

TAXATION

CHAPTER 1 COMPUTATION OF TAX

ASSESSMENT YEAR [SEC. 2(9)]

"Assessment year" means the period starting from April 1 and ending on March 31 of the next year. Thus, the assessment year 2023-24 commences on April 1, 2023 and ends on March 31, 2024.

Income of previous year of an assessee is taxed during the next following assessment year at the rates prescribed by the relevant Finance Act.

WHAT IS A PREVIOUS YEAR [SEC. 3]

Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year.

Income earned by an individual during the previous year 2022-23 is taxable in the immediately following assessment year 2023-24 at the rates applicable for the assessment year 2023-24. Similarly, income earned during the previous year 2023-24 by a company will be taxable in the assessment year 2024-25 at the rates applicable for the assessment year 2024-25. This rule is applicable in all cases [see, however, para 24 for exception to this rule).

When income of previous year is not taxable in the immediately following assessment year - The rule that the income of the previous year is assessable as the income of the immediately following assessment year has certain exceptions. These are:

- a. income of non-resident from shipping;
- b. income of persons leaving India either permanently or for a long period of time;
- c. income of bodies formed for short duration;
- d. income of a person trying to alienate his assets with a view to avoiding payment of tax ; and
- e. income of a discontinued business.

In these cases, income of a previous year may be taxed as the income of the assessment year immediately preceding the normal assessment year.

These exceptions have been incorporated in order to ensure smooth collection of income-tax from the aforesaid taxpayers who may not be traceable if tax assessment procedure is postponed till the commencement of the normal assessment.

WHO ARE INCLUDED IN "PERSON" [SEC. 2(31)]

The term "person" includes:

- a. an individual;
- b. a Hindu undivided family;
- c. a company;
- d. a firm;
- e. an association of persons or a body of individuals, whether incorporated or not;
- f. a local authority, and
- g. every artificial juridical person not falling within any of the preceding categories.

These are seven categories of persons chargeable to tax under the Act. The aforesaid definition is inclusive and not exhaustive. Therefore, any person, not falling in the above-mentioned seven categories, may still fall in the four corners of the term "person" and accordingly may be liable to tax under section 4.

Problems

Determine the status of the following:

1. Delhi University.
2. DCM Ltd.
3. Delhi Municipal Corporation
4. Taxmann Publications (P.) Lal
5. Laxmi Commercial Bank Ltd.
6. ABC Group Housing Co-operative Society.
7. XY & Co., firm of X and Y
8. A joint family of X, Mrs. X and their sons A and B.
9. X and Y who are legal heirs of Z (Z. died in 1996 and X and Y carry on his business without entering into partnership).

WHAT IS GROSS TOTAL INCOME

As per section 14, income of a person is computed under the following five heads:

1. Salaries.
2. Income from house property.
3. Profits and gains of business or profession.
- 4 Capital gains.
5. Income from other sources

The aggregate income under these heads is termed as "gross total income". In other words, gross total income means total income computed in accordance with the provisions of the Act before making any deduction under sections 80C to 80U

Expenditure in respect of income not chargeable to tax-Section 14A provides that no deduction shall be made in respect of expenditure incurred by an assessee in relation to income which does not form part of the total

COMPUTATION OF NET INCOME FOR THE ASSESSMENT YEAR	
PARTICULARS	AMOUNT
Income from salaries	XXX
Income from House Properties	XXX
Income from Business and Profession	XXX
Income from capital Gains	XXX
Income from Other Sources	XXX
GROSS TOTAL INCOME	XXX
DEDUCTION U/S 80C TO 80U	XXX
NET INCOME	XXX

COMPUTATION OF TAX LIABILITY

Tax on Net Income	XXX
Less: Rebate U/S 87A	(XXX)
Tax after Income Tax	XXX
Add: Surcharge	XXX

	Tax and Surcharge	XXX
Add: Health and Education Cess		XXX
	TAX	XXX

Rounding off of income (Sec. 288A)-The taxable income shall be rounded off to the nearest multiple of ten rupees and for this purpose any part of a rupee consisting of paise shall be ignored and thereafter, if such amount is not a multiple of ten, then, if the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten.

INCOME BEFORE ROUDING OFF	INCOME AFTER ROUDING OFF
7,80,514.99	
7,80,515.00	
7,80,515.99	
7,80,519.99	
7,80,,524.99	

Rebate under section 87A - A resident individual (whose taxable income does not exceed Rs. 5 lakh) can claim a rebate under section 87A from income-tax. The amount of rebate is income-tax on total income or Rs. 12,500 whichever is less.

TAX SLABS

OLD REGIME

SLAB	INDIVIDUAL AGE < 60 YEARS	RESIDENT SENIOR CITIZEN AGE >= 60YRS BUT < 80 YEARS	RESIDENT SUPER SENIOR CITIZEN AGE 80 YEARS AND ABOVE
UPTO 2,50,000	NIL	NIL	NIL
2,50,001 TO 3,00,000	5%	NIL	NIL
3,00,001 TO 5,00,000	5%	5%	NIL
5,00,001 TO 10,00,000	20%	20%	20%
ABOVE 10,00,000	30%	30%	30%

NEW REGIME

BLOCKED INCENTIVES-The few exemptions/deductions/incentives are not available while calculating taxable income under the alternative tax regime -

SLAB	INDIVIDUAL AGE < 60 YEARS
UPTO 3,00,000	NIL
3,00,001 TO 6,00,000	5% (TAX REBATE U/S 87A)
6,00,001 TO 9,00,000	10% (TAX REBATE U/S 87A)
9,00,001 TO 12,00,000	15%
12,00,001 TO 15,00,000	20%

ABOVE 15,00,000	30%
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SURCHARGE ON INCOME TAX

<u>PARTICULARS</u>	<u>NET INCOME RANGE</u>	<u>SURCHARGE %</u>
INDIVIDUALS/ HUF/ BOI/ AOP/ ARTIFICIAL JUDICIAL PERSON	0-50 L	NIL
	50 L-1 CR	10%
	1 CR-2 CR	15%
	2 CR- 5 CR	25% (NOTE 1)
	ABOVE 5CR	37% (NOTE 1)
FIRM/ CO-OPERATIVE SOCIETY/ LOCAL AUTHORITY	0 – 1 CR ABOVE 1 CR	NIL 12%
DOMESTIC COMPANY	0 – 1 CR	NIL (NOTE 2)
	1 CR – 10 CR	7% (NOTE 2)
	ABOVE 10 CR	12% (NOTE 2)
FORIGN COMPANY	0 – 1 CR	NIL
	1 CR – 10 CR	2%
	ABOVE 10 CR	5%

Notes-

1. Surcharge is 15% of income-tax pertaining to dividend income and income which is chargeable under section 111A or 112 or 112A. Moreover, in the case of an AOP (consisting of only companies as its members), the rate of surcharge on the amount of income-tax shall not exceed 15%.
2. Surcharge is 10% if income is chargeable to tax under section 115BAA or 115BAB

HEALTH AND EDUCATION CESS- Amount of income-tax and surcharge shall be increased by health and education cess which is 4 per cent of (income-tax + surcharge).

Rounding off of tax (Sec. 288 B)- The amount payable by the assessee and the amount of refund due, under the provisions of the Act shall be rounded off to the nearest ten rupees.

Questions:

Consider the following cases -

Case 1 - X (35 years) is an individual. His net income (taxable income) under regular tax regime is Rs. 18,20,000. It is calculated after claiming a few deductions/incentives (i.e., standard deduction : Rs. 50,000, deduction under section 80C : Rs. 1,50,000 and deduction under section 80G : Rs. 70,000).

Case 2-Y (25 years) is an individual. His net income (taxable income) under regular tax regime is Rs. 22,50,000. It is calculated after claiming a few deductions/incentives (i.e., standard deduction : Rs. 50,000 and deduction under section 80C: Rs. 10,000).

Case 3 - Z (27 years) is an individual. His net income (taxable income) under regular tax regime is Rs. 12,00,000. It is calculated after claiming a few deductions/incentives (i.e , standard deduction : Rs. 50,000 and deduction under sections 80C and 80D: Rs. 1,95,000).

CHAPTER 2: RESIDENTIAL STATUS AND INCIDENCE OF TAX

Different taxable entities - All taxable entities are divided in the following categories for the purpose of determining residential status:

- a. an individual;
- b. a Hindu undivided family;
- c. a firm or an association of persons;
- d. a joint stock company; and
- e. every other person.

HOW TO DETERMINE RESIDENTIAL STATUS OF AN INDIVIDUAL [SEC. 6]

19.1-1 BASIC CONDITIONS TO TEST AS TO WHEN AN INDIVIDUAL IS RESIDENT IN INDIA –

Under section 6(1) an individual is said to be resident in India in any previous year, if he satisfies at least one of the following basic conditions-

Basic condition (a) He is in India in the previous year for a period of 182 days or more **OR**

Basic Condition (b) He is in India for a period of 60 days or more during the previous year and 365 days or more during 4 years immediately preceding the previous year

19.1-2 ADDITIONAL CONDITIONS TO TEST AS TO WHEN A RESIDENT INDIVIDUAL IS ORDINARILY RESIDENT IN INDIA –

Under section 6(6), a resident individual is treated as "resident and ordinarily resident" in India if he satisfies the following two additional conditions

Additional condition (1) He has been resident¹ in India in at least 2 out of 10 previous years immediately preceding the relevant previous year.

Additional condition (ii) He has been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year.

In brief it can be said that an individual becomes resident and ordinarily resident in India if he satisfies at least one of the basic conditions [i.e., (a) or (b)] and the two additional conditions [i.e., (i) and (ii)].

19.1-3 OTHER POINTS - It is worthwhile to note the following propositions -

► It is not essential that the stay should be at the same place. It is equally not necessary that the stay should be continuous. Similarly, the place of stay or the purpose of stay is not material. person is in India only for a part of a day, the calculation of physical presence in India in respect of

► Where a such broken period should be made on an hourly basis. A total of 24 hours of stay spread over a number of days is to be counted as being equivalent to the stay of one day. If, however, data is not available to calculate the period of stay of an individual in India in terms of hours, then the day on which he enters India as well as the day on which he leaves India shall be taken into account as stay of the individual in India.

In brief it can be said that an individual becomes resident and not ordinarily resident in India if he satisfies at least one of the basic conditions [i.e., (a) or (b)] and any or none of the two additional conditions [i.e., (i) or (ii)].

EXCEPTIONS- Even if an individual satisfies none of the two basic conditions, he is deemed to be resident but not ordinarily resident in the cases given below –

► First exception - This exception is given under section 6(1A) read with section 6(6)(d) and applicable from the assessment year 2021-22. Under this exception an individual shall be deemed to be resident but not ordinarily resident in India, if he satisfies the following 3 conditions -

- a. he is an Indian citizen;
 - b. his total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year, For computing Rs. 15,00,000, only taxable income shall be considered. If income is exempt, it shall not be taken into consideration even if it is derived/received in India.
- and
- c. he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

The rule given by above exception is not applicable in the case of an individual who becomes resident in India by satisfying any of the basic conditions given by section 6(1). Moreover, the above exception is not applicable in the case of a foreign citizen (even if he is a person of Indian origin).

► Second exception - This exception is given by section 6(6)(c) read with Explanation 1(b) to section 6(1) and applicable from the assessment year 2021-22. Under this exception, an individual shall be deemed to be resident but not ordinarily resident in India if he satisfies the following 4 conditions -

- a. he is an Indian citizen or a person of Indian origin;
- b. his total income (other than the income from foreign sources) exceeds Rs. 15,00,000^o during the relevant previous year;
- c. he comes to India on a visit during the relevant previous year, and
- d. he is in India for 120 days (or more but less than 182 days) during the relevant previous year and 365 days (or more) during 4 years immediately preceding the relevant previous year.

OTHER POINTS - For the aforesaid two exceptions, the following should be kept in view -

► How to find out total income of Rs. 15,00,000 - Total income for the ceiling of Rs. 15,00,000 is calculated after ignoring income from foreign sources. "Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India). Income which is deemed to accrue or arise in India shall be included in computation of the ceiling of Rs. 15,00,000.

► Liable to tax - "Liable to tax" (in relation to a person and with reference to a country) means that there is an income-tax liability on such person under the law of that country for the time being in force and shall include a person who has subsequently been exempted from such liability under the law of that country.

► Person of Indian origin - A person is deemed to be of Indian origin if he, or either of his parents or any of his grandparents, was born in undivided India.

In brief it can be said that an individual becomes non-resident in India if he doesn't satisfies any one of the basic conditions [i.e., (a) or (b)].

QUESTIONS FOR PRACTICE

1. X left India for the first time on May 20, 2020. During the financial year 2022-23, he came to India once on May 27 for a period of 53 days. Determine his residential status for the assessment year 2023-24.
2. X comes to India, for the first time, on April 16, 2020. During his stay in India up to October 5, 2022, he stays at Delhi up to April 10, 2022 and thereafter remains in Chennai till his departure from India. Determine his residential status for the assessment year 2023-24.
3. X was born in Chennai in 1992. Later on he migrated to Canada in June 2016 and took the citizenship of that country with effect from December 26, 2021. His parents were born in Bengal in 1960 and his grandparents were born in India in 1946. He comes to India during 2022-23 for a visit of 115 days. During earlier 4 years (i.e., April 1, 2018 to March 31, 2022) he was in India for 400 days. Find out the residential status of X for the assessment year 2023-24.
4. X, a foreign national (not being a person of Indian origin), comes to India for the first time on April 15, 2018. During the financial years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23, he is in Determine the residential status of X for the assessment year India for 130 days, 80 days, 13 days, 210 days and 75 days respectively. 2023-24.
5. X, an Indian citizen, leaves India for the first time on September 20, 2020 for the purpose of employment. He comes to India for a visit of 146 days on April 10, 2021. He finally comes back on May 16, 2022. Find out the residential status of X for the assessment year 2023-24.
6. X is a foreign citizen (not being a person of Indian origin). During the financial year 2022 - 23 he came to India for 70 days. Determine his residential status for the assessment year 2023-24 on the assumption that during financial years 2008-09 to 2021-22, he was present in India as follows:

2008-09	298 days	2015-16	23 days
2009-10	55 days	2016-17	70 days
2010-11	8 days	2017-18	80 days
2011-12	4 days	2018-19	126 days
2012-13	71 days	2019-20	60 days
2013-14	90 days	2020-21	80 days
2014-15	181 days	2021-22	100 days

7. X is an Indian citizen. Currently, he is in employment with an overseas company located in Dubai. During different years, he is in India as follows –

2014-15	72 day
2015-16	71 days
2016-17	70 days
2017-18	250 days
2018-19	200 days
2019-20	170 days
2020-21	200 days
2021-22	190 days
2022-23	55 days

8. X, an Indian citizen, who is appointed as senior taxation officer by the Government of Nigeria, leaves India, for the first time on September 26, 2022 for joining his duties in Nigeria. During the previous year 2023-24, he comes to India for 116 days. Determine the residential status of X for the assessment years 2023-24 and 2024-25.
9. X is an Indian citizen. Currently, he is in employment with a multinational company and posted in Singapore. During the previous year 22 - 23 he comes to India for a visit of 145 days. In earlier 4 years, he is in India for more than 900 days. X wants to know his residential status for the assessment year 2023-24. His annual income for the previous year 2022-23 is as follows-

	RS.
Income from salary, rent, consultancy and interest earned and received in Singapore	29,00,000
Income from business (accrued and received outside India, controlled from Singapore)	21,00,000
Income from another business (accrued and received outside India, controlled from India)	8,00,000
Interest on bank fixed deposits in India	11,00,000
Any other income in India or outside India	NIL
Life insurance premium paid in India	2,60,000

RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY

When a Hindu undivided family is resident or non-resident - A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if control and management of its affairs is wholly situated outside India.

