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PG AND RESEARCH DEPARTMENT OF COMMERCE

INCOME TAX LAW AND PRACTICE-I

Meaning of tax

The income tax was introduced for the first time in 1860 by the British ruler's following by mutiny of 1857. The tax was first come in to existence in 1886. in 1918 another act was passed. It was further replaced by income tax act 1992.was remained till 31-03-1961. It came into force on 01-04-1962.

It applies to the whole of India and ski Kim (including the state of Jammu and Kashmir.). This acts contains 298 sections various sub sections and 14 schedules. The rate of tax revised by finance act which is passed every year by the parliament.

The government of India lays down the principles and rules governing the levy and collection of taxes. The set of rules called as act. The income tax act 1961 lays down the rules and the provisions for determining what the tax that person pays total income. It is the direct tax collected by the central government. The department of income tax functioning under the direct control and supervision of CBDT. The income tax earns major revenue to the government. It is like thetax collected by the kings

Definition

tax is public impost without any reference to services rendered which is expressed by saying that a tax is imposed for the purpose of general revenue and its object is not to confer any special benefits upon particular individual and consequent there is no element of quid pro quo between the tax payer and the public,

Tax may also be defined as compulsory exaction of money by public authorities for the public purpose enforceable by law and does not mean payment of the services rendered. If the tax is paid on the person's income it is called as the income tax

Characteristics/Features Of Income Tax- Sec 2

1. It is the direct tax-the tax is paid by the assessee whom it is charged and its impact and incidence is on the person who it is levied
2. It is levied on the total income after some deductions under section 80
3. It is earned by the persons are like individuals, HUF, firms, companies,
4. The income is earned by the previous year and it must be come from outside.
5. The tax is levied rates as prescribed by the act for person different rates for the different persons.
6. The current tax rate assessment year2013-2014 is applicable for this previous year-2012-2013

Division of receipts in to five heads

The total income of the persons defined in 2(45). For this purpose U/S 14 there are classified five heads

- I. Income from salary
- II. Income from house property
- III. Income from the business and the profession
- IV. Income from capital gains
- V. Income from other sources

person

Person defined 2(31) means the individuals, HUF, firm, companies, local authority, AOP, BOI, and artificial judicial persons.

Previous year's income

The PY begins first April of the year and ends 31 march of the next year. The income earned 12 months is offered for assessment year

Total taxable income

Total five heads income from respective heads and clubbing and setoff and carry forward is called as

gross total income.-GTI. Finally the deduction U/S 80 is allowed and the balance is total income.

It is the direct tax

- a. The impact and the incidence of the tax are passed to the person who paid it so it is called as the direct tax.
- b. It is levied by the state of its powers conferred under the constitution
- c. It is used for the public purpose
- d. It is the compulsory contribution
- e. It is not a payment for the specific service rendered

BRIEFLY EXPLAIN THE SCOPE/OBJECTIVES OF THE INCOME TAX

1. Sources of revenue and revenue generation

It is importance source collected by the central government. 75% of income tax is allocated to the state and 25% of the income to the union territories.

2. Capacity to pay-More income more income is to be payable. Less income less tax is to be payable to the government.

3. Sources of capital formation

By investing funds one can claim rebates and reliefs towards the capital formation.-Maintenance of welfare of the state

4. Prevention of concentration of wealth in few hands

5. Re distribution of the wealth to the common benefits

6. Enhance savings and there by the investment

7. Rapid economic development

8. Provision for the employment opportunities

WRITE THE IMPORTANT TYPES OF THE TAXATION

The commonest classification of taxes is direct taxes and the indirect taxes. According to mill while direct tax is determined from the person who should pay it. Indirect taxes are those which are demanded from the person with the exception and intention that he shall indemnify himself at the expense of another. Direct taxes is also classified on the basis their burden on the tax payers. According to this classification taxes may be classified as proportional progressive, regressive, and digressive.

Progressive taxation

A tax is called progressive when with increasing income the tax liability not only increases in absolute terms but also it increases as a proportion of income

Proportional taxation

If the tax liability increases in the same proportion as the increase in the tax payers income it is known as the proportional tax system. It never levied in varying percentages

Regressive taxation

If the tax liability as a proportion of income falls with the increase in the tax payers income it is known as regressive taxation. In these tax poor sections of the society has to pay high tax

Degressive tax

In this case there is a declining degree of progressive as the tax base increases. The rate of tax increases up to a certain limit beyond which a uniform rate is changed. The result of this tax is that higher income groups make less sacrifice than the lower income groups.

Single tax system

In this system in which taxes are levied only on the one object. There is only one object it constitute the source of public revenue. It can yield adequate revenue and avoid unfairness in the distribution of the burden of taxation by means of graduation differentiation and other devices.

Multiple tax system

It means taxes are levied on the various items. It enables in the more equitable redistribution of income and wealth while some other taxes would help the economy in the direction of regional balanced growth.

MENTION THE PRINCIPLES /CANONS OF THE TAXATION

It refers to the administration aspect of a tax. They relate to the rate amount method of levy and collection of tax

Canon of equality

According to the Adam Smith the subjects of every state ought to contribute towards the support of the government as nearly as possible. This canon implies that the burden of taxation must be distributed equally in relation to the ability of the tax payers

Canon of certainty

The tax system should be specific and certain. In the words of the Adam Smith the tax which each individual is bound to pay must be certain not arbitrary. It should not be any embarrassment and confusion about the amount time and the mode of the payment

Canon of economy

The cost of collection of tax must be minimum. The tax must be such as to bring the maximum part of the collected revenue in the government treasury.

Canon of convenience

This principle implies that tax must be collected in a convenient manner from the tax payers. Salaried person are satisfied when the tax is deducted at source

Canon of productivity

Taxes must be levied in order to accumulate enough money for the government to secure enough facilities for the people.

Canon of elasticity

This canon implies that taxation should have built in flexibility. The tax system must designed in such a way that it must bring more revenue to more earned persons.

Canon of simplicity

This implies that the tax systems tax rates and provisions must be made simple to understand by the common people. It must not have complex provisions and rules and the regulations

Canon of the diversity

According to this principle there must be a multiple tax system of diverse nature rather than having single tax system and introducing the large number of taxes.

Canon of expediency

This canon implies that levy of taxes must be based on certain well founded principles so that they are justified from the government point of view. Tax must be levied on the basis of economic, social, political point of view.

WRITE NOTES ON THE TAX PLANNING TAX EVASION AND AVOIDANCE.

Tax planning

Can be defined as an arrangement of ones financial and economic affairs by taking complete legitimate benefit of all deductions exemptions allowances and rebates so that tax liability reduces to minimum. Thus all such arrangements by which the laws are fully complied and which meet all legal obligations and transactions representing the tax planning.

Tax avoidance

The line of demarcation between tax planning and tax avoidance is very thin and blurred. There is an element of malafide motive involved in tax avoidance. The planning of tax which though done strictly according to legal requirement but defeats the basic intention of legislature behind the statute could be termed as instance of tax avoidance.

Tax evasion

All methods by which tax liability is illegally avoided are termed as tax evasion. An assessee guilty of tax evasion may be punished under the relevant laws. Tax evasion may involve stating an untrue statement knowingly submitting misleading documents, suppression of facts, not maintaining proper records, omission of material facts.

EXPLAIN SOME IMPORTANT TERMS OF THE INCOME TAX ACT

ASSESSEE 2(7)

Assessee means a person by whom any tax or any other sum of money is payable under this act and

includes

Every person in respect of whom any proceedings under this act-Every person who is deemed to be an assessee-Every person to be an assessee in default

Ordinary assessee

Any person against whom some proceedings under this act are going on. It is immaterial amount is payable or not-Who sustained losses 139(3)-Who has to pay penalty and the interest-Who is to entitled to refund of tax

Representative assessee

He is not liable to pay tax for his own income. He is the guardian or the agent of non resident. He may be the guardian of lunatic or minors, deceased persons who dies after will is executed. He is the eldest son if he dies before the will-Minors and lunatic and idiot the guardians is representative assesses-For the non residents the agent is representatives

Assessee –in- default

Person, who fails to fulfill the obligations, fails to deduct the tax at sources, and deposit the same amount of tax in treasury. He is treated as assessee in defaults

BRIEFLY EXPLAIN THE CONCEPT OF THE PREVIOUS YEAR -3.

Previous year u/s 3 of the income tax act income earned in the year is taxable in the next year. In which income earned is called as the previous year. The next year is called as the assessment year

Current previous year 1-04-2012 to 31-03-2013

The assessee is required to follow the financial year April to march from the year 89-90

New business-First previous year commencing date to 31st march of the next year-It may be 12 months or less than 12 months-It never exceeds the 12 months-It is only 12 months for the next years

Income earned in the previous year is taxable in the assessment year.

Uniform previous year-and newly set up business previous years

It is the financial year immediately proceeding the assessment year

WRITE SOME EXCEPTIONS TO THE INCOME EARNED IN THE PREVIOUS YEAR ARE TAXED IN THE NEXT ASSESSMENT YEAR.

Non residents shipping business -172-Bodies formed for the short durations-174 (a)-Income from the discontinued business 176-Income from the persons leaving India for long time-174

Income for persons alienate assets to avoid the tax-175

WRITE NOTES ON THE ASSESSMENT YEAR 2(9)

It is 12 months commencing on the first day of April and ends 31 march.

It is the financial year of government. Relevant previous year's income is chargeable to the tax.

Current assessment year is 1-04-2012 to 31-march of 2013.

DEFINE THE AGRICULTURAL INCOMES.

Agricultural income is exempted form the tax according to section 10(1)

The constitution Of India gives the power to make laws to tax it to the state government.

According to 2(1) a any rent revenue received form the land situated in India and is used for the agricultural operations-It can be in urban and rural areas-Any income derived from agricultural operation for processing and fit for the market-Income form farm house immediate vicinity of land used for dwelling or store house.

WRITE NOTES ON VARIOUS PERSONS-2(31)

Individual

Means a natural person or human beings. It includes the minors and the persons of the unsound minds

HUF- Hindu undivided families

Consisting of all persons lineally form a common ancestors and includes wives and unmarried daughters

Sikkim and Jain families,. The head of the family is called as the karta. Members are called as co-parceners. It treated the separate persons.

Company

It is the artificial persons created by law. It has the perpetual succession, common seal, and shares caring the limited liability. Income tax rate for the company is different.

Firm-2 (23)

Association of more than one person who joint together with a written agreement is called a partnership deed and sharing the profits in agreed ratio is called as firm

Share of the profit from the firm is exempted from the tax 10-2(a)

Association of person –AOP /body of individuals BOI

When two or more persons join to work for a common purpose or objective to earn a profit or income without the agreement. it may have the members of companies and firms

Body of individuals

It consists of only individuals and they are jointly do some activities

Local authorities

It is a separate unit

Panchayats (243)- Municipalities 243(b)- Cantonment boards 192

District board

Artificial judicial persons

Persons who don't have a physical existence but have a legal existence called as a AJP

University of Delhi

EXPLAIN –INCOME AND ITS FEATURTES 2(24)

It includes the -Profit and gains –Dividend-Voluntary contribution by a trust-Profits in lieu of salary Special allowances and the perks-Any capital gains u/s 45-Sum received and receivable-Winnings from lotteries and cross word puzzles and horse races and gambling and betting's-Contribution of provident funds-Sum received on key man insurance policies

The features of income

It is a periodical receipt from ones business land work investment etc., something which comes in Definite source-It must come from outside-Tainted incomes-Diversion of income vs. application of income Temporary income and permanent income-Voluntary receipts-Dispute regard title-Money or moneys worth Assesses income-Gifts above rupees 50000-the income can be temporary or permanent.-it may be a lump sum receipt-same income cannot be taxed at twice it leads to the cascading effect. Tax treatments-It must be taxable and exempted and debatable and tax free income

BRIEFLY EXPLAIN THE CONCEPT OF THE GROSS TOTAL INCOME/TOTAL INCOME (14)

Income of the person is computed under the following heads-Salaries-House properties-Profit and gains of the business and the profession-Capital gain-Other sources-The aggregate of these heads incomes is called as the gross total income. It is before making adjustments u/s (80Cto 80U)

Computation of total income and the tax liability	
Income from salaries Salary 17(1) Perquisites excluding fringe benefits 17(2) Profit in lieu of salaries 17(3) Gross salary income Deductions (16) Entertainment allowance 16(ii) Tax on employment(iii) Salary income	-----
Income from house property Annual rental value Less municipal taxes Net annual values Deduction u/s 24	

Income from house property	-----
Profit and gains of business and the profession	
Net profit as per profit and loss account	
Add expenses debited but not allowed under the act	
Less expenses allowed but debited	
Less incomes credited but not taxable under this heads	-----
Capital gains	
Short term capital gains	
Long term capital gains	
Income under capital gains	-----
Income from other sources	
General incomes 56(1)	
Specific incomes 56(2)	
Less allowed expenses 57	-----
Add income from other persons	-----
Gross total income	-----
Deductions under section 80C to 80 U	-----
Total income (to be rounded off nearest multiples of 10)	-----
Computation of tax	-----
Tax on short term shares subject to security transaction tax	-----
Tax on long term capital gains	-----
Tax on casual incomes (lotteries, card games, races, puzzles, TV shows)	-----
Tax on income other than given above (slab rate applicable)	-----
Total tax	-----
Less rebate u/s 88E if any	-----
Balance tax	-----
Add (education cess @2% and secondary higher education cess @1%)	-----
Total tax	-----
Less relief u/s 86 and 89(1)	-----
Less prepaid taxes (tax deducted at source and advance tax)	-----
Net tax payable (@time of filing the return) rounded off nearest multiples of 10	-----

What do you mean by the casual income?

