment to outsiders for research or expenditure on in-house research [Sec. 35(1)(ii)(ia)(iii)(2AA)(2AB)]; or
 - viii. 35AC-Expenditure on eligible projects or schemes; or
 - ix. (ix) 35AD-Capital expenditure on specified business; or
 - x. 35CCC-Expenditure on agricultural extension project; or
 - xi. 35CCD-Expenditure on any skill development project; or
 - xii. No deductions under chapter VI-A, except for those under Section 80JJAA, will be permitted.

Other Provisions

1. The depreciation u/s 32 (except additional depreciation) shall be determined in the manner as may be prescribed for this Section. Depreciation shall be allowed at the prescribed rate subject to a maximum of 40% on the W.D.V.
2. The option, to pay tax under the provisions of this Section,



shall be exercised in the prescribed manner on or before the due date specified in Section 139(1) for furnishing the first return of income.

Once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year. However, where the person exercises option under Section 115BAA the option under this section may be withdrawn.

► **Tax on Income of Certain Domestic Companies (Sec. 115BAA)**

A domestic company may pay tax @22% + Surcharge @ 10% + Health and Education Cess @ 4% at its option if it fulfils the prescribed conditions.

Conditions

- A. The company has not claimed deductions from its income under the following sections:
- i. 10AA-Unit in Special Economic Zone; or
 - ii. 32(1) (iia) - Additional depreciation on plant or machinery; or
 - iii. 32AD-Investment in new plant or machinery in notified backward areas in certain cases.
 - iv. 33AB- Deposit in Tea Development Account etc.; or
 - v. 33ABA-Production of petroleum or natural gas in India; or
 - vi. 35-Payment to outsiders for research or expenditure on in house research (Sec. 35(1) (ii)(iia)(iii)(2AA)(2AB)]; or
 - vii. 35AD-Capital expenditure on specified business; or
 - viii. 35CCC-Expenditure on agricultural extension project; or (ix) 35CCD-Expenditure on any skill development project, or
 - ix. 35CCD – Expenditure on any skill development projects.
 - x. No deduction under chapter VI-A except deduction u/s 80JJAA or 80M will be allowed.

Brought forward loss if such loss is attributable to any afore-said deduction or unabsorbed addition depreciation. Further, such loss or unabsorbed depreciation cannot be carried forward and set-off in any subsequent year.

Other Provisions

1. The election to pay tax under this section must be executed in the designated manner by the due date outlined in Section 139(1) for submitting the income return for the Assessment

Year beginning on or after April 1, 2020. A company subject to taxation under this section is exempt from paying Minimum Alternate Tax (MAT) as per Section 115JB. If a company's option exercised under Section 115BAB is deemed invalid due to non-compliance with stipulated conditions, the company may opt to exercise the option under this Section. Once the option has been exercised for any prior year, it cannot be retracted for that year or any other preceding year. If the company does not meet the aforementioned conditions in any prior year, the option will be rendered invalid for the assessment year pertinent to that prior year and for all subsequent assessment years, and other provisions of the Act will be applicable.

2. The depreciation under Section 32 (excluding additional depreciation) shall be ascertained in accordance with the prescribed methodology for this section. Depreciation will be permitted at the specified rate, capped at 40% of the Written Down Value (W.D.V.).

► **Reduction in Corporate Tax Rate for all existing domestic companies**

To promote growth and investment, the government implemented a landmark tax reform via the Taxation Laws (Amendment) Ordinance, 2019, which established a preferential tax rate of 22% for all existing domestic companies from the Financial Year 2019-20, contingent upon their forgoing any specified exemptions or incentives. Moreover, these companies have been granted an exemption from the Payment of Minimum Alternate Tax (MAT).

Tax on Income of Certain new Domestic Manufacturing Companies (Sec. 115 BAB)

A newly established domestic manufacturing company may opt to pay a tax rate of 15%, along with a surcharge of 10% and a Health and Education Cess of 4%, provided it meets the specified criteria.

► **Rate of tax on other income**

Income that is not generated from or related to the manufacturing or production of an article, and for which no specific tax rate is established under this section, shall be taxed at a rate of 22%. Moreover, no deductions or allowances for expenses shall be permitted in the calculation of such income. Any profit exceeding the amount determined by the Assessing Officer shall be considered the company's income. An income tax of 30% shall be imposed on such income. Short-term capital gains from the transfer of a capital asset, for which depreciation is not permitted

under the Act, shall be taxed at a rate of 22%.

Surcharge: On the amount of tax surcharge shall be charged @ 10%.

Cess: Health and education cess shall be charged @ 4%.

If the company does not meet the stipulated conditions in any prior year, the option will become invalid for the assessment year corresponding to that prior year and for all subsequent assessment years. In such instances, other provisions of the Act shall be applicable.

Conditions

- a. The company was established and registered on or after October 1, 2019, and began manufacturing on or before March 31, 2024.
- b. It is not created through the division or reorganization of an existing business.
- c. The manufacturing or production of an article includes the generation of electricity.

Exception

If an industrial enterprise in India ceases operations in any preceding year due to significant damage or destruction of any building, plant, machinery, or furniture owned by the taxpayer and utilized for that business, as the direct result of:

- a. flood, typhoon, hurricane, cyclone, earthquake, or other natural disaster; or
 - b. Riot or civil disturbance; or
 - c. accidental fire or explosion; or
 - d. Any action taken against an enemy, or in opposition to an adversary (regardless of a formal declaration of war), followed by the re-establishment or revival of the business by the assessee within three years from the conclusion of the preceding year, shall not be considered a reconstruction of an existing business.
- D.** It is not constituted by the transfer of machinery or equipment (exceeding 20%) previously utilized for any purpose.

Machinery or plant utilized outside India by individuals other than the assessee shall not be considered as previously employed machinery or plant for any purpose, provided the following conditions are met:

- a. Such machinery or equipment was not utilized in India prior to its installation by the assessee.;

- b. It is imported into India from abroad. and
- c. No depreciation has been permitted or permitted under this Act for any duration preceding the installation of the Plant and Machinery by the assessee.
- E.** The company does not utilize buildings formerly employed as hotels or convention centers.
- F.** The company is exclusively involved in the manufacture or production of articles and their related research or distribution.

Explanation: The business of manufacturing or producing any article or item shall exclude the business of:

- i. Creation of computer software in any format or media;
 - ii. Mining;
 - iii. Transformation of marble blocks or similar materials into slabs;
 - iv. Bottling of gas into cylinder;
 - v. Publication of books or production of motion pictures; or
 - vi. Any additional matters communicated by the Central Government in this regard.
- G.** The company has not claimed deductions from its income in accordance with the following sections.
- i. 10AA-Unit in special economic zone; or
 - ii. 32(1) (iia) Additional depreciation on plant or machinery; or
 - iii. 32AD-Investment in new plant or machinery in notified backward areas in certain cases.
 - iv. 33AB-Deposit in Tea Development Account etc.; or
 - v. 33ABA-Production of petroleum or natural gas in India; or
 - vi. 35-Payment to outsiders for research (Sec. 35 (1) (ii) (iia) (iii) (2AA) (2AB)]; or
 - vii. 35AD-Capital expenditure on specified business; or
 - viii. 35CCC-Expenditure on agricultural extension project; or
 - ix. 35CCD-Expenditure on any skill development project; or
 - x. No deduction under chapter VI-A except deduction u/s 80JJAA or 80M will be allowed.
- H.** Brought forward loss if such loss is due to any aforementioned deduction or unutilized additional depreciation. Moreover, such losses or unabsorbed depreciation cannot be



carried forward or setoff in any subsequent year.

- I. The depreciation under Section 32 (excluding additional depreciation) shall be calculated in accordance with the prescribed methodology for this section. Depreciation will be permitted at the specified rate, capped at 40% of the Written Down Value (W.D.V.).
- ▶ The Assessing Officer shall ascertain the reasonable profits attributable to the business if, in his judgment, the close relationship between the assessee conducting the business and any other individual has resulted in an arrangement that yields the assessee profits exceeding the ordinary expectations for the business. The choice to remit tax under the stipulations of this section must be executed in the designated manner by the due date outlined in Section 139(1) for the fiscal year commencing on or after April 1, 2020. Once the option has been exercised for any prior year, it cannot be retracted for that year or any other preceding year.

▶ **Amalgamation**

In the event of the amalgamation of a company subject to taxation under section 115 BAB, the option shall remain valid for the amalgamated entity, provided that it meets the stipulated conditions. A company subject to taxation under this section is exempt from paying Minimum Alternate Tax (MAT) under Section 115 JB.

▶ **Incentive for new manufacturing domestic companies**

To stimulate investment in the manufacturing sector, the Taxation Laws (Amendment) Ordinance, 2019 has significantly lowered the tax rate to 15% for new domestic manufacturing companies that do not utilize any specified exemptions or incentives. These companies have also been granted exemption from the Payment of Minimum Alternate Tax (MAT).

Withdrawal of Concessional Rate of Tax on Dividend Received by Indian Companies from Specified Foreign Companies

(Sec. 115BBD)

The concessional rate of 15% under section 115BBD will no longer be applicable starting from the Assessment Year 2023-24. Consequently, dividends received by Indian companies from designated foreign companies will be subject to taxation at the standard rates applicable to those companies.

- ▶ **Tax on Income from Transfer of Virtual Digital Assets (Sec. 115BBH)**

1. Tax rate on transfer of Virtual Digital Asset: If an assessee's total income includes income from the transfer of any Virtual Digital Asset, such income will be taxed at 30% under section 115BBH.
2. No deduction allowed: In calculating the income from the transfer of a Virtual Digital Asset, no deductions shall be permitted under any provisions of the Act for any expenditures or allowances, except for the cost of acquisition, if applicable.
3. Virtual Digital Asset need not to be a capital asset: The definition of "transfer" in section 2(47) encompasses all virtual digital assets, regardless of their classification as capital assets.
4. Set-off or carry forward of loss from transfer of Virtual Digital Asset not allowed: Losses incurred from the transfer of Virtual Digital Assets cannot be offset against income calculated under any provision of this Act for the assessee, nor can such losses be carried forward to subsequent Assessment Years.

3.2.6 MINIMUM ALTERNATE TAX (MAT) (Sec. 115JB)

The purpose of implementing MAT is to incorporate "zero tax companies" into the tax system, which, despite generating significant book profits and distributing considerable dividends, do not pay any tax due to various concessions and incentives available under the Income Tax Law.

Basic provisions of Minimum Alternate Tax (MAT)

A company's tax liability will be determined by the higher of the following options:

- ◆ The company's tax liability is calculated according to the standard provisions of the Income Tax Law, specifically by applying the applicable tax rate to the company's taxable income. The tax calculated in the aforementioned manner is referred to as the normal tax liability.

The tax calculated at a rate of 15% (in addition to applicable surcharge and cess) on book profit is referred to as MAT.

Applicability and non-applicability of Minimum Alternate Tax (MAT)

Every taxpayer is obligated to pay Minimum Alternate Tax (MAT) if the income tax (including surcharge and cess) due on the total income, calculated according to the Income Tax Act for any given year, is less than 15% of its book profit plus surcharge

and health and education cess.

However, the provisions of MAT are not applicable on:

- a. Domestic companies that have selected tax regimes under Section 115BAA or Section 115BAB;
- b. Any revenue generated or derived by a company from the life insurance sector mentioned in Section 115B;
- c. Any revenue generated or derived by a company from the life insurance sector mentioned in Section 115B;

Moreover, the provisions of MAT shall not apply to a foreign company whose total income consists of profits and gains derived from businesses outlined in sections 44AB, 44BB, 44BBA, or 44BBB, provided that such income has been subjected to taxation at the rates stipulated in those sections.

Table 3.2.1
COMPUTATION OF BOOK PROFIT

Particulars	Amount
Net profit as per statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013	XXX
Add:	XXX
Following items (if they are debited to the statement of profit and loss) Income tax paid or payable and the corresponding provision	
Amounts carried to any reserves by whatever name called (Other than reserve specified under Section 33AC)	XXX
Provisions for unascertained liabilities	XXX
Provisions for losses of subsidiary companies	XXX
Dividends paid/proposed	XXX
Expenditure related to incomes which are exempt under section 10 [other than section 10(38)] section 11 and section 12	XXX
The expenditure amounts attributable to income, representing the taxpayer's share in the income of an association or collective entity, on which no income tax is due per the stipulations of section 86.	XXX

The amount or amounts of expenditure relatable to income accruing or arising to a taxpayer being a foreign company, from:	XXX
(a) the capital gains arising on transactions in securities; or	
(b) the interest, dividends, royalties, or fees for technical services subject to taxation. if the income tax owed on the aforementioned income is lower than the rate of Minimum Alternate Tax (MAT).	
The amount representing notional loss on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or the amount representing notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units.	XXX
Expenditure relatable to income by way of royalty in respect of patent chargeable to tax	XXX
Amount of depreciation	XXX
Deferred tax and the provision thereof	XXX
Provision for diminution in the value of any asset	XXX
The balance in the revaluation reserve associated with a revalued asset upon its retirement or disposal, if not recognized in the statement of profit and loss.	XXX
The gain from the transfer of units is determined by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.	XXX
Less: Following items (if they are credited to the statement of profit and loss)	XXX
Withdrawal from any reserve or provision if recorded in the statement of profit and loss	
Incomes which are exempt under section 10 , section 11 and section 12	XXX
Amount of depreciation debited to statement of profit and loss (excluding the depreciation on revaluation of assets)	XXX
The amount withdrawn from the revaluation reserve and credited to the statement of profits and loss shall not exceed the depreciation amount on the revaluation of assets.	XXX
The portion of income attributable to the taxpayer from an association of individuals or entity, exempt from income tax, if such amount is recorded in the profit and loss statement.	XXX

The amount of income accruing or arising to a taxpayer being a foreign company, from:	XXX
(a) the capital gains arising on transactions in securities; or	
(b) The interest, dividend, royalty, or fees for technical services subject to taxation if such income is recorded in the profit and loss statement and the income tax due on the aforementioned income is lower than the MAT rate.	
The amount representing	XXX
(a) Notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or	
(b) Notional gain resulting from any change in carrying amount of said units; or	
(c) Gain on transfer of units .	
The notional gain on the transfer of units is calculated by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.	
Income by way of royalty in respect of patent chargeable to tax. Aggregate amount of unabsorbed depreciation and loss brought forward in case of:	XXX
(a) a company and its subsidiary and the subsidiary of such subsidiary, where, the Tribunal, on an application moved by the Central Government under Section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors who are nominated by the Central Government under Section 242 of the said Act;	
(b) a company for which an application for corporate insolvency resolution process has been accepted by the Adjudicating Authority pursuant to Section 7, Section 9, or Section 10 of the Insolvency and Bankruptcy Code, 2016	
The amount of brought forward loss or unabsorbed depreciation, whichever is less as per books of account (in case of a company other than the company undergoing insolvency proceedings)	XXX
Profits of a sick industrial company (Beginning from assessment year in which it has become sick and ending with assessment year in which the entire net worth equal to or exceeds the accumulated losses) Deferred tax, if credited to statement of profit and loss	XXX
Book profit	XXX

3.2.7 Tax Credit in respect of Minimum Alternative Tax (MAT) on Certain Companies (Sec. 115JAA)

If a company pays MAT for the Assessment Year 2006-07 or any subsequent assessment year (under Section 115JB), it will be permitted a tax credit in subsequent years as follows:

1. The tax credit will equal the disparity between the tax remitted under MAT and the tax due on the total income calculated according to other provisions of the Act.
2. The tax credit may be carried forward for a maximum of fifteen assessment years following the assessment year in which the credit is permitted.
3. The tax credit will be permitted in the year when the tax liability on total income exceeds the tax liability under the Minimum Alternate Tax as per Section 115JB.
4. The set-off will be permitted up to the amount equivalent to the difference between the tax due on total income and the tax due under MAT as per Section 115JB.
5. No interest will accrue on the tax credit.
6. If, due to assessment, reassessment, correction of error, settlement, appeal, or revision, the tax payable is adjusted, the tax credit shall be correspondingly increased or decreased.
7. When a private company or unlisted public company is transformed into a limited liability partnership, the successor limited liability partnership shall not be entitled to the tax credit benefits.
8. The stipulations of this Section shall be inapplicable to a domestic corporation subject to taxation under section 115BAA.