► What is "control and management" - Control and management is situated at a place where the head, the seat and the directing power are situated. The mere fact that the family has a house in India, where some of its members reside or the karta is in India in the previous year, does not constitute that place as the seat of control and management of the affairs of the family unless the decisions concerning the affairs of the family are taken at that place.

When a resident Hindu undivided family is ordinarily resident in India - A resident Hindu undivided family is an ordinarily resident in India if karta or manager of the family (including successive kartas) satisfies the following two additional conditions as laid down by section 6(6)(b):

CONTD 1	Karta has been resident in India in at least 2 out of 10 previous years [according to the basic condition] immediately preceding the relevant previous year
CONTD 2	Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year

If karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.

QUESTION

10. X, an individual, is resident but not ordinarily resident in India for the assessment year 2023-24 (previous year 2022-23). During the previous year 2022-23, the affairs of X (HUF), a Hindu undivided family, whose karta is X since and partly from Nepal. Determine the residential status of X (HUF) for the assessment 1960, are partly managed from Delhi year 2023-24.

INCIDENCE OF TAX

Indian income and foreign income-In order to understand the relationship between residential status and tax liability, one must understand the meaning of "Indian income" and "foreign income".

► **INDIAN INCOME** - Any of the following three is an Indian income-

1. If income is received (or deemed to be received) in India during the previous year and at the same time it accrues (or arises or is deemed to accrue or arise) in India during the previous year.
2. If income is received (or deemed to be received) in India during the previous year but it accrues (or arises) outside India during the previous year.
3. If income is received outside India during the previous year but it accrues (or arises or is deemed to accrue or arise) in India during the previous year.

► **FOREIGN INCOME** - If the following two conditions are satisfied, then such income is "foreign income" -

- a. income is not received (or not deemed to be received) in India; and
- b. income does not accrue or arise (or does not deem to accrue or arise) in India.

Provisions in brief:

Whether income is received (or deemed to be received) in India during the relevant year	Whether income accrues (or arises or is deemed to accrue or arise) in India during the relevant year	Status of the income
Yes	Yes	Indian Income
Yes	No	Indian Income
No	Yes	Indian Income
No	No	Foreign Income

Individual and Hindu undivided family			
	Resident and ordinarily resident in India	Resident but not ordinarily resident in India	Non-resident in India
Indian Income	Taxable in India	Taxable in India	Taxable in India
Foreign Income	Taxable in India	Only two types of foreign incomes (i.e., Case 1 and Case 2 given below) are taxable in India. Any other foreign income is not taxable in India	Not Taxable in India

The following foreign incomes are taxable in the hands of a resident but not ordinarily resident in India-

Case 1 - If it is business income and business is controlled wholly or partly from India.

Case 2 - If it is income from profession which is set up in India.

No other foreign income (like salary, rent, interest, etc.) is taxable in India in the hands of a resident but not ordinarily resident taxpayer.

QUESTION:

11. Narendra Modi furnishes the following particulars of his income earned during the previous year relevant to the assessment year:
 - a. Rental income of Rs. 36,000 is received in India on May 10, 2022 (it may accrue outside India or in India)
 - b. Interest income of Rs. 46,000 accrues in India on March 31, 2023 (it may be received in India or outside India)
 - c. Income of Rs. 56,000 is deemed to be received in India on April 20, 2022 (it may accrue outside India or in India)
 - d. Income of Rs. 66,000 is deemed to accrue or arise in India during the previous year 2022-23 (it may be received in India or outside India)
 - e. Business income/professional income of Rs. 76,000 is received and accrued outside India during the previous year 2022-23 (business is controlled from outside India or profession is set up outside India)
 - f. In situation 5, suppose business is controlled from India or profession is set up in India.
 - g. Rental income or salary income or interest income of Rs. 86,000 is received outside India in the previous year 2022-23 and at the same time it accrues or arises outside India.
 - h. Gift of Rs. 2 lakh received outside India by an individual on November 6, 2022 from a friend.
 - i. Gift of Rs. 1 lakh received in Delhi by an individual on November 30, 2022 from a friend.
 - j. Income of Rs. 96,000 earned and received outside India in 2018-19 but later on remitted to India in 2022-23

12. X furnishes the following particulars of his income earned during the previous year relevant to the assessment year 2023-24:

- a. Interest on German Development Bonds (two-fifths is received in India). Rs.60,000
 - b. Income from agriculture in Bangladesh, received there but later on Rs. 50,000 is remitted to India (agricultural activity is controlled from Bangladesh) Rs.1,81,000
 - c. Income from property in Canada received outside India [Rs. 76,000 is used in Canada for meeting educational expenses of X's daughter in USA and Rs. 10,000 is later on remitted to India] Rs.86,000
 - d. Income earned from business in Kampala (Uganda) which is controlled from Delhi (Rs. 15,000 is received in India) Rs. 65,000
 - e. Dividend paid by a foreign company but received in India on April 10, 2022 Rs.46,500
 - f. Past untaxed profit of 2018-19 brought to India in 2022-23 Rs. 10,43,000
 - g. Profits from a business in Madras and managed from outside India. Rs.27,000
 - h. Profits on sale of a building in India but received in Sri Lanka. Rs.14,80,000
 - i. Pension from a former employer in India, received in Rangoon Rs. 36,000
 - j. Gift in foreign currency from a friend received in India on January 20, 2023. Rs. 80,000
- Find out the gross total income of X, if he is (1) resident and ordinarily resident in India, (ii) resident but not ordinarily resident in India, or (iii) non-resident in India for the assessment year 2023-24.

INCOME FROM SALARIES

The **basis of charge** is explained in the following paras -

Basis of charge as per section 15 - As per section 15, salary consists of:

- ▶ a. any salary due from an employer (or a former employer) to an assessee in the previous year, whether actually paid or not;
- b. any salary paid or allowed to him in the previous year by or on behalf of an though not due or before it became due; and employer (or a former employer),
- c. any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer (or a former employer), if not charged to income-tax for any earlier previous year.

How to compute **Income from Salaries**

Particulars	Amount	Amount
Income from Salaries	XXX	
Income from Allowances	XXX	
Income from Perquisites	XXX	
Gross Salary	XXX	
Less: Deduction U/S 16		
Entertainment Allowances	(XXX)	
Professional Tax	(XXX)	
Income from Salaries	XXX	

INCOME FROM SALARIES

PARTICULARS	TAX TREATMENT
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Basic Salary	Taxable
Dearness Allowances / Pay	Taxable
Advance Salary	Taxable in the year of receipt
Arrears of Salary	Taxable in the year of receipt, if not taxed on due basis earlier
Leave encashment in Service	Taxable
Leave encashment at the time of retirement	Refer note
Salary in lieu of Notice	Taxable
Partners salary	Not taxable under head "Salaries"
Fees and Commission	Taxable
Bonus	Taxable
Gratuity	Refer Note
Pension	Refer Note
Remuneration for Overtime	Taxable

GRATUITY

STATUS OF EMPLOYEE	WHETHER GRATUITY IS TAXABLE
Government Employee	It is fully exempt from tax under section 10(10)(1)
Non-Government employee covered by the Payment of Gratuity Act, 1972	It is fully or partly exempt from tax under section 10(10)(ii)
Non-Government employee not covered by the Payment of Gratuity Act, 1972	It is fully or partly exempt from tax under section 10(10)(iii)

IN THE CASE OF GOVERNMENT EMPLOYEES - Any death-cum-retirement gratuity received by Government employees (i.e., Central Government employees, State Government employees, employees of local authority but not employees of a statutory corporation) is wholly exempt from tax under section 10(10)(i).

Question: X, an employee of the Central Government, receives Rs. 7,86,000 as gratuity at the time of his retirement on September 30, 2022. Is gratuity fully exempt from tax?

IN THE CASE OF EMPLOYEES COVERED BY THE PAYMENT OF GRATUITY ACT, 1972 [SEC. 10(10)(i)] - Any gratuity received by an employee, covered by the Payment of Gratuity Act, 1972, is exempt from tax on the following basis -

Least of the following:

15 days' salary (7 days' salary in the case of employees of a seasonal establishment) based on salary last drawn for each year of service (i.e., 15 days' salary x Length of service).
20,00,000
Actual Gratuity Received

Question: X, an employee of PQ Co. Ltd., receives Rs. 78,000 as gratuity. He is covered by the Payment of Gratuity Act, 1972. He retires on December 12, 2022 after rendering service of 38 years and 8 months. At the time of retirement his monthly basic salary and dearness allowance was Rs. 2,400 and Rs. 800, respectively. Is the entire amount of gratuity exempt from tax?

Feb 2022	80,000
Mar 2022	85,000
Apr to Jun 2022	2,70,000
Jul to Oct 2022	3,70,000
Nov 2022	95,000

As per service rules, salary, allowances and commission become due on first day of the next month and paid on the same day.

X retires on November 30, 2022 and hands over the charge on the same day at 5.30p.m. to the Deputy Marketing Manager.

PENSION

Pension is received from UNO by the employee or his family members	It is not chargeable to tax
Family pension received by the family members of armed forces	It is exempt under section 10(19) in some cases.
Family pension received by family members (not being covered by case 2) after the death of an employee	It is taxable in the hands of recipients under section 56 under the head "Income from other sources". Standard deduction is available under section 57 which is 1/3 of such pension or Rs. 15,000, whichever is lower.

Pension (received by the employee after retirement but during his life time) in any other case [sec. 17(1)(ii)] is taxable as follows:

PENSION	STATUS OF EMPLOYEE	IS IT CHARGEABLE TO TAX
Uncommuted pension	Government / Non-Government Employee	Fully Taxable
Commuted pension	Government Employee	Fully Exempt u/s 10(10A)(i)
Commuted pension	Non-Government Employee	See Note

Non Government Employee

Gratuity Received	1/3 of the Pension which he is normally entitled to receive is Exempt from Tax
Gratuity Not Received	½ of the Pension which he is normally entitled to receive is Exempt from Tax

Question: Determine the amount of pension taxable for the assessment year 2023-24 in the following cases on the assumption that it becomes due on the last day of each month :

1. X receives Rs. 18,250 per month as pension from the Central Government during the previous year 2022-23.
2. X receives Rs. 21,000 per month as pension from the Government of Punjab during the previous year 2022-23.
3. X receives Rs. 20,000 per month as pension from ABC Ltd., a public limited company in the private sector, during the previous year 2022-23.
4. X retires from the Central Government service on May 31, 2022. He gets pension of Rs. 15,000 per month up to November 30, 2022 (1.e., Rs. 15,000 × 6). With effect from December 1, 2022, he gets one-third of his pension commuted for Rs. 7,18,000.
5. X retires from ABC Co. on June 30, 2022. He gets pension of Rs. 20,000 per month up to January 31, 2023. With effect from February 1, 2023, he gets 60 per cent of pension commuted for Rs. 10,71,000. Does it make any difference if he also gets gratuity of Rs. 40,000 at the time of retirement?

LEAVE SALARY

Nature of leave encashment	Status of employee	Whether it is taxable
Leave encashment during continuity of employment	Government/non- Government employee	It is chargeable to tax. However, relief can be taken under section 89
Leave encashment at the time of retirement/leaving job	Government employee	It is fully exempt from tax under section 10(10AA)(i)
Leave encashment at the time of retirement/leaving job	Non-Government employee	It is fully or partly exempt from tax in some cases under section 10(10AA)(ii)

NON GOVERNMENT EMPLOYEE GETTING LEAVE ENCASHMENT AT THE TIME OF RETIREMENT SEC.

10(10AA)(ii) - In the case of a non-Government employee (including an employee of a local authority or public sector undertaking), leave salary is exempt from tax on the basis of least of the following-

Period of earned leave (in number of months) to the credit of the employee at the time of his retirement or leaving the job [see Note 1] × Average monthly salary [see Note]
10 X Average Monthly Salary
The amount specified by the Government [i.e., Rs. 3,00,000 applicable from April 1, 1998; for earlier period this amount was different]
Leave Encashment actually received

Question : X was employed by PQR Ltd. up to March 15, 1988. At the time of leaving PQR Ltd., he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax under section 10(10AA)(ii). Thereafter he joined ABC (P.) Ltd. and received Rs. 4,12,200 as leave salary at the time of his retirement on December 31, 2022. Determine the amount of information: taxable leave salary from the following:

Salary at the time of retirement (per month)	22,900
Average salary received during 10 months ending on December 31, 2022	
- From March 1, 2022 to July 31, 2022 (per month)	22,600
- From August 1, 2022 to December 31, 2022 (per month)	22,900
Duration of service (a)	14 $\frac{3}{4}$ years
Leave entitlement for every year of service (b)	45 days

Leave availed while in service (c)	90 days
Leave at the credit of employee at the time of retirement $[(14 \times 45 - 90) \div 30]$	18 months
Leave salary paid at the time of retirement at the rate of Rs. 22,900 per month (i.e., Rs. $22,900 \times 18$)	4,12,200

Question: X, a non-Government employee, receives Rs. 3,75,000 as leave salary at the time of retirement on February 20, 2023. On the basis of the following information, determine the amount of taxable leave salary: Basic pay: Rs. 15,000 per month since 2009; duration of service: 26 years; leave at the credit of X at the time of retirement : 25 months; entitlement of leave salary: 60 days' salary for every year of service and leave availed while in service : 27 months.

Compensation received at the time of voluntary retirement scheme (VRS) [Sec. 10(10C)] –

Exemption up to Rs. 5,00,000 is available, if a few conditions are satisfied. One of the conditions is the amount payable on account of voluntary retirement or voluntary separation of the employees should not exceed

- a. the amount equivalent to three months' salary for each completed year of service, or
- b. salary at the time of retirement multiplied by the balance months of service left before the date of his retirement on superannuation, whichever is more.

- ▶ Relief under section 89 is not available.
- ▶ Where exemption has been allowed to an employee under section 10(10C) for any assessment year, no exemption thereunder shall be allowed to him in relation to any other assessment year.
- ▶ The aforesaid exemption under section 10(10C) is available, even if the assessee wants to pay tax under the alternative tax regime under section 115BAC.

Different forms of ALLOWANCES –

Different Allowances	Tax Treatment
City Compensatory Allowances	Taxable
House Rent Allowances	Refer Note
Entertainment Allowances	Refer Note
Tiffin Allowances, Fixed Medical Allowances and Servant Allowances	Taxable
Allowances to High Court Judges	Not Taxable
Allowances from UNO	Not Taxable
Sumptuary Allowances to High Court Judges/Supreme court Judges	Not Taxable

House rent allowance [Sec. 10(13A) and rule 2A - Exemption in respect of house rent allowance is regulated by rule 2A. It is based upon the following-

1.	An amount equal to 50 per cent of salary, where residential house is situated at Bombay, Calcutta, Delhi or Madras and an amount equal to 40 per cent of salary where residential house is situated at any other place.
2.	House rent allowance received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
3.	The excess of rent paid over 10 per cent of salary.

- ▶ Amount exempt from tax - The least of the above three is exempt from tax.

OTHER POINTS - The following other points should also be kept in view :

- ▶ What is "salary" - "Salary" for this purpose means basic salary and includes dearness allowance if terms of employment so provide. It also includes commission based on fixed percentage of turnover achieved by an employee as per terms of contract of employment - But it does not include any other allowance and perquisite.

- ▶ "Salary" shall be determined on "due" basis - Basic salary, dearness allowance and commission are determined on "due" basis in respect of the period during which rental accommodation is occupied by the employee in the previous year [Explanation (ii) to rule 2A]. It, therefore, follows that salary of a period, other than the previous year, is not considered even though such amount is received during the previous year and is taxable on "receipt" basis. Likewise, salary of the period during which rented accommodation is not occupied in the previous year, is left out of the aforesaid computations.

- ▶ When exemption is not available - Exemption is denied where an employee lives in his own house, or in a house for which he does not pay any rent or pays rent which does not exceed 10 per cent of salary.