Any winnings from lotteries, cross word puzzles, races including horse races, card games, other games of any sort or from gambling or betting of any form or nature called as casual income. If the casual income exceeds 2500 from the horse races there must be tax deducted at source. From other incomes if it exceeds 5000 there must be some tax deducted at source.

Deemed incomes.

These incomes are treated as the income earned in the previous year. And it is liable to be taxed.

Unexplained Cash credit-Unexplained investments-Unexplained bullion cash, jewelry

Partly explained investments-Unexplained expenditure-Payment of Hundi in cash

If total income is upto rupees 200000	Nil
Total income 200000-500000	10%
Total income exceeds 500000-1000000	30000+20% of income exceeding 500000
If the income exceeds Rs. 1000000	130000+30% of income exceeding 1000000

SENIOR CITIZEN (AGE 60Yr TO 80Yr)

If total income is up to rupees 250000	Nil
Total income 250000-500000	10% of income exceeding 250000
Total income exceeds 500000-1000000	25000+20% of income exceeding 500000
If the income exceeds Rs. 1000000	125000+30% of income exceeding 1000000

SUPER SENIOR CITIZEN (AGE 80Yr AND above)

If total income is upto rupees 500000	Nil
Total income exceeds 500000-1000000	31000+20% of income exceeding 500000
If the income exceeds Rs. 1000000	100000+30% of income exceeding 1000000

EDUCATION CESS

Education cess-It is to be levied @2% of tax if any for all persons irrespective of income plus secondary and higher education cess @ 1%

FIRM: A FIRM is taxable at the rate of 30 %

Education cess : 2%

Secondary and higher education cess:1%

COMPANY: domestic company 30%

foreign company 50%(royalty received from Government or Indian concern in pursuance of an agreement made by it with the Indian concern after march 31, 1961 but before April 1 ,1976 or fees rendering technical services in pursuance of an agreement made by it after February 29, 1964 but before April 1, 1976-approved by the central government

other income : 40%

surcharge: domestic company 5%(above 1 crore)+ edu cess 2% + second and high edu cess 1%

foreign company 2% (above 2 crore)

What Do Mean By Block Of Assets

It means the group of assets falling within the class comprising of Tangible assets like building, plant and machinery-Intangible assets like know how, patents, copyrights, and trade marks

What Do You Mean By Charitable Purpose?

It includes the relief of poor, education, medical relief, and the advancements

Write the difference between taxes and fines and the panalties.

A tax is the compulsory contribution made by the tax payer

Fines and the penalties are the payments made for the contra version of the law.

A public authority imposes taxes mainly to obtain activities of the central government and the fines and the penalties mainly to deter people from doing certain acts.

Write the differences between the direct and the indirect taxes.

Direct taxes are not shiftable, while indirect taxes are shiftable. Direct taxes are the taxes on income from land and the tax on building the tax on intangibles or movable property. Indirect taxes are those which strike the private consumption of citizens and also transfers of property. The stike the income at the moment when the citizen spends it to acquire other goods.

Direct taxes	Indirect taxes
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Direct taxes contribute 25% to 35% of total income	Indirect taxes contribute 65% to 75% of total revenue
They do not have any impact on costs and prices	Increase in rates of indirect taxes leads to increase in costs and price of goods
Income tax wealth tax interest tax corporation tax	Excise duty, customs duty, sales tax, service tax
It conform the principle of equity	They do not discriminate between rich and poor
Income tax is tax levied on income and wealth tax is imposed on property and the assets	They tax is levied on the tax on the consumption. They affect lower income group
They have the element of certainty. The tax payer knows the amount of tax payable by him after claiming all deductions and rebates	The tax evasion is likely less
Imposition of direct taxes doesn't create imbalance in the use of productive resources	It creates the imbalances

Problems

1. Determine the status of the persons mentioned below

1. Reliance India limited-
2. Punjab national bank-
3. Madras university-
4. Calcutta municipal corporation
5. Reserve bank of India-
6. Panchayat-
7. Kalyani publishers' limited
8. Mr. Anil.

3. From the following find the previous year

A business keeping its accounts on financial year basis-A newly started business commencing its operations on 1.1.2013

4. Compute tax liability

Female	Total income-234000 Total income-690000
Senior citizens	Total income -684800 Total income-1019800
Super Senior citizens	Total income-640000 Total income-650000

RESIDENTIAL STATUS

The incidence of the tax on any assessee depends upon his residential status under income tax. The liability of the tax depends not only the nature of the income and place of accrual or receipts but also upon residential status.

Tax payers are classified into resident, nonresident, ordinary resident. Tax is levied on the total income of the assessee. The total income of the each person is based upon the residential status of the assessee. Section 6 of the act divides the assessable persons in to 3 types

Ordinary resident

Resident but not ordinary resident

Non resident

The concept of the residential status has nothing to do with the nationality or domicile of a person. An Indian who is a citizen of India can be a non resident of India for the purpose of the income tax. An American can be only the resident of India. The residential status of the person can be determined each year with the previous year's stay in India.

Importance of the residential status

It determines scope of taxable income

5(1) & (2) – the incomes of assessee taxable based on the residential status.
It may be different for different previous years.

Citizenship

Person born in a particular country might make a citizen or national of that country.

The residential status does not depend upon the date source of income comes to existence during the PY.

A person may be resident in two countries @ the same time

An Indian company can which is registered in India and has a place of business shall always be a resident

Effects

The amount of income chargeable to tax in India

Rate of the tax does not affected by the residential status (subject to conditions)

Briefly explain the residential status of persons

INDIVIDUALS-6(1)

Basic conditions

- a) He is India in the relevant previous year for a period of 182 days or more.
- b) He is in India for a period of 60 days or more during the relevant previous year and 365 days or more during 4 immediately preceding the relevant previous years.

.Additional conditions

The additional conditions need to seen only for ordinary resident and resident not ordinary resident

- a) An individual who has been a resident in India @ least 2/10 previous years preceding the previous years
- b) He has in India during 7 previous years immediately preceding relevant previous years 730 days or more.

HINDU UNDIVIDED FAMILIES 6(2)(HUF)

Basic conditions

The place where the control and the management of the affairs of the HUF is located

- a) wholly in India
- b) Partly in India and parts outside India than the HUF is resident of India for the previous year.

Where the control and the management wholly outside India the HUF is a non resident.

Policy making decisions for the future in the place where the control and management is located. The status of karta is not relevant. The additional conditions need to seen only for the resident HUF.

Resident –ordinary and not ordinary resident.

- a) karta has been a resident in India at least 2/10 relevant previous years
- b) The karta has during the 730 days out of 7 relevant previous years.

These conditions are to determine the status of residential status of HUF.

Residential status of a firm and aop and every other person

Resident

Firm and AOP and every other person is said to be the resident when the control and the management of the affairs

- a) wholly in India (or)
- b) partly in India

Non resident

Control and the management of the affairs wholly outside in India this person is called as a non resident

Control means head and brains to control the affairs

Company

Resident company

- a) an Indian companies is always resident
- b) a foreign company is resident in India if its control and the management (meeting of the BOD) is in India

Non resident companies

a foreign company is run non resident in India if its control and the management

- a) Wholly outside India
- b) Partially in India and outside India

EXPLAIN THE SCOPE OF TOTAL INCOME

Resident 5(1)

Income received or deemed to received in India (place and the date of accrual is immaterial)

Income accruing arising and deemed to accrue in India is taxable for the residents

Income accruing outside India is also taxable for the residents in India.

Not ordinary resident

The following items are taxable for the non ordinary residents

Income received and deemed to received in India

Income accruing and deemed to accruing in India

Income accruing out side India

Non resident 5(2)

The following income is taxable for these nonresidents

Income received and deemed to be received in India

Income accruing and deemed to be accrued in India

Indian incomes

Income earned in India

Income accrues in India

Income received

Tax deducted at source

Employer's contribution to recognized provident funds

Interest accrued on the provident funds balance

Taxable portion of transferred balance

Contribution to pension scheme 80 CCC

Share of income from joint venture

Other incomes received in India

Deemed To Accrue In India

Income arising business connection

Income from property held in India

Income form transfer of capital assets

Apportionment of profits

Income from sale of goods

Income from salaries earned in India

Salaries for the government service outside in India

Dividend paid by Indian companies in outside Indians

Dividend received by way of interest

Royalty

Fees for the technical services

Income from shooting of any picture in India
Income from agricultural in foreign countries is taxable in the case of resident only.
Income remitted to India is not as income received.

Deemed receipts (7)
Annual accretion of recognized provident funds
Transferred balance
Tax deducted at source
Deemed profits

Write the name of the undisclosed incomes and the foreign incomes.

Unexplained cash credit
Unexplained investments -69
Unexplained money-69(a)
Unexplained investments in banks-69(b)
Unexplained expenditure 69(c)
Amount borrowed or repaid HUNDI 69(C)
Contribution to pension funds
Income may be earned in foreign and payable in India

Foreign income
Income earned and accrues in outside India and received outside India
Income which is not earned and accrues or arise in India

Write the incomes which don't form part of the total income (or)
Exempted incomes.

Agricultural incomes 10(1)
Sum received by a member of HUF 10(2)
Income from the firm 10(2a)
Interest of the securities or bonds held by the non residents 10(4)
Interest on savings certificates 10(4b)
Payment under Bhopal gas leak disorder 10(10bc)
Amount received from the LIC maturity 10(10d)
Scholarship granted to cost of education 10(16)
Awards and rewards 10 (17)
Daily and constituency allowance received by member of parliaments and member of state legislative assemblies. 10 (17)

Income from SAARC fund 10(23)
Income from insurance regulatory authority 10(23b)
Income from notified mutual funds
Income from investor's protection fund
Income from trade unions
Income from ESI
Income from bodies' promote interest of SC &ST
Subsidy received from the tea board
Income from minors
Travel concessions to Indian citizen-Income from consultancy
Commutated value of pensions-Amount received on leave encashments 10 (10a)

Income by way of tax on professions 10(cc)-Payment from SPF10 (11)-Payment from RPF10 (12)
 Payment of superannuation of funds10 (13)-Income form palace of the former rulers 10(19)
 Income from scientific research association 10(21)

Briefly Explain The Scope Of Income / Incidence Of Tax (For Individual And Huf)

	Particulars	Resident +ordinary resident	Resident +not ordinary resident	Non resident
Indian incomes	Received in India	Tax	Tax	Tax
	Deemed to received in India (accrued in India and outside India)	Tax	Tax	Tax
	Accruing and arises in India (whether received in India /outside India)	Tax	Tax	Tax
	Deemed to accrue (whether received in India / outside India)	Tax	Tax	Tax
Foreign incomes	Income received and accrued from a business control in India	Tax	Tax	No tax
	Income received and accrued outside India business control form outside India and setup from outside India	Tax	No tax	No tax
	Income not from the business received and accrued Outside India	Tax	No tax	No tax

Write Notes On The Incidence Of The Tax

- i) Residential status for the tax purpose
- 2) Place and time of the accrual / receipts of income

Section 5(1) deals with the incidence of tax of resident and ordinary resident and resident and not ordinary resident. 5(2) deals with the incidence of the tax of the non residents

How do you calculate the tax liability of the individuals?