Illustration 1

Z Ltd is an Indian Company Manufacturing Textiles. For the year ended 31.3.2024, the Statement of Profit and Loss showed a Net Profit of Rs. 10,25,000 after deducting the following:

- a. Dividend Rs. 2,00,000 paid to shareholders.
- b. Interest Rs 10,000 paid on loan taken for the payment of company's income tax
- c. Rs. 10,000 paid to legal advisers in respect of proceedings before income tax authorities.
- d. Penalty of Rs. 24,000 for imparting yarn in contravention of import regulations.

Compute taxable income of company.



Solution

Computation of Taxable income of Company
for the Assessment Year 2024-25.

	Amount	Amount
Net profit as per Statement of Profit and Loss Account		10,25,000
Add: Disallowed items		
Dividend paid to shareholders	2,00,000	
Interest on loan for payment of income tax	10,000	
Penalty in contravention of import regulations	24,000	2,34,000
Business Income being Gross Total Income/Total Income		12,59,000

Illustration 2

Compute total income of ABC India Ltd industrial company for the AY 2024-25 from the following information:

Profit from business – Rs 10,00,000

Income from Royalty for providing technical knowhow to Indian concern – Rs. 25,000

A scrutiny of the statement of profit and loss further furnished the following information:

Export promotion expenditure incurred – Rs 60,000

Accrued liability for staff gratuity provided in the accounts on accrual basis Rs. 1,00,000. No Gratuity paid.

The company conducted research to develop a new product. A laboratory for this purpose was set up. Total cost debited to Building Account – Rs. 1,50,000

Depreciation claim – Rs. 7,500

Income tax paid – Rs 2,500

Solution

Computation of Taxable income of Company
for the Assessment Year 2024-25

	Amount	Amount
Net profit as per Statement of Profit and Loss Account		10,00,000
Add: Disallowed items		
Accrued Gratuity	1,00,000	

Depreciation	7,500	
Income tax paid	2,500	1,10,000
		11,10,000
Less: Income from Royalty for technical know how	25,000	
Cost of laboratory debited to Building Account	1,50,000	1,75,000
Income from Business being Total Income		9,35,000

Illustration 3

Sam Traders Limited closes its accounts on March 31st every year. During 2023-24 it had the following income and expenses:

Profit from business – Rs 2,00,000

LTCG on transfer of building –Rs 1,00,000

LTCG on transfer of building –Rs 1,50,000

STCL –Rs 60,000

Rent from house property –Rs 36,000

Municipal tax paid relating to house property –Rs 4,000

Dividend from a cooperative society –Rs 10,000

Income from Royalty from a foreign company –Rs 1,00,000

Calculate Total Income

Solution

Computation of Total income of Company
for the Assessment Year 2024-25

	Amount	Amount
Actual Rent/Gross Annual Value	36,000	
Less: Municipal Tax paid	4,000	
Annual Value	32,000	
Less: Standard deduction @30% of Annual Value	9,600	
Income from House Property		22,400
Income from Business		2,00,000
Income from Other Sources:		
Dividend from Cooperative Society	10,000	
Income from royalty from a foreign company	1,00,000	1,10,000

Income from Capital Gains:		
LTCG (Land and Building)	2,50,000	
Less: STCL	60,000	1,90,000
Gross Total Income being Total Income		5,22,400

Illustration 4

A domestic company in which public are substantially interested submits the following particulars of its income of the previous year ended 31.3.2024.

Profits of business after deduction of donations to approved charitable institutions – Rs 1,90,000

Donation to charitable institution by cheque – Rs 30,000

Interest on Government Securities –Rs 10,000

LTCG –Rs 50,000

Book Profit u/s 115JB –Rs 8,00,000

During the financial year 2023-24, the company deposited Rs 15,000 in Industrial Development Bank of India. The company distributed gross dividend of Rs 1, 00,000 on 10-12-2023.

Compute the taxable income of the company and tax payable by it for the AY 2024-25.

Solution

Computation of Taxable income of Company for the Assessment Year 2024-25

	Amount	Amount
Profit from business	1,90,000	
Add: Disallowed expenses		
Donation by cheque	30,000	
Income from business		2,20,000
Income from Capital Gain:		
LTCG		50,000
Income from Other Sources		
Interest on Government Securities	10,000	
Gross Total Income		2,80,000
Less: Deductions u/s 80G		

Donation to charitable institution (50% of Qualifying Amount) (QA= 2,80,000-50,000=2,30,000. 10% of 230,000 or actual Rs.30,000 whichever is less)		11,500
Total Income		2,68,500

Note: Total Income does not exceed Rs 1 Crore, hence surcharge is not payable. No deduction is available to the company regarding deposit in IDBI.

Computation of Tax Payable on Total Income
for the Assessment Year 2024-25

Total Income		2,68,500
Tax on LTCG (50,000 x 20%)	10,000	
Tax on other income (2,18,500 x 25%)	54,625	
	64,625	
Add: Surcharge	Nil	
Health and Education Cess @ 4%	2,585	
A		67,210

Tax on Book Profit @ 15% of Rs 8,00,000		1,20,000
Add: Surcharge		
Health and Education Cess @ 4% of Rs 1,20,000		4,800
B Tax on Book Profit under MAT 115JB		1,24,800
A. Tax on Total Income	67,210	
B. Tax on Book Profit	1,24,800	
(which ever is high) is Tax Payable		1,24,800

Illustration 5

From the following compute total income of the company for the AY 2024-25. Find out tax liability if the book profit of the company is Rs 7,00,000 u/s 115JB.

Business Profit – Rs 4,20,000

Royalty received from a foreign concern for providing technical knowledge – Rs 16,000



Fee from an Indian Company for technical advice – Rs 12,000

Dividend from a foreign company – Rs 8,000

Company has donated to National Rural Development Fund during PY –Rs 8,800

Solution

Computation of Total income of Company for the Assessment Year 2024-25

	Amount	Amount
Income from Other Sources:		
Royalty from foreign company	16,000	
Fee from Indian Company for technical advise	12,000	
Dividend from a foreign company	8,000	
		36,000
Income from Business	4,20,000	
Less: Donation to NRDF	8,800	4,11,200
Gross Total Income being Total Income		4,47,200

Computation of Tax Payable for the Assessment Year 2024-25

	Amount
Tax on Total Income	
Total Income 4,47,200 @ 25%	1,11,800
Add: Surcharge	Nil
Health and Education cess @ 4%	4,472
Tax on Total Income	1,16,272
Tax on Book Profit	
7,00,000@15%	1,05,000
Add: Surcharge	
Health and Education cess @ 4%	4,200
Tax on Book Profit	1,09,200
Tax Payable is Rs 1,16,272 Rounded off to Rs 1,16,270.	

Illustration 6

Compute the taxable income of Y Ltd for the PY 2023-24 from the following Statement of Profit and Loss and additional information:

Statement of Profit and Loss
for the year ended 31.3.2024

Particulars	Note No	Figures as at the end of current reporting period
I. Revenue from operations		5,00,000
III. Other income: Interest 10,000 STCG 15,000		25,000
III. Total Revenue (I+II)		5,25,000
IV. Expenses: Cost of materials consumed changes in inventories of finished goods, work in progress and stock in trade ---- Employee benefit expense: Salaries and Bonus 1,00,000 Other Expenses: Office rent 10,000 War risk insurance 10,000 Postage and Stationery 10,000 General charges 20,000 Reserve for depreciation 25,000 Provision for income tax 2,00,000		3,75,000
V. Profit before tax (III-IV)		1,50,000
VI. Tax expenses: Income tax paid		50,000
VII. Profit for the period ((V-VI)		1,00,000

Additional information:

- a. The general charges include Rs 5,000 for advertising, Rs 1,000 for charitable donation, Rs 3,000 paid to a Motor Car Company for exchanging the old car for a new one, Rs 1,000 for charity and Rs 5,000 for miscellaneous repairs
- b. The amount of depreciation admissible under IT Act is Rs 15,000 only.
- c. The amount of interest is from Government Securities.

Solution

Computation of Total income of Company
for the Assessment Year 2024-25.

	Amount	Amount
Net profit as per Statement of Profit and Loss Account		1,00,000



Add: Disallowed items		
Reserve for depreciation	25,000	
Provision for Income Tax	2,00,000	
Income Tax	50,000	
Donation	1,000	
Payment of car	3,000	
Charity	1,000	2,80,000
		3,80,000
Less: STCG	15,000	
Interest	10,000	
Depreciation admissible	15,000	40,000
Income from Business		3,40,000
Income from Capital Gain: STCG		15,000
Income from Other Source: Interest on Government Securities		10,000
Gross Total Income		3,65,000
Less: Deductions u/s 80G Donations on Charity (50%)		500
Total Income		3,64,500

Illustration 7

From the following, compute the tax payable by HS and Company keeping in view of the provisions of MAT u/s 115JB for the AY 2024-25.

Statement of Profit and Loss for the year ended 31.3.2024

Particulars	Note No	Figures as at the end of current repeating period
I Revenue from operations		30,00,000
II Other income: Interest on Government Securities		25,000
III Total Revenue (I+II)		30,25,000

IV Expenses:		
Cost of materials consumed		-----
Purchases of stock in trade		-----
Depreciation and amortization expenses		1,50,000
Expenses related to sales		23,20,000
Total expenses		24,70,000
V Profit before tax (III-IV)		5,55,000
VI Tax expenses:		1,00,000
Income tax paid		
VII Profit for the period (V-VI)		4,55,000

Surplus Statement

	Amount
Profit/Loss as per Balance Sheet (if any)	----
Current Year Profit	4,55,000
Less: Proposed Dividend	2,50,000
Balance of profit carried to Balance Sheet	2,05,000

Additional information:

The company revalued its assets from Rs 3,00,000 to Rs 6,00,000 and provided depreciation on Rs 6,00,000 @ 25%. The depreciation allowable under IT Act is Rs 80,000.

Brought Forward depreciation as per books of accounts is Rs 50,000.

Brought Forward unabsorbed depreciation Rs 1,00,000

Solution

Computation of Total income of Company for the Assessment Year 2024-25.

Profit as per Surplus Statement		2,05,000
Add: Disallowed items		
Depreciation and amortization expenses	1,50,000	
Income tax paid	1,00,000	
Proposed Dividend	2,50,000	5,00,000
		7,05,000
Less: Interest on Government Securities	25,000	
Depreciation allowable under IT Act	80,000	1,05,000
Business Income		6,00,000

Less: Unabsorbed depreciation		1,00,000
Income from Business		5,00,000
Income from Other Source: Interest on Government Securities		25,000
Gross Total Income being Total Income		5,25,000

Computation of Tax Liability on Total Income
for the AY 2024-25

	Amount	Amount
Tax on Total Income 5,25,000 @ 25%		1,31,250
Add: Surcharge		-----
Health and education cess @ 4%		5,250
Tax Payable		1,36,500

Computation of Book Profit
for the AY 2024-25

	Amount	Amount
Balance as per Surplus Statement		2,05,000
Add: Disallowed items		
Depreciation and amortization expenses	1,50,000	
Income tax paid	1,00,000	
Proposed dividend	2,50,000	5,00,000
		7,05,000
Less: Depreciation (25% of Rs 3,00,000)	75,000	
B/F depreciation as per books of accounts	50,000	1,25,000
Book Profit		5,80,000

Computation of Tax Liability on Book Profit
for the AY 2024-25

	Amount
Tax on Book Profit Rs 5,80,000 @ 15%	87,000
Add: Surcharge	
Health and education cess @ 4%	3,480
Tax Payable	90,480

Tax on Total Income Rs 1,36,500 and Tax on Book Profit Rs 90,480 which ever is high. Hence, tax liability is Rs 1,36,500.

Illustration 8

From the following information, compute the tax payable by Y Ltd for the Assessment Year 2024-25.

1. Business income from sale of securities - Rs 9,50,000

2. Other Business Income- Rs 11,00,000
3. Long term Capital gains- Rs 5,00,000
4. Securities Transaction Tax paid (Not deducted from business income)- Rs 2,50,000

Solution

Computation of Total Income
for the Assessment Year 2024-25

		Amount
Business income	9,50,000	
Less: Securities Transaction Tax	2,50,000	
	7,00,000	
Other Business Income	11,00,000	
Income from Business		18,00,000
Income from Capital Gain: LTCG		5,00,000
Gross Total Income being Total Income		23,00,000

Computation of Tax Payable
for the Assessment Year 2024-25

	Amount
Total Income of Rs 23,00,000	
Tax on LTCG Rs 5,00,000 @ 20%	1,00,000
Tax on Rs 18,00,000 @ 25%	4,50,000
	5,50,000
Add: Surcharge	Nil
Health and Education Cess @ 4%	22,000
Tax Payable	5,72,000

Summarised Overview

A company must submit its income tax return under Section 139(1) of the Income Tax Act within the stipulated timeframe, with the principal officer submitting the return on the company's behalf. The tax remitted by a corporation is not considered to have been paid on behalf of its shareholders. Income tax is levied on total income at a uniform rate, except for incomes subject to specific rates established by the Act. The purpose of implementing Minimum Alternate Tax (MAT) is to incorporate "zero tax companies" into the tax system, which evade taxation due to various concessions and incentives available under the Income Tax Law.

A company's tax liability is determined by the higher of two options: the normal tax liability, calculated according to the standard provisions of the Income Tax Law, or the 15% tax calculated on book profit. MAT is not applicable to domestic companies, revenue generated by life insurance companies, or foreign companies whose total income consists of profits and gains derived from businesses outlined in Sections 44AB, 44BB, 44BBA, or 44BBB.