- ▶ Mode of computation of exemption - The amount of exemption in respect of house rent allowance received by an employee depends upon the following -

- a. "salary" of the employee;
- b. house rent allowance;
- c. rent paid; and
- d. the place where house is taken on rent.

When these four are same throughout the previous year, the exemption should be calculated on "annual" basis. When, however, there is a change in respect of any of the aforesaid factors, then the exemption shall be worked out on "monthly" basis.

Question X, who resides in Madras, gets Rs. 3,00,000 per annum as basic salary. He receives Rs. 50,000 per annum as house rent allowance. Rent paid by him is Rs. 40,000 per annum. Find out the amount of taxable house rent allowance for the assessment year 2023-24.

Question X, a resident of Ajmer, receives Rs. 1,92,000 per annum as basic salary during the previous year 2022-23. In addition, he gets Rs. 19,200 per annum as dearness allowance forming part of basic salary for on sales made by him (sale made by X during the relevant previous year is computation of all retirement benefits, 7 per cent Rs. 86,000) and Rs. 24,000 per annum as house commission rent allowance. He, however, pays Rs. 21,500 per annum as house rent. Determine the quantum of house rent allowance exempt from tax.

Question X is employed by A Ltd. up to November 30, 2022 on the following monthly salary (place of posting: Delhi) -

	Up to May 31, 2022 Rs.	From June 1, 2022 Rs.
Basic Salary	40,000	50,000
Dearness allowance @ 30 per cent of basic salary (60 per cent of dearness allowance is part of salary for computing all retirement benefits)	12,000	15,000
Dearness pay (not part of salary for computing retirement benefits)	80,000	90,000
Commission	30,000	40,000
House rent allowance	20,000	35,000

With effect from December 1, 2022, he joins B Ltd. on monthly salary of Rs. 1,00,000 (place of posting: Amritsar). Besides, he gets dearness allowance @ Rs. 80,000 per month (5 per cent of which is considered for provident fund contribution) and house rent allowance @Rs. 60,000 per month. Further, he gets a fixed commission of Rs. 45,000 per month.

Rent paid per month by X is as follows :

	Delhi Rs.	Amritsar Rs.
From Jan 1, 2022 to July 31, 2022	5,000	-
Aug 1,2022 to Dec 31,2022	29,000	-
January 2023	-	10,000
February 1, 2023 to June 30, 2023	-	60,000

Determine the amount of chargeable house rent allowance for the assessment year 2023-2024.

Entertainment allowance [Sec. 16(ii)] - Entertainment allowance is first included in salary income under the head "Salaries" and thereafter a deduction is given on the basis enumerated in the following paragraphs:

► In the case of a Government employee (i.e. a Central Government or a State Government employee), the least of the following is deductible:

- a. Rs. 5,000;
- b. 20 per cent of basic salary; or
- c. amount of entertainment allowance granted during the previous year.

In order to determine amount of entertainment allowance deductible from salary, the following points need consideration:

1. For this purpose "salary" excludes any allowance, benefit or other perquisites.
 2. Amount actually expended towards entertainment (out of entertainment allowance received) is not taken into consideration.
- In the case of a non-Government employee (including employees of statutory corporation and local authority), entertainment allowance is not deductible.

Question X, a Government employee, gets Rs. 8,00,000 per annum as basic pay. In addition, he receives Rs. 8,500 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds Rs. 9,000. Can he claim deduction of actual amount spent by him on entertainment?

Special allowances prescribed as exempt under section 10(14):

When exemption depends upon the amount of expenditure by the employee

Exemption is available on the aforesaid basis in the case of the following allowances -

Name of allowance	Nature of allowance
Travelling allowance/transfer allowance	Any allowance (by whatever name called) granted to meet the cost of travel on tour or on transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer). Conveyance allowance granted to meet the expenditure on conveyance in performance of duties
Conveyance allowance	Conveyance allowance granted to meet the expenditure on conveyance in performance of duties of an office (it may be noted that expenditure for covering the journey between office and residence is not treated as expenditure in performance of duties of the office and, consequently, such expenditure is not exempt from tax).
Daily allowance	Any allowance whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.
Helper allowance	Any allowance (by whatever name called) to meet the expenditure on a helper where such helper is engaged for the performance of official duties.
Research allowance	Any allowance (by whatever name called) granted for encouraging the academic research and other professional pursuits.
Uniform allowance	Any allowance (by whatever name called) to meet the expenditure on the purchase or maintenance of uniform for wear during the performance of duties of an office.

When exemption does not depend upon the amount of expenditure by the employee

Name of Allowances	Exemption As specified in rule 2BB
Special Compensatory Allowances	300 Per month to 7000 Per month
Border Area Allowances	200 Per month to 1300 per month
Allowances for transport employees	Lower of 70% of such allowances Rs. 10,000 Per month
Children Education Allowances	100 per month per child Maximum 2 Children
Hostel Expenditure Allowances	300 per month per child Maximum 2 Children
Transport Allowances (note)	Rs 3,200 Per month
Compensatory Field area allowances	2,600 Per month
Compensatory Modified area allowances	1,000 Per month
Highly active Field Area Allowances	4,200 per month

PERQUISITES CHARGEABLE / NOT CHARGEABLE TO TAX:

1. Furnished / unfurnished house without rent or at concessional rent.
2. Service of a sweeper, gardener, watchman or personal attendant.
3. Supply of gas, electricity or water for household purposes.
4. Education facility to employee's family members.
5. Leave travel concession.
6. Providing use of movable assets
7. Transfer of movable assets.
8. Car and any other automotive conveyance
9. Free food and beverages
10. Gift and gift vouchers

1. Valuation of rent-free unfurnished house:

For the purpose of valuation of the perquisite in respect of unfurnished accommodation, employees are divided in the following two categories

- a. Central and State Government employees
- b. Private sector employees or other employees

CENTRAL AND STATE GOVERNMENT EMPLOYEES - This category includes Central Government employees and State Government employees.

Employees of a local authority or a foreign Government are not covered by this category (these employees are treated as non-Government employees for this purpose).

► **Basis of valuation** - The value of perquisite in respect of accommodation provided to such employee is equal to the **licence fee** which would have been determined by the Central or State Government in accordance with the rules framed by the Government for allotment of houses to its officers.

► **Exception** - Rent-free official residence provided to a Judge of a High Court/Supreme Court or Chief Election

Commissioner/other Election Commissioners, is exempt from tax. A similar exemption is extended to an official of Parliament, a Union Minister, and a Leader of Opposition in Parliament.

Question:

X, an officer of the Government of Madhya Pradesh, has a salary of Rs. 45,000 per month as basic pay. The Government has provided rent-free unfurnished flat whose market rent is Rs. 9,800 per month, though as per the Government rules licence fee of the flat 1,250 per month. Determine the value of the perquisite in respect of rent-free flat for the assessment year 2023-24

PRIVATE SECTOR OR OTHER EMPLOYEES - Under this category are covered those employees who do not fall in the first category covered by above para. In this category, value of the perquisite in respect of rent-free accommodation depends on **salary of the employee and lease rent of the accommodation.**

44.1-2a SALARY - HOW TO CALCULATE - For the purpose of valuation of perquisite in respect of rent-free accommodation, salary includes

- a. basic salary;
- b. dearness allowance/pay, if terms of employment so provide

- c. bonus;
- d. commission;
- e. fees;
- f. all other taxable allowances (excluding amount not taxable); and
- g. any monetary payment which is chargeable to tax (by whatever name called).

For this purpose salary does not include the following:

- i. dearness allowance/pay, if not taken into account while calculating retirement benefits, like provident fund, gratuity, etc., or if term of employment does not so provide;
- ii. employer's contribution to provident fund account of an employee;
- iii. all allowances which are exempt from tax;
- iv. value of perquisites [under section 17(2)]; and
- v. lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments.

Salary from two or more employers - Salary from all employers in respect of the period during which an accommodation is provided will be taken into consideration.

Basis of Valuation:

Population of city as per 2001 census where accommodation is provided	Where the accommodation is owned by the employer	Where the accommodation is taken on lease or rent by the employer
Exceeding 25 lakh	15 per cent of salary in respect of the period during which the accommodation is occupied by the employee	a. 15% of salary; or
Exceeding 10 lakh but not exceeding 25 lakh	10 per cent of salary in respect of period during which the accommodation is occupied by the employee	b. lease rent (paid or payable) by employer, whichever is less.
Any other	7.5 per cent of salary in respect of period during which the accommodation is occupied by the employee	

Question:

X, an employee of ABC (P.) Ltd., posted at Ajmer (population : 18 lakh), draws Rs. 3,00,000 as basic salary, Rs. 10,000 as dearness allowance (forming part of salary for all retirement benefits) and Rs. 5,000 as commission. Besides, the company provides a rent- free unfurnished accommodation in Ajmer. The house is owned by the company. Fair rent of the accommodation is Rs. 50,000 per annum. Determine the taxable value of the perquisite for the assessment year 2023-24.

Question: X is an employee of a company situated in Chennai. During the previous year he is posted at Vaniganj (population : 20 lakh as per 2001 census). He gets Rs. 80,000 per month as salary and a fixed lunch

allowance (with effect from November 1, 2022) of Rs. 9,000 per month. His employer has provided him a rent-free unfurnished house at Vaniganj with effect from May 1, 2022. The company pays Rs. 12,500 per month as rent (during May 1, 2022 and November 30, 2022). With effect from December 1, 2022, rent has been increased to Rs. 14,000 per month. On January 1, 2023, the house is purchased by the employer-company from the landlord. Find out the taxable value of perquisite in respect of rent-free house for the assessment year 2023-24.

Valuation of Rent-free furnished accommodation:

Value of furniture for this purpose is as follows-

- a. 10 per cent per annum of the original cost of furniture, if furniture is owned by the employer;
- b. actual hire charges payable (whether paid or payable), if furniture is hired by the employer.

Meaning of furniture - "Furniture" here includes radio sets, television sets, refrigerators, air-conditioners and other household appliances.

► A furnished accommodation in a hotel, motel, service apartment or guest house - The value of the perquisite is determined on the basis of lower of the following two –

1. 24 per cent of "salary" paid or payable for the period during which such accommodation is provided in the previous year.
2. Actual charges paid or payable by the employer to such hotel. an accommodation is provided in a hotel, motel, service apartment or guest house in

Exception – If the case of relocation of an employee from one place to another place, nothing is chargeable to tax for 15 days (in aggregate during the financial year).

Question:

X received during the previous year ending March 31, 2023, emoluments consisting of basic pay: Rs. 1,62,000; special allowance: Rs. 17,000 and reimbursement of medical expenditure: Rs. 3,800. His employer has also provided a rent-free furnished flat in Bombay. Lease rent of the unfurnished flat is Rs. 50,000. Some of the household appliances provided to X (with effect from June 1, 2022) are owned by the employer (cost price of which is Rs. 36,000, date of purchase is April 1, 1960 and written down value, as on April 1, 2022 is Rs. 620). Employer pays Rs. 10,000 annually as hire charges for three air-conditioners installed throughout the previous year in rent-free flat. Compute the value of the perquisite if: (a) X is a Secretary in the Ministry of Law and Rs. 4,000 is the licence fee of unfurnished flat as per the Central Government rules; (b) X is the Managing Director of ABC (P.) Ltd. Does it make any difference, if X has been provided a hotel accommodation throughout the year (tariff being Rs. 1,20,000 per annum)?

Question:

X, a regular employee of A Ltd., gets the following emoluments during the previous year 2022-23 Basic salary: Rs. 60,000 per month (which has been increased to Rs. 70,000 per month from January 1, 2023); dearness allowance Rs. 4,000 per month (72 per cent of which is part of salary for computing all retirement benefits); education allowance: Rs. 500 per month per child for 4 grand children; medical allowance: Rs. 400 per month; transport allowance: Rs. 1,950 per month (out of which Rs. 100 per month is used for covering the journey between office and residence and Rs. 250 per month is used for other purposes). Besides, he gets Rs. 20,000 per month as house rent allowance up to November 30, 2022 (rent paid at Ghaziabad: Rs.

18,000 per month). With effect from December 1, 2022, he has been provided a furnished flat by the employer at Delhi (rent paid by employer: Rs. 26,000 per month; rent of furniture provided : Rs. 12,780; rent recovered from X : Rs. 900 per month). Find out the salary chargeable to tax for the assessment year 2023-24 on the assumption that with effect from January 1, 2023, he joins a part-time employment with B Ltd. (salary Rs. 18,000 per month) with the permission of A Ltd. (without leaving the job of A Ltd.).

Valuation of perquisite in respect of free domestic servants - The actual cost to the employer shall be taxable in the hands of employee. The actual cost in such a case shall be the total amount of salary paid or payable by the employer (or any other person on his behalf) for such services as reduced by any amount paid by the employee for such services.

When a house owned by employer is provided to the employee and employer incurs expenditure on maintenance of garden in the house - The Central Board of Direct Taxes in its Circular No. 122, dated October 19, 1973 has observed that the provision of gardener (when gardener is provided along with a house owned by the employer) cannot be taken as a perquisite, as the employer in any case would have maintained the garden irrespective of the fact whether building was occupied by the employee or lying vacant.

Valuation of perquisite in respect of gas, electric energy or water supply - Actual expenditure of the employer (manufacturing cost if these supplies are made out of sources owned by employer) as reduced by any amount recovered from the employee, is a taxable perquisite in the hands of an employee.

Valuation of perquisite in respect of free education - The basis of valuation is briefly given below –

1. Expenditure relating to providing training to employees is not taxable.
2. If education facility is provided to the family members of employee, expenditure incurred by the employer is the taxable value of perquisite. Payment of tuition fees or reimbursement of tuition fees is chargeable to tax.
3. If education facility is provided to the children of employee in an educational institute owned or maintained by the employer, then reasonable cost of education in a similar institute in or near the locality is taxable. Up to Rs. 1,000 per month per child is not taxable, if the employer provides education facility to the children of an employee in an educational institution owned or maintained by the employer or where such educational facility is provided in any institute (having an arrangement with the employer) by reason of employee's employment with the employer. The benefit of exemption of Rs. 1,000 per month is not available, if such education facility is provided to other family members (not being children of the employee).
4. Amount of scholarship given by an employer-company to children of its employees (solely at its discretion without reference to terms of employment) is not assessable as perquisite in the hands of employees.

Question:

Find out the taxable value of the perquisite for the assessment year 2023-24 in the following cases –

1. X is an employee in the Accounts Department of A Ltd. On November 27, 2022, he attends a seminar on "Perquisite Valuation". Seminar fees of Rs. 7,500 is paid by A Ltd.
2. Y's son is a student of ninth class of DPS, Noida. Rs. 17,800 being tuition fees of Y's son is paid/reimbursed by B Ltd. employed. There is no arrangement between B Ltd. and DPS, Noida. where Y is

3. Star Public School, Ajmer, is owned and maintained by C Ltd., a manufacturing company. Books of account of the school and C Ltd. are maintained separately. Z is an employee of C Ltd. The following family members of Z are students in Star Public School -

	Cost of education in similar institution	Amount charged from Z
Daughter of Z	Rs. 5,500 Per month	800 per month
Dependent brother of Z	Rs. 6,000 Per month	Rs 1,600 per month

4. Suppose in (3) (supra) Star Public School is not owned/maintained by C Ltd. As per arrangement of C Ltd. with the school, family members of employees of C Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays Rs. 10 lakh to the school (no separate billing by the school to the employees of C Ltd.). Family members of Z are students of the school. Cost of education in a similar institute and amount charged from Z by C Ltd. are given in the table in (3) (supra).