The tax liability of the individuals and the Hindu undivided families are calculated on the basis of the tax rates fixed by the finance act. The incomes of the persons mentioned above classified in to the five heads they are salary incomes, house property incomes, business and professional incomes, capital gains incomes, income from other sources, the total of these incomes are called as the gross total incomes and the deduction under sections 80 are allowed the net of these is called total income. The tax liability is calculated.

Special rates

- For short term capital gains on shares which are subject to security transaction tax 15%
- For long term capital gains 20%
- For casual incomes (lotteries, races, puzzles) 30%

How you calculate the tax liability of firms?

Firm is taxed at the 30%. The surcharge is nil. Education cess at the rate of 2% and the secondary higher education cess 1% are to be calculated on the tax amount. The income is calculated head wise that is business income, house property incomes, other sources income etc.

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How you calculate the tax liability of companies?

Domestic companies are taxed at the rate of 30%. Foreign companies are taxed as follows for the royalty received from government or any agreement made with Indian concern and is approved by the central government @20% - for other companies @40%. Surcharge is applicable @ 10% on income tax after allowing rebate u/s 88E to domestic companies and 2.5% to foreign companies provided the total income exceed one crore. Education cess is 2% and secondary higher education cess is calculated @ 1%.

How you calculate the tax liability of companies?

For the co-operative societies if the net income is upto 10000 -10% tax is applicable. For 10000-20000 -20% rates is applicable. Above 20000 -30% is applicable. Education cess at the rate of 2% and secondary higher education cess @1% is charged.

How you calculate the tax liability of local authorities?

-local authorities are taxed at 30%

-surcharge is not applicable

-education cess at 2% is to be calculated on the income tax

-secondary higher education cess at 1% to be calculated on the tax.

PROBLEMS

1. Mr. vimal an Indian citizen leaves India for the first time on 31-03-08 and comes back on the 15th May 2011. He again leaves India on the 10th June 2011 to come back on the 14th January 2013. He is living in India since then. Determine the status for the previous year

2. Mr. arun Gating a foreign citizen leaves India for the first time in the last 20 years on November 25, 2009 during the calendar year 2011 he comes to India on September 1 and stays a period of 20 days. During the calendar year 2012 he not visit India at all but comes to India on January 15, 2013. Determine the residential status of him for the assessment year 2013-2014.

3. Mr. Sundaravadivel is a citizen of India staying 18 days in India. He left on 15th May 2012 for London for his higher studies came back to India on 25th May 2012. He maintained a dwelling place in India during his absence. Determine his residential status

4. Mr. Ranganathar a foreigner came to India from Poland for the first time on 1st April 2007. He stayed here continuously for three years and went to France on 1st April 2008. He however returned to India on 1st July 2009. And went to Poland on 1st December 2010. He again came to India on 25th January 2013 on a service in India.

What is his residential status for the assessment year?

5. Mr. X a foreign national came to India for the first time on June 15th, 2006. During the financial year, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013 he stays in India for 125, 105, 35, 141, 95, 155, 156 and 145 days. Determine his residential status for the assessment year.

6. Mr. K.S. Ragupathi a senior scientist goes to England on a job approved by the central government for a period of 3 years. On 15th September 2013. He is never out of India before. Determine his residential status for the assessment year.

7.. A person after about 26 years of service and stay in India retired to England in April 2008. And returned to India on 15th February 2013, to take a salaried appointment. What is his residential status for this PY?

8. MR Ganesh and foreign citizen leave India for the first time in the last 20 years on November 25, 2010. During the calendar year 2011 he comes to India on the September first and stays for a period of 20 days during the calendar year 2012 he not visited India at all but comes to India on January- 15 2013. Determine his residential status.

9. Mr. Ajay senior scientist goes to Nigeria on a job approved by the central government on September -15 2012. He has never been out of India before. Determine his residential status for the assessment year.

10. A HUF is caring the business in India. The business is having its head office in Delhi where is controlled. The head of the family was in Kenya for the business purpose throughout the previous year. The karta of the family was in India more than 182 days determine his residential status.

11. ABC firm has registered partnership in India and is controlled from India. Determine its residential status the managing partner is in UK for more than 280 days. Determine his residential status

SCOPE OF TOTAL INCOME-problem

1. Compute the taxable income of the .Mr. amul is he is resident and ordinary resident and resident and not ordinary resident and nonresident for the assessment year

Salary drawn during the year for the employment outside India for the government of India	Rs. 93500
Salary drawn for the employment in London office of an Indian company received there	Rs. 18000
Profit earned abroad and received in India	Rs. 25000
Profit earned in abroad from the business and kept the bank in there	Rs. 18000
Dividend received from Indian companies	Rs. 3000
Salary earned in India and received in America	Rs. 10000

3. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident,- nonresident for the previous year 2012-2013

particulars	Rs.
Interest on saving bank in Indian bank –Delhi	12000
Income from the agricultural in Africa and invested in Nepal	10000
Dividend from the foreign company and received in foreign	10000
Pension computed received in India	60000
House property income received in India	100000

4. Compute the taxable income of the .Mr. viji is he is resident and ordinary resident- resident and not ordinary resident, -non resident for the assessment year.

particulars	Rs.
Profit of the business in Delhi	1200
Income accrued in India and received in America	10000
Income from the business in England and received in India	10000
Income from the house property in Africa and received in India	60000
Profit from the business in Pakistan and controlled from India	100000
Income from the house property in Pakistan and deposited a bank there	20000
Past untaxed income	10000

5. Compute the taxable income of the .Mr. ram . he is resident and ordinary resident- resident and not ordinary resident, -non resident for the previous year 2012-2013

particulars	Rs.
Profit on sale of machinery in Bangalore but received in Australia	30000
Profit from the business in Canada business controlled in India -1/3 received in India	42000
Income from the house property in Iran	20000
Agricultural income in England and was received there	80000
Past untaxed foreign incomes	600000

6. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident,- non resident for the previous year 2009-201

particulars	Rupees
Interest on saving bank in Indian bank –Delhi	200000
Income from the agricultural in Africa and invested in Nepal	400000
Dividend from the foreign company and received in foreign	500000
Pension computed received in India	600000
House property income received in India	100000

7. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident, -non resident for the previous year 2009-2010

particulars	Rupees
Profit of the business in Delhi	1200
Income accrued in India and received in America	10000
Income from the business in England and received in India	10000
Income from the house property in Africa and received in India	60000
Profit from the business in Pakistan and controlled from India	10000
Income from the house property in Pakistan and deposited a bank there	20000
Past untaxed income	10000

8. Compute the taxable income of the .Mr. rams is he is resident and ordinary resident- resident and not ordinary resident, -non resident for the previous year 2009-2010

particulars	Rupees
Profit on sale of machinery in Bangalore but received in Australia	30000
Profit from the business in Canada business controlled in India -1/3 received in India	42000
Income from the house property in Iran	20000
Agricultural income in England and was received there	80000
Past untaxed foreign incomes	60000

INTRODUCTION OF SALARY

U/s 15,16 any17 of the act deal with salary income .salary due from an employer or a former employer to an assessee in the previous year

Any salary paid or allowed to him in the previous year by or behalf of and employee or a former employer

Any arrears of the salary paid or allowed to him in the previous year.

Any salary bonus , commission or remuneration by whatever name called due to or received by a partner of a firm from firm shall not be regarded as salary for the purpose of salary income.

Definition Of The Word Salary 17(1)

According to section salary includes the following amount received from an employer

Wages

Any annuity or pension

Any gratuity

Any fees or commission perquisites or profit in lieu of salary in addition to any salary or wages

Any advance salary

Any salary in lieu of leave

The annual accretion of provident funds

Any transferred balance.

Briefly Explain The Characteristics Features Of The Salary Incomes

Relationship of employer and the employee

Salary from more than one employer

Salary received from the present past and future employer

Tax free salary

Salary received from the member of the parliaments

Place of accrual of salary income

Deduction made by the employers

Salary or pension received by the UNO employees

Salary as a partner

Payment received by legal heirs of a deceased employee

Payment made after cessation of employment.

Voluntary foregoing

Previous year's salary

Taxability of salary on due or receipt whichever is earlier basis.

Advance salary received

Arrears of the salary received.

Salary in lieu of notice.

Briefly Explain The Kinds Of The Provident Funds

1.Statutory provident fund

It is the oldest type of fund it was started in the year 1925.this is for the government and the semi government employees. Like railways and the reserve bank of India and the colleges and the universities.

2.Recognized provident funds

It is a fund to which the commissioner of income tax has given the recognition as required under the income tax. This is maintained by industrial undertakings and the business houses and the banks

3.Unrecognized provident funds

It is the fund which is not recognized by the commissioner of income tax.

4. Public provident fund

It is the fund established for the benefit of the business persons and self employment persons

The contribution is exempted 80C

Self employed peoples are doctor's lawyers, accountant's actors, traders, pensioners etc.

Taxable portion of annual accretion of the RPF

Contribution made by the employer over 12% of the employee's salary

Interest credited over 9.5 % on the accumulated balance.

Treatment of provident funds

Particulars	SPF	RPF	URPF
Employees contribution	Deduction u/s 80 C	Deduction u/s 80 C	Not qualifies 80C
Employers contribution	Exempted	Excess over 12% of employees salary is taxable	Ignore time being
Interest credited	Exempted	Excess over 9.5 % of rate is taxable	Ignore time being
Refund	Exempted	Exempted in all cases except employee leaves before 5 years in this case not charged amount added to salary	Refund portion is taxable income of the year.

Simple Format To Compute Salary Income:

BASIC ITEMS:		
1.basic salary/ wages/ remuneration/pay		XXX
2.special pay		XXX
3.bonus		XXX
4.fees		XXX
5.commission		XXX
6.advance salary		XXX
7.arrear salary		XXX
ALLOWANCES		
1.fully taxable allowance		XXX
2.partly taxable /partly exempted allowances		XXX
3.fully exempted allowances(nil)		NIL
PERQUISITES:		
1.taxable for all (specified and unspecified)		XXX
2.taxable for specified employees only		XXX
3.exempted for all (specified and unspecified)		NIL
SPECIAL ITEMS:		
1.Gratuity		XXX
2.pension		XXX
3.leave encashment		XXX
4.provident fund		XXX
		-----XXX
	GROSS SALARY	
LESS: DEDUCTIONU/S 16		NIL
1. Standard Deduction u/s 16(1)		
2. Entertainment allowance u/s 16(2)	xxx	XXX
3. Professional /employment tax u/s(3)	xxx	
	-----	xxx
	INCOME FROM SALARY	

Write Notes On The Allowances 17(3)

Any amount or sum allowed regularly. It is given in the form of cash along with the salary. It is given to meet the specific loss or expenditure.

Fully exempted allowances

Foreign allowance (government posted outside India)

House rent allowance given to high court judge's Supreme Court

Allowances from UNO

Sumptuary allowance to high court and Supreme Court

Fully taxable allowances

Name	Why it is given	Taxability
Dearness allowance/ additional DA/ high cost of living allowance/ interim relief./additional salary/ Enters in to pay/ dearness pay/DA given in terms of employment	To compensate loss due to the raise in prices	Fully taxable It treated as the part of salary for PF, RFH, bonus ,gratuity, leave encashment.
CCA –city compensatory allowance	To compensate the high cost of living in big cities	Fully taxable
Lunch,/Tiffin/,marriage/, family/, deputation/,warden ship/ ,non practicing/project/ overtime/fixed medical/ allowances		Fully taxable
Entertainment allowance	To entertain the guests or customers. reimbursement is exempted	u/s 16(11) least is exempted statutory limit -5000 1/5 of basic pay actual amount of EA received

1Dearness Allowance and Dearness Pay

As is clear by its name, this allowance is paid to compensate the employee against the rise in price level in the economy. Although it is a compensatory allowance against high prices, the whole of it is taxable. When a part of Dearness Allowance is converted into Dearness Pay, it becomes part of basic salary for the grant of retirement benefits and is assumed to be given under the terms of employment.