Self-Assessment Question

1. How is income tax levied on company's total income?
2. What is the purpose of implementing Minimum Alternative Tax?
3. How is a company's tax liability determined?
4. What does MAT aim to address within the tax system?
5. How is total income of a company calculated?
6. A Trading Co. Ltd. shows a loss of ₹ 54,000 for the Previous Year ending on 31.3.2024. On going through the accounts you find that the following adjustments were made in arriving at a loss:

Debits

(a) Penalty paid for breach of FEMA	1,25,000
(b) Donation paid to a Public Religious Trust	5,000
(c) Interest paid on a loan taken to pay Income tax for 2023-24	5,000

Credits

(a) Income on units from Mutual Fund (Gross)	5,000
(b) Gross rental income from a portion of the building let out by the company which has taken the building on lease, no expenses were incurred in respect of this rental income	8,000
(c) A sum of Rs 5,000 given by one of the shareholders towards the donation to the religious trust mentioned under (b) of above	5,000

-Compute the total income of the company for the Assessment Year 2024-25

7. From the following details relating to ABC Ltd., compute the assessable income and carry-forward losses/unabsorbed depreciation for the year ended 31-3-2024

	₹	
Business income	50,000	
Interest for delayed payment of GST	2,000	
(Business income computed before charging this)		
Dividend income from an Indian company (gross)	22,000	
Bank charges for realizing dividend	1,000	
Carry-forwards	Business loss	Unabsorbed depreciation
2021-22 Assessment Year	₹62,000	6,000
2022-23 Assessment Year	₹38,000	4,000
	₹1,00,000	10,000

8. Arun Ltd. is an Indian Company manufacturing Textiles. For the year ending 31st March, 2024, the Statement of profit and loss showed a net profit of ₹ 10, 25,000 after deducting the following:
- Dividends ₹ 2,00,000 paid to shareholders for the Accounting Year 2022-23.
 - Interest ₹10,000 paid on loan taken for the payment of company's income tax.
 - ₹10,000 paid to legal advisers in respect of proceedings before income tax authorities.
 - Penalty of ₹ 24,000 for importing yarn in contravention of import regulations.

Compute taxable income of the company.

9. M Manufacturing Co. (P) Ltd. has submitted the following particulars regarding its income for the Assessment Year 2024-25. Compute its total income

Income from house property (Net)	40,000
Income from machinery manufacturing business	3,00,000
Capital gain (short term)	1,05,000
	4,45,000
Less B/F loss under income from house property from the assessment year 2023-24	10,000
Donation u/s 80g by cheque	1,06,000
Business loss b/f	



Relating to the assessment year 2021-22	60,000	
Relating to the assessment year 2022-23	3,40,000	(-)5,16,000
	Loss	(-)71,000

10. A Ltd an Indian Company computed a loss of ₹ 1.20.000 for the Assessment Year 2024-25. In arriving at the loss the following adjustments have been made.
1. A speculation loss carried forward from Assessment Year 2020-21 is set-off to the extent of ₹ 5,00,000.
 2. A donation of ₹ 1,00,000 given to a political party by cheque.
 3. Insurance premium paid to insure the gold and jewellery in stock against risk of fire and theft- ₹2800
 4. Advances made for the purchase of gold the value of which has not been taken into account on the ground that purchase has not been effected in the previous year ₹ 16, 00,000.
 5. Discuss the admissibility or otherwise of the above deductions and arrive at the correct total income of the company.

Assignments

1. Describe the aspects of Minimum Alternative Tax
2. Critically analyze the Tax Liability of Companies
3. Make a brief description of assessment of Companies.

Suggested Reading

1. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
3. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
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1. Singhania, V. K., & Singhania, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
2. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
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Space for Learner Engagement for Objective Questions



SGOU

04 BLOCK

Tax Planning and Assessment of Cooperative Societies and Trusts

Block Content

Unit - 1	Cooperative Society
Unit - 2	Trust



Unit 1

Cooperative Society

Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ be aware of the basic concepts of cooperative society
- ◆ get an idea on application of Section 80 P
- ◆ awareness on the computation of total income and tax liability of cooperative societies

Background

Cooperative societies in India have been instrumental in promoting economic growth, social development, and financial inclusion. Originating in 1904 with the "Cooperative Credit Societies Act," these voluntary associations aim to achieve shared economic, social, and cultural goals. They function according to principles of collaboration, reciprocal advantage, and democratic governance. Cooperative societies in India provide credit, marketing, resource aggregation, self-sufficiency advocacy, and consumer welfare, ensuring access to high-quality goods and services at equitable prices.

Cooperative societies in India aimed to provide financial support to rural farmers and promote agricultural activities. Cooperative societies in India operate on democratic principles, with members electing a board of directors to oversee operations. The process includes formation, membership, management election, operations, and surplus allocation. These societies, based on principles of collaboration, reciprocal advantage, and democratic governance, empower communities and facilitate inclusive development. Cooperative societies have contributed significantly to India's economic and social framework. India's state governments govern cooperative societies, with specific sectors having distinct regulatory authorities, like NABARD for agricultural cooperatives. The Indian government provides numerous financial incentives and subsidies to cooperative societies, aiming to promote their growth and development, especially in rural areas. Co-operative societies are separate entities under the 1961 Income Tax Act. The definitions of 'assessee' and 'person' do not mention it. The provisions of Section 80P that provide tax incentives to co-operative societies determine whether they are 'assessee' or not. Since co-operative societies are explicitly mentioned for exemption benefit, the section implies that they are assessee under the Act. Taxpayers should remem-

ber that co-operative societies pay taxes. They get certain gross income deductions. The total gross income is calculated like any other assessee. Income is computed under specific heads and aggregated to get Gross Total Income. Their success exemplifies the importance of cooperative institutions in fostering a more robust and equitable India.

Keywords

Cooperative Society, Alternate Minimum Tax, Deduction

Discussion

4.1.1 Cooperative Society

A 'Co-operative Society' means a co-operative society registered under the Co-operative Society Act, 1912, or under any other law in force in any State for the registration of co-operative societies. [Sec. 2(19)]

4.1.2 Income of co-operative societies

◆ Co-operative Society Act, 1912

The gross total income of a co-operative society is calculated in accordance with the procedures applicable to any other taxpayer. Thereafter, the deductions are made under the following sections from G.T.I.: 80G, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IBA, 80-IC, 80-IE, 80JJA, 80JJAA and 80P.

4.1.3 Deductions under Section 80P

The following deductions shall be applied to the income of a co-operative society in accordance with section 80P:

◆ Section 80P

- A. For a co-operative society involved in the specified business activities, the entirety of the profits and gains attributable to any one or more of these activities shall be subtracted from the gross total income
- i. a cottage industry; or
 - ii. the marketing of agricultural produce grown by its members); or
 - iii. carrying the business of banking or providing credit facilities to its members; or
 - iv. The purchase of agricultural implements, seeds, livestock,



- or other items intended for agriculture, aimed at supplying them to its members; or
- v. the collective disposal of the labour of its members; or
- vi. the processing, without the aid of power, of the agricultural produce of its members; or
- vii. Fishing or related activities, including the capture, preservation, processing, storage, or sale of fish, as well as the procurement of materials and equipment associated with these activities to supply to its members.

The first cooperative society in India was formed in the late 1890s by farmers in western Maharashtra who were rebelling against money lenders. The Cooperative Society Act was passed in 1904 to protect the interests of poor farmers in Maharashtra.

For a co-operative society classified under sub-clause (v) or (vii), the deduction will be granted solely if the society's rules and bye-laws limit voting rights to the following class of members:

- i. the individuals who provide their labour or engage in fishing or related activities;
- ii. the co-operative credit societies which provide financial assistance to the society; and
- iii. the State Government;

◆ Full amount subtracted from the gross total income

B. In the case of a primary cooperative society involved in the provision of milk, oilseeds, fruits, and vegetables cultivated by its members to:

- i. a federal co-operative society engaged in supplying above-mentioned products; or
- ii. the Government or a local authority; or
- iii. a Government company or a Statutory Corporation engaged in supplying the above-mentioned products to the public; the full amount of the profits and gains from such business shall be subtracted from the gross total income.

◆ Consumer Cooperative Society

C. For a co-operative society involved in activities not outlined in clause (a) or clause (b) (either independently or in conjunction with any specified activities), profits and gains derived from such activities up to ₹ 50,000 shall be exempted from the gross total income. In the case of a consumer cooperative society, the deduction shall be ₹ 1,00,000 concerning

the profits and gains from other activities. A society involved in banking and residential construction, which leases properties and generates income, is eligible for a deduction of up to 50,000 from profits derived from leasing under section 80P(2)(c).

- D. The whole of the income generated from interest or dividends by a co-operative society from its investments in another co-operative society shall be subtracted from the gross total income.
- E. The whole of the income generated by the society from the rental of godowns or warehouses for storage, processing, or facilitating the marketing of commodities shall be subtracted from the gross total income.
- F. For a co-operative society that is neither a housing society nor an urban consumer society, nor one involved in transport or manufacturing operations utilizing power, if the gross total income does not surpass 20,000, any income derived from interest on securities or from house property shall be subtracted from the gross total income.

There are 3 million co-ops around the world – with 1.2 billion members. That means 12% of the people on Earth are part of a co-op. Co-ops employ 280 million people across the globe – that 10% of the world's employed population.

4.1.4 Urban consumer's co-operative society

◆ Advantage to Consumers

An urban consumer cooperative society means a society established for the advantage of consumers within the jurisdiction of a municipal corporation, municipality, notified area committee, town area, or cantonment.

Exception: A co-operative bank shall not qualify for a deduction under this section. A primary agricultural credit society or a primary cooperative agricultural and rural development bank shall be eligible for deduction.

Manner of Deduction: If the society is entitled to the deduction u/s 80-IA or 80-IAB or 80-IB or 80-IBA or 80-IC or 80-IE or 80JJA, the deduction in relation to the sums specified in the aforesaid clauses (a), (b) or (c) of section 80P shall be allowed after allowing the deductions u/s 80-IA or 80-IAB or 80-IB or 80-IC or 80-IE or 80JJA or 80JJAA.



Table 4.1.1
Tax rates applicable to co-operative societies

Net income range	Rate of income tax
Upto Rs 10,000	10%
Rs 10,001 to Rs 20,000	20%
Above Rs 20,000	30%

In addition to the aforementioned tax rate, a Health and Education Cess of 4% is imposed on income tax.

Surcharge: Surcharge is levied @ 12% on the amount of income-tax where net income exceeds ₹1 crore. In a case where surcharge is levied, Health and Education Cess of 4% will be levied on the amount of income-tax plus surcharge. The rate of surcharge shall be 7% in the case of co-operative societies having income between 1 crore to ₹ 10 crores.

Marginal relief from surcharge is provided such that for individuals with a net income surpassing ₹1 crore, the total income tax and surcharge payable shall not exceed the income tax liability on ₹1 crore by more than the income exceeding ₹1 crore. If the net income surpasses 10 crore, the income tax and surcharge payable shall not exceed the total income tax and surcharge applicable to 10 crore by more than the income exceeding ₹10 crore.

◆ Tax liability and Adjusted total income

Alternate Minimum Tax (AMT): For a non-corporate taxpayer subject to the provisions of the Alternate Minimum Tax (AMT), the tax liability must not be less than 15% (+Surcharge + Health and Education Cess) of the adjusted total income calculated in accordance with section 115JC.

If a unit is situated in an IFSC and generates income exclusively in convertible foreign exchange, the AMT rate under section 115JF shall be 9%, as opposed to the current rate of 15%.

4.1.5 Special tax rates applicable for the resident co-operative societies (sec. 115BAD)

Section 115BAD offers co-operative societies the choice to be taxed at a rate of 22%, in addition to a 10% surcharge and a 4% cess. The resident co-operative societies have the option to opt for taxation w.e.f. the Assessment Year 2022-23. The option exercised under this section cannot be withdrawn for the same or any prior year.

If a resident co-operative society elects the new regime of Section 115BAD, its income will be calculated without accounting for specific exemptions, deductions, or incentives permitted

◆ Option to opt for taxation

under the Act. The societies selecting this section are exempt from the Alternate Minimum Tax (AMT). The stipulation concerning the calculation, carryover, and set - off of AMT credit shall be inapplicable to these assesseees.

The option to pay tax at lower rates shall be available only if the total income of co-operative society is computed without claiming following exemptions or deductions:

- a. Tax deduction for units established in Special Economic Zones (SEZ); (Sec. 10AA)
- b. Additional depreciation concerning new plant and machinery; [Sec. 32(1)(ia)]
- c. Deduction for investment in new plant and machinery in notified backward areas; (Sec. 32AD)
- d. Deduction in respect of tea, coffee or rubber business; (Sec. 33AB)
- e. Deduction pertaining to business activities involving the prospecting, extraction, or production of petroleum or natural gas in India; (Sec. 33ABA)
- f. Tax deduction for contributions made to recognized scientific research associations, university colleges, or other institutions conducting scientific research, regardless of its relevance to business; [Sec. 35(1)(i)]
- g. Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business; [Sec. 35(1)(ia)]
- h. Deduction for donation made to university, college, or other institution for doing research in social science or statistical research; [Sec. 35(1)(iii)]
- i. Deduction for donation made to National Laboratory or IITs, etc. for doing scientific research which may or may not be related to business; [Sec. 35(2AA)]
- j. Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc.; (Sec. 35AD)
- k. Deduction for expenditure on agriculture extension project; (Sec. 35CCC)
- l. Deduction in respect of certain incomes other than specified under Section 80JJAA.

◆ Prohibited from claiming set off

When a co-operative society opts to benefit from the reduced tax rate under section 115BAD, it shall be prohibited from claiming set-off for any carried forward losses or depreciation related to any restricted exemption or deduction in the Assessment Year in which the option is exercised and in any subsequent Assessment Year.

4.1.6 Tax on income of new manufacturing co-operative societies (Sec. 115BAE)

If a cooperative society chooses this scheme, income will be subject to a preferential tax rate of 15%. Income generated from non-manufacturing or production activities will be subject to a tax rate of 22%.

◆ Payment of taxes at reduced rates

The opportunity to pay taxes at reduced rates will be accessible solely if the total income of the cooperative society is calculated without utilizing the following exemptions or deductions:

- a. Deduction for units established in Special Economic Zones (SEZ); (Sec. 10AA)
- b. Additional depreciation in respect of new plant and machinery; [Sec. 32(1)(ia)]
- c. Deduction in respect of tea, coffee, or rubber business; (Sec. 33AB)
- d. Deduction pertaining to business activities involving the prospecting, extraction, or production of petroleum or natural gas in India; (Sec. 33ABA)
- e. Deduction for contributions made to an accredited scientific research association, university, college, or other institution engaged in scientific research, irrespective of its relation to business. [Sec. 35(1)(ii)]
- f. Deduction for payments made to an Indian company for conducting scientific research, irrespective of its relevance to business. [Sec. 35(1)(ia)]
- g. Deduction for donation made to a university, college, or other institution for doing research in social science or statistical research; [Sec. 35(1)(iii)]

The Indian Farmers Fertiliser Cooperative Limited (IFFCO) has been ranked again as Number 1 Cooperative among top 300 cooperatives in the world, sustaining its position from last year (2023). The World Cooperative Model (WCM) ranking is based on the ratio of turnover over gross domestic product (GDP) per capita published by International Cooperative Alliance.