Leave travel Concession

Leave travel assistance extended by an employer to an employee for going anywhere in India along with his family is exempt on the basis of provisions given in the table below:

Different situations	Amount of exemption (exemption is available only in respect of fare for going anywhere in India along with family twice in a block of four years)
Where journey is performed by air	Amount of economy class air fare of the national carrier by the shortest route or the amount spent, whichever is less.
Where journey is performed by rail	Amount of air-conditioned first class rail fare by the shortest route or amount spent, whichever is less.
Where the places of origin of journey and destination are connected by rail and journey is performed by any other mode of transport	Amount of air-conditioned first class rail fare by the shortest route or the amount spent, whichever is less.
Where the places of origin of journey and destination (or part thereof) are not connected by rail	First class or deluxe class fare by the shortest route or the amount spent, whichever is less.
▷ Where a recognised public transport system exists	
▷ Where no recognised public transport system exists	Air-conditioned first class rail fare by the shortest route (as if the journey had been performed by rail) or the amount actually spent, whichever is less.

Other points:

► Meaning of "family" - The aforesaid exemption is available in respect of fare for going anywhere in India along with "family". For this purpose, "family" includes spouse and children of the employee. It also includes parents, brothers and sisters of the employee, who are wholly or mainly dependent upon the employee. However, family does not include more than two surviving children of an individual born on or after October 1, 1998 (in reckoning this limit of two children, children born out of multiple births after the first child will be treated as 'one child only').

► Only two journeys in a block of 4 years is exempt - Exemption on the aforesaid basis is available in respect of two journeys performed in a block of four calendar years. The different blocks are –

- a. 2014-2017 (i.e., January 1, 2014 to December 31, 2017);
- b. 2018-2021 (i.e., January 1, 2018 to December 31, 2021);
- c. 2022-2025 (i.e., January 1, 2022 to December 31, 2025).

► "Carry-over" concession - If an assessee has not availed travel concession or assistance during any of the specified four-year block periods on one of the two permitted occasions (or on both occasions), exemption can be claimed in the first calendar year of the next block (but in respect of only one journey). This is known as "carry over" concession. In such case, the exemption so availed will not be counted for the purposes of claiming the future exemptions allowable in respect of two journeys in the subsequent block.

Perquisite in respect of use of movable assets - If computer/laptop is provided by an employer to his employee, nothing is chargeable to tax in the hands of employee. If any other movable asset is provided to an employee, the perquisite is chargeable to tax in the hands of employee. 10 per cent per annum of actual cost of asset to the employer (or hire charges) as reduced by any amount recovered from the employee is a taxable perquisite in the hands of an employee.

Valuation of the perquisite in respect of sale of movable assets by an employer to his employees at a nominal price - Actual cost of the asset to the employer minus normal wear and tear minus sale consideration paid by the employee, is taxable value of the perquisite.

► Normal wear and tear shall be calculated only if after purchasing the asset and before its transfer, the employer has used it for his business purposes. Moreover, normal wear and tear is deductible only for completed years (not for fraction of year).

► Normal wear and tear for each year of use shall be calculated as follows -

- a. computer/electronic gadgets: 50 per cent per annum by reducing instalment method;
- b. car : 20 per cent per annum by reducing instalment method; and
- c. any other asset : 10 per cent per annum of actual cost).

► Electronic gadgets for the above purpose mean data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (i.e., white goods like washing machines, microwave etc.)

Question:

Find out the taxable value of the perquisite in the following cases for the assessment year 2023-24- 1. X is given a laptop by the employer-company for using it for office and private purpose (ownership is not transferred). Cost of the laptop to the employer is Rs. 96,000.

2. On October 15, 2022, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music (in 2006) to the employer is Rs. 15,000.

3. The employer company sells the following assets to the employees on January 1, 2023

NAME OF EMPLOYEE	Z	A	B
ASSETS SOLD	CAR	COMPUTER	FRIDGE
COST OF ASSETS TO THE OWNWER	6,96,000	1,17,000	40,000

DATE OF PURCHASE (PUT TO USE ON THE SAME DAY)	15 MAY 2020	15 MAY 2020	15 MAY 2020
SALE PRICE	2,10,000	24,270	1,000

Before sale on January 1, 2023, these assets were used for business purpose by the employer.

Car and any other automotive conveyance

REFER MY NOTEBOOK

Question :

Find out the taxable value of the perquisite in respect of car in the following different situations for the assessment year 2023-2024

1. X is employed by a company. He has been provided a car (1200cc) owned by the employer, cost of the car is Rs. 4,26,000. The expenditure incurred by the company on maintenance of the car are - petrol: Rs. 46,000, driver: Rs. 36,000 and maintenance: Rs. 10,000. The car can be used by X partly for official purposes partly for private purposes. A sum of Rs. 12,000 is recovered from X.
2. Assume in Situation 1 that the car is used only for private purposes.
3. A car (1800cc) is owned by the employer (cost of the car being Rs. 4,80,000). X, an employee, can use it partly for official purposes and partly for private purposes. Expenses for private purposes are, however, incurred by X. During the previous year 2022-23, the total expenditure incurred by X is Rs. 50,000 on car and Rs. 20,000 on driver.
4. Assume in Situation 3 that the car can be used only for private purposes.
5. X owns a car (1400cc). He uses it partly for official purposes and partly for private purposes. During the previous year 2022-23, he incurs a sum of Rs. 40,000 on running and maintenance of car. Besides, he has engaged a driver (salary Rs. 24,000). The employer reimburses the entire expenditure of Rs. 64,000. Logbook of the car is not maintained.
6. Assume that in Situation 5 that the logbook of the car is maintained and 70 per cent of the expenditure is attributable towards the official use of the car. The employer to this effect gives a certificate. expenses (Rs. 56,000) are incurred by the employer. The employer maintains logbook
7. A car (1700cc) is owned by the employer. All of the car. X, an employee, uses the car only for official purposes. The employer gives a certificate that the car is used only for official purposes.

Valuation of perquisite in respect of lunch/refreshment, etc. - These provisions are given below –

- ▶ Refreshment and/or non-alcoholic drink - Nothing is taxable if provided during working hours or extended working hours.
- ▶ Food provided in remote area or in an off shore installation - Nothing is taxable if provided during working hours or extended working hours.
- ▶ Food provided at any other place - Cost to the employer in excess of Rs. 50 per meal (as reduced by the amount recovered from the employee) is the taxable value of perquisite in the hands of the employee. This facility can be provided through non-transferable paid vouchers 60 usable only at eating joints.

Provisions illustrated

The employer provides tea/coffee to X in office (employer's expenditure being Rs. 6,000 per annum). Besides the employer provides free lunch during office hours (cost being Rs. 120 per meal for 300 working days, amount recovered from X is Rs. 20 per meal). In this case, nothing is taxable in respect of tea/coffee

provided in office. However, Rs. 15,000 [i.e., 300 x (Rs. 120 - Rs. 50 - Rs. 20)] in respect of subsidized lunch, is chargeable to tax.

Valuation of perquisite in respect of gift, voucher or token –

Gift may be made either to employee or any member of his household. It is taxable as a perquisite in the hands of an employee on the basis of actual expenditure of the employer. Gift-in-kind up to Rs 5,000 per annum is exempt.

Provisions illustrated

The employer provides a cash gift/gift cheque of Rs. 3,000 to X. Besides, he gets a wrist watch of Rs. 18,000 as Diwali gift from the employer.

Rs. 3,000, being cash or gift cheque, is chargeable to tax. Further, Rs. 13,000 (i.e., Rs. 18,000 – Rs. 5,000) is taxable in respect of gift-in-kind.

PERMISSABLE DEDUCTION FROM SALARY U/S 16

The income chargeable under the head "Salaries" is computed after making the following deductions:

- standard deduction
- entertainment allowance deduction ; and
- professional tax

Standard deduction [Sec. 16(i)/(ia)] - Standard deduction is Rs. 50,000 or the amount of salary, whichever is lower.

Entertainment allowance [Sec. 16(ii)]- As explained earlier, entertainment allowance is first included in salary and thereafter a deduction is allowed in accordance with the rules mentioned in.

Professional tax or tax on employment [Sec. 16(iii)]- Professional tax or tax on employment, levied by a State under article 276 of the Constitution, is allowed as deduction.

The following points should be kept in view

- Deduction is available only in the year in which professional tax is paid.
- If the professional tax is paid by the employer on behalf of an employee, it is first included in the salary of the employee as a "perquisite" [since it is an obligation of the employee discharged by the employer] and then the same amount is allowed as deduction on account of "professional tax" from gross salary.

PROVIDENT FUND:

	STATUTORY PROVIDENT FUND	RECOGNISED PROVIDENT FUND	UNRECOGNISED PROVIDENT FUND	PUBLIC PROVIDENT FUND
Employer's contribution to provident fund	Exempt from tax.	Excess of employer's contribution over 12 per cent of salary is taxable [see note 1]. Moreover,	Exempt from tax	Employer does not contribute

		employer's contribution in excess of Rs. 7,50,000 per annum is taxable		
Deduction under section 80C on employee's contribution	Available	Available	Not Available	Available
Interest credited to provident fund	Exempt from tax [however, taxable in a few cases - see Note2]	Exempt from tax if rate of interest does not exceed 9.5 per cent [however, taxable in a few cases - see Note 2]	Exempt from tax	Exempt from tax
Lump sum payment at the time of retirement or termination of service	Exempt from tax under section 10(11)	Exempt from tax under section 10(12) however, in some cases, provident fund is treated as an un-recognised fund from the beginning [see Notes]		Exempt from tax

Notes:

- "Salary" here means basic salary. It includes dearness allowance and dearness pay, if terms of employment so provide It also includes commission where commission is determined at a fixed percentage of turnover achieved by an employee.
- These exemptions shall not apply to the interest income accrued during the previous year in the provident fund account of the employee to the extent it relates to the amount (or the aggregate of amounts) of contribution made by such person exceeding Rs. 2.50 lakh in a previous year in that fund, on or after April 1, 2021, computed in such manner as may be prescribed.
- Lump sum payment received from unrecognized provident fund at the time of retirement/termination shall be taxable as follows -
 - ▷ Payment received in respect of employer's contribution and interest thereon is taxable under the head "Salaries".
 - ▷ Payment received in respect of interest on employee's contribution is taxable under the head "Income from other sources".
 - ▷ Payment received in respect of employee's contribution is not chargeable to tax.

Question:

For the previous year 2022-23, X submits the following information - Basic salary: Rs. 1,20,000; dearness allowance: Rs. 40,000 (46 per cent of which is part of salary for retirement benefits); commission: Rs. 6,000

(i.e., 1 per cent of Rs. 6,00,000, being turnover achieved by X) and children education allowance for his 2 children: Rs. 7,200. The employer contributes Rs. 20,000 towards provident fund to which a matching contribution is made by X. Interest credited in the provident fund account on December 31, 2022 @ 11 per cent comes to Rs. 93,500. Income of X from other sources is Rs. 1,36,000. Find out the net income of X for the assessment year 2023-24 if the provident fund is (a) statutory provident fund, (b) recognised provident fund, (c) unrecognised provident fund.

Question:

In the above question assume that (a) 61 per cent of dearness allowance is part of salary for computing retirement benefits and (b) commission is payable at the rate of Rs. 500 per month irrespective of the turnover; find out the net income of X for the assessment year 2023-24.

DEDUCTION U/S 80C

1. Gross Qualifying Amount
2. Net Qualifying Amount
3. Amount of Deduction

Gross Qualifying Amount

Nature of payment

1. Life insurance premium (including payment made by Government employees to the Central Government Employees' insurance scheme and payment made by a person under children's deferred endowment assurance policy) (see Note 1]
2. Payment in respect of non-commutable deferred annuity [see Note 2]
3. Any sum deducted from salary payable to a Government employee for the purpose of securing him a deferred annuity (subject to a maximum of 20% of salary) [see Note 3]
4. Contribution (not being repayment of loan) towards statutory provident fund and recognized provident fund
5. Contribution (not being repayment of loan) towards 15-year public provident fund [see Notes 4, 6 and 9]
6. Contribution towards an approved superannuation fund
7. Subscription to National Savings Certificates, VIII Issue or IX Issue [see Note 7] and deposit in Sukanya Samriddhi Account [see Note 10]
8. Contribution for participating in the unit linked insurance plan (ULIP) of Unit Trust of India [see Note 5]
9. Contribution for participating in the unit linked insurance plan (ULIP) of LIC Mutual Fund (i.e., formally known as Dhanraksha plan of LIC Mutual Fund) [see Note 5]
10. Payment for notified annuity plan of LIC (i.e., Jeevan Dhara, Jeevan Akshay) or any other insurer (i.e., Immediate Annuity Plan of ICICI Prudential Life Insurance Co. Ltd., Tata AIG Easy Retire Annuity Plan)
11. Subscription towards notified units of Mutual Fund or UTI
12. Contribution to notified pension fund set up by Mutual Fund or UTI
13. Any sum paid (including accrued interest) as subscription to notified Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by the National Housing Bank
14. Any sum paid as subscription to any scheme of
 - a. public sector company engaged in providing long-term finance for purchase/construction of residential houses in India (i.e., public deposit scheme of HUDCO)
 - b. housing board constituted in India for the purpose of planning, development or improvement of cities/towns

15. Any sum paid as tuition fees (not including any payment towards development fees/donation/payment of similar 15 nature) whether at the time of admission or otherwise to any university/college/educational institution in India for full

time education of any two children of an individual [Note 8]

16. Any instalment or part payment towards the cost of purchase/construction of a residential property to a housing board or co-operative society (or repayment of housing loan taken from Government, bank, cooperative bank, LIC, National Housing Bank, assessee's employer where such employer is public company/public sector company/university/co-operative society)

17. Amount invested in approved debentures of, and equity shares in, a public company engaged in infrastructure including power sector or units of a mutual fund proceeds of which are utilised for the developing, maintaining, etc., of Government a new infrastructure facility

18. Amount deposited as term deposit for a period of 5 years or more in accordance with a scheme framed by the Government

19. Subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD) [Note 9]

20. Amount deposited under Senior Citizens Saving Scheme

21. Amount deposited in five year time deposit scheme in post office.

22. Amount contributed (for a fixed period of not less than 3 years) by a Central Government employee to his NPS (Tier-II) account.

Notes:

1. In the case of an individual, policy should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, policy may be taken on the life of any member of the family.

Insurance premium cannot exceed the maximum ceiling given below –

	Policy on the life of a person with disability or severe disability or on the life of a person suffering from disease or ailment as given in section 80DDB	Policy on the life of any other person
If policy is issued before April 1, 2012	20% of sum assured	20% of sum assured
If policy is issued during 2012-13	10% of sum assured	10% of sum assured
If policy is issued on or after April 1, 2013	15% of sum assured	10% of sum assured

Net Qualifying Amount

Lower of:

1. 1,50,000
2. Gross Qualifying Amount

Amount of Deduction

Net qualifying amount is deductible.

The maximum amount deductible under section 80C is Rs. 1,50,000. Moreover, the aggregate amount of deduction under sections 80C, 80CCC and 80CCD(1) [i.e., contribution by employee (or any other individual) towards National Pension Scheme (NPS)] cannot exceed Rs. 1,50,000.

Question:

X (age 42 years) is a resident salaried employee (salary being Rs. 40,000 per month). During the previous year 2022-23, he makes the following investment deposits or payments

- a. life insurance premium (policy taken in 2010) on the life of his married daughter: Rs. 6,000 (sum assured: Rs. 20,000);
- b. life insurance premium (policy taken in 2012) on his own life: Rs. 2,700 (sum assured : Rs. 60,000);
- c. life insurance premium (policy taken in 2012) on the life his dependent sister : Rs. 10,000;
- d. contribution towards recognised provident fund Rs 9,000
- e. contribution towards public provident fund : Rs. 1,30,000;
- f. repayment of loan taken from LIC for purchase of residential house property: Rs. 30,000;
- g. contribution towards notified equity - linked saving scheme of UTI (i.e., MEP 2023) : Rs. 14,000.

Find out the tax liability of X for the assessment year 2023-24 assuming that income from house property is Rs. 2,28,900 and he does not want to pay tax under the alternative tax regime under section 115BAC.