2.City Compensatory Allowance

This allowance is paid to employees who are posted in big cities. The purpose is to compensate the high cost of living in cities like Delhi, Mumbai etc. However, it is fully taxable.

3. Tiffin / Lunch Allowance

It is fully taxable. It is given for lunch to the employees.

4. Non practicing Allowance

This is normally given to those professionals (like medical doctors, chartered accountants etc.) who are in government service and are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.

5. Warden or Proctor Allowance

These allowances are given in educational institutions for working as a Warden of the hostel or as a Proctor in the institution. They are fully taxable.

6. Deputation Allowance

When an employee is sent from his permanent place of service to some place or institute on deputation for a temporary period, he is given this allowance. It is fully taxable.

7. Overtime Allowance

When an employee works for extra hours over and above his normal hours of duty, he is given overtime allowance as extra wages. It is fully taxable.

8. Fixed Medical Allowance

Medical allowance is fully taxable even if some expenditure has actually been incurred for medical treatment of employee or family.

9. Servant Allowance

It is fully taxable whether or not servants have been employed by the employee.

10. Other allowances

There may be several other allowances like family allowance, project allowance, marriage allowance, education allowance, and holiday allowance etc. which are not covered under specifically exempt category, so are fully taxable.

11. Helper allowance

It is exempted up to the actual amount spent on engaging the helpers

12. Uniform allowance

It is also exempted up to the actual amount spent

13. Academic research allowance

Exempted up to the actual amount of the expenditure

14. Conveyance allowance

It is exempted up to the actual amount of expenditure of the performance of the duties

15. Traveling transfer and daily allowance

It is exempted up to the actual amount of the expenditure

16. Compensatory field area allowance

Exempted up to 2600 per month

17. Transport allowance

Exempted up to 800 per month (1600 per month in case of an employee-blind, orthopedically handicapped)

18. Allowance for transport employees

70% of the allowance or 10000 per month

19. Children education allowance

Exempted up to 100 per month per child maximum 2 children

20. Hostel expenditure allowance

Exempted up to 300 per month per child maximum 2 children

21. Domestic servant allowance

Exempted up to the actual amount of the expenditure

22. Under Ground Allowances

Exempted up to rs 800 per month for those working in uncongenial unnatural climate in underground coal mines

23. Tribal area allowances

Rs. 200 per month is exempted in the following states

1. Tamilnadu
2. Madhya Pradesh
3. Uttarpradesh
4. Karnataka
5. Assam
6. West Bengal
7. Bihar
8. Orissa
9. Tripura

24. Island duty allowances:

Exempted up to rs 3250 per month for the member of armed forces in Andaman and Nicobar and Lakshadweep group of islands

25. Hills allowance / special compensatory hills area allowances:

This allowance is given to employees working in hills areas on account of high cost of living in these areas. Exemption varies from rs. 300 per month to 7000 per month

Write Notes On The Perquisites 17(2)

Salary includes the value of any perquisites or amenities provided by the employer to the employee. These are taxable under the heads of salary.

Fully Taxable Perquisites

Rent free house

Concessional rent accommodation

Value of the amenities granted or provided free of cost or at a concessional rate

Any sum or obligation paid by the employer in respect of employee

Any sum payable by the employer directly to the funds like LIC

Value of fringe benefits or amenities

Any portion of the premium paid by the employer in relation to the employee

Any sum paid by the employer in respect of employee already paid

These values of all perks is includes in the total income of the employee under this head

Perquisites Exempted In All Cases

Free medical facilities

Free refreshment during working hours

Free recreational facilities

Free meals provided during office hours

Free education training or refresher course for employees

Leave travel concessions

Perks provided to the employees of the government services

Rent free house provided to the member of the parliament

Free residence and the conveyance to the high court and the Supreme Court judges

Amount contributed to the deferred annuity scheme

Amount contributed to the group scheme

Transfer of the movable asset computer, car, electronic items more than 10 years

Accident insurance premium paid by the employer for his own benefit

Interest on the free loan at the concessional rate if the amount does not exceed the 20000 or medical treatment

Tax on the perks

Write notes on the perks taxable for all cases

Rent free house

Nature of the employment

Government, semi government, or any other.

Place

Population exceeds 25 lakhs
Population 10 not exceeding 25 lakhs
Other cities less than 10 lakhs

Exempted accommodations

In remote area at least 40 km away from the city limit

In off shore area

Rent free house provided to Supreme Court and high court judges

If it is more than one least is taxable

Hotel accommodation

 Compute salary for number of days he stayed in the hotel

 Calculate 24% of this salary

 Compare with the actual bill paid by the employer to the hotel for such accommodation

If the hotel accommodation is provided for more than 15 days then the perk is not taxable for the first 15 days and it will be taxable for remaining days

Taxability

For the unfurnished house	
Owned by the employer	
Government employees	Rent fixed by government
Other employees	
Population is more than 25 lakhs cities	15% of the salary
Population is 10 to 25 lakhs	10 % of the salary
Population is less than 10 lakhs	7.5 % of the salary

Note:

If the furniture is provided from owned by the employer add 10% of the cost of furniture

If the furniture is hired by the employer actual hiring charges added with RFH

Furniture includes sofas, beds, chairs, tables, TV, house hold appliances, A/C, refrigerators,

CONCESSIONAL RENT ACCOMMODATION

The rent paid by the employee is deducted from the RFH is called as concessional rent accommodation

OBLIGATION OF EMPLOYEES MET BY EMPLOYER

Gas and electricity

Education bill

Income tax of the employee

Professional tax of the employee

Salary of the servants

Any other personal bill

Any other fringe benefits given to the employee

Free meals if provided @ working hours if the value exceeds 50 per day

Interest on the free loan @ concessional rate of interest if more than 20000

Use of movable assets except computers and the laptops

Any life insurance premium paid by the employer

PERKS TAXABLE IN SPECIFIED CASES ONLY

Following perks are taxable only if employee is either a director of company or has a substantial interest more than 20% of voting rights) and his monetary benefit exceeds 50000 per annum.

Monetary salary includes -Basic pay-D.A/D.P/ ADA -Bonus commission fees and all taxable portions of the allowances-Any perks received in the monetary form-Gratuity pension, leave salary,

Monetary salary of 50000 shall be calculated after allowing the deductions u/s 16(ii)

WRITE THE TAXABILITY OF THE FREE DOMESTIC SERVANTS.

Perks of free domestic servants

Particulars	Value
Free domestic servants of sweeper gardener, watchmen	Actual amount paid as the salary
Free supply of gas, electric energy, water supply	Actual cost
Free educational facilities	Reasonable amount which employee spent in similar type of the organization
Other bill met by the employee	Actual amount
Free transport	If conveyance is hired or ticket is purchased by employer , actual expenses are taxable

Write the taxability of the value of the benefit of the use of the movable assets and the other bills.

In case of the employees is using the assets (movable) other than the computers, laptops, the value is taxable in the hands of the employees shall be treated as the 10% of the cost of the assets * no of days given/ total days in the year

Value of the assets of sale of (movable) to the employee at the nominal price

First calculate the WDV of the assets deducting the depreciation for each year of 12 months

Depreciation details	Rate of the depreciation
Electronic items	50% pa on WDV
Motor car or any other conveyance	20% pa on WDV
Other assets	10% pa on actual cost basis

OTHER BILLS

On the name of the employer for personal expenses of the employee paid by the employer shall be taxable.

Perks of car, transport facilities, traveling /touring, food and beverages, gift, club bills, or credit card facilities when employer is not subject to fringe benefit tax are taxable in the hands of the employees.

WRITE NOTES ON THE PROFIT IN LIEU OF SALARIES.

Amount received as the compensation form the employer

Amount received for the modification of the terms and conditions of the employments

Amount of gratuity (10)

Amount of commuted pension 10(10a)

Amount received as retirement compensation

Amount received as approved super annuation of the funds

Payment received from the URPF

Amount received from the key man insurance policies

LEAVE TRAVEL CONCESSIONS

Leave travel concessions any where in India the actual expenditure is exempted. It is restricted to the two children only.

Perks to the employees posted outside India is fully exempted

DEATH CUM RETIREMENT GRATUITY

It is given at the time of leaving the job or in the event of the death

Nature of the employment	Rule according to income tax law
Government employees Central/ state/ local authorities/ defense	exempted
Non government employees Covered under payment of gratuity act 1972	Least is exempted 15 days salary for each completed years service 7 days salary for seasonal factories notified limit is 350000 actual gratuity received
Non government employees Not Covered under payment of gratuity act 1972	Least is exempted ½ months salary of service of average salary limit 350000 actual amount received

Note

For the employee means any person other than apprentice in any establishment factory mines, plantation, port, railway, company, shop.

The full year of completed year's services is taken for the years for the payment of gratuity act

The 15 days salary is calculated the average salary for the preceding 10 months salary

Salary= pay + dearness allowance if enters or not

Relief u/s 89(1) taxable gratuity included in the salary income of any previous year the employee can entitled to claim the relief if hasn't get the gratuity after 5 years service

For the payment not cover under the act salary is pay + DA if enters for pay + commission of sales

PENSION

Pension is the payment given to the old aged persons

Un commuted/ periodic/ normal pension	Commutated pensions
Fully taxable	Exempted for the government employees
	Non government employees
	Gets gratuity
	1/3 of the pension which is normally commuted entitled is exempted
	If he not gets gratuity
	½ of the commuted value of the pension is exempted

LEAVE ENCASHMENT ON THE RETIREMENT

If it is received @ time of working is fully taxable

If it is received @ time of retirement least is exempted

For government employees is exempted

For others

Least is exempted

Actual amount received

Limit 300000

Cash equivalent to the leave at the time of retirement

10 month average salary for the every completed year's service.

Salary= pay + dearness pay (if enters in to pay or service benefits)+ commission on sales

AMOUNT RECEIVED AS THE TERMINATION OF THE EMPLOYMENT

It is happen because of the industrial dispute act

Least is exempted

Amount calculated under the act

Limit is 500000

Actual compensation received. Under the industrial dispute act a worker is allowed retrenchment compensation equal to 15 days of the salary in excess of 6 months.

AMOUNT RECEIVED AS THE VOLUNTARY RETIREMENT 10-10 C

If the employee is retired form the

A public sector company

Company

Authority established under the central state provincial act

Local authorities

Universities

IIT

State and the central governments

The least of the following is exempted

Limit 500000

Three months average salary for every completed year's service

Salary for the months remaining

Actual amount received

Income by way of tax on the perks not provided as the monetary payment is exempted 10-10CC

Any amount received as SPF @ PPF is exempted 10(11)

Amount received from RPF 10 (12)

Is tax free when the employee is rendered 5 years continuous service?

Any payment from approved superannuation of funds 10(13)

It is made on the death of a beneficiary or retirement is fully exempted

Any special allowance

If it is given in performance of duties is fully exempted

WRITE THE DEDUCTIONS OUT OF GROSS SALARY INCOMES -16

ENTERTAINMENT ALLOWANCE 16-II

Least is exempted

Limit is 5000

1/5 of the basic pay

Actual amount received

TAX ON EMPLOYMENT/PROFESSIONAL TAX

In the case of the professional tax paid by the employee or paid by his employer if fully allowed as deduction

WRITE THE DEDUCTIONS U/S 80 C OF GROSS SALARY INCOME OR THE REBATE OUT OF GROSS SALARY INCOME

It can be claimed by an individual and the HUF

Total amount deposited in various approved saving schemes or 100000 per (pa) WEL is shall be allowed as the deduction. It also includes the 80 CCC & 80 CCD. The amount due but not paid upto 31st march shall not qualify for this deduction.