- h. Tax deduction for contributions to National Laboratories or IITs, etc., for conducting scientific research, irrespective of its relevance to business. [Sec. 35(2AA)]
- i. Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc.; (Sec. 35AD)
- j. Deduction for expenditure on agriculture extension project; (Sec. 35CCC)

◆ Surcharge on total income

If a co-operative society opts to benefit from the reduced tax rate under section 115BAE, it shall not be permitted to claim set-off for any carried forward losses or depreciation related to any limited exemption or deduction in the Assessment Year in which the option is exercised and in any following Assessment Year. The tax assessed on the total income will be augmented by the surcharge. The surcharge will be imposed at a rate of 10% of the tax on total income. The income tax and surcharge will be augmented by a health and education cess calculated at a rate of 4% of the total income tax and surcharge.

Commencing from the assessment year 2024-25, co-operative societies electing the new tax scheme under Section 115BAE are granted an exemption from the payment of Alternative Minimum Tax (AMT). The co-operative society has been established and registered on or after April 1, 2023, and has initiated the manufacturing or production of an item on or before March 31, 2024. The qualifying co-operative society must opt in the specified manner by the deadline for submitting the initial income return under Section 139(1) for any prior year pertinent to the assessment year beginning on or after 01-04-2024. Upon the exercise of such an option, it shall be applicable to ensuing assessment years. The method of exercising the option shall be determined by the CBDT.

Moreover, if the Assessing Officer determines that the relationship between the co-operative society and another entity, or for any other reason, results in a business arrangement that yields the society more than the usual profit in calculating the profits and gains of the society for this section, the Assessing Officer shall consider the amount of profits that can be reasonably assumed to have been generated. If the aforementioned arrangement pertains to a designated domestic transaction, the profit amount from that transaction shall be assessed based on the arm's length price as defined in Section 92F. Profits exceeding the amount assessed by the Assessing Officer shall be considered the income of the co-operative society and taxed at a rate of 30%.

Cooperative societies were required to pay Alternate Minimum Tax at the rate of 18.5%. However, companies paid the same at the rate of 15%. To provide a level playing field between co-operative societies and companies, the rate for the cooperative societies has also been reduced to 15%. Co-operatives are limited liability entities, meaning that members have no direct responsibility for debts of the co-operative.

Illustration 1

XY Consumer Cooperative Society had the following income during the year ended 31.3.2024:

- ◆ Income from House Property Rs 11,000
- ◆ Income from merchandise business Rs 45,000
- ◆ Income from college canteen Rs 30,000
- ◆ Income from credit facilities given to members Rs 10,000
- ◆ Interest on debentures(Gross) Rs 11,000
- ◆ Interest on Government Securities Rs 24,000
- ◆ Dividend(gross) on shares held in another cooperative society Rs 6,000.

Compute the gross total income and total income of the society for the Assessment Year 2024-25.

Solution

Computation of Total Income of Society
for the Assessment Year 2024-25

	Amount	Amount
Income from House Property		11,000
Income from Business:		
Merchandise business	45,000	
College Canteen	30,000	
Credit facilities	10,000	85,000
Income from Other Sources:		
Interest on debentures	11,000	
Interest on Government Securities	24,000	
Dividend from Cooperative Society	6,000	41,000
Gross Total Income		1,37,000
Less: Deductions u/s 80P		
Income from credit facility	10,000	
Income from other business(Max upto Rs 50,000)	50,000	
Dividend from Cooperative Society	6,000	66,000
Total Income		71,000

Note: Gross Total Income does not exceed Rs 20,000. Hence income from house property and interest on securities are not deductible.

Illustration 2

The total income of a Cooperative Society is Rs 59,000. Compute tax liability of the Society for the Assessment Year 2024-25.

Solution

Computation of Tax Liability
for the Assessment Year 2024-25

	Amount	Amount
Taxable Income Rs 59,000		
Tax on first Rs 10,000 @ 10%	1,000	
Tax on next Rs 10,000 @ 20%	2,000	
Tax on the balance Rs 39,000@30%	11,700	14,700
Add: Surcharge		Nil
Add: Health and Education Cess @ 4%		588
Tax Payable		15,288
Rounded off Rs 15,290.		

Illustration 3

The following are the particulars of income of a Cooperative Society for the year 2023-24. Compute its total income and tax payable for the Assessment Year 2024-25.

- ◆ Rent received from house property Rs 50,000. Municipal tax paid Rs 2,000.
- ◆ Income from labour supply Rs 15,000.
- ◆ Long term capital gains on the transfer of plot Rs 30,000.
- ◆ Short term capital gains Rs 10,000.
- ◆ Interest on Government Securities Rs 45,000
- ◆ Interest on fixed deposits with Cooperative Bank Rs 30,000.
- ◆ Donation to Prime Ministers Relief Fund Rs 9,000 by cheque.

Solution

Computation of Total Income of Society
for the Assessment Year 2024-25

	Amount	Amount
Income from House Property:		
Gross Annual Value	50,000	
Less: Municipal tax paid	2,000	
Annual Value	48,000	
Less: Standard deduction equal to 30% of Annual Value	14,400	33,600
Income from Business:		
Labour Supply		15,000
Capital Gains:		

LTCG	30,000	
STCG	10,000	40,000
Income from Other Sources:		
Interest on Government Securities	45,000	
Interest on fixed deposit with Cooperative Bank	30,000	75,000
Gross Total Income		1,63,600
Less: Deductions:		
u/s 80G: Donation to Prime Ministers Relief Fund	9,000	
u/s 80P: Labour supply	15,000	
Interest on fixed deposits with Cooperative Bank	30,000	54,000
Total Income		1,09,600

Computation of Tax Payable
for the Assessment Year 2024-25

	Amount	Amount
Tax on LTCG Rs 30,000@20%		6,000
Tax on other income Rs 79,600:		
Tax on first Rs 10,000 @ 10%	1,000	
Tax on next Rs 10,000 @ 20%	2,000	
Tax on the balance Rs 59,600 @30%	17,880	20,880
		26,880
Add: Surcharge		Nil
		26,880
Add: Health and Education Cess @ 4%		1,075
Tax Payable		27,955
Rounded off Rs 27,960		

Illustration 4

S Cooperative Society has the following incomes for the year ended 31st March 2024. Compute taxable income and net tax liability of the Society for the Assessment Year 2024-25:

- ◆ Income from credit facilities to its members Rs 40,000.
- ◆ Dividends received from other Cooperative Society Rs 6,000.
- ◆ Interest received on securities listed in stock exchange Rs 5,400
- ◆ Interest on fixed deposits with another Cooperative Bank Rs 2,000

- ◆ Income from small scale industry Rs 1,50,000
- ◆ Rent received from House Property let out for residential purposes Rs 12,000. Following expenses in connection with house property let out debited to Profit and Loss Account of the industry: Municipal Corporation Tax paid Rs 1,200. Rent Collection Charges Rs 800. Repairs Rs 2,000. Fire insurance premium Rs 1,000.
- ◆ Taxable income from letting godowns for storage and processing of commodities Rs 6,000.
- ◆ Society donated by cheque Rs 8,000 to State Government for charitable purposes.

Solution

Computation of Taxable Income of Society for the Assessment Year 2024-25

	Amount	Amount
Income from House Property:		
Gross Annual Value	12,000	
Less: Municipal Tax paid	1,200	
Annual Value	10,800	
Less: Standard deduction @ 30%	3,240	
	7,560	
Taxable income from letting godowns	6,000	13,560
Income from Business:		
Income from small scale industry	1,50,000	
Add: Expenses of House Property debited to P& L account: (1200+800+2000+1000)	5,000	
	1,55,000	
Income from credit facilities to its members	40,000	1.95.000
Income from Other Sources:		
Dividends received from other Cooperative Society	6,000	
Interest on fixed deposits with another Cooperative Bank	2,000	
Interest received on securities listed in stock exchange (5400x100/90)	6,000	14,000
Gross Total Income		2,22,560
Less: Deductions:		
u/s 80G: 50% of QA of Rs 8,000	4,000	
u/s 80 P:		

Dividends received from other Cooperative Society	6,000	
Interest on fixed deposits with another Cooperative Bank	2,000	
Income from credit facilities to its members	40,000	
Income from letting godowns	6,000	
Other business(max upto Rs 50,000)	50,000	
	1,04,000	1,08,000
Taxable Income		1,14,560

Note: QA u/s 80G: 10% of (222,560-104,000)=10% of 118,560 or 11,856 or 8,000 whichever is less. ie 8,000.

Computation of Net Tax Liability
for the Assessment Year 2024-25

	Amount	Amount
Taxable Income Rs 114,560		
Tax on first Rs 10,000 @ 10%	1,000	
Tax on next Rs 10,000 @ 20%	2,000	
Tax on the balance Rs 94,560 @ 30%	28,368	
		31,368
Add: Surcharge	Nil	
Add: Health and Education Cess @ 4%		1,255
		32,623
Less: TDS on Interest on Securities		600
Net Tax Liability		32,023
Rounded off Rs 32,020.		

Illustration 5

From the following information relating to the income of a cooperative society for the year 2023-24. You are required to compute its total income and the amount of tax payable thereon for the Assessment Year 2024-25. The society is primarily engaged in the manufacturing of fruit products.

- a. Income from house property Rs 12,000.
- b. Income from collective disposal of the labour of its members Rs 15,000
- c. Income from manufacturing and marketing of fruit products Rs 82,000
- d. Income from other business Rs 80,000
- e. Long term capital gains Rs 30,000
- f. Interest on deposits with the Central Cooperative Society Rs 14,000

- g. Interest from Government Securities Rs 7,000.
 h. Donation by cheque to the National Children's Fund by cheque Rs 5,000.

Solution

Computation of Total Income of Cooperative Society
 for the Assessment Year 2024-25

	Amount	Amount
Income from house property		12,000
Income from Business:		
collective disposal of the labour of its members	15,000	
manufacturing and marketing of fruit products	82,000	
other business	80,000	1,77,000
Capital Gain:		
Long term capital gains		30,000
Income from other sources:		
Interest on deposits with the Central Cooperative Society	14,000	
Interest from Government Securities	7,000	21,000
Gross Total Income		2,40,000
Less: Deductions		
u/s 80G : 100% of Donations	5,000	
u/s 80 P:		
collective disposal of the labour of its members	15,000	
manufacturing and marketing of fruit products	82,000	
other business (Max upto Rs 50,000)	50,000	
Interest on deposits with the Central Cooperative Society	14,000	1,66,000
Total Income		74,000

Computation of Tax Payable
 for the Assessment Year 2024-25

	Amount	Amount
Tax on LTCG Rs 30,000@20%		6,000
Tax on other income (Rs 74000-30000)=Rs 44,000		
Tax on first Rs 10,000 @ 10%	1,000	



Tax on next Rs 10,000 @ 20%	2,000	
Tax on the balance Rs 24,000@30%	7,200	10,200
		16,200
Add: Surcharge		Nil
Add: Health and Education Cess @ 4%		648
Tax payable		16,848
Rounded off Rs 16,850.		

Illustration 6

Cooperative Society Ltd had the following income during the year ended 31st March 2024:

- ◆ Income from House Property Rs 5,000
- ◆ Income from canteen Rs 10,000
- ◆ Income from credit facilities given to members Rs 9,000
- ◆ Income from General Merchandise Business Rs 42,000
- ◆ Interest on Government Securities Rs 9,000
- ◆ Dividend on shares held in another society (gross) Rs 5,500

Compute the total income of the society for the Assessment Year 2024-25.

Solution

Computation of Total Income
for the Assessment Year 2024-25

	Amount	Amount
Income from House Property		5,000
Income from canteen		10,000
Income from credit facilities		9,000
Income from General Merchandise Business		42,000
Interest on Government Securities		9,000
Dividend on shares held in another society		5,500
Gross Total Income		80,500
Less: Deductions u/s 80 P		
Income from credit facilities	9,000	
Income from other business (max upto Rs 50,000)	50,000	
Dividend on shares held in another society	5,500	64,500
Total Income		16,000

Note: The income from house property and interest on securities

is not deductible because the gross total income is more than Rs 20,000.

Summarised Overview

A co-operative society is a registered entity under the Co-operative Society Act, 1912 or any other law in force in any state. The gross total income of a co-operative society is calculated using the procedures applicable to other taxpayers. Deductions are made under sections 80G, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IBA, 80-IC, 80-IE, 80JJA, 80JJAA, and 80P. Deductions under section 80P apply to the income of a co-operative society involved in specified business activities. For a co-operative society involved in activities not outlined in clause (a) or clause (b), profits and gains derived from such activities up to ₹ 50,000 shall be exempted from the gross total income. In the case of a consumer cooperative society, the deduction shall be ₹ 1,00,000 concerning the profits and gains from other activities. An urban consumer cooperative society is a society established for the advantage of consumers within the jurisdiction of a municipal corporation, municipality, notified area committee, town area, or cantonment. A co-operative bank does not qualify for a deduction under this section.

Tax rates applicable to co-operative societies include a 10% tax rate up to Rs 10,000, 20% tax rate from Rs 10,001 to Rs 20,000, and 30% tax rate above Rs 20,000. A Health and Education Cess of 4% is also imposed on income tax. Surcharge is levied @ 12% on the amount of income-tax where net income exceeds ₹1 crore, with marginal relief provided for individuals with a net income exceeding ₹1 crore. The Alternate Minimum Tax (AMT) is a tax system in India that requires non-corporate taxpayers to pay at least 15% of their adjusted total income. If a unit is in an IFSC and generates income exclusively in convertible foreign exchange, the AMT rate under section 115JF will be 9%. Resident co-operative societies can choose to be taxed at a rate of 22%, with a 10% surcharge and a 4% cess. This option cannot be withdrawn for the same or any prior year. The AMT credit calculation, carryover, and set off are inapplicable to these assesseees. The option to pay lower rates is available only if the total income is computed without claiming certain exemptions or deductions. Co-operative societies cannot claim set-off for carried forward losses or depreciation related to restricted exemptions or deductions in the assessment year in which the option is exercised.