Question:

X receives Rs. 7,90,000 as basic pay and Rs. 1,18,000 as bonus during the previous year 2022-23. Besides, he gets Rs. 52,000 dearness allowance (forming part of basic pay) and 4 per cent commission on turnover achieved by him. During the year, turnover achieved by him is Rs. 90,00,000. His employer contributes Rs. 2,24,240 towards provident fund. The amount of interest credited to provident fund on November 15, 2022 at the rate of 10 per cent comes to Rs. 40,000. His income from house property is Rs. 1,65,000.

During the year, he makes the following contributions and investments :

1. Own contribution towards provident fund: Rs. 3,36,360.
2. Insurance premium on own life: Rs. 9,000 (sum assured Rs. 80,000, policy taken in June 2017).
3. Tuition fees of daughter: Rs. 22,000.
4. Contribution towards National Savings Certificate VIII Issue: Rs. 11,000.
5. Insurance premium on the life of major son (not dependent upon X) : Rs. 4,000 (sum assured Rs. 1,00,000).
6. Insurance premium on the life of mother (age: 50 years) of X (dependent upon X) : Rs. 2,000.
7. Deposit in Sukanya Samriddhi Account: Rs. 10,000.
8. Repayment of loan taken to purchase house property: Rs. 21,000.

Determine the taxable income and tax liability of X for the assessment year 2023-24 on the assumption that provident fund is (a) a statutory provident fund, (b) recognised provident fund, or (c) unrecognised provident fund. Ignore section 115BAC.

COMPUTATION OF INCOME FROM SALARIES

1. Mrs. X (48 years) is a deputy manager in a Mumbai based company. She gets Rs. 54,000 per month as salary. Besides, she gets child education allowance of Rs. 450 per month (for daughter) and Rs. 80 per month (for son). Cost of education is approximately Rs. 1,80,000 for the two children (out of which Rs. 1,10,000 is

tuition fees paid by Mrs. X). She also gets hostel expenditure allowance for her daughter at the rate of Rs. 300 per month (but the daughter is a post graduate student in Mumbai college and does not stay in any hostel).

The employer-company provides 1800 cc car for official and private purpose and incurs the entire expenditure on running and maintenance of the car. Personal use of the car as per log book is approximately 65 per cent. With effect from November 1, 2022 she gets driver (to whom the company pays Rs. 6,000 per month).

The employer has provided an unfurnished flat at Andheri (East). It is owned by the company (however, company pays Rs. 900 per month as maintenance charges to the society). The company maintains unrecognized provident fund and contributes 18 per cent of salary towards it for each employee. Mrs. X, however, contributes Rs. 8,000 per month. Her income from other sources is Rs. 3,58,000. Find out the net income and tax liability of Mrs. X for the assessment year 2023-24 under regular tax regime and alternative tax regime.

2. (38 years) is a cost accountant. He is posted at Kozhikode (Kerala). He gets Rs. 65,000 per month as salary and Rs. 10,000 per month as hard duty allowance. The employer company has provided a rent-free unfurnished house at Kozhikode (population as per 2001 census is 16 lakh). The employer-company pays Rs. 16,000 per month as rent of the unfurnished house. However, the same house is purchased by the company for Rs. 80,00,000 from the landlord on December 1, 2022 and after that no rent is paid (only expenditure of the company is running and maintenance of the property which approximately comes to Rs. 400 per month).

The company has provided 1600 cc car at the place of posting. Car is taken on lease by the company (monthly lease rent is Rs. 19,000). The entire expenditure of the car is met by the company up to December 31, 2022. From January 1, 2023, expenditure pertaining to personal use of the car is met by X and expenditure pertaining to official use and lease rent is paid by the employer company. Free residential telephone is provided to X for personal use (expenditure of the employer is Rs. 20,000).

Employer and employee contribute towards recognized provident fund (contribution of each of them is 12 per cent of salary up to December 31, 2022 and increased to 12.5 per cent from January 1, 2023). Interest is credited on January 1, 2023 (rate of interest : 9 per cent). X pays Rs. 80,000 on March 31, 2023 to Kerala Housing Board (house is yet to be allotted) (out of Rs. 80,000, the employer company has contributed Rs. 30,000 out of its pocket which is not recoverable from X).

Interest on debentures received by X during the financial year 2022-23 is Rs. 2,26,000. X deposits Rs. 42,000 in his public provident fund account and contributes Rs. 90,000 towards Prime Minister's Relief Fund. Find out the net income and tax liability for the assessment year 2023-24. X wants to know whether (or not) tax incidence can be reduced under the alternative tax regime.

3. During the previous year 2022-23, X (61 years) is employed by a private sector company. He gets Rs. 45,000 per month as basic salary, Rs. 15,000 per month as dearness allowance (30 per cent is considered for calculation of provident fund), tiffin allowance of Rs. 1,000 per month, medical allowance of Rs. 1,500 per month. Besides he gets a fixed commission of Rs. 5,000 per month. The employer- company has provided a watchman at the residence of X (company bears salary of Rs. 4,000 per month out of which Rs. 1,000 per

month is recovered from X). The company provides a car (1200 cc) for personal and official use of X (the entire expenditure on salary and driver of approximately Rs. 76,000 is incurred by the company along with hire charges of car of Rs. 18,000, only a sum of Rs. 9,000 is recovered for providing car from X).

The employer-company contributes 15 per cent of "salary" towards recognized provident fund. A matching contribution is made by X. However, with effect from January 1, 2023, X makes an additional contribution of Rs. 10,000 per month. Interest of Rs. 74,000 is credited in provident fund account at the rate of 10 per cent on October 1, 2022. Income of X from other sources is Rs. 7,24,240. Find out net income and tax liability of X for the assessment year 2023-24. Is it advisable for X to pay tax under the alternative tax regime?

4. Mrs. X (34 years) is in the IT department of A Ltd. She joined the company on November 1, 2020 in the pay scale of Rs. 80,000 - Rs. 5,000-Rs. 2,00,000. At the time of joining, her salary was fixed at Rs. 84,000. Besides, she gets Rs. 10,000 per month as dearness allowance (not forming part of salary for any retirement benefit purposes). As per service rules, she is entitled to the following -

Fixed servant allowance: Rs. 1,250 per month

Fixed meal allowance: Rs. 1,500 per month

Conveyance allowance: Rs. 3,000 per month

Garden allowance: Rs. 1,900 per month (it is allowed with effect from May 1, 2022)

These allowances are used for personal purposes. However, conveyance allowance has been discontinued with effect from January 1, 2023. A car (1400 cc) is provided for official and private use with effect from January 1, 2023. The entire expenditure (i.e., Rs. 43,000 including driver's salary) is paid by employer-company. During December 2022, Mrs. X gets reimbursement of LTC of Rs. 1,24,500 (under employer's LTC scheme) out of which Rs. 1,02,000 is exempt under section 10(5). Mrs. X contributes 15 per cent of her salary towards unrecognized provident fund. A matching contribution is made by the employer. Interest of Rs. 81,000 is credited in the provident fund account at the rate of 11 per cent. Mrs. X pays a sum of Rs. 10,000 as life insurance premium on an insurance policy (sum assured: Rs. 80,000) taken by her husband in May 2021 on her life. Income of Mrs. X from other sources is Rs. 1,77,500

Determine the net income and tax liability of Mrs. X for the assessment year 2023-24 under regular tax regime as well as alternative tax regime. Salary becomes due on the last day of each month. Mrs. X has purchased NSC VIII issue of Rs. 1,00,000 on March 31, 2022.

5. X (50 years) is employed by P Ltd. and Q Ltd. on part time basis. During the previous year 2022-23, he gets basic salary: Rs. 20,000 per month and house rent allowance: Rs. 6,000 per month from P. Ltd. Besides, P Ltd. provides a car (1500 cc) for official and private use. The entire expenditure of maintenance (Rs. 48,000), repairs (Rs. 6,000), insurance (Rs. 9,000) and driver's salary (Rs. 72,000) is borne by the company. X does not pay any rent (he resides with his family in the house provided by Q Ltd.). From Q Ltd. X gets basic salary: Rs. 36,000 per month and transport allowance (for commuting between office and residence) : Rs. 1,800 per month. Besides, Q Ltd. has provided a rent-free unfurnished house at Hanuman Nagar (population of Hanuman Nagar is 11 lakh). Rent paid by Q Ltd. is Rs. 12,000 per month. Besides, Q Ltd. provides prepaid non-transferable lunch vouchers to X for 220 days the previous year (cost to Q Ltd.: Rs. 60 per voucher). during

Income of X from other sources is Rs. 4,87,800 (out of which Rs. 8,000 per month is pension from the Government where he was employed before joining P Ltd. and Q Ltd.). P Ltd., Q Ltd. and X contribute 10 per cent of salary towards recognized provident fund. Interest is credited in the provident fund account at the

rate of 9 per cent. Every year X deposits Rs. 80,000 in PPF. Find out the net income and tax liability of X for the assessment year 2023-24 under the regular and alternative tax regimes.

INCOME FROM HOUSE PROPERTY

What is the basis of charge (Sec. 22)

Income is taxable under the head "Income from house property" if the following three conditions are satisfied:

Condition 1	The property should consist of any buildings or lands appurtenant thereto.
Condition 2	The assessee should be owner of the property.
Condition 3	The property should not be used by the owner for the purpose of any business or profession carried on by him, the profits of which are chargeable to income-tax.

Provisions illustrated

X owns a house property. He lets it out to Y for 3 years (rent being Rs. 10,000 per month). Y sublets it to Z on monthly rent of Rs. 40,000. Rental income of X is taxable under the head "Income from house property". Since Y is not the owner of the house, his income is not taxable as under the head "Income from house property", but is taxable as business income under section 28 or as income from other sources under section 56.

WHEN PROPERTY INCOME IS NOT CHARGED TO TAX

In the following cases, rental income is not charged to tax :

- a. income from farm house [sec. 2(1A)(c) read with sec. 10(1)];
- b. annual value of any one palace of an ex-ruler [sec. 10(19A)];
- c. property income of a local authority [sec. 10(20)];
- d. property income of an approved scientific research association [sec. 10(21)];
- e. property income of an educational institution and hospital [sec. 10(23C)];
- f. property income of a trade union [sec. 10(24)];
- g. house property held for charitable purposes [sec. 11];
- h. property income of a political party [sec. 13A];
- i. property used for own business or profession [sec. 22]; and
- j. two self-occupied properties [sec. 23(2).]

Basis of computing income from house property:

Gross Annual Value	XXX
Less: Municipal Tax Paid	(XXX)
Net Annual Value	XXX
Less: Deduction u/s 24	
Standard Deduction u/s 24(a)	(XXX)
Interest on Borrowed Capital u/s 24(b)	(XXX)
Income From House Property	XXX

COMPUTATION OF GROSS ANNUAL VALUE

Question:

X, Y, Z, A and B separately own the following properties

	H1	H2	H3	H4	H5
	X	Y	Z	A	B
Municipal Value	105	105	105	105	105
Fair Rent	107	107	107	107	107
Standard Rent under Rent Control Act	NA	88	88	135	135
Actual Rent	103	112	86	114	97
Unrealized Rent	1	2	1	2	1
Period of the Previous Year (in Months)	12	12	12	12	12
Period during which the Property remain Vacant	Nil	Nil	Nil	Nil	Nil

Find out the Gross Annual Value for the A.Y. 2023-2024?

Question:

Find out the Gross Annual Value for the A.Y. 2023-2024`

	X	Y	Z	A	B
Municipal Value	60	60	60	112	112
Fair Rent	68	68	68	117	117
Standard Rent under Rent Control Act	62	62	70	115	115
Annual Rent	67	67	73	121	110
Unrealized Rent	2	6	5	50	40
Period of the Previous Year (in Months)					
Period during which the Property remain Vacant	1	1	1	1	-

Question:

Particulars	X	Y	Z	A	B	C	D
Municipal Value (per annum)	60	61	60	80	80	140	140
Fair Rent (per annum)	65	66	64.5	78	78	150	150
Standard Rent under Rent Control Act (per annum)	59.5	59	63	85	76	120	120
Annual Rent	72	57	72	72	NA	96	144
Property remains vacant (in no. of months)	(1)	(1.5)	(5)	(3)	(12)	(10)	(10)

Loss due to vacancy	6	7.125	30	18		80	120
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Question:

Find out the Gross Annual Value for the A.Y. 2023-2024

	X	Y	Z	A	B
Municipal Value	140	180	180	140	231
Fair Rent	145	185	185	145	262
Standard Rent under Rent Control Act	142	175	175	142	241
Actual rent if property is let out throughout the p.y. 2022-23	168	168	168	168	252
Unrealized Rent of the previous year 2022-23	14	42	1	70	42
Unrealized Rent of the previous year 2021-22	3	4	5	6	7
Period during which the Property remain Vacant	(0.5)	(1)	(1)	(3)	(5)
Loss due to vacancy	7	14	14	42	105

Question:

Find out the Gross Annual Value for the A.Y. 2023-2024

	X	Y
Municipal Value	61,000	61,000
Fair Rent	1,08,000	30,000
Standard Rent under Rent Control Act	60,000	60,000
Rate of Rent		
old tenant(1-04-222 to 30-06-2022) Per month	5,000	2,000
New tenant(1-07-222 to 31-12-2022) Per month	9,000	2,500
Period during which the Property remains unoccupied because suitable tenant was not available	Jan 1, 2023 to March 31,2023	Jan 1, 2023 to March 31,2023
Actual Rent received/receivable (If no Vacancy)	96,000	28,500
Loss due to vacancy	27,000	7,500

Deduct municipal taxes-From the gross annual value computed above, deduct municipal taxes (including service taxes) levied by any local authority in respect of the house property. Municipal taxes are deductible only if

- (a) these taxes are borne by the owner, and
- (b) are actually paid by him during the previous year.

Municipal taxes, levied by local authority but not paid by the assessee during the previous deductible. If property is situated in a foreign country, municipal taxes levied by foreign deductible (if such taxes are paid by the owner). year, are not local authority are

The remaining amount left after deduction of municipal taxes is net annual value.

Deduction under section 24 –

The following two deductions are available under section 24-

a. **STANDARD DEDUCTION [SEC. 24(a)]** - 30 per cent of net annual value is deductible irrespective of any expenditure incurred by the taxpayer.; and

b. **INTEREST ON BORROWED CAPITAL [SEC. 24(b)]**- Interest on borrowed capital is allowable as deduction, if capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property. The following points should also be kept in view:-

- ▶ If capital is borrowed for the purpose of purchasing a plot of land, interest liability is deductible even if construction is financed out of own funds.
- ▶ Interest on borrowed capital is deductible on "accrual" basis. It can be claimed as deduction on yearly basis, even if the interest is not actually paid during the year.
- ▶ Deduction is available even if neither the principal nor the interest is a charge on property.
- ▶ Interest on unpaid interest is not deductible.
- ▶ No deduction is allowed for any brokerage or commission for arranging the loan.
- ▶ Interest on a fresh loan, taken to repay the original loan raised for the aforesaid purposes, is allowable as deduction-Circular No. 28, dated August 20, 1969. This rule is applicable even if the first loan was interest-free loan.

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 of the Act, will be deducted in five equal annual instalments, commencing from the previous which the house is acquired or constructed. year in The

- ▶ What is pre-construction period - Interest of pre-construction period is deductible in five equal instalments. first instalment is deductible in the year in which construction of property is completed or in which property is acquired. For this purpose "pre-construction period" means the period commencing on the date of borrowing and ending on (a) March 31 immediately prior to the date of completion of construction/date of acquisition or (b) date of repayment of loan, whichever is earlier.)

Question

X takes a loan of Rs. 40,000 @ 15 per cent per annum for is completed on January 20, 2023. constructing a house on June 10, 2017. Construction of the house
Date of repayment of loan is (a) January 16, 2028, or (b) June 30, 2024, or (c) October 31, 2020.