Qualifying amount

Own contribution to the SPF, RPF,

Own contribution to the PPF to the maximum of 70000

Payment of LIC premium for own life spouse life, children's life,

Amount deducted as the deferred annuity

Payment towards group insurance

Deposits in super ANNUATION of the funds

Deposits in united linked insurance plans
Amount invested in NSS
Amount invested in NSS 1992
Amount paid to LIC under JEEVAN dharma policies
Notified pension funds
Amount deposited in housing banks
Any subscription of central government
Term deposits with the banks
Repayment of house building advance
Payment of the tuition fees
Any paid as the equity shares or debentures
Amount paid as the units of mutual funds
Investment in bonds issued by NABARD
Deposits in post office time deposits an senior citizens saving scheme

WRITE NOTES ON THE MARGINAL RELIEF

Where taxable income exceeds 1000000 the amount of income tax and surcharge payable shall not exceed the total amount payable as income tax on total income of rupees 1000000 by more than the amount that exceeds the amount

WRITE NOTES ON THE RELIEF U/S 89(1) FOR ARREARS OF SALARY OR FAMILY PENSION

Salary is taxable whether is due or received. But the following cases the AO may grant relief

Salary being received as arrears or in advance

Compensation

Commutation of the pension

Other payment

Computation procedure for the arrears of the salary and the family pension advance salary

Add the salary of arrear or advance in current year's income

Exclude the income and find the differences

Revised total tax is calculated if it related to previous years

Compare the taxes

Pay extra tax or get the relief

Incomes Which Do Not Form Part Of Total Income (Or) General Exemption

Under Section 10 of the Income-tax Act, various items of income are totally exempt from income-tax. Therefore, these incomes are not included in the total income of an assessee. Section 10 provides that in computing the total income of a previous year of any person, any income falls in its ambit shall not be included in the total income, provided the assessee proves that a particular item of income is exempt and falls within a particular clause. The onus is on the assessee i.e. the assessee has to prove that his income falls under Section 10.

The items of 'exemptions' specified in Section 10, are as follows:

1. Agricultural Income [Section 10(1)]
2. Money Received by an Individual as a Member of H.U.F. [Section 10(2)]
3. Share of Profit from Partnership Firm [Section 10(2a)]
4. Interest income of non-residents [section 10(4)]
5. Interest income of non-residents from specified savings certificates [section 10(4b)]
6. Travel concession or assistance to a citizen of india [section 10(5)]
7. Exemptions to an individual who is not a citizen of india [section 10(6)]
8. Tax paid on behalf of foreign companies in respect of certain income [section 10(6a)]
9. Income derived by a foreign company [section 10(6b)]
10. Income of foreign aircraft business from lease [section 10(6bb)]
11. Fees for technical services received by foreign companies [section 10(6c)]
12. Allowance payable outside india [section 10(7)]
13. Co-operative technical assistance programmes [section 10(8)]

14. Fee received by certain consultants out of funds made available to international organization [section 10(8a)]
15. Remuneration received by certain individual in connection with any technical assistance programme [section 10(8b)]
16. Income of any member of the family [section 10(9)]
17. Death-cum-retirement gratuity [section 10(10)]
18. Commutation of pension [section 10(10a)]
19. Encashment of earned leave [section 10(10aa)]
20. Retrenchment compensation [section 10(10b)]
21. Compensation received by victims of bhopal gas leak disaster [section 10(10bb)]
22. Payment received on voluntary retirement [section 10(10c)]
23. Tax paid by the employer on non monetary perquisites [section 10(cc)]
24. Payment received under a life insurance policy [section 10(10d)]
25. Payment from statutory provident fund [section 10(11)]
26. Payment from a recognised provident fund [section 10(12)]
27. Payment from an approved superannuation fund [section 10(13)]
28. Special allowance [section 10(14)]
29. Lease rent for leasing of an aircraft [Section 10(15A)]
30. Scholarships [Section 10(16)]
31. Daily Allowances of MPs and MLAs [Section 10(17)]
32. Awards/Rewards [Section 10(17A)]
33. Pension [Section 10(18)]
34. Family Pension [Section 10(19)]
35. Annual Value of Palace of a Ruler [Section 10(19A)]
36. Income of Local Authorities [Section 10(20)]
37. Income of Research Associations [Section 10(21)]
38. Income of News Agency [Section 10(22B)]
39. Income of a Professional Institution [Section 10(23A)]
40. Income of a Regimental Fund or Non-Public Fund [Section 10(23AA)]
41. Exemption to fund established for welfare of employees [Section 10(23AAA)]
42. Pension fund of LIC [Section 10(23AAB)]
43. Income of an Institution established for promoting Khadi and Village Industries [Section 10(23B)]
44. Income of Khadi and Village Industries Board established by a State Act [Section 10(23BB)]
45. Income of Statutory Authority Administering Charitable Trust etc. [Section 10(23BBA)]
46. Income of European Economic Community [Section 10(23BBB)]
47. Income of SAARC Fund [Section 10(23BBC)]
48. Income of IRDA(Insurance Regulatory and Development Authority) [Section 10(23BBE)]
49. Income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)]
50. Any Income Received by any Person on behalf of certain Persons [Section 10(23C)]
51. Income of a Mutual Fund [Section 10(23D)]
52. Income of Credit Guarantee Fund Trust for SSI [Section 10(23EB)]
53. Income of Venture Capital Company [Section 10(23FB)]
54. Income of a Registered Trade Union [Section 10(24)]
55. Income to Trustees of certain Funds [Section 10(25)]
56. Exemption to Employees' State Insurance Fund [Section 10(25A)]
57. Income of a Member of a Scheduled Tribe [Section 10(26)]
58. Exemption to National Minorities Development and Finance Corporation [Section 10(26BB)]
59. Exemption on any income of a corporation established by a Central, State or Provincial Act for the welfare and economic upliftment of ex-servicemen being the citizens of India. [Section 10(26BBB)].
60. Income of Co-operative Societies Promoting the Interest of Members of Scheduled Castes, etc. [Section 10(27)]
61. Exemption of Commodity Boards and Authorities from Income-tax [Section 10(29A)]
62. Subsidy from the Tea Board [Section 10(30)]

63. Subsidy from the Rubber; Coffee; Spices and other Board or authority established under any law and notified by the Central Government [Section 10(31)]
64. Income of minor child [Section 10(32)]
65. Income from transfer of units of UTI [Section 10(33)]

PROBLEM :

HRA CALCULATE

1. Mr. X resides in Chennai and gets Rs 10000 per month as basic salary, Rs 8000 per month as DA [entering service benefits], Rs 12000 per month as HRA. He pays Rs 10000 per month as rent. Calculate taxable HRA.
2. Mr. Ankur resides in Jaipur. He gets basic salary Rs 4000 per month, DA Rs 2000 per month [50% forms part of salary] HRA Rs 3000 per month [rent paid Rs 2500 per month]. During the previous year he achieved a turnover Rs 225000. He usually gets 4% commission on turnover.
3. Mr. Harish is employed in Chennai and resides in his own house. He gets Rs 8000 per month as salary Rs 4450 per month as DA [forming part] and Rs 3450 per month as HRA. Find out the taxable portion of HRA.
4. From the following calculate taxable HRA of Mr. X working in Mumbai.
Basic salary 10000 p.m
DA [forming part] 3000 p.m
HRA 2000 p.m
Rent paid 3000 p.m

E.A CALCULATION

5. Mr. X government employee gets Rs 80000 per annum as basic pay. In addition he receives Rs 20000 as EA. Calculate exempted EA.
6. Mr. R, is a government employee working in Patna. He gets Rs 9000 per month as basic salary, Rs 4000 per month as DA [forming part] and Rs 3000 per month as EA. He has spent Rs 41000 towards EA. Calculate exempted EA.
7. Mr. RG works in government of TN [Chennai]. He gives the following details
Basic salary 5000 p.m, DA [forming part] 1000 p.m, DA [not forming part] 750 p.m, HRA Rs 600 p.m, EA 250 p.m, he claims that he pays a rent of Rs 200 p.m and he has spent Rs. 3000 p.a towards EA. Calculate 1. Exempted HRA 2. Exempted EA.
8. Mr. X an officer of the Punjab government, gets Rs. 40000 per month as salary and Rs. 600 p.m as entertainment allowance. Besides, he gets dearness allowance and house rent allowance as per government rules. During the relevant previous year, he has utilized the entire entertainment allowance for private purpose. The assessing officer is, therefore, of the view that the entertainment allowance is fully taxable. Is he legally correct? If not, determine the amount of entertainment allowance deductible from salary.
9. Mr. RK a government employee, gets Rs 800000 per annum as basic pay. In addition, he receives Rs. 8500 as entertainment allowance. His actual expenditure on entertainment for office purpose, however, exceeds Rs 9000. Can he claim deduction of actual amount spent by him on entertainment?

GRATUITY PROBLEMS

1. Mr. A, an employee of the Central Government, receives Rs. 1,00,000 as gratuity at the time of his retirement on May 1, 2012 under the new pension code. Determine the taxability of the gratuity in his hands for the assessment year 2013-14. In case he joins a private sector company on July 1, 2012 as its Managing Director, will it make any difference?

2. Mr. B is employed in a non-seasonal factory at a salary of Rs. 2,400 P.M. Besides, he also gets dearness allowance @ Rs. 600 P.M. and bonus @ Rs. 200 P.M. He retires on December 31, 2012 and gets Rs. 75,000 as gratuity under the Payment of Gratuity Act after serving 31 years and 4 months in that factory. Compute the amount of gratuity which is exempt under the Income-tax Act, 1961.
3. Mr. C, who is not covered by the Payment of Gratuity Act, received a gratuity of Rs. 90,000 on retirement on December 31, 2012 after serving 35 years (forms part of salary for retirement benefits) and 8 months. His last drawn emoluments were: Basic salary Rs. 4,000 p.m. Dearness allowance Rs. 1,000 p.m. Annual increment of Rs. 200 p.m. falls due on 1st October each year. Determine the amount of gratuity exempt from tax for the assessment year 2013-14.

PENSION

1. Mr. A is entitled to get a pension of Rs. 600 per month from a private company. He gets three-fifth of the pension commuted and receives Rs. 36,000. Compute the taxable portion of commuted value when:
 - (a) he receives Rs. 20,000 as gratuity
 - (b) he does not receive gratuity.
2. Mr. kumar retired from private service on 30th April 2012 and his pension is fixed at Rs. 3000 p.m. he gets ½ of his pension commuted for Rs. 120000. he also received Rs. 75000 as gratuity. He gets his pension commuted on 1st February 2013. Calculate taxable pension value.
3. Mr. Somnath retired on 31-12-2012 from public Ltd co. His pension was fixed at Rs. 1800 p.m. He got ¾th of his pension commuted for Rs. 140000. Find out the taxable value of pension.
 - a. if he receives along with gratuity
 - b. if he does not receives along with gratuity

LEAVE ENCASHMENT

1. Mr. S is a Central Govt. employee who retired on 16th August 2012. He received Rs. 100000 towards encashment of earned leave. Calculate taxable leave salary.

2. From the following Calculate taxable leave salary.

Name of the employee	: Mr. Venkarraman
Name of the employer	: EB Ltd
Leave salary received	: Rs. 525000
Salary at the time of retirement	: 12450 p.m.
Duration of service	: 32 years and 4 months
Leave entitled for every year of service	: 35 days
Leave availed while in service	: 14 months

3. Mr. P, an employee of a company, receives ` 7,75,000 as leave salary at the time of his retirement on December 31, 2012. Determine the amount of taxable leave salary for the assessment year 2013-14 from the following information:

PROVIDENT FUND

1. Mr. Rakesh Who is working and residing in Kerala in his own house gives the following information Salary Rs 8000 p.m., DA Rs. 3000 p.m., EA Rs. 1200 p.m., and HRA Rs. 2400 p.m. Mr Rakesh and his employer contribute 14% towards RPF. Calculate income from salary assuming DA enters in to service benefits.
2. Mr. Lokesh has furnished the following details with regard to his salary income. Salary Rs. 6000 p.m., Bonus at six month salary, traveling allowance @ Rs. 300 p.m., EA at Rs. 250 P.m. and commission equal to four months pay. He and his employer contribute 12.5 % towards RPF. The interest credited to PF is Rs. 12000 at 12 %.
He has spent Rs. 700 and Rs. 1100 towards electricity and water charges for his personal purposes.

Calculate income from salary.