The new tax scheme for new manufacturing co-operative societies (Sec. 115BAE) offers a preferential tax rate of 15% for income generated from non-manufacturing or production activities. This rate is only available if the total income is calculated without utilizing exemptions or deductions. The tax rate is augmented by a surcharge of 10% of the tax on total income and a health and education cess of 4%. Starting from the assessment year 2024-25, co-operative societies electing this scheme are granted an exemption from the payment of Alternative Minimum Tax (AMT). The qualifying co-operative society must opt in the specified manner by the deadline for submitting the initial income return under Section 139(1) for any prior year pertinent to the assessment year beginning on or after 01-04-2024. If the relationship between the co-operative so-



ciety and another entity results in a business arrangement yielding more than the usual profit, the Assessing Officer will consider the amount of profits reasonably assumed to have been generated. Profits exceeding the assessed amount are considered the income of the co-operative society and taxed at a rate of 30%.

Self-Assessment Question

1. How is the gross total income of a co-operative society calculated?
2. Under which circumstances does section 80P provide deductions for co-operative societies?
3. What is the Alternate Minimum Tax (AMT) and how does it apply to co-operative societies?
4. What is the tax scheme for new manufacturing co-operative societies and what is its tax rate?
5. Can co-operative societies claim set-off for carried forward losses when exercising the option for lower tax rates?
6. For the Assessment Year 2024-25, the Kannur Co-operative Society derived total income from the following sources

Income from processing with the aid of power	10000
Income from collective disposal of labour of its members	15000
Interest from another co-operative society (thrissur)	30000
Income from house property	20000
Income from other business	10000

Compute its taxable income and tax liability

7. The income of a Co-operative Society for Previous Year ending on 31st March, 2024 is as under:

Income from other business	5000
Income from processing the agriculture products of its members(without the aid of power)	6000
Income from fishing and allied activity	4000
Income from interest on securities (gross)	2500
Income from house property (computed)	23000

Compute the total income of the society and compute the tax payable by it for the assessment year 2024-25

8. The Kisan Urban Consumer's Co-operative Society, Ranchi received the following incomes for the year ending 31st March, 2024

1. Business profits	118000
2. Interest on fixed deposits:	
. From Central Co-operative Bank, Ranchi	3000
. From State Bank of India, Ranchi (Gross)	5000 8000
Rent from letting 1/2 portion of the building owned by the Society, Remaining 1/2 portion is used by the Society for its own business	3600
Profits from cottage industry	25000
Dividends on shares of X Ltd., an Indian Company (Gross)	2400

While computing Business Profits 400 for Municipal Taxes, 200 for Ground Rent and 400 for Insurance Premium were deducted in respect of the whole house. The Society had donated RS 5000 by cheque for the repairs of a place of historic importance which is not deducted in computing income.

9. A Co-operative Society has the following incomes during the year 2023-24:

Income from house property	10000
Income from book-shop	16000
Interest on securities (Gross)	16000
Dividend on shares of another co-operative society	26000
Compute the total income of the society for the Assessment Year 2024-25	

Assignments

1. Explain co-operative society according to the Co-operative Society Act, 1912.
2. Point out the deductions made from the income of a co-operative society.
3. Mention the preferential tax rate offered to new manufacturing co-operative societies under



Suggested Reading

1. Mehrotra, H. C., & Goyal, S. P. (2024). *Income tax law & accounts* (65th ed.). Sahitya Bhawan Publications.
2. Ahuja, G., & Gupta, R. (2024). *Direct taxes law & practice* (16th ed.). Bharat Law House Pvt. Ltd.
3. Manoharan, T. N., & Hari, G. R. (2025). *Direct tax laws & international taxation* (16th ed., Vols. 1-2). Snow White Publications Pvt. Ltd.

Reference

1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes*. Bharat Law House Pvt. Ltd
4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
6. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya Bhawan Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU



Unit 2

Trust

Learning Outcomes

After completing the unit, the learner will be able to:

- ◆ get an idea on the fundamental concept of trusts
- ◆ distinguish between various types of trust?
- ◆ get an awareness on the condition under which the income of charitable or religion trusts qualifies for tax exemption under the income tax act

Background

The history of charitable trusts dates back to the 18th century, with settlement houses and the International Federation of Settlements and Neighborhood Centers being established in the late 19th and early 20th centuries. These irrevocable trusts donate assets to charitable organizations and provide tax savings. The Indian concept of trust laid the foundation for a system of detailed rules of law, with courts playing a crucial role until 1882. Charitable and religious trusts in India are crucial for societal welfare, education, and religious activities. They address various societal needs and causes, such as health-care, education, environmental preservation, women and child welfare, relief efforts, and cultural heritage preservation. Establishing a charitable trust requires navigating complex legal frameworks, understanding tax implications, and effective management. Trusts provide medical facilities, health camps, and funding for disease research, assisting disadvantaged segments of society. They also establish schools, colleges, and scholarship programs to eliminate educational inequalities. Trusts also promote environmentally responsible practices and information dissemination. They also support relief efforts during crises and preserve India's cultural heritage, supporting arts, crafts, and traditional practices.

Keywords

Charitable Trust, Religious Trust, Accumulated income, Anonymous Donation

Discussion

4.2.1 Definition of trust and Amendment of the definition of business trust [Sec. 2(13A)]

The term 'Trust' is not defined in the Income Tax Act. Section 3 of the Indian Trusts Act, 1882 defines a trust as an obligation associated with property ownership, resulting from the confidence placed in and accepted by the owner, or declared and accepted by the owner for the benefit of another party, or both the owner and another party.

◆ Obligation associated with property ownership

The person who reposes the confidence is called the 'author of the trust'.

The person who accepts the confidence is called the 'trustee'.

The person for whose benefit the confidence is accepted is called the 'beneficiary'. The subject matter of the trust is called 'trust property' or 'trust-money'.

The instrument, if any, by

which the trust is declared is called the 'instrument of trust.'

Section 115UA of the Act establishes a taxation framework for business trusts. Under the specified regime, the total income of the trust, excluding capital gains, is taxed at the maximum marginal rate. Moreover, the income derived from interest and rent received by the business trust from a special purpose vehicle (SPV) is granted pass-through treatment, meaning such interest or rental income is not subject to taxation at the trust level. Additionally, business trusts must submit income tax returns and comply with other reporting obligations.

Section 115UA(1) shall not be applicable to any amount specified under Section 56(2)(xii) received by a unit holder from a business trust.

◆ Equivalent tax treatment

Clause (13A) of section 2 of the Act defines a Business Trust as a trust registered as an Infrastructure Investment Trust (InvIT) or a Real Estate Investment Trust (REIT) in accordance with the pertinent regulations established under the Securities and Exchange Board of India (SEBI) Act, 1992.

Private unlisted Infrastructure Investment Trust should receive equivalent tax treatment to that of public listed Infrastructure Investment Trust as stipulated by the Act.

Under the noble lineage of Jamsetji Tata, a number of trusts have been established over the years – the largest being the Sir Ratan Tata Trust and Sir Dorabji Tata Trust, which operate under the umbrella of the Tata Trusts. Donations made to charitable trusts in India are eligible for tax benefits.

4.2.2 Establishment of trust

A trust can be established by any individual who possesses the capacity to contract. Section 7 of the Indian Trusts Act, 1882 To establish a valid trust, both the income generated from a property or asset and the asset itself must be transferred (Section 60). Moreover, the asset transfer must be irrevocable (Section 61).

4.2.3 Types of Trusts

► Public and Private Trust

Public trust is established for the advantage of either the general populace or a significant segment of it that meets a specific criterion. A trust established for charitable purposes is typically classified as a public trust. In a private trust, the beneficial interest is irrevocably assigned to one or more individuals who are, or may be within a specified timeframe, clearly identifiable. The term of a private trust cannot be prolonged by the settlor's will beyond the lifespan of the beneficiaries. A public trust serves the interests of a variable and unstable group, while the trust itself possesses a permanent and indefinite nature.

- ◆ To meet specific criterion

► Public-cum Private Trusts

Religious trusts frequently exhibit a dual nature of public and private trust. The trust property may constitute a public trust. However, there may be revenue from public offerings, from which a portion may be allocated for public purposes and another portion may be directed to private individuals responsible for the location. This trust concerning the income allocated to private individuals is classified as a private trust.

- ◆ Income allocated to private individuals

► Absolute and Discretionary Trust

A trust that allocates the income from property for the benefit of a specific individual or entity, in a manner deemed appropriate by the trustees, constitutes an absolute trust for that individual or entity. A trust designated to allocate the entirety or a portion

◆ Benefit for a specific individual

of the income for a specific purpose benefiting an individual, yet limited to the amount necessary for that purpose. If the trustees are granted discretion regarding the amount to be allocated, they may exercise that discretion by capping the amount, thereby rendering the trust discretionary.

◆ Individual income

► Trust for the benefit of Spouse or Son's Wife

If an individual transfers assets, directly or indirectly, to any person or association of persons, and the income derived from such assets benefits the individual's spouse or son's wife, that income shall be considered part of the individual's income. Section 64(1)(vii) and (viii)

◆ Not having written instrument

► Oral Trust

An oral trust is defined as a trust that is not established through a properly executed written instrument. When the trustee receives or is entitled to receive any income on behalf of or for the benefit of any individual under an oral trust, such income shall be taxed at the maximum marginal rate. Section 164 A.

◆ Voluntary contributions shall be excluded

► Electoral Trust

Voluntary contributions received by an electoral trust shall be excluded from the trust's total income of the preceding year if: (i) it distributes 95% of the total donations received during the preceding year, along with any surplus carried forward from prior years, to any registered political party during that year, and (ii) it operates in compliance with regulations established by the Central Government (Section 13B).

4.2.4 Certain Charitable Trusts or Funds [Sec. 10 (23C)]

The income of the following funds or trusts is fully exempt:

- i. The Prime Minister's National Relief Fund; or the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND); or
- ii. The Prime Minister's Fund (Promotion of Folk Art); or
- iii. The Prime Minister's Aid to Student Funds; or
 - (iiia) The National Foundation for Communal Harmony; or
 - (iiiaa) The Swachh Bharat Kosh set-up by the Central Government; or
 - (iiiaaa) The Clean Ganga Fund set-up by the Central Government; or

(iiiiaaa) The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund; or

(iiiab) Any university or educational institution established exclusively for educational objectives and not for profit, which is entirely or predominantly funded by the Government; or

(iiiac) A hospital or institution designated for the reception and treatment of individuals with illnesses or mental disabilities, as well as for those in convalescence or requiring medical care or rehabilitation, that operates exclusively for philanthropic purposes without profit motives and is primarily funded by the Government.

All trusts have a grantor, sometimes called a settler or trustor. This is the person who creates the trust and is the one who has the legal capacity to transfer property held under the trust. When this person dies, he is called the decedent. The assets in the trust are supplied by the grantor.

"Substantially financed by the Government" indicates that the Government grant surpasses fifty percent of the total revenue, including voluntary contributions, of the university, etc.; or

(iiiad) Any university or educational institution established exclusively for educational purposes and not for profit, provided that the total annual revenue from such university or universities or educational institution do not exceed 5 crore.

(iiiiae) Any hospital or institution dedicated to the reception and treatment of individuals afflicted with illness or mental deficiencies, or for the care of individuals during convalescence or those requiring medical attention or rehabilitation, established exclusively for philanthropic purposes and not for profit, provided that the total annual receipts from such hospital or hospitals or institution or institutions do not exceed 5 crore;

- iv. Any additional fund or institution created for charitable objectives that may receive approval from the Principal Commissioner or Commissioner, considering the fund or institution's aims and its significance across India or within specific States.
- v. Any trust or institution established exclusively for public religious purposes or for public religious and charitable

purposes, which may receive approval from the Principal Commissioner or Commissioner, based on the administration and oversight of the trust or institution to ensure the appropriate application of its income towards its objectives.

- vi. Any university or educational institution established exclusively for educational objectives and not for profit, aside from those specified in (iiiab) or (iiiad), and which may receive approval from the Principal Commissioner or Commissioner;

(via) Any hospital or institution designated for the reception and treatment of individuals afflicted with illness or mental deficiencies, or for the care of individuals during convalescence or those necessitating medical attention or rehabilitation, established exclusively for philanthropic purposes and not for profit, aside from those specified in (iiiac) or (iii ae), and subject to approval by the Principal Commissioner or Commissioner.

Other Provisions

1. Any anonymous donation subject to tax under section 115 BBC shall be incorporated into total income.
2. Provisions applicable in case of assessee referred to in (iv), (v), (vi) or (via):
 - a. The assessee utilizes its income or retains it solely for the purposes for which it was established.
 - b. If more than 15% of its income is accumulated, the accumulation period for the amount exceeding 15% shall not exceed five years, and such amount must be deposited or invested as stipulated.
 - c. Profits and gains from business activities shall not be exempt unless the business is ancillary to the achievement of its objectives and distinct accounting records are maintained for such activities.
 - d. If the total income surpasses the maximum non-taxable amount for any previous year, without applying the exemption under section 10(23C), the entity must have its accounts audited for that year and submit the audit report in the specified format electronically along with the income tax return.
 - e. Payments made by the assessee to any fund or trust mentioned in (iv), (v), (vi), or (via), or to a trust or institution registered under sections 12AA or 12AB from its accu-



culated income shall not be considered as an application of income for the purposes for which it was established.

- f. If the assessee disburses any amount or credits it to the account of any trust or institution registered under section 12AA or section 12AB from its income, as a voluntary contribution with explicit instructions that it shall constitute part of the trust or institution's corpus, it shall not be regarded as an application of income towards the purposes for which it was established.

Account Maintenance and Auditing

1. Applicability: Fund, Institutions, Trust, any University, other Educational Institution, any Hospital, other Medical Institution.
2. Condition: Total income prior to claiming exemption under sections 10(23C)/11/12 surpasses the maximum amount not subject to taxation in any Previous Year.
3. Accounts and Audit: Specified Institution shall:
 - a. Maintain and preserve books of account and other documents in the specified form, manner, and location.
 - b. Obtain an audit of its accounts for that year by an accountant under section 288(2), prior to the deadline stipulated in section 44AB, and submit the audit report in the prescribed format, duly signed and verified by the accountant, containing the required particulars within the specified due date.

The specified date refers to the date one month before the due date for submitting the income return under section 139(1). The provisions concerning Trusts are applicable to Institutions under section 10(23C).

Trustees who have once entered upon the trust can't renounce their duties and liabilities except with the permission of the Court or with the consent of the beneficiaries or by the authority of the trust deed itself. Nor can trustees delegate their offices or any of their functions except in some specified cases - Supreme Court

- i. Income accumulation of up to 15%.
- ii. Taxation of Accumulations.
- iii. Obligation to submit Income Tax Return for the Previous Year under section 139(4C), within the stipulated deadline.

◆ Object of general public utility

4.2.5 Charitable or religious trust Sec 2(15)

Charitable purpose includes (i) relief of the poor, (ii) education (iia) yoga, (iii) medical relief, (iv) preservation of environment (including watersheds, forests and wildlife), (v) preservation of monuments or places or objects of artistic or historic interest and (vi) the advancement of any other object of general public utility. Promotion of sports and games is also a charitable purpose.