Own property used for own residential purposes - Where an assessee has occupied his property for own residential purposes, tax treatment is as follows –

If only one property is used for own residential Purposes	It is treated as self-occupied property
If two properties are used for own residential purposes	Two residential properties are treated as self-occupied properties

If more than two properties are used for own residential purposes	Only two houses (according to the choice of the taxpayer) are treated as self-occupied properties and other house/houses will be treated as "deemed to be let out"
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INTEREST ON BORROWED CAPITAL [SEC. 24(6)] - Interest on borrowed capital [of the current year and pre-construction period] is deductible.

However, it is deductible in the case of one self-occupied property (or two self-occupied properties) subject to a maximum ceiling given below –

► **Maximum ceiling if capital is borrowed on or after April 1, 1999 –**

If the following three conditions are satisfied, interest on borrowed capital is deductible up to Rs. 2,00,000-

Condition 1	Capital is borrowed on or after April 1, 1999 for acquiring or constructing a property
Condition 2	The acquisition or construction should be completed within 5 years from the end of financial year in which the capital was borrowed
Condition 3	The person extending the loan certifies that such interest is payable in respect of the amount advanced for acquisition or construction of the house or as re-finance of the principal amount outstanding under an earlier loan taken for such acquisition or construction

The following points should be noted -

1. If capital is borrowed for any other purpose (e.g., if capital is borrowed for reconstruction, repairs or renewals of a house property), then the maximum amount of deduction on account of interest is Rs. 30,000 (and not Rs. 2,00,000).

2. There is no stipulation regarding the date of commencement of construction. Consequently, the construction of the residential unit could have commenced before April 1, 1999 but, if the aforesaid three conditions are satisfied, the higher deduction of Rs. 2,00,000 would be available.

3. There is no stipulation regarding the construction/acquisition of the residential unit being entirely financed by the loan taken on or after April 1, 1999. It may be so in part. However, the higher deduction of Rs. 2,00,000

towards interest can be claimed only in relation to that part of the loan which has been taken and utilised for

construction/acquisition after April 1, 1999. The loan taken prior to April 1, 1999 will carry deduction of interest up to Rs. 30,000 only (as stated in para given below).

► **Maximum ceiling in any other case** - If the above three conditions [i.e., conditions (1), (2) and (3) (supra)] are not satisfied, then interest on borrowed capital is deductible up to a maximum of Rs. 30,000. In other words, in the following two cases, interest on borrowed capital is deductible up to Rs. 30,000-

1. If capital is borrowed before April 1, 1999 for purchase, construction, reconstruction, repairs or renewals of a house property.
2. If capital is borrowed on or after April 1, 1999 for reconstruction, repairs or renewals of a house property.

WHAT ARE SPECIAL PROVISIONS WHEN UNREALISED RENT IS REALISED SUBSEQUENTLY [SEC. 25A]

The amount of rent received in arrears or the amount of unrealised rent realised subsequently by an assessee shall be charged to income-tax in the previous year in which such rent is received or realized. The following points should be noted -

- The recipient of arrears of rent (or the recipient of unrealised rent) is chargeable to tax in the year in which such rent is received, regardless of the fact whether in the year of receipt the house property is owned by him or not.
- The recipient can claim 30 per cent of the arrears of rent or the unrealised rent realised subsequently as deduction.

Questions

- 69.1-3 P1 X owns a residential house property. It has two equal residential units - Unit 1 and Unit 2. While Unit 1 is self-occupied by X for his residential purpose, Unit 2 is let out (rent being Rs. 6,000 per month, rent of 2 months could not be recovered). Municipal value of the property is Rs. 1,30,000, standard rent is Rs. 1,25,000 (and fair rent is Rs. 1,40,000. Municipal tax is imposed @ 12 per cent which is paid by X. Other expenses for the previous year 2022-23 being repairs: during 1998) for constructing the property: Rs. 63,000. Rs. 250, insurance: Rs. 600, interest on capital (borrowed) Rs. 1,40,000. Find the income of X for the assessment year 2023-24 on the assumption that income of X from other sources is Rs 180,000
- X owns a property at Delhi (municipal value: Rs. 1,64,000, fair rent: Rs. 2,16,000, standard rent: Rs. 1,80,000). The house to January 31, 2023 (monthly rent being Rs. 14,000). From February 1, 2023, the property is self-occupied for residential purposes. Expenses incurred by X are: municipal tax: Rs. 6,000 (actually paid), repairs: Rs. 2,100, insurance: interest on capital borrowed (date of borrowing being June 10, 1991) for acquiring the property: Rs. 1,23,000. Assuming that the income of X from other sources is Rs. 1,86,000, find out the net income of X for the assessment year 2023-24. Does it make any difference if property is let out up to January 31, 2023 @ Rs. 19,000 per month? There is no unrealised rent.
- X owns a residential property in Chennai. It is let out to A Ltd. (rent being Rs. 40,000 per month). Municipal value of the property is Rs. 2,20,000, fair rent is Rs. 4,80,000. A Ltd. pays municipal tax. On April 7, 2022, rent is increased from Rs. 40,000 per month to Rs. 45,000 per month with retrospective effect from April 1, 2021. X gets Rs. 60,000 (being arrears of rent for the financial year 2021-22) on April 20, 2022. Find out the net income of X for the assessment year 2023-24 on the assumption that his income from other sources is Rs. 5,00,000.
- X (age: 24 years, resident) has occupied two houses for his residential purposes, particulars of which are as follows:

	House 1	House 2
Municipal Value	60,000	30,000
Fair Rent	85,000	32,000
Standard Rent	65,000	36,000
Municipal Tax Paid	10%	10%
Fire Insurance	600	360
Interest on borrowed capital	1,40,000	1,70,000

Income of X from business is Rs. 9,30,000. Determine the taxable income and tax liability for the assessment year 2023-24 on the assumption that he contributes Rs. 1,40,000 towards the public provident fund. X does not want to pay tax under the alternative tax regime.

- X (age: 61 years, resident) has occupied two houses for his residential purposes, particulars of which are as follows:

	House 1	House 2	House 3
Standard Rent	15,000	20,000	

Municipal Value	10,000	30,000	30,000
Fair Rent	18,000	18,000	35,000
Municipal Tax Paid	1,200	2,400	3,600
Repairs			200
Fire Insurance	1,200	1,300	600
Ground Rent	1,800	1,700	400

X borrows Rs. 90,000 @ 20 per cent per annum for construction of House III (date of borrowing: June 1, 2013, date of repayment of loan: May 10, 2023). Construction of all the houses is completed in May 2020. X is a salaried employee, drawing Rs. 14,30,680 per annum as salary. Determine the taxable income and tax liability of X for the assessment year 2023-24 on the assumption that he contributes Rs. 1,34,160 towards recognised provident fund. Is it beneficial for X to pay tax under the alternative tax regime under section 115BAC?

6. X (age: 54 years, resident) has occupied 4 houses for his residential purposes, particulars of which are as follows:

	House 1	House 2	House 3	House 4
Municipal Value	30,000	5,000	68,000	95,000
Fair Rent	39,000	18,000	77,000	95,000
Standard Rent	36,200	12,000	75,000	90,000
Rent (if property is let out throughout the year)	42,000			
Unrealised rent	3,500			
Municipal Tax Paid				
Paid by X		500	7,000	9,000
Paid by tenant	3,000			
Date of completion of construction	31 May 2021	31 May 2021	31 Mar 2021	01 Apr 2020
Repair		2,000	1,000	3,000
Collection charges	200			
Land Revenue	400	300		600
Ground Rent	300	400	300	
Nature of occupation	Let out	Self-occupied	Self-occupied for business	Self-occupied

Property I remains vacant for 2 months (March 16, 2023 to May 15, 2023). X borrows Rs. 30,000, Rs. 40,000 and Rs. 65,000 for construction of House I, House II and House IV, respectively (date of borrowing : June 15, 2016, date of repayment of loan along with interest: December 31, 2020, rate of interest: 15 per cent per annum).

Business income of X for the previous year 2022-23 is Rs. 14,55,000 (it has been computed as per the provisions of Income-tax Act). Determine the taxable income and tax liability of X for the assessment year 2023-24 on the assumption that he is eligible for deduction under section 80C (public provident fund contribution: Rs. 1,40,000) and section 80G (donation to Prime Minister's Relief Fund: Rs.1,00,000). Ignore section 115BAC.

7. X owns a big house (erection completed on March 31, 2018). The house has three independent units. Unit 1 (50 per cent of the floor area) is let out for residential purpose on monthly rent of Rs. 8,200. Unit 1 remains vacant for 1 month when it is not put to any use. A sum of Rs. 700 could not be collected from the tenant. Unit 2 (25 per cent of the floor area) is used by X for the purpose of his profession, while Unit 3 (the remaining 25 per cent) is utilised for the purpose of his residence. Other particulars of the house are as follows:
Municipal valuation : Rs. 60,000, fair rent: Rs. 70,000, standard rent under the Rent Control Act: Rs. 90,000, municipal taxes : Rs. 15,000, repairs: Rs. 4,000, interest on capital borrowed for renewal of the property: Rs. 36,000, ground rent: Rs. 6,400, annual charge created under the will by father in favour of Mrs. X: Rs. 9,000 and fire insurance premium paid : Rs. 15,000. Income of X from profession is Rs. 7,95,000 (without debiting house rent and other incidental expenditure including admissible depreciation on the portion of house used for profession : Rs 8,000). Determine the taxable income of X for the assessment year 2023-24. X deposits Rs. 1,10,000 in PPF account.

INCOME FROM CAPITAL GAINS

WHAT IS THE BASIS OF CHARGE [SEC. 45]

Any gain arising from the transfer of a capital asset during a previous year is chargeable to tax under the head "Capital gains" in the immediately following assessment year.

Meaning of Capital Assets

"Capital asset" is defined by section 2(14).

► Positive list - "Capital asset" means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible. Besides, it includes the following –

1. Any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.
2. Property of any kind held by an assessee (whether or not connected with his business or profession).
3. Any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act.
4. Any unit linked insurance plan (ULIP policy) issued on or after February 1, 2021 to which exemption under section 10(10D) does not apply (i.e., if insurance premium payable in any previous year during the term of such policy exceeds Rs. 2.50 lakh).

► Negative list - The following assets are excluded from the definition of "capital assets" –

1. Stock-in-trade.
2. Personal effects (movable assets).
3. Agricultural land in a rural area in India.
4. A few gold bonds and special bearer bonds (this point does not have any practical utility).

5. Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015.

► Personal effects (being movable assets) are not capital assets - Any movable property (including wearing apparel and furniture) held for personal use of the owner or for the use of any member of his family dependent upon him, is not a "capital asset" for the purpose of income under the head "Capital gains". However, the following are not "personal effects" (in other words, the following are "capital assets") even if these are for personal use - jewellery, archaeological collections, drawings, paintings, sculptures, or any work of art.

LONG TERM AND SHORT TERM CAPITAL GAIN

WHEN SUCH PERIOD IS TAKEN AS 12 MONTHS/24 MONTHS/36 MONTHS - If a capital asset is transferred after 36 months, it is known as long-term capital asset. However, in the following cases a capital asset becomes long-term capital asset if it is transferred after 12 months or 24 months -

► Category A - Period of holding more than 12 months (if transfer takes place after July 10, 2014) -

1. Equity or preference shares in a company (listed in a recognised stock exchange in India).
2. Securities (like debentures, bonds, Government securities, derivatives, etc.) listed in a recognised stock exchange in India.
3. Units of UTI (whether quoted or not).
4. Units of an equity oriented mutual fund (whether quoted or not).
5. Zero coupon bonds (whether quoted or not).

► Category B - Period of holding more than 24 months

1. Equity or preference shares in a company (unlisted) (if transfer takes place on or after April 1, 2016).
2. Immovable property (being land or building or both) (if transfer takes place on or after April 1, 2017).

► Category C - Period of holding more than 36 months

1. Any other capital assets

QUESTION

State, giving reason, whether the asset is short-term or long-term in the cases given below

1. X purchases a house property on March 10, 2021 and transfers it on June 6, 2022.
2. Y purchases listed shares in an Indian company on March 10, 2021 and transfers it on June 6, 2022.
3. Z acquires units of an equity oriented mutual fund on July 7, 2021 and he transfers these units on July 10, 2022. 2020. B
4. A purchases diamonds on September 12, 2019 and gifts the same to his friend B on December 31, 20, 2022. transfers the asset on October
5. C purchases unlisted shares in a company on November 21, 2020; the company transfers shares in the name C : January 5, 2021). These shares are transferred by C on December 20, 2022.

COMPUTATION OF LONG TERM AND SHORT TERM CAPITAL GAIN

SHORT TERM	LONG TERM	AMOUNT
FULL VALUE CONSIDERATION	FULL VALUE CONSIDERATION	XXX
LESS: COST OF ACQUISITION	LESS: INDEXED COST OF ACQUISITION	(XXX)
LESS: COST OF IMPROVEMENT	LESS: INDEXED COST OF IMPROVEMENT	(XXX)
LESS: EXPENSES ON TRANSFER	LESS: EXPENSES ON TRANSFER	(XXX)
SHORT TERM CAPITAL GAIN	LONG TERM CAPITAL GAIN	XXX

Indexed Cost of Acquisition/ Improvement=

Cost of Inflation Index (CII)

Previous Year	CII	Previous Year	CII	Previous Year	CII	Previous Year	CII
2001-02	100	2007-08	129	2013-14	220	2019-20	289
2002-03	105	2008-09	137	2014-15	240	2020-21	30
2003-04	109	2009-10	148	2015-16	254	2021-22	317
2004-05	113	2010-11	167	2016-17	264	2022-23	331
2005-06	117	2011-12	184	2017-18	272	2023-24	348
2006-07	122	2012-13	200	2018-19	280		

WHEN THE BENEFITS OF INDEXATION IS NOT AVAILABLE IN CASE OF LONG-TERM CAPITAL ASSET

1. Bonds and Debentures other than
 - a. Capital Indexed Bond
 - b. Sovereign Gold Bond
2. Equity shares in a company or a unit of equity oriented mutual fund referred in section 112A
3. Depreciable Assets
4. Market linked Debentures
5. GDR purchased in foreign currency as given in section 115AC and 115ACA

QUESTION

1. X purchases a house property for Rs. 76,000 on June 30, 1977. The following expenses are incurred by him for making addition/ alteration to the house property:

a. Cost of construction of first floor in 1985-86	1,10,000
b. Cost of construction of the second floor in 2003-04	3,40,000
c. Alteration/reconstruction of the property in 2012-13	2,90,000

Fair market value of the property on April 1, 2001 is Rs. 4,50,000. The house property is sold by X on June 15, 2022 for Rs. 99,50,000 (expenses incurred on transfer: Rs. 10,000).

2. X sells the following capital assets during the previous year 2022-23:

	Non Listed Shares	House Property
Sale consideration	24,00,000	6,80,000
Year of acquisition	2002-03	2005-06
Cost of acquisition	2,90,000	18,000
Cost of improvement incurred in 2016-17		70,000

3. X purchases a house property for Rs. 26,000 on May 10, 1982. He gets the first floor of the house constructed in 1987-88 by spending Rs. 40,000. He dies on September 12, 1998. The property is transferred to Mrs. X by his will. Mrs. X spends Rs. 30,000 and Rs. 26,700 during 1999-00 and 2005-06 respectively for renewals/reconstruction of the property. Mrs. X sells the house property for Rs. 21,50,000 on March 15, 2023 (brokerage paid by Mrs. X is Rs. 11,500). The fair market value of the house on April 1, 2001 is Rs. 1,60,000.