1. Calculate the salary income of Mr. Somu for the financial year 2012-13

Monthly salary 10000 p.m

DA 6000 p.m

Bonus 10000 p.m

CCA 1000 p.m

HRA 2000 p.m

Employee contribution to PF 400 p.m

Employer contribution to PF 400 p.m

He lives in rented house in Chennai for which he pays rent Rs. 1500 p.m

Compute salary income for the A/Y 2013-14.

2. Mr. SIVA is employed in ABC Ltd Bangalore. He gets the following emoluments

Basic salary 12500 p.m

DA (forming part) 6000 p.m

Bonus 5000

Fees 1000

2% commission on turnover achieved (turnover achieved) Rs. 150000

HRA 7250 p.m

EA 4000 p.m

Calculate gross salary.

3. Mr. RAGUPATHI was appointed as sales manager of a company at Karnal (population 12 lakhs) on 1.1.2009 in the scale of Rs. 8000-400-12000 at Rs 8000 p.m. His salary is due on the last date of the month.

His other emoluments are:

Dearness allowances 40% of salary

Conveyance allowance 1000

(up to 30-9-2012 and his actual expenses on conveyance for employment purpose were Rs 600 p.m)

House rent allowance upto 31-7-2012 1500 p.m

(rent paid was Rs 2000 p.m)

Fixed medical allowance 400 p.m

Rent free house provided by employer from 1-8-2012. FRV of the house is Rs 45000 p.a and cost of furnishing amount to Rs 60000. Employer also paid Rs 600 p.m as electricity bill from 1-8-2012 to 31-3-2013.

He was given a free use of 104lt. capacity car with driver both for personal and employment purpose from 1-10-2012 onwards.

He and his employer both contributed 14.5% of salary each towards RPF.

Interest credited on RPF balance @ 12% amounts to Rs. 6000.

Club bill paid by employer during the year were Rs. 4800

Compute his salary income.

4. Miss AMALA is a software engineer employed in a software company at Mumbai. Following are the details of her salary.

Salary @ Rs 20000 p.m

D.A @ Rs 5000

Company provided her a laptop for personal use, the cost which is Rs 35000

Company sold her a washing machine for Rs. 20000, cost of which was Rs 30000

Travelling expenses to abroad Rs 40000 are borne by the company.

Employer contributed Rs 10000 towards unit linked insurance plan.

She is provided with rent free furnished quarter in Mumbai valuing Rs. 5000 p.m and furniture and fittings value Rs 15000. Population of Mumbai is 1.5 crore.

Special marriage gift given to the employee Rs.50000

Planning allowance Rs. 500 p.m

Medical expenses paid by company Rs 10000

Medical allowance @ Rs. 1250 p.m

Employer company has provided a big car her personal use and expenditure incurred by the company on the car during the year is Rs 60000. Cost of car is Rs 9 lakhs

Assume that the salary is due on the last day of every month.

5. From the particular given below, compute salary income of Mr. R.K

Salary @ Rs. 40000 p.m 480000

Bonus equal to one month 's salary 40000

Entertainment allowance @ Rs 5000 p.m 60000

Free gas and water supply 5000

He is provided with rent free accommodation in delhi owned by the employer the FRV of which is Rs. 10000 p.m (population of delhi is above 25 lakhs)

He is provided with the facility of a 18 cubic capacity car which he uses both for private and official purposes

He has engaged a domestic servant @ Rs 1000 p.m and his salary is being paid by his employer.

He is provided the facility of a free lunch in the office during lunch break valued at Rs. 100 per day for 250 days in the previous year.

The employer is maintaining a holiday home at shimla and employee stayed there for 10 days free of cost . Its cost to the employer shall be Rs.10000.

During the year employee and his wife travelled by air to Bombay to attend a family function and air tickets worth Rs. 24000 were purchased by him through credit card provided to him by the employer.

Employer and employee both are contributing @ 14% in employee's recognized provident fund.

PROBLEMS:

6. Calculate income from salary of Mr. Vasanthan in the following cases. Basic salary Rs.12,500 p.m., upto 30th september, 2011 and Rs 15,000 p.m., there after DA 45% of basic salary (out of which 25% forms part of salary)

Bonus	Rs. 8,000
CCA	Rs.2000 p.m.
Project allowance	Rs.1000 p.m.
Medical allowance	Rs 600 p.m.
Tiffin allowance	Rs 500 p.m.
Over time allowance	Rs 200 p.m.
Family allowance	Rs 600 p.m.
HRA	Rs 6,250 p.m.(Rent paid Rs 5,250)
EA	Rs 4000 p.m.
Academic research allowance	Rs.10000 p.m.
Education allowance	Rs.7000 p.a.
Hostel allowance	Rs.8000 p.a.
Conveyance allowance	Rs.600 p.m. (actual spent Rs 400 p.m.)
Washing allowance	Rs.75 p.m. (actual spent Rs 100 p.m.)
Helper allowance	Rs.100 p.m. (actual spent Rs 75 p.m.)
Daily allowance	Rs.250 p.m.
Uniform allowance	Rs.500 p.m. (actual spent Rs 750 p.m.)

a) If Mr. Vasanthan is a government employee employed in Ludhiana

b) If Mr. Vasanthan is a private employee workin in Calcutta.

1. Mr. RAGUPATHI was appointed as sales manager of a company at karnal (population 12 lakhs) on 1.1.2009 in the scale of Rs. 8000-400-12000 at Rs 8000 p.m. his salary is due on the last date of the months. His other emoluments are:

Dearness allowances	40% of salary
Conveyance allowance	1000
(up to 30-9-2012 and his actual expenses on conveyance for employment purpose were Rs. 600 p.m)	
House rent allowance upto 31-7-2012	1500 p. m
(rent paid was Rs 2000 p.m)	
Fixed medical allowance	400 p.m
Rent free house provided by employer from 1-8-2012.FRV of the house is Rs 45000 p.a and cost of furnishing amount to Rs 60000. Employer also paid Rs 600 p.m as electricity bill from 1-8-2012 to 31-3-2013.	
He was given a free use of 104lt.capacity car with driver both for personal and employment purpose from 1-10-2012 onwards.	
He and his employer both contributed 14.5% of salary each towards RPF.	
Interest credited on RPF balance @ 12% amounts to Rs. 6000.	
Club bill paid by employer during the year were Rs.4800	

Compute his salary income.

2. Miss. AMALA is a software engineer employed in a software company at Mumbai. Following are the details of her salary.

Salary @ Rs 20000p.m, D.A @ Rs 5000

Company provided her a laptop for personal use, the cost which is Rs 35000

Company sold her a washing machine for Rs.20000, cost of which was Rs 30000

Travelling expenses to abroad Rs 40000 are borne by the company.

Employer contributed Rs 10000 towards unit linked insurance plan.

She is provided with rent free furnished quarter in Mumbai valuing Rs. 5000 p.m and furniture and fittings value RS 15000. Population of Mumbai is 1.5 crore.

Special marriage gift given to the employee Rs.50000

Planning allowance Rs. 500 p.m

Medical expenses paid by company Rs 10000

Medical allowance @ Rs. 1250 p.m

Employer company has provided a big car her personal use and expenditure incurred by the company on the car during the year is Rs 60000. Cost of car is Rs 9 lakhs

Assume that the salary is due on the last day of every month.

3. From the particular given below, compute salary income of Mr. R.K

Salary @ Rs. 40000p.m 480000

Bonus equal to one month 's salary 40000

Entertainment allowance @ Rs 5000 p.m 60000

Free gas and water supply 5000

He is provided with rent free accommodation in delhi owned by the employer the FRV of which is Rs. 10000 p.m (population of delhi is above 25 lakhs)

He is provided with the facility of a 18 cubic capacity car which he uses both for private and official purposes

He has engaged a domestic servant @ Rs 1000 p.m and his salary is being paid by his employer.

He is provided the facility of a free lunch in the office during lunch break valued at Rs. 100 per day for 250 days in the previous year.

The employer is maintaining a holiday home at shimla and employee stayed there for 10days free of cost. Its cost to the employer shall be Rs.10000.

During the year employee and his wife travelled by air to Bombay to attend a family function and air tickets worth Rs. 24000 were purchased by him through credit card provided to him by the employer.

Employer and employee both are contributing @ 14% in employee's recognized provident fund.

10. Mr. Shyam, employed at Mumbai, receives the following from his employer during the previous year:

	Rs.
Basic Salary	60,000
Bonus	1,800
Entertainment allowance (taxable)	6,000
Electricity expenses	2,000
Professional tax paid by the employer	2,000
Rent free house (owned by Employer) :	
Fair rent	48,000
Salary of gardener	2,400
Garden Maintenance	1,200
Salary of watchman	1,800

Determine the value of taxable perquisites in respect of rent free house assuming (a) Mr. Shyam is a Government Officer and the fair rent as arrived at by the Government is Rs. 6,000 p.a (b) Mr. Shyam is a semi-Government employee, and (c) Mr. Shyam is employed by a private company.

11. Mr. Ramamoorthy, an employee of M/s. Gopalkrishnan & Co. of Chennai receives during the previous year ended March 31, 2013 the following payments :

	Rs.
Basic Salary	40,000
Dearness allowance	3,000
Leave Salary	5,400
Professional tax paid by employer	1,000
Fair rent of the flat provided by employer	6,000
Rent paid for furniture	1,000
Rent recovered by employer	3,000
Contribution to Statutory Provident Fund	4,000
Employer's contribution to Statutory Provident Fund	4,000

Compute his taxable income for the Assessment Year 2013-14.

12. Raman, an employee of the Gas Supply Ltd., Agra, receives the following emoluments during the previous year 2012-13.

	Rs.
Basic pay	10,000
Project allowance	1,800
Arrears of project allowance of May, 1983	150
Professional tax paid by the employer	200
Rent free furnished house	
– Fair rent of the house	2,000
– Rent of furniture	500
Free gas supply	400
Service of sweeper	600
Services of gardener	1,000
Service of cook	800
Free lunch	2,400

Free use of chauffeur driven Fiat car which is used partly for official and partly for private purposes. He is a member of recognized provident fund to which he contributes Rs. 1,500. His employer also contributes an equal amount. He deposits Rs. 600 per month in 10 year account under the Post Office Savings Bank Rules. Determine his taxable income and tax payable thereon for the assessment year 2013-14. (a) If Raman is a director in the employer company and the rent-free house is owned by it, (b) If Raman is neither a director nor a shareholder in the employer company and the rent-free house is not owned by it.

13. For the year ended 31.3.2013, B receives a salary of Rs. 91,000 and conveyance allowance of Rs. 24,000. He is also provided with accommodation at Mumbai at concessional rent. The monthly rent of the accommodation is Rs. 7,500 of which Rs. 5,000 is paid by the employer. The balance of Rs. 2,500 is paid by B. B's contribution to employee's provident fund account is Rs.7,592 and he pays Rs.10,298 as life insurance premia. His expense on conveyance for official purposes was Rs.22,500 for the year. Compute B's tax liability for the assessment year 2013-14 assuming that he has no other income.

14. For the financial year 2012-13, 'A', a Central Government Officer receives salary of Rs. 77,000 (including dearness allowance of Rs. 42,000) and entertainment allowance of Rs. 18,000. His contribution to provident fund during this period is Rs. 7,200. In addition, he has purchased National Savings Certificates (VIII Issue) for Rs. 6,000. He has been provided with accommodation by the Government for which the rent determined is Rs. 375 per month and this is recovered from A's salary. Compute A's tax liability for the assessment year 2013-14 assuming that he has no other income.

15. Mr. A, the General Manager of XYZ Ltd., retired on 31.12.2012 after 30 years of service. The particulars of his income are as follows:

1. Salary Rs. 10,000 per month from January 1, 2012. House rent allowance Rs.4,000 per month from January1, 2012.
 2. Medical expenses reimbursed by employer: Rs. 7,200 for the period from April 1, 2012 to December 31, 2012.
 3. Mr. A and his family also availed LTC - they visited Mumbai and the expenses of Rs. 5,600 being the cost of air conditioned second class rail tickets was reimbursed by the employer.
 4. The employer provides him a car for personal purposes and expenses are incurred by the employer amounting to Rs. 9,900.
 5. Mr. A contributes 22% (12% regular and 10% additional voluntary contribution) to recognised provident fund and the company matches his regular contribution of 12%.
 6. Mr. A has invested Rs. 20,000 in ULIP Scheme of UTI and Rs. 10,000 in public provident fund. He paid Rs. 8,000 towards life insurance premium on policy for a sum assured of Rs. 60,000.
 7. He lives in his own house. The annual municipal value of the house is Rs. 15,000.
 8. Payment of club bills to the extent of Rs. 2,700 for the year being monthly subscription @ 300 per month was reimbursed by the employer.
 9. Mr. A received Rs. 1,50,000 as gratuity. He is not covered by the Payment of Gratuity Act.
 10. He received Rs. 1,60,000 for encashment of leave, being 16 months' leave not availed of.
- Compute A's income for the assessment year 2013-14.