Any object of general public utility shall not qualify as a charitable purpose if it entails engaging in activities akin to trade, commerce, or business, or providing services related to trade, commerce, or business for a fee, cess, or any other form of consideration, regardless of the nature of the use, application, or retention of the income derived from such activities, unless:

- i. Such activity is conducted during the execution of the advancement of any other objective of general public utility; and
- ii. The total revenue from such activities in the preceding year must not surpass 20% of the overall revenue of the trust or institution for that year.

Religious Purpose: Religious purposes include the advancement, support or propagation of any religion and its doctrines. In the eyes of law all religions are equal. Gifts for public religious purposes are prima facie gifts for charitable purposes.

Other Legal Obligation: The word 'trust' as used in sections 11 to 13 of the Act includes 'any other legal obligation'. The term 'other legal obligation' has not been defined in the Act, but it is wide enough to cover: (1) Muslim wakfs; (ii) Hindu endowments; (iii) a Math; (iv) dedication to a Deity; (v) Property held by manager of Gurudwara; (vi) where trustees of a settlement are to pay the income to other trustees who in their turn are bound to apply it for purposes which are religious or charitable, etc.

4.2.6 Exempted Incomes (Sec 11)

The following incomes shall not be included in the total income of some charitable or religious trusts:

1. Income from property held in a trust exclusively for charitable or religious purposes, to the extent that it is utilized in India.
2. Income derived from property held in a trust (established prior to April 1, 1962) that is partially allocated for charitable or religious purposes, to the extent that it is utilized for such purposes in India during the preceding year.



◆ Exclusively utilized,
partially allocated,
vested interest,

3. Revenue generated from property maintained to advance International Welfare, in which India has a vested interest, provided that such revenue is utilized for these purposes outside of India.
4. Income of a trust from voluntary contributions which shall form part of the corpus of the trust or institution.

4.2.7 Voluntary contribution for renovation of places notified u/s 80G(2)(b) [Sec. 10(23C)/11]

1. **Applicability:** Property maintained by a trust or institution exclusively for Public Religious and Charitable purposes encompasses any temple, mosque, gurudwara, church, or other location designated under section 80G(2)(b).
2. **Receipt:** Voluntary contribution received for the renovation or repair of the specified location.
3. **Option:** This receipt may, at the discretion of the party, be considered as part of the trust or institution's corpus.
4. **Conditions:** Trust/Institution:
 - a. utilizes the corpus solely for its intended purpose,
 - b. refrains from using the corpus to make contributions or donations to any individual,
 - c. preserves the corpus as distinctly identifiable.
 - d. invests or deposits the corpus in the forms and methods delineated under section 11(5).
5. **Violation of Conditions:** The receipt shall be considered the income of the institution for the Previous Year in which the violation occurs.
6. **Capital gains:**
 - a. If a capital gain arises from the transfer of a capital asset held exclusively for charitable or religious purposes, and the entire net sale consideration is employed to acquire a new capital asset for the same purpose, the capital gain will be entirely exempt. If only a portion of the net sale proceeds is employed to acquire the new capital asset, only the surplus of the new asset's cost over the old asset's cost will be exempt. If a capital asset valued at ₹ 40,000 is sold for ₹ 65,000 and a new capital asset is purchased for ₹ 65,000 or more, the total capital gain of ₹ 25,000 will be exempt from taxation. If the new capital asset is purchased for ₹ 50,000, the capital gain will be exempt up to ₹ 10,000.
 - b. If a capital gain arises from the transfer of a capital asset

held partially for charitable or religious purposes, and the entire net sale consideration is reinvested in acquiring a new capital asset for the same purposes, then the proportion of the capital gain corresponding to the extent of the old asset's use for charitable or religious purposes will be exempt from taxation. If only a portion of the net sale consideration is employed to acquire a new capital asset for identical purposes, we must first determine the proportion of the total capital gain attributable to the old asset's use for charitable or religious purposes. Subsequently, only that portion of the capital gain, which corresponds to the difference between the first proportion of the new asset's cost and the same proportion of the old asset's cost, will be exempt.

No trustee and no person who has recently ceased to be a trustee, may, without the permission of a principal Civil Court of original jurisdiction, buy or become mortgagee or lessee of the trust-property or any part thereof;

7. Income from voluntary contributions, excluding those designated to be part of the trust's corpus, received by a trust established exclusively for charitable or religious purposes shall be exempt from taxation, contingent upon compliance with the utilization requirements and restrictions outlined in sections 11 and 13. Section 12(1)
8. Income from medical or educational services [Sec. 12(2)]: The worth of medical or educational services rendered by any charitable or religious trust operating a hospital, medical institution, or educational institution to individuals specified in section 13(3)(i) to (v) shall be considered the trust's income for the relevant previous year in which these services are provided and shall be subject to income tax.
9. If a trust utilizes less than 85% of its income for charitable purposes in any accounting year, whether due to unrecognized income or other reasons, the shortfall may be deemed utilized for charitable purposes in the year of actual receipt or the subsequent year, at the assessee's discretion. Consequently, the income will be considered as having been used for charitable purposes in the year it was derived, and the corresponding exemption will be granted.

To achieve this, the option must be exercised in writing using Form 9A on or before the deadline for filing the income return

under section 139(1).

4.2.8 Accumulation of Income [Sec. 11(2)]

- ◆ Need not be allocated within the same year

The entirety of income generated in a given year need not be allocated for charitable or religious purposes within that same year. Tax exemption remains applicable even if 85% of the income is utilized within the relevant accounting year, provided that no more than 15% is retained for future use.

4.2.9 Application of Income

- ◆ Inter charity donations

The Finance Act, 2023 stipulates that commencing from the assessment year 2024-25, inter-charity donations will be regarded as an application only to the extent of 85% of the donation amount. When a charitable trust contributes funds to another trust, the donor trust can be considered to have allocated its income for religious and charitable objectives. Only 85% of the eligible donations from a trust or institution registered under Section 12AB to another trust or institution registered under Section 12AB or sanctioned under Section 10(23C) shall be considered as the application of income.

- ◆ Electronic Submission

1. Donations from a trust or institution to another trust or institution will be considered as applications for charitable or religious purposes only up to 85% of the total donations. When a trust or institution donates ₹100 to another trust or institution, it will be deemed to have allocated 85% (₹85) for charitable or religious purposes. It is clarified that 15% of such donations by the donor trust/institution is exempt from investment in specified modes under Section 11(5) of the Act, as the total amount of 100 has been donated to another trust/institution and is thus eligible for exemption.
2. Form for Additional accumulation over and above the threshold limit [Rule 17]: To exclude the additional accumulation exceeding the threshold limit of 15% from the total income for any Previous Year relevant to the Assessment Year commencing on or after 1.4.2016, Form 9A must be submitted at least two months before the due date prescribed under section 139(1) for filing the Return of Income.
3. Statement to be furnished: A Statement in Form No. 10 must be submitted to the designated Authority at least two months before the deadline for submitting the Return of Income.
4. Manner of furnishing: The specified Form and Statement must be submitted electronically, either with a Digital Signature or through EVC.

5. Procedures to be specified: The PDGIT (Systems) or the DGIT (Systems) shall:
 - a. Outline the procedures for submitting the aforementioned Form and Statement,
 - b. Define the data structure, standards, and method for generating the electronic verification code for the verification of the individual submitting the specified Forms, and
 - c. Assume responsibility for developing and executing suitable security, archival, and retrieval policies concerning the submitted Form.

4.2.10 Deemed Application

1. Any payable sum shall be regarded as an application of income in the Previous Year in which it is actually disbursed, regardless of the Previous Year in which the obligation to pay was incurred according to the accounting method consistently employed.
2. If a sum has been claimed as applied in any Previous Year, it shall not be permitted as an application in any subsequent Previous Year. If over 15% of the income is reserved for future use, the surplus beyond 15% must be invested or deposited as specified under [u/s 11(5)] to obtain full exemption:
 - i. Investment in Savings Certificates and any other securities or certificates issued by the Central Government under the Small Savings Scheme.
 - ii. Deposit in any account with the Post Office Savings Bank.
 - iii. Deposit in any account with a Scheduled Bank or a Co-operative Society engaged in carrying on the business of banking.
 - iv. Investment in units of the Unit Trust of India.
 - v. Investment in any security issued by the Central Government or any State Government.
 - vi. Investment in debentures issued by any company or corporation, with both principal and interest fully guaranteed by the Central or State Governments.
 - vii. Investment or deposits in any Public Sector Company.
 - viii. Investment in bonds issued by a Financial Corporation that provides long-term financing for industrial development in India, qualifying for deduction under section 36(1)(viii).



◆ Unspent amount

- ix. Investments in bonds issued by a public company established and registered in India, primarily engaged in providing long-term financing for the construction or acquisition of residential properties in India, eligible for deduction under section 36(1)(viii).
- x. Investments in bonds issued by a public company established and registered in India, primarily aimed at providing long-term financing for urban infrastructure in the country.
- xi. Investment in immovable property.
- xii. Deposits with the Industrial Development Bank of India.
- xiii. Any other form or mode of investment or deposit as may be prescribed.

Under (xii) investment in Sovereign Gold Bond Scheme has been notified (vide notification dated 23.3.2016).

Consequently, all charitable trusts and institutions must allocate their funds as specified; failure to do so will result in the loss of their income tax exemption rights.

Note: It is important to note that to claim exemption it is enough to invest or deposit, as provided in section. 11(5), only that part of the unspent balance which was over and above 15% of the total income derived from the property held under trust.

In addition to the aforementioned investment or deposit, the trustee or trustees or manager of the trust must provide a statement in the designated Form 10 [at least two months before the due date outlined in Section 139(1) for submitting the income return for the preceding year] to the Assessing Officer, detailing the purpose of the income accumulation and the duration of such accumulation. The accumulation period shall not exceed five years under any circumstances. Revenue generated from assets designated for charitable or religious objectives Accumulations will be classified as Income for the Trust under the following circumstances:

Table 4.2.1

	Income	Taxable in Previous Year
a	Income allocated for non-charitable or non-religious purposes.	in which such a default arises
b	Income that is no longer designated or reserved for charitable or religious purposes	where it is improperly utilized or fails to accumulate or be designated

- | | | |
|---|--|---|
| c | Income that is no longer invested or deposited in the specified methods under section 11(5) | when it no longer remains invested or deposited in the designated methods |
| d | Income not employed for its intended purpose during the designated period or in the subsequent year following its conclusion. | the final preceding year of the period during which the income is accrued or allocated but not employed for that purpose |
| e | Income paid or credited to: | to which it is allocated or disbursed to any fund, institution, trust, university, educational institution, hospital, or medical institution. |
| | <ul style="list-style-type: none"> ◆ other Trusts/Institution registered u/s 12AA/12AB, ◆ Fund/Institution/Trust/University/Educational Institution/Hospital/Medical Institution covered u/s 10(230)(iv)(v)/(via). | |

4.2.11 Impact of Improper Utilization of Accumulated Income or Withdrawal of Investment or Deposit from Eligible Investments or Deposits Section 11(3)

◆ Not having written instrument

1. If the income of the accumulated trust is employed for non-charitable or non-religious purposes, or if the income ceases to be accumulated for designated charitable purposes, it will be considered the income of the charitable trust or institution for the accounting year in which it is applied or ceases to be accumulated.
2. If the accumulated income is no longer invested in any of the aforementioned securities or deposits, or if, even after the accumulation period concludes, the income is not utilized for its intended purposes, the total accumulated amount shall be considered the income of the trust for the accounting year immediately succeeding the accumulation period or the year in which the misappropriation or withdrawal of the investment occurs.
3. Any disbursement or credit from accumulated income to any trust or institution registered under section 12AA, or to

any fund, institution, trust, university, educational institution, hospital, or medical institution as referenced in section 10(23C)(iv), (v), (vi), (via), whether during the accumulation period or subsequently, shall not be considered an application of income for charitable or religious purposes and will be subject to taxation accordingly.

4. Any amount credited or disbursed from the income specified in (1) or (2) to another trust or institution registered under section 12AA, designated as a contribution to be included in the corpus of the trust or institution, shall not be regarded as an application of income for charitable or religious purposes.

4.2.12 Exception regarding Utilization of Accumulations [Sec. 11(3A)]

If circumstances beyond the control of the income recipient prevent the application of accumulated and invested income for its intended purposes, the Assessing Officer is authorized, upon receiving a specific application, to permit the charitable trust or institution to allocate its accumulated income for alternative charitable or religious purposes in India, as outlined in the trust's application and consistent with its objectives. Consequently, the trust is now permitted to maintain its tax exemption while simultaneously allocating its income to charitable purposes beyond those for which the accumulation was originally intended.

◆ Consistent with objectives

Nonetheless, the Assessing Officer shall not permit the application of accumulated income through payment or credit to an individual specified in point (3) under section 11(3) upon an application by the assessee pursuant to section 11(3A). In the event that the trust or institution, which has invested or deposited its income as stipulated in section 11(5), is dissolved, the Assessing Officer may permit the application of income as referenced in point (3) under section 11(3) during the year of dissolution.

4.2.13 Taxation of Business Income [Sections 11(4) and 11(4A)]

The income generated by a trust from business activities shall not be exempt unless the business is ancillary to the trust's objectives and distinct financial records are kept for that business. If business income is asserted to be exempt under section 11, the Assessing Officer will ascertain the income of the undertaking, and if the determined income exceeds that reflected in the undertaking's accounts, the excess will be subject to taxation.

◆ Not having written instrument

If, in any given year, the total business receipts surpass 20%

of the trust or institution's overall receipts, the tax exemption will be revoked for that year.

4.2.14 Incomes not Exempt (Sec 13)

The following income of these trusts or institutions shall be included in the total income (i.e., they will not be exempt):

- a. Any portion of the income derived from property held in trust for private religious purposes.
- b. For a trust established for charitable purposes or a charitable institution initiated on or after April 1, 1962, any income generated by the trust shall be applicable if the trust or institution is designated for the benefit of a specific religious community or caste. Nonetheless, a trust or institution established for the benefit of Scheduled Castes, Backward Classes, Scheduled Tribes, or women and children shall not be considered a trust or institution created for the benefit of a religious community or caste. Therefore, the exemption shall not be refused.
- c. In the instance of a trust or institution established for charitable or religious purposes, any income generated by such trust or institution, created after 31st March 1962, shall be subject to scrutiny if, according to the terms of the trust or the governing rules of the institution, any portion of that income is, during the preceding year, utilized directly or indirectly for the benefit of any of the following individuals:
 - i. the author of the trust or the founder of the institution;
 - ii. substantial contributor to the trust or institution, i.e., of more than Rs 50,000 upto the end of the relevant previous year;
 - iii. where such author, founder or contributor is a Hindu undivided family, a member of the family,
 - iv. any trustee of the trust or manager of the institution;
 - v. any relative of such author, founder, contributor member, trustee or manager;
 - vi. any concern in which any of the aforesaid persons has a substantial interest.