4. X sells the following capital assets during the previous year 2022-23:

	Units of Mutual Fund(Debt Oriented)	House Property
Cost of acquisition	1,40,000	70,000
Year of acquisition	10 Apr 2014	10 Mar 2021

These capital assets (no depreciation is claimed) are transferred by X Ltd. to its wholly-owned Indian subsidiary company – S Ltd. on April 1, 2021. On July 18, 2022, these assets are transferred by S Ltd. for a consideration of Rs. 4,50,500 (i.e., units: Rs. 2,15,700, house property: Rs. 2,34,800). Compute the capital gain chargeable to tax in the case of S Ltd. for the assessment year 2023-24.

SPECIAL CASES

- Cost of the previous owner
- Cost of acquisition being the fair market value as on 1 Apr 2001
- Capital gain in the case of transfer of depreciable assets
- When advance money was forfeited earlier
- Compulsory acquisition of a capital assets
- Capital gain on transfer of right entitlements
- Conversion of debentures/ bonds into shares

Cost of the previous owner

If the person has acquired a capital asset in the circumstances specified u/s 49(1), then to calculate capital gain at the time of transfer of such asset cost to the previous owner is taken as cost of acquisition. This rule is always applicable and does not have any exceptions.

Circumstances specified by section 49(1) are as follows:

- acquisition of property on any distribution of assets on the total or partial partition of a Hindu undivided family;
- acquisition of property under a gift or will;

c. acquisition of property:

- i. by succession, inheritance or devolution, or
- ii. on any distribution of assets on the dissolution of a firm, body of individuals or other association of persons where such dissolution had taken place before April 1, 1987, or
- iii. on any distribution of assets on the liquidation of a company, or
- iv. under a transfer to a revocable or an irrevocable trust, or
- v. by a wholly-owned Indian subsidiary company from its holding company, or
- vi. by an Indian holding company from its wholly-owned subsidiary company, or
- vii. under a scheme of amalgamation, or
- viii. under a scheme of demerger; or
- ix. under a scheme of conversion of private company/unlisted company into LLP;
- x. on any transfer in the case of conversion of firm/sole-proprietary concern into company; or
- xi. on any transfer, in relocation, of a capital asset by the original fund to the resulting fund which comes under section 47(viiac)/(viiad), or
- xii. on any transfer which comes under section 47(viiae)/(viiaf);

Question

X purchases gold on April 15, 2010 for Rs. 1,00,000. He transfers this gold by gift to his friend Y on January 20, 2020 (market value of gold: Rs. 1,40,000). Y transfers gold for Rs. 4,90,000 on May 16, 2022. Find out capital gain chargeable to tax in the hands of X and Y.

Cost of acquisition being the fair market value as on April 1, 2001 - In the following cases, the assessee may take, at his option, either actual cost or the fair market value of the asset as on April 1, 2001 acquisition: as cost of

- a. where the capital asset became the property of the assessee before April 1, 2001; or
- b. where the capital asset became the property of the assessee by any mode referred to in section 49(1) and the capital asset became the property of the previous owner before April 1, 2001.

Question

Find out the capital gain chargeable to tax under the following circumstances:

	House	Silver	Diamond
Date of acquisition	20 May 1989	10 March 1999	01 May 2003
Date of transfer	29 April 2022	10 June 2022	#####
	RS.	RS.	RS.
Sale Consideration	₹ 14,00,000	₹ 8,00,000	₹ 8,10,000
Stamp Duty Value	₹ 16,50,000		
Cost of Acquisition	₹ 95,000	₹ 58,000	₹ 70,000
Fair Market Value on 01 Apr 2001	₹ 90,000	₹ 60,000	₹ 84,000
Cost of construction of 1st floor (1999-00)	₹ 18,000		
Cost of construction of 2nd floor (2014-15)	₹ 40,000		

Capital gain in the case of transfer of depreciable assets [Sec. 50] –

The following rules 10 are applicable –

► Capital gain arises only in two cases - If a depreciable asset is transferred, capital gain (or loss) will arise only in the following two cases -

1. When on the last day of the previous year written down value of the block of assets is zero
2. When the block of assets is empty on the last day of the previous year [sec. 50(2)]. [sec. 50(1)].

In no other case capital gain is chargeable to tax, when a depreciable asset is transferred. This rule is equally applicable whether depreciation is allowed in the current year (or any of earlier years).

► Always short-term - It can never be treated as long-term capital gain (or loss). On transfer of depreciable assets gain (or loss) is always short-term capital gain (or loss).

Question

X Ltd. owns two plants - A and B (depreciation rate: 15 per cent, depreciated value of the block on April 1, 2022: Rs. 8,16,000). On June 1, 2022, it purchases Plant C (old) (depreciation rate: 15 per cent) for Rs. 1,00,000. On November 5, 2022, it transfers Plant A for Rs. 1,30,000 (expense on transfer: Rs. 500). Plant A was purchased for Rs. 45,000 in 2017. and capital gain for the assessment year 2023 - 24 Find out the amount of depreciation

Question

Suppose in the above problem, Plant A is transferred for Rs. 9,50,000. What would be the amount of capital gain/depreciation?

When advance money was forfeited earlier [Sec. 51] - In the course of negotiations for transfer of a capital asset, the assessee (i.e., transferor) received advance money. Later on, the prospective purchaser could not pay the balance consideration and the advance money is retained or forfeited by the assessee or advance money is forfeited by the assessee because of some other reason. The tax treatment of advance money so forfeited or retained by the assessee is as follows –

1. If advance money is forfeited during the previous year 2013-14 (or any earlier previous year) - It is not taxable in the hands of recipient till the capital asset (in respect of which advance money was received and forfeited) is transferred. If capital asset is not transferred during his lifetime, advance money forfeited by him will not be chargeable to tax. Conversely, if the capital asset is transferred during his lifetime, the advance money will be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

2. If advance money is forfeited during the previous year 2014-15 (or any subsequent previous year) - It is taxable in the hands of recipient under section 56(2)(ix) under the head "Income from other sources" in the year in which advance money is forfeited. Consequently, it will not be deducted from cost of acquisition when the capital asset is ultimately transferred.

Question

X purchased a house property on September 18, 2002 for Rs. 1,00,000. On April 4, 2003, he entered into an agreement to sell the house to A for Rs. 6,50,000 (after receiving an advance of Rs. 10,000). On A's failure to pay the balance within the stipulated period of 45 days, X forfeited the advance money. X died on October 12, 2003 and Mrs. X (as per his will) got the property. Mrs. X enters into an agreement on January 13, 2005 to sell the property to B after receiving advance of Rs. 80,000 and on B's failure to pay the balance within 2 months, as per the agreement, the advance money is forfeited by Mrs. X. Further, Mrs. X enters into an agreement on April 6, 2021 to transfer the property to C after receiving advance of Rs. 1,00,000. C could not pay the balance consideration within the stipulated period of 45 days and Mrs. X forfeits the advance money.

Mrs. X ultimately sells the property to Y on June 26, 2022 for Rs. 42,90,000. Find out the tax consequences in the hands of X and Mrs. X for different assessment years. Also calculate net income of Mrs. X for the assessment year 2023-24, on the assumption that she is a businesswoman and her income from business is Rs. 20,00,000.

Compulsory acquisition of a capital asset - The special rules given below are applicable where the Government has acquired an asset of a person by way of compulsory acquisition. These rules are also applicable when consideration is approved or determined by the Central Government or RBI (even if there is no compulsory acquisition).

- ▶ Initial compensation - Initial compensation¹¹ is taken as full value of consideration. Capital gain is chargeable to tax in the year in which the initial compensation (or part thereof) is first received. Indexation benefit is, however, available up to the year in which the asset is compulsorily acquired.
- ▶ Additional compensation - If a Court/Tribunal/authority enhances compensation, it will be taxable in the year in which enhanced compensation or additional compensation is received. For this purpose cost of acquisition and cost of improvement are taken as nil. However, litigation expenses or incidental expenditure for obtaining additional compensation is deductible. If the enhanced compensation is received by any other person (because of the death of the transferor or for any other reason), it is taxable as income of the recipient.

Question

The Central Government acquires a house property owned by X on October 17, 2015. This property was purchased on April 10, 2007 for Rs. 3,00,000. The Central Government awards Rs. 16,00,000 as compensation out of which Rs. 1,00,000 is received on May 4, 2022 and Rs. 15,00,000 is received on April 1, 2023. Expenditure incurred by X for getting compensation fixed: Rs. 2,000. Being aggrieved against the award, X files an appeal. The Bombay Court, as per order dated August 1, 2024, enhanced the compensation from Rs. 16,00,000 to Rs. 28,00,000 (legal expenditure incurred in Court's proceedings: Rs. 10,000). X receives the additional compensation of Rs. 12,00,000 on April 15, 2025. Compute the income under the head "Capital gains". Does it make any difference if the additional compensation is received by X's son after the death of X ?

Capital gain on transfer of right entitlement - Amount realized by an existing shareholder by selling rights entitlement (i.e., right to acquire additional shares in the company at a pre-determined price) is taxable in the year of transfer of the right entitlement. Cost of acquisition of right entitlement is always taken as zero and the capital gain is deemed as short-term capital gain.

Question

101.12-P1 X holds 1,000 equity shares in A Ltd. since 1988 (cost of acquisition : Rs. 10,000, fair market value on April 1, 2001 : Rs. 14,000). A Ltd. offers 2,000 rights shares of Rs. 10 each to X on May 1, 2022 at a premium of Rs. 50. X subscribes for 800 rights shares and renounces 1,200 shares in favour of C by transferring the right entitlement for a consideration of Rs. 4,800. X sells 1,800 shares in A Ltd. on March 30, 2023 @ Rs. 160 per share (securities transaction tax is not applicable, as shares are transferred outside stock exchange).

Conversion of debentures/bonds into shares - Conversion of debentures into shares is not treated as "transfer". Consequently, at the time of conversion of debentures/bonds into shares nothing is chargeable to tax. When the shares so converted are transferred, the following special rules are applicable –

1. Cost of acquisition of debentures/bonds will become cost of acquisition of shares.
2. To find out whether shares are short-term or long-term capital asset, the period of holding shall be counted from the date of allotment of debentures.
3. The benefit of indexation is available from the date of allotment of debentures.

PROBLEMS

1.

X and Y gives the following information

	X	Y
		19 September
Date of transfer	10 July 2022	2022
Date of acquisition	06 October 2004	10 April 2003
Sale Consideration	₹ 13,00,000	₹ 14,50,000
Stamp Duty Value	₹ 15,00,000	₹ 17,50,000
Cost of Acquisition	₹ 1,87,000	₹ 3,75,000
Expenses on transfer	₹ 10,000	₹ 6,000
To get the exemption u/s 54 the following residential house properties are purchased by X and Y		
	20 December	
Date of acquisition	2022	01-Jul-22
Cost of acquisition	₹ 12,00,000	₹ 16,00,000

Find out the capital gain chargeable to tax in the hands of X and Y

2. On January 2, 2023, X sells commercial plot for Rs. 91,85,000 (cost of acquisition on March 10, 2004 : Rs. 1,05,000). Expenses on purchase and transfer are Rs. 100 and 200, respectively. To get the benefit of exemption under section 54EC, X makes the following investments –

1. Purchase of Rs. 46,00,000 NHAH bonds on March 1, 2023.
2. Purchase of Rs. 24,00,000 REC bonds on April 10, 2023.

Find out the amount of exemption under section 54EC.

3. X sells (non-listed) shares in a private sector company on July 10, 2022 for Rs. 8,05,000 (cost of acquisition on June 15, 2004 : Rs. 54,700, expenses on sale: Rs 5,000). On July 10, 2022, he owns one residential house property. To get the benefit of exemption under section 54F, X deposits on May 30, 2023 Rs. 6,00,000 in Capital Gains Deposit Account Scheme. By withdrawing from the Deposit Account, he purchases a residential house property at Delhi on July 6, 2024 for Rs. 4,80,000. Ascertain the amount of capital gain chargeable to tax for the assessment year 2023-24;
4. X purchases 1,000 (non-listed) shares in Y Ltd. on August 16, 2002 for Rs. 15,687. On May 17, 2004, he gets 500 bonus shares. On October 20, 2014, he acquires 1,500 right shares for Rs. 11,983. He sells 3,000 (non-listed) shares in Y Ltd. on February 12, 2023 at the rate of Rs. 110 per share (brokerage on sale : 1 per cent). He owns one residential house property. He purchases a residential house on June 29, 2023 for Rs. 2,90,000. Ascertain the amount of capital gains chargeable to tax for the assessment year
5. X sells agricultural land situated in an urban area for Rs. 10,31,000 (brokerage paid @ 2 per cent) on March 31, 2023 (cost of acquisition : Rs. 3,28,833 on March 1, 2008; it was used for agricultural purposes since 2009). On March 31, 2023, he owns one residential house property. On April 6, 2023, he purchases the following assets -
 - a. agricultural land : Rs. 1,10,000 ; and
 - b. a residential house property: Rs. 5,00,000.
 Find out the capital gains chargeable to tax for the assessment year 2023-24.

6.

During the P.Y X sells the following assets

	X	Y
Date of transfer	10 July 2022	19 September 2022
Year of Acquisition	06 October 2004	10 April 2003
Sale Consideration	₹ 13,00,000	₹ 14,50,000
Indexed cost of acquisition	₹ 15,00,000	₹ 17,50,000

X owns one residential house property. On April 3, 2023, he invests in the following assets -

1. Residential house property: Rs. 2,15,000.
2. Bonds of National Highways Authority of India (maturity period: 6 years): Rs. 3,70,000.
3. Bonds of Rural Electrification Corpn. (redeemable after 7 years): Rs .7,80,000.

Find out the income chargeable to tax under the head "Capital gains" after giving maximum permissible exemption under different section.

INCOME FROM OTHER SOURCES

Income from other sources is the last and residual head of income. Sub-section (1) of section 56 covers any income which does not fall under any other head of income. However, sub-section (2) of section 56 specifies the following incomes which are always taxable under the head "Income from other sources

1. Dividend
2. Winning from lotteries, etc.: It includes any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever. These receipts are chargeable to tax under the head "Income from other sources

3. Interest on securities: Interest on debentures, Government securities/bonds is taxable under the head "Income from other sources" (if the same is not taxed as business income under section 28).
4. Rental income of machinery, Plant and Furniture: Rental income from machinery, plant or furniture let on hire is taxable as income from other sources (if the same is not taxed as business income under section 28)
5. Gift: If any sum of money or property is received during a previous year without consideration or with inadequate consideration by an individual or a Hindu undivided family from any person or persons exceeds Rs. 50,000, the whole of such amount is taxable in the hands of the recipient as income from other sources.
6. Interest on Compensation and enhanced compensation: Income by way of interest received on compensation or on enhanced compensation shall be assessed under the head "Income from other sources" in the year in which it is received. However, 50 per cent of such interest is deductible under section 57(iv). Consequently, only 50 per cent of such interest is taxable.

WINNING FROM LOTTERIES, CROSSWORD PUZZLES, HORSE RACES AND CARD GAMES ETC.

Winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever, is taxable under section 56 under the head "Income from Other Sources".

Tax incidence on winnings from lotteries, etc.-Gross winnings from lotteries, crossword puzzles, races including horse races (other than income from the activity of owning and maintaining race horses), card games and other games of any sort or from gambling or betting of any nature whatsoever are chargeable to income-tax (by virtue of section 115BB) at a flat rate of 30 per cent [+SC+ HEC] on the gross winnings (without claiming any allowance or expenditure).

INTEREST ON SECURITIES

Meaning of securities-The word "security" is not defined under the Act. One has, therefore, to depend upon its natural meaning and the meaning ascribed to it under various judicial pronouncements. The Shorter Oxford English Dictionary defines the word "s "security" as "a document held by a creditor as guarantee of his right to payment". In other words, unless the payment of debt is secured in some way, a mere debt is not a "security".