16. 'A' furnishes the following details of his salary income for the financial year 2012-13:

	Rs.	
(1) Salary	4,000 p.m.	
(2) Dearness Allowance	500 p.m.	
(3) Entertainment Allowance	200 p.m.	
(4) Employer's and his own contribution to unrecognized Provident Fund		2,600 each
(5) Interest on the accumulated balance of provident fund @ 12% p.a.		2,600
(6) City Compensatory Allowance	60 p.m.	
(7) Medical Allowance	1,500 p.a.	
(8) Project Allowance	600 p.m.	
(9) He is also provided with an unfurnished accommodation for which his employer charges Rs.		

200 p.m. The fair rent of house is Rs. 12,000 per annum. The house is owned by the employer.
 Compute his taxable income from salary for the assessment year 2013-14.

17. Compute taxable salary income of Mr. Z of Kanpur for the assessment year 2013-14 based on the following information:

	Rs.
– Salary @ Rs. 4,000 p.m. (serving since 1.4.1996)	48,000
– Entertainment Allowance	5,000
– Bonus	10,000
– Dearness Allowance (not recognized for computing retirement benefit)	2,000
– Employer’s contribution to provident fund (recognized)	4,000
– Education Allowance for one child	2,700
– Lunch Allowance	7,200
– Rent-free unfurnished quarters (valued)	6,000
– Medical expenses met by employer	600
– Reimbursement of hotel bills (necessary for duty)	100
– Employee’s contribution to Provident Fund	2,000
– Premium of Mrs. Z’s life policy of Rs. 50,000	6,000
– Purchase of books necessary for duty	1,000
– Share of HUF	50,000

UNIT-IV

Define The Income From House Property And Concept :

Sec22 of the Income tax act 1961 deals with house property income. Income from houses buildings bungalows godowns are taxed under this head

It is not based on the actual incomes but on the notional incomes

Building or land apartment there to and it includes the buildings, residential houses, bungalows, ware houses,

Annual value determined according to the section -23

The Assessee should be the owner of the house

He may be also the deemed owner of the house property

It must not be used for the Assessee own business and profession

If there any dispute about ownership the real owner must pay the tax

House property situated in foreign country the resident only has to pay tax.

Building let out to a bank, post office, police station, excise department is exempted

Income form sub letting of the house property is taxable in the other sources head by the receiver

Composite house property income if possible to separate it shown on the each head that is house property and the other sources

Income form the hotel business paying guest accommodation is taxable such rental income taxable in the business income (if the income from runs his business)

Exempted incomes from the house property

Agricultural house property 2(1)

House property held for the charitable purpose (11)

Self occupied but vacant house 23(3)

House property for own business or profession

Property held by registered trade unions

Income from the property held by the following shall be exempted

Income from the property held by the local authority, scientific research institution, political parties, university and the educational institutions, medical institutions for services

One house property or a palace held by the former rulers

One self occupied house.

Explain About The Deemed Owner Of The House Property

According to section 27 -An individual who transfers otherwise than adequate consideration any house property to his or her spouse-Not being a transfer in connection with an agreement to live apart The holder of an impartibly estate shall be deemed to the individual owner of all the property so transferred. A member of a co-operative to whom a building or part thereof is allotted or leased under a house building scheme of the society shall be deemed to be the owner of that building there of.

Different Types Of The Rental Values In House Property Incomes

Annual values

Section 23(1) Where the property or any part of the property is let out any sum of money received or receivable in the previous year shall be treated as the annual value

Where any sum received in excess of the above it shall be treated as the annual value

Where the property is vacant during the previous year is deduct able

Actual rent

It is the rent received by the owner from the tenant. Any amount of local tax paid by the tenant, interest on the advances are not to be added.. it must not include any unrealized rent,

Real rental value (RRV)

In case of cost of common facilities such as lift, pump maintenance, salary of common gardener, lighting of stairs, and water and the electricity bills if it included in the rent are borne by the owner . such costs are to be reduced from the rent is called RRV.

Municipal rental value (MRV)

For the purpose of levying the municipal tax the local authority conducts the periodical survey of the house properties in their local limits. It is called as the municipal rental value

Fair rental value (FRV)

It is the rental value of a house property can fetch.

It is rent prevailing for similar type of accommodation in same or similar type of accommodation in same locality.

Standard rent (SR)

The rent fixed under the rent control act where so ever applicable is called as standard rent.

Expected rental value (ERV)

In case of standard rent is not fixed

Municipal rental value

Fair rental value

Actual rent received (WEH) shall be treated as the rental value

In case of standard rent fixed

Municipal rental value

Fair rental value

Standard rent – if standard rent fixed the expected rent cannot exceed the standard rent.

Compare the MRV & FRV –WEH and is not exceed the standard rent

If the actual rent is exceed the standard rent actual rent is treated as ERV.

METHODS OF DETERMINING THE ANNUAL VALUE

Annual value of let out house

1. House property is let out for full year and there is no vacancy or unrealized rent.

Compare the MRV &FRV whichever is high is compared with SR whichever is less is ERV

If actual rent received is more than ERV – the actual rent is taken as ARV.

If actual rent received is less than ERV – the ERV is taken as ARV.

These provisions are applicable only when the HP is let out whole year

This is only applicable there is no unrealized rent

Taxes paid by the tenant, cost of repairs borne by the tenant or interest on the deposits made by the tenant not be added back

2. House property is let out for full year and there is vacancy

If the property is vacant for the full year the ARV is nil

If the property is vacant for the part of the year

If rent received or receivable is more than the ERV

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV. If rent received or receivable for the full year is more than ERV

3. House property is let out and there is unrealized rent

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV

If the rent actually received or receivable after deducting unrealized rent as per the conditions given below is more than ERV such rent received or receivable is ARV

Important points

if the following conditions are fulfilled the amount of unrealized rent shall be deducted out of actual rent received.

There is tenancy of bona fide

That the tenant has vacated the house or steps have been taken to get the house vacated.

The tenant is not occupying any other house owned by the assessee

Unrealized rent of earlier years is not deductible.

4. House property is let out and there is vacancy and the unrealized rent.

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV

If the rent actually received during the year after deducting the unrealized rent is more than such rent received is ARV

Such ARV is reduced by an amount of actual rent in proportion to the vacancy

If the rent actually received or receivable after deducting the unrealized rent and vacancy per conditions is less than ERV such ERV is ARV.

5. If the house property is let out for a part of the year

Take all values only for the period of the house property is in existence.

What are the different taxes deducted from the annual value?

Local tax

Municipal tax

Fire tax

Water tax

Conservancy tax

Education cess etc.,

What are the deductions allowed to the self occupied houses.

Only one house in own occupation

If there is more than one property is in occupation one is taken as nil other treated as let out

If it consists of various houses units one unit is taken as nil

If the house property is let out and partly self occupied is to be treated as

If it is one house no self occupation benefit is given

If the units are separate one unit is allowed the self occupied benefit

House property is let out for part of the year and under own occupation for the part of the year no benefit of the self occupation is allowed.

Interest on loan for the let out house.

Loan must be taken to repairs construct, renovate, or purchase the house

Interest on the mortgage cannot allowed as the deduction

Interest for the previous year is fully allowed

Interest for the prior to the completion of house is called pre construction interest is allowed as the deduction over the 5 year.

Deduction under section 24:

The following two deduction are available under section 24-

(a) Standard deduction

30% of net annual value is deductible irrespective of any expenditure incurred by the tax payer

(b) Interest on borrowed capital:

Interest on borrowed capital is allowable as deduction, if capital is borrowed for the purpose of purchase, contribution, repair, renewal or reconstruction of the property.

(1) Interest of pre-construction period:

Interest payable by an assessee in respect of funds borrowed for the acquisition or construction of a house property and pertaining to a period prior to the previous year in which such property has been acquired or constructed, to the extent it is not allowed as a deduction under any other provision act will be deducted in five equal installment, commencing from the previous year in which the house is acquired or constructed.

PROBLEM:

1. From the following calculate GAV.

Municipal rental value	Rs 400000
Fair rental value (FRV)	Rs 375000
Standard rent	Rs 375000

2. from the following calculate GAV, assuming that there is no vacant period

	house 1	House 2
MRV	105000	105000
FRV	107000	107000
SR	135000	135000
AR	112000	98000
Period	12 months	12 months

3.. Calculate GAV from the following.

	house 1	House 2	house3	house 4
MRV	120000	122000	280000	120000
FRV	130000	132000	300000	129000
SR	119000	119000	240000	126000
AR	144000	114000	192000	144000
Period of vacancy	1month	1.5	10	5

4. calculate net annual value

municipal rental value	28000
fair rental value	34000
standard rent	35000
actual rant	3000 per month
municipal tax 1500 is paid by the owner.	

5. calculate net annual value from the following

Municipal rental value	3000 per month
Fair rental value	3250 p.m
Actual rent	4000 p.m
Municipal tax	10%

6. Compute the expected rental value

Rental value	Case A	Case B	Case C
MRV	30000	30000	30000
FRV	36000	36000	36000
standard rent	-	33000	42000

7. From the following particulars compute the income from house property

Date of completion	1-11-2003
Municipal rental value	96000
Fair rental value	84000
Self occupied	2/3 portion
let out 1/3 portion from 1-4-2008 to 31-8-2008 at 7200 and self occupied from 1-9-2008	
Municipal taxes	6000 pa
Fire insurance premium	2000 pa
Ground rent	4000 pa
Interest on loan	7500

8. From the following compute the income from the house property

	House A	House B
Standard rent	36000	56000
Fair rent	42000	62000
Municipal valuation	24000	44000
Municipal tax paid	1200	1200
Municipal taxes due	1200	1200
Ground rent paid	1000	1000

Date of completion of these houses was 31-1-2006. he has taken a loan of 250000 @ 10% for the construction of the house A on 1-06-2004 and he repaid Rs 200000 on 1-10-2008.

9. From the following compute the income from the house property

	House A	House B
Construction completed	31-3-1998	1-6-97
Actual rental value	60000	42000
Municipal valuation	50000	36000
Standard rent	45000	
Fair rental value	48000	54000
Municipal taxes	2500	3600
Interest on money borrowed	6200	
Vacancy period	2 months	
Rent collection charges`	4300	1600

Insurance premium and the ground rent of the second house are still outstanding.

10. From the following compute the income from the house property

	House A	House B
Municipal rental value	24000	38000
Fair rental value	22000	34000
Standard rent	20000	40000
Annual rent	30000	36000
Interest on loan taken for the construction of the house	28000	22000
Vacancy period	2 months	3 months
Municipal taxes	10% of MV	2400

11. Compute the annual rental value-MRV-84000 pa
FRV 90000 pa
Standard rent-87000 pa
Unrealized rent -4000
Real rent-8000 pm
Date of completion-31-07-2008 and date of letting-1-10-2008

12. Calculate the annual rental value
Actual rent-7000 pm-
municipal rental value-60000 pa-
fair rental value-66000 pa-
standard rent 69000 pa
During the year he could not realize rent for 2 months.

UNIT –V

Define The Business Income And Explain The Concept

It is the part of the total income of an assessee. This head is the most important source for the government. Business is any economic activity carried on for earning the profits. Any trade or commerce and manufacture. it is real organized course of activity or conduct with a set purpose.

Adventure in nature of trade

Profits arising from an isolated transaction are taxable as business profits.

It is for resale of goods and

Eliminate the possibility of personal use

He makes any adventure to improve the quality

PROFESSION

It is the occupation requiring purely intellectual skill or manual skill controlled by the intellectual skill of the operator. Lawyer, accountant, engineer, surgeon, author. It includes the vocation. Vocation simply means a way of living for which one has special fitness.