◆ Purview of Scrutiny

◆ Adherence to Compulsory Provisions

For a trust or institution established before April 1, 1962, if the utilization of the trust income adheres to a compulsory provision within the trust's terms or the institution's governing rules, its income shall be excluded from the Total Income and will qualify for exemption under section 11.



- d. In the instance of a trust established for charitable or religious purposes, or a charitable or religious institution, any income generated is not exempt if, at any time during the preceding year:
 - i. They invest or deposit their funds in forms and modes not specified in section 11(5); or
 - ii. They possess shares in companies other than (A) shares in a public sector company; (B) shares designated as a form or mode of investment under section 11(5)(xii).

In the context of a charitable trust, only income derived from investments or deposits that contravened section 11(5) is subject to taxation, and such a violation under section 13(1)(d) does not equate to a denial of exemption under section 11 on the total income of the assessing trust.

4.2.15 Income deemed to have been used for the Benefit of the Founder, etc. of the Trust [Sec. 13(2)]

In the subsequent instances, it shall be considered that the income/property has been utilized or allocated for the advantage of the individuals specified in clause (c) of Sec. 13 above:

◆ Allocated for the advantage of the individuals

- i. If it is loaned to such an individual for any duration during the preceding year without sufficient collateral, interest, or both.
- ii. If any land, building, or property of the trust is provided for the use of any individual for any duration during the preceding year without the imposition of sufficient rent or compensation.
- iii. If any remuneration is disbursed to such an individual that exceeds what is reasonably justifiable for the services rendered.
- iv. If the services of the trust/institution are provided to such individuals without sufficient remuneration or compensation.
- v. If any asset is acquired by or on behalf of the trust from such individual for consideration that is excessive.
- vi. If any asset is sold by or on behalf of the trust to such individual for consideration that is insufficient.
- vii. If any income or property of the trust, exceeding ₹1,000, is diverted during the preceding year in support of such an individual.

- viii. If any trust fund is or remains invested for any duration during the preceding year in any entity in which such individual has a substantial interest.

4.2.16 Deemed Income

◆ Income of specified institution

1. If any income or portion of income or property of the designated institution has been utilized, directly or indirectly, for the benefit of any individual mentioned under section 13(3), such income or portion of income or property shall, after considering the provisions of sections 13(2), (4), and (6), be regarded as the income of the specified institution for the previous year in which it was applied.
2. From 1.4.2022 onwards, any fund or institution specified under sections 10(23C)(iv)/(v)/(vi)/(via) that is notified under section 10(46) will have its approval or provisional approval rendered inoperative from the date of notification under section 10(46).

4.2.17 Filing of Return [Sec. 139(4A)]

◆ Exceed non taxable limit

If the total income of a charitable or religious trust (excluding the provisions of sections 11 and 12) surpasses the non-taxable maximum limit, it must submit a return of such income in the designated format by 31st October of the assessment year. Income must derive from property held in trust for charitable or religious purposes or from voluntary donations.

4.2.18 Computation of Tax

◆ Rates based on total income

If a trust holds property exclusively for charitable or religious purposes, but the income is neither distributed nor considered distributed for those purposes, it will be subject to taxation. The tax shall be calculated as though the unutilized portion of the trust's income were the income of a collective entity. The tax rates will adhere to the standard slab rates based on the total income amount. If a trust holds property exclusively for charitable or religious purposes but allocates a portion of its income to individuals specified in section 13(3) or invests its funds in a manner not permitted by section 11(5), a tax of 30% shall be imposed on that portion of the income.

If property is held in trust partially for charitable or religious purposes, and any portion of the income designated for non-charitable or non-religious purposes is not specifically allocated to an individual or the beneficiaries' shares in that income are indeterminate or unknown, the tax payable shall be the greater of the following two amounts:

1. The tax applies to the entirety of non-exempt incomes, as though it were the aggregate income of a collective entity.
2. The total of:
 - a. The income tax relevant to charitable or religious purposes that is not exempt, treated as if it were the total income of a collective entity.
 - b. The tax on the portion of income designated for non-religious or non-charitable purposes, where the beneficiaries' shares are indeterminate or unknown, will be 30%.

4.2.19 Tax on Anonymous Donations (Sec. 115BBC)

◆ Record of donors identity

Anonymous donation refers to any voluntary contribution in which the recipient does not retain a record of the donor's identity, including their name, address, and other specified details.

In cases where the total income of an assessee, who is an individual receiving income on behalf of:

- a. any university or other educational institution; or
- b. any hospital or other institution; or
- c. any fund or institution; or
- d. any trust or institution; or
- e. any trust or institution.

includes any income by way of any anonymous donation, the income tax payable shall be the aggregate of:

- i. tax@30% on the aggregate of anonymous donations received in excess of the higher of the following namely:
 - A. 5% of the total donations received by the assessee, or
 - B. Rs 1 lakh; and
- ii. The tax that the assessee would have incurred if their total income had been diminished by the total of anonymous donations exceeding the amounts specified in (A) or (B), as applicable.

◆ Religious and Charitable purposes

Exceptions. The aforesaid provision shall not apply to any anonymous donation received by:

- a. any trust or institution created or established wholly for religious purposes;
- b. any trust or institution created or established wholly for religious and charitable purposes.

Any anonymous donation designated for a university, educational institution, hospital, or medical institution operated by a trust or institution shall not qualify for the benefit of the exception.

It is mandatory for all trusts to e-file income tax return. In case the Trust is required to get its accounts audited, then the income tax return must be e-filed along with the Digital Signature of the Chartered Accountant who is responsible for carrying out the audit.

4.2.20 Tax on Specified Income of (NPOs Chargeable to Tax by Charitable Trusts/Institutions (Sec. 115BBI)

1. Rate of tax on Specified Income: Specific income of a trust or institution benefiting from exemption under the old regime (Sec. 10(23C)) or the new tax regime (Sec. 11) shall be subject to taxation at a rate of 30%.
2. No deduction for expenditure or allowance: Moreover, no deductions for any expenditures, allowances, or loss set-offs shall be permitted under any provisions of the Income Tax Act, 1961 when calculating specified income.
3. Meaning of "Specified Income": "Specified income" means:
 - a. income accumulate or set apart in excess of 15% of the income, where such accumulation is not allowed under any specific provisions of the Income Tax Act, 1961, or
 - b. deemed income referred to in section 10(23C) or section 11(3)/11(1B), or
 - c. any income not exempt under section 10(23C) due to a breach of section 10(23C)(b) or not excluded from total income under section 13(1)(d) or
 - d. any income classified as income under section 10(230) or not exempted from total income under section 13(1)(c), or
 - e. any income which is not excluded from the total income under section 11(1)(c).

Any trustee must sign the PAN card form. If he or she is unable to do so, the form requires a left thumb impression. Creating a PAN card for your trust entity is required to undertake financial transactions in India.



Illustration 1

During the Previous Year 2023-24, a charitable trust received income of Rs 7,00,000 from property held for charitable purpose and Rs 2,50,000 from voluntary contributions. The trust utilized the amount during the Previous Year 2023-24 as under:

- ◆ Spent for charitable purpose outside India Rs 40,000.
- ◆ Spent for charitable purpose in India Rs 2,00,000.
- ◆ Spent on addition to hospital building for charitable purposes Rs 4,00,000.
- ◆ Income tax paid for the Assessment Year 2022-23 Rs 15,000

Compute the taxable income of the trust. The trust has not applied for the option under explanation to section 11((1)).

Solution

Computation of Taxable Income of the Trust
for the Assessment Year 2024-25

	Amount	Amount
Income from Property		7,00,000
Voluntary contributions		2,50,000
		9,50,000
Less: 15% set apart for future		1,42,500
		8,07,500
Less: Amount utilized for charitable purposes and exempt u/s 11:		
Spent for charitable purpose outside India	---	
Spent for charitable purpose in India	2,00,000	
Addition to hospital building for charitable purposes	4,00,000	
Income tax paid	15,000	6,15,000
Taxable Income		1,92,500

Illustration 2

During the previous year a Charitable Trust earned an income of Rs 4,00,000 from property held for charitable purpose and Rs 4,00,000 from voluntary contributions. The Trust utilized the amount during the previous year as under:

- ◆ Spent for charitable purpose outside India Rs 35,000.
- ◆ Spent for charitable purpose in India Rs 2,50,000.
- ◆ Repaid the loan for construction of building for charitable purposes Rs 3,50,000.

Compute the taxable income of the trust.

Solution

Computation of Taxable Income of the Trust
for the Assessment Year 2024-25

	Amount	Amount
Income from Property		4,00,000
Voluntary contributions		4,00,000
		8,00,000
Less: 15% set apart for future		1,20,000
		6,80,000
Less: Spent for charitable purpose outside India	---	
Spent for charitable purpose in India	2,50,000	
Repayment of loan for construction of building	3,50,000	6,00,000
Taxable Income		80,000

Illustration 3

From the following information compute the amount of capital gains utilized for charitable purpose.

- ◆ Net sale consideration Rs 4,20,000
- ◆ Cost of asset transferred Rs 3,00,000
- ◆ Cost of new asset purchased Rs 3,60,000

Asset used for charitable purposes to the extent of 60%.

Solution

Computation of Capital Gains utilized for Charitable purposes
for the Assessment Year 2024-25

	Amount	Amount
Net sale consideration		4,20,000
Less:		
Cost of new asset purchased	3,60,000	
Amount utilized in acquiring new asset exceeds the cost of capital transferred (3,60,000-3,00,000)	60,000	
Capital gains utilized for charitable purposes (60,000x60%)		36,000

Illustration 4

From the following information compute the total income and tax liability of a charitable institution for the Assessment Year 2024-25:



- ◆ Income from property held for charitable purposes Rs 11,00,000.
- ◆ Voluntary donations for corpus of the trust Rs 45,00,000.
- ◆ Other voluntary donations Rs 25,00,000.
- ◆ Anonymous donations Rs 20,00,000.
- ◆ Amount spent for charitable purposes in India Rs 15,00,000.
- ◆ Set apart for use in future for charitable purposes Rs 5,00,000.

Solution

Computation of Total Income of the Charitable Trust for the Assessment Year 2024-25

	Amount	Amount
Income from Property		11,00,000
Voluntary donations for corpus (exempt)		---
Other voluntary donations		25,00,000
Anonymous donations includible which is not liable to tax @ 30%		4,50,000
		40,50,000
Less: 15% set apart for future (of Rs 36 Lakh)		5,40,000
		35,10,000
Less: Spent for charitable purpose in India	15,00,000	
Set apart for use in future	5,00,000	20,00,000
		15,10,000
Add: Anonymous Donations	20,00,000	
Less: 5% of total donations (45 lakh+25 lakh+ 20 lakh=90 lakh) Rs 90,00,000 or Rs 1,00,000 which ever is high.	4,50,000	15,50,000
Total Income		30,60,000

Computation of Tax Liability of the Charitable Trust for the Assessment Year 2024-25

	Amount	Amount
Tax on Rs 15,50,000 @ 30%		4,65,000
Tax on other income Rs 15,10,000:		
On first Rs 2,50,000	Nil	
On next Rs 2,50,000 @ 5%	12,500	
On next Rs 5,00,000 @ 20%	1,00,000	
On the balance Rs 5,10,000 @ 30%	1,53,000	2,65,500

		7,30,500
Add: Health and Education Cess @ 4%		29,220
Tax Liability		7,59,720

Illustration 5

During the previous year a Charitable Trust earned an income of Rs 5,00,000 from property held for charitable purpose and Rs 5,00,000 from voluntary contributions. The Trust utilized the amount during the previous year as under:

- ◆ Spent for charitable purpose in India Rs 3,00,000.
- ◆ Repaid the loan for construction of building for charitable purposes Rs 5,00,000.

Compute the taxable income of the trust.

Solution

Computation of Taxable Income of the Trust
for the Assessment Year 2024-25

	Amount	Amount
Income from Property		5,00,000
Voluntary contributions		5,00,000
		10,00,000
Less: 15% set apart for future		1,50,000
		8,50,000
Less:		
Spent for charitable purpose in India	3,00,000	
Repayment of loan for construction of building	5,00,000	8,00,000
Taxable Income		50,000

Illustration 6

During the Previous Year 2023-24, a charitable trust received income of Rs 10,00,000 from property held for charitable purpose and Rs 3,00,000 from voluntary contributions. The trust utilized the amount during the Previous Year 2023-24 as under:

- ◆ Spent for charitable purpose in India Rs 1,00,000.
- ◆ Spent on addition to hospital building for charitable purposes Rs 5,00,000.
- ◆ Income tax paid for the Assessment Year 2022-23 Rs 20,000

Compute the taxable income of the trust. The trust has not applied for the option under explanation to section 11((1)).

Solution

Computation of Taxable Income of the Trust for the Assessment Year 2024-25

	Amount	Amount
Income from Property		10,00,000
Voluntary contributions		3,00,000
		13,00,000
Less: 15% set apart for future		1,95,000
		11,05,000
Less: Amount utilized for charitable purposes and exempt u/s 11:		
Spent for charitable purpose in India	1,00,000	
Addition to hospital building for charitable purposes	5,00,000	
Income tax paid	20,000	6,20,000
Taxable Income		4,85,000

Summarised Overview

The Indian Trusts Act, 1882 defines a trust as an obligation involving property ownership, with the trustee acting as the trustee and the beneficiary as the beneficiary. The taxation framework for business trusts is established under Section 115UA of the Act, with private unlisted InvITs receiving equivalent tax treatment. Trusts can be established by anyone with contracting capacity, and include various types. The Income Tax Act of India provides guidelines for the taxation of accumulated income and investments or deposits. Section 11(3) states that if the income is used for non-charitable or non-religious purposes, it will be considered the income of the charitable trust or institution for the accounting year in which it is applied or ceases to be accumulated. If the income is no longer invested in securities or deposits, or if the income is not utilized for its intended purposes, the total accumulated amount shall be considered the income of the trust for the accounting year immediately succeeding the accumulation period or the year in which the misappropriation or withdrawal of the investment occurs. The Assessing Officer can permit the charitable trust or institution to allocate its accumulated income for alternative charitable or religious purposes in India, as outlined in the trust's application and consistent with its objectives. However, the Assessing Officer cannot permit the application of accumulated income through payment or credit to an individual specified in point (3) under section 11(3) upon an application by the assessee pursuant to section 11(3A).

In terms of business income, the income generated by a trust from business activities shall not be exempt unless the business is ancillary to the trust's objectives and distinct financial records are kept for that business. If the total business receipts surpass 20% of the trust or institution's overall receipts, the tax exemption will be revoked for that year.

In the context of a charitable trust, only income derived from investments or deposits that contravened section 11(5) is subject to taxation. The Income Tax Act, 1961, outlines the taxation of income and property held by charitable or religious trusts. In certain cases, the income or property may be used for the benefit of individuals specified in clause (c) of Sec. 13. This includes loans, provision of land, remuneration, asset acquisition, sale, diversion of income, and investment in entities with substantial interest.