Charging provisions

Business and the professional incomes 28 (i)

All revenue profits arising from business or profession are chargeable even if they are of casual and non recurring in nature. Illegality of the business or profession does not exempt its income from tax.

Compensation 28 (ii)

Income of a trade or professional association 28(iii)

Profit on sale of license

Granted under imports order 1955 made under the imports and exports act 1947.

Cash assistance

Received or receivable by any person against the exports

Any duty of customs or excise

Any repaid repayable as drawback to any person

The taxation law amendments act 2005.

Value of benefit or perquisite

Salary interest bonus, commission, or remuneration received by a partner of the firm.

Amount received under the agreement for not to carry business

Speculation business.

A transaction in which a contract for the purchase or sale of any commodity including stocks and shares is periodically settled other wise than the actual delivery or transfer of the commodity or scripts.

Trading in derivatives not to be speculative transactions 43(5)

Profit earned from an illegal business,

For the removal of doubts it is here by declared that the expenditure incurred by an assesses for any purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure.

Any sum received under the key man insurance policy

Deductions allowed – general principles

Section 30-37 of the income tax act provide for the deduction to be allowed while computing the profit and gains of the business and the professions.

Any expenditure incurred in consideration of commercial expediency and on the basis of the principles of ordinary commercial trading is allowed as the deduction.

It is for the purpose of the business or any other expenditure incurred totally and exclusively for the purpose of the business.

Any other expenditure which was incurred on the caring the business

Only those expenses are expressly allowed

Capital expenditure is not allowed.

The expenses is allowed for the own business.

The onus of proof that a particular expenditure is permissible as a deduction falls upon the assesses.

Particulars	Section
Rent repairs, taxes, and insurance for the machinery for the business	30
Repairs and the maintenance for the business assets	31
Depreciation	32
Expenditure for the scientific research	35
Expenditure on patents and copyrights	35A
Expenditure of know how	35 AB
Expenditure on eligible projects	35AC
Preliminary expenses	35D
Deductions (allowable) Insurance premium on stock Bonus and commission to employees Interest on borrowed capital Employers contribution to provident funds Employers contribution to approved super annuation of funds Loss of animals Bad debts	36
Building used for the business premises	38
Expenses expressly disallowed Deduction of tax at source Capital losses Cultivation expenses Gifts and the presents Fines and the penalty's Salary or interest paid out side India Personal life insurance premiums Investments Legal criminal case expenses Loss by theft from the residence Difference in trial balance Cost of patent rights Expenditure of fringe benefit tax Any other tax Wealth tax levied on business assets Salary payable out side India Any salary bonus commission paid to the owners	40

Drawings Capital nature expenditure Amount paid to the charity and the donations(subscription is allowed) Any provision and reserves(except special reserves) Income tax and wealth tax other tax imposed on the income Other expenditure which was not necessary Any provision for bad debts and taxation Depreciation in excess of limit. Payment to the relatives 40A(2) Payment exceeding rupees 2000040A(3) All payments exceeding the limit only through crossed demand draft or crossed bank draft. If paid other mode 100% is disallowed.	
Expenditure which is allowable not deduct in profit and loss account	
Actual bad debt Depreciation no debited in profit and loss account Difference due to debiting the goods	
income exempted from the tax Post office saving bank interest Agricultural receipts Gifts from the relatives Income tax refund Bad debt disallowed earlier Life policy maturity amount Capital receipt With drawl from the provident funds	
Income taxable under the other heads	
Part time salary Interest on securities Rent from the property Capital gains Dividend bank interest and winnings from lotteries, race courses	
INCOME FROM BUSINESS	

DEEMED PROFITS

Deduction allowed earlier but recovered later on 41(1)
Balancing charge
Profit on sale of assets used for scientific research

Bad debts allowed earlier but recovered 41(4)
 Amount with drawn from the special reserve 41(4A)
 Setting off losses from the deemed profits 41(5)

If opening stock is undervalued	Reduce the profit
If the opening stock is over valued	Increase the profit
Closing stock is under valued	Increase the profit
Closing stock is over valued	Reduce the profit.
Cash system of accounting	Value of opening and closing stock is ignored
Mercantile system is followed	Opening +purchase-closing stock is the cost of goods
Value of stock used by the personal use	Value at the cost price-if is value the market price reduce the profit.

DEDUCTION OF CERTAIN PAYMENTS ONLY IF PAID 43(B)

Any payment of sales tax
 Employer’s contribution to the provident funds
 Super annuation of funds
 Gratuity funds
 Other funds for the welfare of the employees.
 Bonus or commission payable to the employees.
 These payments are actually paid on or before 31-03-2010. The payments of provident funds, ESI if it paid before the due date it is fully allowed. If the payments after the due date is not allowed as the deduction. These payments are made before March.

MAINTAINS OF ACCOUNTS 44AA

Every person caring on legal medical engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any the profession must maintain the accounts.

Where the gross receipts don’t exceed 150000 in any of the 3 years immediately proceeding the previous year the person is exempted to maintain the accounts.

COMPULSORY AUDIT

If a person is caring on business his total sales turnover or gross receipts in business exceeds 40 laks in previous year

If a person caring the profession his gross receipts exceeds 10 laks.

Specified date is the date by which the person required to file the return

Profit and gain of retail business

Where the total turnover doesn’t exceed 40 laks

SPECIMEN FOR THE COMPUTATION OF THE BUSINESS INCOME

	Balance as per the profit and loss account	
Add	Expenses claimed but not allowed under the act	
	all reserves and provisions	
	All taxes(income tax, wealth tax, gift tax)	
	Rent paid to self	
	Capital expenditure	
	All expenses relates to other heads	
	Depreciation	
	Gift and presents not relate to the business	
	Personal expenses	
	Amount invested	
Less	Expenses allowed under the act not claimed	
	Actual bad debts	
	Depreciation	
Less	Income exempted from the tax	
	Post office savings bank interest	
	Agricultural receipts	
	Gifts from relatives	
	Bad debt recovered disallowed earlier	
	Life insurance maturity amount	
Less	Income taxable under other heads	
	part time salary	
	Interest on securities	
	Rent from property	
	Dividend	
	Bank interest	
	Lotteries	
Add	Income form illegal business	
	Business income	

Computation Of The Professional Income Of The Doctor Or MEDICAL PRACTITIONER	
Professional receipts	
Consultation fees	
Operation fees	
Visiting fees	
Sale of medicine	
Gifts from patients	
Examiners fees	
Professional expenditure	
Dispensary expenses	
Cost of medicines	
Depreciation on equipments	
Cost of professional books purchased	
Professional income	

Computation Of The Professional Income Of The CHARTED ACCOUNTANT

Professional receipts	
Audit fees	
Income form accountancy work	
Institute expenses	
Examiners fees	
Gift from clients	
Consultancy services	
Professional expenditure	
Office expenditure	
Institute expenses	
Examiners fees	
Stipend to trainees	
Professional income	

computation of the professional income of the LAWYER OR ANDS ADVOCATE	Professional receipts
Practicing fees	
Legal fees	
Special commission	
Presents from clients	
Examiners fees	
Other professional incomes	
Professional expenditure	
Office expenditure	
Salary of staff	
depreciation	
Stipend to trainees	
Professional income	

PROBLEMS

1. State the following are chargeable to the tax

Sales tax and wealth tax

Donation to the political party

Cost of instillation of new telephone

Loss due to embezzment by an employee

Bad debts

Legal expenses for the building

2. The following compute the business income

	Rs.		Rs.
General expenses	7000	gross profit	140000
Fire insurance premium	2000	Bad debt recovered (disallowed)	4000
Bad debts	1000	Interest on securities	4000
Salaries	65000	Rent from employees	12000
Interest on capital and income tax	3000	Interest from debtors	6000
Depreciation	2000		
Sales tax due	5000		
Advance tax paid	1000		
Donations	500		
Motor car expenses	750		
Municipal tax on house property	5000		
Net profit	39000		
	166000		166000

General expenses include rupees 4000 paid to the compensation to the old employee.& the 2200 by way of

the help to the poor students. Depreciation to the income tax act is 2900.50% car expenses to the private use.

3. From the following calculate the business income

	Rs.		Rs.
Salaries	95000	gross profit	380000
Advertisement (cash)	24000	Interest on securities	14000
General expenses	16000	Income from house property	25000
Entertainment expenses	22000	Bad debt allowed earlier	12000
Bad debt	1500		
Drawings	24000		
Sales tax	6000		
Interest on capital	7000		
Repairs	28500		
Depreciation	15000		
Bonus	10000		
Car purchased	72000		
Expenses of the car	12000		
Donations	6000		
Provisions for the bad debts	6000		

Net profit for the year is 90000

3000 spent on the purchase of the land included in the legal expenses

½ of the repair expenses for the building

Depreciation allowed on the building is 14400.

4. From the following compute the income from the business

	Rs.		Rs.
Salary	6500	Gross profit	36750
Bad debts	1700	Commission	1250
Provision for bad debts	3000	Discounts	500
Advertisements	3800	Sundry receipts	200
Fire insurance (house property)	550	Rent of building	3600
General expenses	2750	Profit on sale of investment	3000
Depreciation	1200		
Interest on capital	2000		
Interest on bank loan	1300		
Net profit	22500		
	45300		45300

The amount of depreciation is rupees 1000. Interest on bank loan was paid on 1-8-2010.date of filing the return is 31-07-2010.

5. From the following compute the income from the profession

	Rs.		Rs.
Drawings	48000	Audit fees	224000
Office rent	42000	Consultancy service fees	98000
Telephone installation charges	15000	Dividend from Indian companies	6000
Electricity bill	4200	Dividend on UTI	4000
Salary	66000	Accountancy work	24000
Charities	1200		
Gifts to relatives	9600		
Car expenses	21000		
Subscription to journals	2500		
Institute fees	1200		
Stipends	12000		
Net income	133300		
	356000		356000

The amount of depreciation is rupees 5000. 30% of the car is used for the personal purpose

6. From the following compute the income from the business

	Rs.		Rs.
Opening stock	338000	Gross profit	870000
Purchases	329900	Misc. receipts	2490
Stores	21800	Closing stock	129000
Power and fuel	7680		
Rates and taxes	430		
Repairs	9070		
Repairs to the building	1680		
Salaries	15860		
Misc. expenses	95500		
Contribution to RPF	6200		
Staff welfare expenses	1020		
Bonus	4400		
Insurance	2500		
Commission to agents	43500		
Selling expenses	780		
Audit fees	980		
Bad debts	2100		
License fees	1090		
Interest	26500		
Provision of taxation	22000		
Depreciation	40000		
Net profits	30500		

The amount of depreciation is rupees 36000

Misc. expenses include penalty for the violation of rules 4200, donations-10000

Misc. income include the advance income tax refund of 400

7. From the following compute the income from the business

	Rs.		Rs.
Salaries	10800	By gross profit	35672
Sundry expenses	1200	Discount	751
Reserve for doubtful debt	4500	Commission	1205
Insurance	450	Sundry receipts	52
Advertisement	2500		
Income tax	2375		
Car expenses	1200		
Interest on capital	1000		
Interest on bank loan	1550		
Charity	150		
Life insurance premium	550		
Depreciation	1200		
Difference in trial balance	105		
Net profit	10100		
	37680		37680

The amount of depreciation is rupees 950

The motor car expenses half for the personal use

The advertisement expenses used for the special advertisement campaign

Salaries include a sum of 6000 for personal use

8. From the following compute the income from the business

	Rs.		Rs.
Opening stock	32000	Sales	420000
Purchases	360000	Closing stock	48000
Salaries	76000	Dividend from Indian companies	3200
Rent	2890		
Insurance premium	1700		
Printing	720		
Advertisement	26000		
House hold expenses	690		
Net profit	10800		
	79200		79200

Salaries and the wages includes 18000 charged as salary to the owner and 400 to the domestic servant

Rent included a sum of 1800 being the hostel expenses of his son

1600 of LIC premium included in the insurance premium

Municipal taxes of 2100 paid on the house property included in the house hold expenses.

UNIT -V COMPLETED