If any income or portion of income is utilized for the benefit of an individual mentioned under section 13(3), it will be considered the income of the specified institution for the previous year. From 1.4.2022 onwards, any fund or institution specified under sections 10(23C)(iv)/(v)/(vi)/(via) will have its approval rendered inoperative from the date of notification under section 10(46). If a trust's total income exceeds the non-taxable maximum limit, it must submit a return in the designated format by 31st October of the assessment year. Taxation will apply if the trust holds property exclusively for charitable or religious purposes but the income is neither distributed nor considered distributed for those purposes. The tax payable will be the greater of the entirety of non-exempt incomes, treated as if it were the aggregate income of a collective entity, and the tax on the portion designated for non-religious or non-charitable purposes. Anonymous donations are voluntary contributions without a record of the donor's identity. The tax payable will be 30% on the aggregate of anonymous donations received in excess of 5% of the total donations received by the assessee or 1 lakh. Exceptions apply to anonymous donations received by trusts or institutions created or established wholly for religious purposes.

Self-Assessment Question

1. How is a public trust different from a private trust?
2. What distinguishes an absolute trust from a discretionary trust?
3. What happens to payments made to other trusts or institutions from accumulated income?
4. What instances deem the income/property of a trust to have been utilized for the benefit of specified individuals?
5. What types of income must be included when filing a return for a charitable or religious trust?
6. Under what circumstances do the provisions for anonymous donations not apply?
7. Ram 3,50,000. Charitable Trust derives income from house property of ₹ 5,00,000 and by voluntary contribution of ₹ 350,000. The utilisation of the amount is as follows
 - a. Charitable purposes outside India 1,50,000.
 - b. Charitable purposes in India 3,80,000,Compute the taxable income of the trust



Assignments

1. Explain the different types of trusts
2. Point out the income exempt in the case of Charitable or Religious Trusts
3. Briefly explain accommodation and investment of income
4. In the Previous Year 2023-24, a Charitable Trust derived an income of 3,85,000 from property held for charitable purpose, including 25,000 by way of tax deducted from a part of such income at source. During the year, the trust spent 2,95,000 for charitable purposes. Determine (i) the taxable income and (ii) tax
5. From the following information compute the amount of capital gains utilised for charitable purposes

Cost of asset transferred	300000
Net sale consideration	420000
Cost of new asset purchased	360000
Asset used for charitable purposes to the extent of 60%	

6. From the following information compute the total income of a charitable trust and its tax liability for the Assessment Year 2024-25

	(in Lakh)
Income of the Trust	10
Donations-corporus	5
Other voluntary donations	4
Anonymous donations	5
Spent for charitable purposes in India	8

7. In the Previous Year 2023-24, a Charitable Trust derived an income of ₹ 4,00,000 from property held 25,000 by way of tax deducted from a part of such income at source for charitable purpose, including During the year, the trust spent 2,20,000 for charitable purposes. Compute the taxable income.

Suggested Reading

1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.
5. Srinivas, E. A. (2021). *Corporate Tax Planning*. Tata Mc – Graw Hill Publications.
6. Goyal, H. M. D. S. (2023). *Income Tax Law & Accounts A.Y 2023-24*. Sahitya

Reference

1. Goyal, H. M. D. S. (2024). *Income Tax including Tax Planning & Management A.Y 2024-25*. Sahitya Bhawan Publications.
2. Singhanian, V. K., & Singhanian, M. (2024). *Taxmann's Students' Guide to Income Tax & GST | AY 2024-25 – Comprehensive, student-friendly guide with step-by-step explanations, practical illustrations, and extensive problem sets*. Taxmann Publications Private Limited.
3. Girish, A., & Ravi, G. (2023). *Direct Taxes* (21st ed.). Bharat Law House Pvt. Ltd
4. Goyal, H. M. D. S. (2023). *Income Tax including Tax Planning & Management A.Y 2023-24*. Sahitya Bhawan Publications.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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MODEL QUESTION PAPER SETS





SREENARAYANAGURU OPEN UNIVERSITY

Model Question Paper (SET- A)

QP CODE:

Reg. No :

Name:

THIRD SEMESTER MASTER OF COMMERCE (M.COM) DEGREE EXAMINATION DISCIPLINE CORE COURSE

M21CM10DC - INCOME TAX PLANNING AND MANAGEMENT

Time: 3 Hours

Max Marks: 70

Section A

Answer any five of the following questions in one or two sentences each. Each question carries 2 marks.

(2 x 5 = 10)

1. Define tax planning and explain its significance in financial management.
2. Compute the tax liability of an individual with an annual income of ₹10,00,000 under the old and new tax regimes.
3. Explain the concept of "Residential Status" and its impact on tax liability.
4. Calculate the total taxable income of an individual with the following details: Salary ₹8,00,000, House Rent Allowance (HRA) ₹1,20,000 (rent paid ₹1,00,000), and standard deductions applicable.
5. What are the key deductions available to companies under the Income Tax Act?
6. A company has a gross total income of ₹50,00,000. Compute its taxable income after applying a deduction of ₹5,00,000 under Section 80G and ₹2,00,000 under Section 80JJAA.
7. What is advance tax? Explain its applicability to individuals and businesses.
8. Compute the advance tax liability for an individual with a taxable income of ₹12,00,000, considering applicable slab rates.

Section B

Answer any six of the following questions. Each question carries 5 marks.

(5 x 6 = 30)

9. Discuss the objectives and types of tax planning.
10. Compute the taxable income of an individual with the following details: Salary ₹9,50,000, HRA ₹1,50,000, Rent paid ₹1,20,000, Deductions under Section 80C ₹1,50,000, and medical insurance premium ₹25,000 under Section 80D.



11. Differentiate between tax avoidance, tax evasion, and tax planning.
12. Calculate the total taxable income of an individual with business income of ₹15,00,000, capital gains of ₹3,00,000, and eligible deductions of ₹2,50,000.
13. Explain the provisions related to "Minimum Alternate Tax (MAT)" under the Income Tax Act.
14. A company has a total income of ₹1,00,00,000. Compute its corporate tax liability under the current corporate tax rate of 25%.
15. Compute the tax liability for a partnership firm with a net profit of ₹20,00,000 and eligible deductions of ₹5,00,000.
16. What are the major penalties under the Income Tax Act for non-compliance?
17. Calculate the interest payable under Section 234B if an assessee has a tax liability of ₹8,00,000 but has paid only ₹4,50,000 as advance tax.
18. Explain the role of tax audits and their significance in corporate taxation.

Section C

Answer any two of the following. Each question carries 15 marks.

(2 x 15 = 30)

19. Discuss the impact of different tax planning strategies on individual and corporate taxpayers.
20. Compute the taxable income and tax liability of an individual with the following details:
 - a. Salary: ₹12,00,000
 - b. House Property Income: ₹2,00,000
 - c. Business Income: ₹5,00,000
 - d. Deductions: ₹2,50,000 under Section 80C, ₹50,000 under Section 80D
 - e. Tax Rates as per the latest slab.
21. Explain the key provisions of the Income Tax Act concerning corporate taxation and its implications on business decisions.
22. From the following information compute the total income and tax liability of a charitable institution for the Assessment Year 2024-25
 - a. Income from property held for charitable purposes Rs 15,00,000.
 - b. Voluntary donations for corpus of the trust Rs 55,00,000.
 - c. Other voluntary donations Rs 30,00,000.
 - d. Anonymous donations Rs 25,00,000.
 - e. Amount spent for charitable purposes in India Rs 10,00,000.
 - f. Set apart for use in future for charitable purposes Rs 8,00,000





SREENARAYANAGURU OPEN UNIVERSITY

Model Question Paper (SET- B)

QP CODE:

Reg. No :

Name:

THIRD SEMESTER MASTER OF COMMERCE (M.COM) DEGREE EXAMINATION DISCIPLINE CORE COURSE

M21CM10DC - INCOME TAX PLANNING AND MANAGEMENT

Time: 3 Hours

Max Marks: 70

Section A

Answer any five of the following questions in one or two sentences each. Each question carries 2 marks.

(2 x 5 = 10)

1. What are the different types of taxes in India? Explain direct and indirect taxes with examples.
2. Compute the tax liability of an individual earning ₹9,00,000 annually, considering the applicable tax slabs.
3. What is the concept of "Gross Total Income" under the Income Tax Act?
4. An individual earns ₹7,50,000 from salary and ₹2,50,000 from rental income. Calculate their taxable income after applying the standard deduction and applicable slab rates.
5. What is the significance of Section 80G of the Income Tax Act?
6. A company donates ₹5,00,000 to a recognized charitable institution. If its total income is ₹50,00,000, compute the deduction allowed under Section 80G.
7. What is Tax Deducted at Source (TDS)? Explain its importance in tax administration.
8. Compute the TDS liability of an employer paying an annual salary of ₹15,00,000 to an employee under the applicable tax rates.

Section B

Answer any six of the following questions. Each question carries 5 marks.

(5 x 6 = 30)

9. Explain the difference between tax planning, tax avoidance, and tax evasion.
10. Calculate the total taxable income of an individual with a salary income of ₹10,00,000, business income of ₹4,00,000, and deductions of ₹2,50,000 under various sections of the Income Tax Act.



11. Discuss the various heads of income under the Income Tax Act.
 - a. Compute the total tax payable by an individual with the following details:
 - b. Salary: ₹12,00,000
 - c. Interest Income: ₹1,00,000
 - d. Rent Received: ₹2,50,000 (House property loan interest ₹1,00,000)
 - e. Deductions: ₹2,00,000 (Section 80C)
12. Explain the provisions and implications of Alternate Minimum Tax (AMT) under the Income Tax Act.
13. A company has a total income of ₹75,00,000 and claims deductions under Section 80IA of ₹10,00,000. Compute the Minimum Alternate Tax (MAT) liability.
14. A firm has a business income of ₹30,00,000 and depreciation of ₹5,00,000. Calculate its taxable income and corporate tax liability.
15. Explain the importance of tax audits in corporate taxation.
16. A company paid ₹50,000 as late fees for delayed GST return filing. Calculate the penalty and interest applicable under the GST Act.
17. What are the different types of assessments under the Income Tax Act?
18. Compute the penalty for under-reporting of income if an individual declared an income of ₹8,00,000 but was later found to have undeclared income of ₹2,00,000.

Section C

Answer any two of the following. Each question carries 15 marks.

(2 x 15 = 30)

19. Discuss the role of tax planning in personal financial management and corporate decision-making.
20. Compute the taxable income and tax liability of an individual with the following details:
 - a. Salary: ₹18,00,000
 - b. Rental Income: ₹3,00,000
 - c. Business Income: ₹7,00,000
 - d. Deductions under Section 80C: ₹3,00,000
 - e. Other eligible deductions: ₹1,00,000
21. Explain the impact of corporate tax policies on business investments and economic growth in India.
22. Explain the key provisions of the Income Tax Act concerning corporate taxation and its implications on business decisions.





SREENARAYANAGURU OPEN UNIVERSITY

Model Question Paper (SET- A)

QP CODE:

Reg. No :

Name:

THIRD SEMESTER MASTER OF COMMERCE (M.COM) DEGREE EXAMINATION
DISCIPLINE CORE COURSE
M21CM09DC – INVESTMENT MANAGEMENT

Time: 3 Hours

Max Marks: 70

SECTION A

Answer any five of the following questions in one or two sentences each. Each question carries 2 marks.

(5x2=10)

1. Define investment.
2. What are the different investment avenues?
3. What is Dow theory?
4. Name the different portfolio models .
5. What do you mean by portfolio revision?
6. What is risk adjusted returns?
7. What is a line chart?
8. Expand CAPM.

SECTION B

Answer any six of the following questions in half a page each. Each question carries 5 marks.

(6x5=30)

9. Short note on Elliot wave theory.
10. Briefly explain efficient market hypothesis
11. Essay on different charts in technical analysis
12. Explain the portfolio revision strategies .
13. Differentiate between investment and speculation.



14. Discuss the key objectives of investment.
15. What is behavioural finance? How does it differ from traditional finance?
16. Elucidate the Arbitrage pricing theory.
17. Short note on capital market line .
18. Explain the constrains in the portfolio revision

SECTION C

Answer any two of the following questions in detail. Each question carries 15 marks.

(2x15= 30)

19. What is technical analysis? How do investors use chart patterns and technical indicators to predict stock price movements?
20. Discuss the various portfolio evaluation techniques used to measure portfolio performance. How do Sharpe ratio, Treynor ratio, and Jensen's alpha help in evaluating portfolios?
21. Compare and contrast investment, Gambling and speculation. Providing examples of each.
22. Evaluate the various models for portfolio selection





SREENARAYANAGURU OPEN UNIVERSITY

Model Question Paper (SET- B)

QP CODE:

Reg. No :.....

Name:

THIRD SEMESTER MASTER OF COMMERCE (M.COM) DEGREE EXAMINATION
DISCIPLINE CORE COURSE
M21CM09DC – INVESTMENT MANAGEMENT

Time: 3 Hours

Max Marks: 70

SECTION A

Answer any five of the following questions in one or two sentences each. Each question carries 2 marks.

(5x2=10)

1. Define behavioural finance.
2. Explain the concept of herding bias.
3. List the key liquidity ratios used in financial analysis.
4. What do you mean by Japanese candle stick charts.?
5. Short note on Markowitz model of portfolio selection.
6. What is the Treynor Ratio?
7. Explain the constant Rupee value plan.
8. What is an efficient frontier?

SECTION B

Answer any six of the following questions in half a page each. Each question carries 5 marks.

(6x5=30)

9. Short note on different type of Unsystematic risk with examples
10. Explain the concept of value at risk analysis
11. Explain the EIC framework.
12. How does efficient market theory repudiate fundamental analysis and technical analysis?
13. Briefly elucidate the motives of portfolio analysis
14. Two securities ,A and B generate the following set of expected returns, standard deviation



and correlation co-efficient. find out the portfolio variance and portfolio standard deviation

	Security A	SECURITY B
Expected return	15	20
Standard deviation	50	30
Correlation of security A and B	-0.60	

This portfolio is constructed with 45 percent of funds invested in A and the remaining 55 percent of funds in B

15. Short note on the application of CAPM
16. In what way does Jensen's performance index provide insights into the portfolio managers performance relative to expected returns
17. What is portfolio evaluation and why it's important to investors.?
18. What are formula plans, and how do they help in portfolio management?

SECTION C

Answer any two of the following questions in detail. Each question carries 15 marks.

(2x15= 30)

19. Explain the fundamental analysis approach in evaluating investments. Discuss the importance of economic, industry, and company analysis in investment decision-making.
20. Compare equity shares, bonds, and mutual funds as investment options. Which one would you recommend for a risk-averse investor and why?
21. What is portfolio's risk deduction through diversification? How does it help in reducing investment risk? Provide real-life examples.
22. Discuss portfolio revision strategies and evaluate how they have evolved in response to technological advancements and changes in market dynamics.



സർവ്വകലാശാലാഗീതം

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ISBN 978-81-978764-2-4



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