Due date of interest-Interest on securities does not accrue everyday or according to the period of holding of investment. For instance, if one holds 7 per cent securities from January 1, 2023 to February 28, 2023, it cannot be said that interest of two months has accrued to the security holder. Generally, interest becomes due on due dates specified on securities. For instance, if specified due dates of interest of particular securities are March 1 and September 1 every year, interest of six months falls due on each such date and holder of securities on these dates will be entitled to interest of six months on each such date.

For instance, if X purchases 7 per cent Rs. 20,000 securities (specified due dates: March 1 and September 1) on February 25, 2023 and sells the same on March 2, 2023, he will become entitled for interest of 6 months (i.e., Rs. $20,000 \times 2 \times 7 + 100 = \text{Rs.} 700$), irrespective of the fact that he holds securities just for 6 days. As, in this case, interest of 6 months has become due to X on March 1, 2023, he will be liable to pay tax on the entire interest of Rs. 700 in the previous year 2022-23 if he maintains books of account on "mercantile system". If, however, X maintains books of account on "cash" system, then Rs700 is taxable in the P.Y> in which it is received.

Interest exempt from tax [Sec. 10(15)] - Interest on notified securities (as well as notified bonds and Certificates) is exempt under section 10(15). Section 10(15) also provides exemption in respect of interest on Post Office savings bank account (to the extent of Rs. 3,500 in case of an individual account and Rs. 7,000 in the case of a joint account).

BOND WASHING TRANSACTIONS [SEC. 94(1)] - A bond washing transaction is narrated as a transaction which consists of selling securities (to a friend or relative) some time before the due date and acquiring back the same (or similar) securities after the due date of interest is over. This practice is generally adopted by high-income class assesseees to

evade the tax while transferring securities to low-income class assessee on the eve of due date of payment of interest. If this practice is not checked, interest is includible in the total income of the transferee, as interest is chargeable in the hands of the person who is legal owner of securities on the due date of payment of interest.

INCOME FROM MACHINERY, PLANT AND FURNITURE LET ON HIRE [SECTION 56(2)(ii)]

Income from machinery, plant or furniture, belonging to the assessee and let on hire, is taxable as income from other sources if the same is not chargeable to tax under the head "Profits and gains of business or profession".

INCOME FROM COMPOSITE LETTING OF BUILDING, MACHINERY, PLANT AND FURNITURE

GIFT:

Money/property received without consideration or inadequate consideration [Sec. 56(2)(vii)/(x)]- Section 56(2)(vii) is applicable when sum of money/property is received by an individual/HUF (on or after October 1, 2009 but before April 1, 2017) and money/property falls in any of the following 5 categories. The scope of this provision has been extended by section 56(2)(x). The extended version is applicable when a sum of money/property is received by any person on or after April 1, 2017 and money/property falls in any of the following 5 categories.

► Five categories - Receipt of sum of money/property without consideration or with inadequate consideration should fall in any of the following five categories –

Category 1 Any sum of money (gift in cash or by cheque or draft).	If aggregate amount of sum of money received without any consideration from one or more persons during a previous year exceeds Rs. 50,000, the whole of such aggregate value will be chargeable to tax. For deemed accrual of gift of money to a non-resident/foreign company
Category 2 Immovable property without consideration	If any immovable property (without any consideration) is received and the stamp duty value of which exceeds Rs. 50,000, stamp duty value will be chargeable to tax
Category 3 Immovable property for a consideration which is less than the stamp duty value	An immovable property is received for a consideration. The transaction satisfies the following conditions – a. stamp duty value exceeds 110 per cent of consideration; and b. the difference between stamp duty value and consideration is more than Rs. 50,000. If the above two conditions are satisfied, the difference between stamp duty value and consideration is chargeable to tax.
Category 4 Movable property without consideration	If aggregate fair market value of movable properties received without consideration during a previous year exceeds Rs. 50,000, the whole of aggregate fair market value of movable property or properties will be chargeable to tax
Category 5 Movable property for a consideration which is less than fair market value	If movable property or properties' is received for a consideration which is less than the aggregate fair market value of the property or properties by an amount exceeding Rs. 50,000, then the difference between aggregate fair market value and the consideration is chargeable to tax.

► Exempted categories - While calculating the above monetary limit of Rs. 50,000 in any of the five categories, any sum of money or property received from the following shall not be considered -

1. Money/property received from a relative.
2. Money/property received on the occasion of the marriage of the individual.

3. Money/property received by way of will/inheritance.
4. Money/property received in contemplation of death of the payer.
5. Money/property received from a local authority.
6. Money/property received from any fund, foundation, university, other educational institution, hospital, medical institution, any trust or institution referred to in section 10(23C) [however, this exemption is not available where money/property is received by a specified person referred to in section 13(3)].
7. Money/property received from or by a charitable institute registered under section 12A/12AA/12AB [however, this exemption is not available where money/property is received by a specified person referred to in section 13(3)].
8. Money/property received by any fund/trust/university/other educational institutions/hospital/other medical institution referred to in section 10(23C)(iv)/(v)/(vi)/(via).

For the aforesaid purpose, the term "relative" means-

	If taxpayer is Bharat,
1. Spouse of the individual	Bharti
2. Brother or sister of the individual	Kamal
3. Brother or sister of the spouse of the individual	Sarthi
4. Brother or sister of either of the parents of the individual	Ratan, Raju, Chaya and Maya
5. Any lineal ascendant or descendant of the individual	Lineal ascendant or descendant of Bharat
6. Any lineal ascendant or descendant of the spouse of the individual	Lineal ascendant or descendant of Mrs. Bharti
7. Spouse of the person referred to in (2) to (6)	Spouse of the aforesaid persons

Purchase of immovable property (or properties) for a consideration which is lower than stamp duty value - X purchases a house property situated in Nagpur from A on March 31, 2023 for a consideration which is less than stamp duty value. The difference between stamp duty value and actual consideration will be taxable in the hands of X under section 56(2)(x), if the following two conditions are satisfied -

- a. stamp duty value exceeds 110 per cent of consideration; and
- b. difference between stamp duty value and consideration is more than Rs. 50,000.

Question:

The data pertaining to stamp duty and actual purchase consideration paid by X is given below –

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Stamp duty value	32,00,000	5,40,000	1,45,000	30,90,000
Purchase consideration	28,00,000	4,90,000	1,30,000	30,00,000

Question

- X gives the following information about movable properties (being capital assets) –

	Fair Market Value	Purchase Price
	Rs.	Rs.
Received by gift-		
Gold chain from A	32,000	Nil
Painting from B	18,000	Nil
Total	50,000	Nil
Purchase for inadequate consideration -		

Work of art from C	1,00,000	90,000
Gold ring from D	85,000	45,000
Total	1,85,000	1,35,000

Question:

X receives the following gifts during the previous year 2022-23-

1. On the occasion of marriage of X, he gets Rs. 2,90,000 as gift on April 2, 2022 (out of which Rs. 2,00,000 is received from friends of X and Mrs. X and remaining amount is received from close relatives of X and Mrs. X).
2. On June 22, 2022, he gets a gift of Rs. 23,000 from C, who is cousin of his father.
3. On August 18, 2022, he gets a gift of Rs. 15,000 from D, who is elder brother of his grandfather.
4. On September 20, 2022, he gets a gift of Rs. 7,00,000 from his grandmother.
5. A computer received from his employer (it was purchased for Rs. 65,000 by the employer on May 1, 2022 and given as gift to X on October 20, 2022).
6. On November 2, 2022, X purchases a house property from his friend D for Rs. 65,000 (stamp duty value of the property is Rs. 10,00,000).
7. On November 30, 2022, X gets a gift of a plot of land from his grandfather (stamp duty value is Rs. 15,00,000).
8. On December 30, 2022, X gets by gift a commercial flat from the elder brother of his father-in-law (stamp duty value is Rs. 25,00,000).
9. On January 6, 2023, he gets a gift of Rs. 2,00,000 (cash gift of Rs. 25,000 and gift of a work of art whose market value is Rs. 1,75,000) from a notified public charitable institution.
10. X receives on January 11, 2023 a house property under will of a person known to him. The stamp duty value is Rs. 15,40,000.
11. On January 20, 2023, he gets a wrist watch by gift (fair market value: Rs. 40,000) from his friend B.
12. On January 25, 2023, he purchases a work of art for Rs. 16,00,000 from an exhibition in New York (the fair market value of the work of art on the date of purchase is Rs. 17,00,000).
13. On February 1, 2023, he purchases a commercial property for Rs. 16,00,000 (stamp duty value is Rs. 16,75,000).
14. On February 5, 2023, he gets a birthday gift of a gold chain (fair market value: Rs. 11,000) from his friend.
15. On February 10, 2023, X gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners-father of X and Mrs. X. The stamp duty value of the plot of land is Rs. 19,00,000.
16. On February 16, 2023, X purchases 500 shares in Tata Chemicals from his friend D at Rs. 90 per share (outside stock exchange). The lowest market quotation in the Bombay Stock Exchange and the National Stock Exchange on the date of purchase is Rs. 300 and 310 respectively.
17. On March 1, 2023, X gets a gift of gold ring from a cousin of his mother-in-law. The fair market value is Rs. 20,000.
18. On March 20, 2023, X gets a painting by way of gift from C Ltd. Mrs. X holds 70 per cent shares in Ltd. The fair market value of painting is Rs. 19,000.
19. On March 25, 2023, X gets a small plot of land by way of gift from a cousin of Mrs. X (stamp duty value is Rs. 44,000).
20. On March 31, 2023, X receives a shop (situated in Jammu) by way of gift from a friend (stamp duty value is Rs. 50,000).

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the assessment year 2023-24.

WHAT DEDUCTIONS ARE PERMISSIBLE FROM INCOME FROM OTHER SOURCES

Repairs, depreciation in the case of letting out of plant, machinery, furniture, building-Expenditure on repair and insurance is deductible from rental income of letting out machinery, plant, etc. Besides, depreciation on machinery, plant and furniture is deductible. The mode of computation of depreciation is the same which is applicable for calculating business income.

Standard deduction in the case of family pension [Sec. 57(ia)] - In the case of income in the nature of family pension, the amount deductible is Rs. 15,000 or 33¹/₃ per cent of such income, whichever is less. For this purpose, "family

pension" means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

Commission or remuneration for realising interest on securities [Sec. 57(6)]- Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising interest on securities on behalf of the assessee, is deductible.

Question:

X holds the following securities on April 1, 2022:

Rs. 10,000	6.5% Central Government Loan (date of payment of interest: July 10 every year).
Rs. 40,000	8% debentures (non-listed) of PQR Ltd. (dates of payment of interest: May 15 and November 15 every year).
Rs 10,000	9% Relief Bonds (Tax Free)

Apart from the aforesaid securities, X invests in (non-listed) UP Government loan, Bihar Government loan and debentures of ABC Ltd. (non-listed) on June 30, 2022 and receives Rs. 4,000, Rs. 8,000 and Rs. 18,000, respectively, as interest on December 31, 2022. His rental (taxable) income is Rs. 11,52,000. He pays 2 per cent commission to bank for collecting interest (net) on securities. Determine the taxable income of X for the assessment year 2023-24.

Question

X (32 years) is resident in India. Find out the net income and tax liability for the information given below for the assessment year 2023-24-

Winnings from races: Rs. 10,000 (expenditure incurred: Rs. 200), short-term capital gain (securities transaction tax is applicable): Rs. 3,65,000, bank interest (fixed deposit): Rs. 2,31,000, public provident fund contribution: Rs. 1,14,000.

Question

Mrs. X (27 years) is resident in India. Find out the net income and tax liability for the information given below for the assessment year 2023-24-

Winnings from lottery: Rs. 35,000 (expenditure incurred: Rs. 500), long-term capital gain (on transfer of gold) : Rs. 2,25,000, salary income (after standard deduction): Rs. 2,90,000, interest on debentures: Rs. 82,000, public provident fund contribution: Rs. 1,50,000.

CLUBBING OF INCOME

TRANSFER OF INCOME WITHOUT TRANSFER OF ASSET - WHEN INCOME THEREFROM IS REGARDED AS THAT OF TRANSFEROR [SEC. 60]

Condition 1: The taxpayer owns an asset.

Condition 2: The ownership of asset is not transferred by him. In other words, he has retained the ownership of the asset.

Condition 3: The income from the asset is transferred to any person under a settlement, trust, covenant, agreement or arrangement.

Condition 4: The above transfer may be revocable or may not be revocable.

Condition 5: The above transfer may be effected at any time (maybe before the commencement of the Income-tax Act or after the commencement of the Act, i.e., before or on or after April 1, 1962).

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF REMUNERATION OF SPOUSE [SEC. 64(1)(ii)]

Condition 1: The taxpayer is an individual.

Condition 2: He/she has a substantial interest in a concern.

Condition 3: Spouse of the taxpayer (i.e., husband/wife of the taxpayer) is employed in the above-mentioned concern.

Condition 4: Spouse is employed in the concern without any technical or professional knowledge or experience.

Consequences if the above conditions are satisfied-If the aforesaid conditions are satisfied, then salary income of the spouse will be taxable in the hands of the taxpayer.

SUBSTANTIAL INTEREST - MEANING OF- An individual has a "substantial interest" in any of the following two situations-

1. In the case of a company - If an individual beneficially holds (individually or along with his relatives) 20 per cent (or more) of equity shares in the company at any time during the previous year.
2. In the case of a concern other than company - If an individual is entitled to 20 per cent (or more) share in profit in the concern (individually or along with his relatives) at any time during the previous year.

RELATIVE - MEANING OF-Relative in relation to an individual means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.

PROVISIONS	ILLUSTRATION
1. Both husband and wife have a substantial interest in a concern	X (and his relatives) holds 20 per cent equity share capital in A Ltd. Mrs. X (and her relatives) holds 20 per cent equity share capital in A Ltd.
2. Both are in receipt of the remuneration from such concern	X and Mrs. X are employed by A Ltd.
3. Remuneration is received without any technical and professional qualification.	They are employed in A Ltd. without any technical professional qualification.
4. Remuneration will be included in the total income of husband or wife whose total income, excluding such remuneration, is greater.	Salary income of X and Mrs. X will be included in the income of X (if income of X before this clubbing is higher than that of Mrs. X).

Question

Income of X (age: 31 years) and Mrs. X (age: 30 years) for the previous year 2022-23 is as follows:

Particulars	X	Y
Salary of X from B Ltd. (Rs. 5,70,000 - standard deduction : Rs. 50,000)	5,20,000	Nil
Business income	10,00,000	1,60,000
Bank interest (fixed deposit)	3,70,000	90,000
Total income	18,90,000	2,50,000
Tax	3,94,680	nil

X is employed by B Ltd. (salary being Rs. 5,70,000) without any technical or professional or educational qualification. Mrs. X holds 20 per cent equity share capital in B Ltd. from March 20, 2023. Find out the net income of X and Mrs. X for the assessment year 2023-24.

Question:

X and Mrs. X hold 20 per cent and 30 per cent equity shares in C Ltd. respectively. They are also employed from April

1, 2022 in Bombay branch of C Ltd. (monthly salary being Rs. 80,000 and Rs. 40,000 respectively) without any technical/professional qualification. Other incomes of X and Mrs. X are Rs. 1,60,000 and Rs. 1,90,000 respectively. Find out the net income of X and Mrs. X for the assessment year 2023-24.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO SPOUSE [SEC. 64(1)(iv)]

Condition 1: The taxpayer is an individual.

Condition 2: He/she has transferred an asset (other than a house property).

Condition 3: The asset is transferred to his/her spouse.

Condition 4: The transfer may be direct or indirect.

Condition 5: The asset is transferred otherwise than (a) for adequate consideration, or (b) in connection with an agreement to live apart.

Condition 6: The asset may be held by the transferee-spouse in the same form or in a different form.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO SON'S WIFE [SEC. 64(1)(vi)]

Condition 1: The taxpayer is an individual.

Condition 2: He/she has transferred an asset after May 31, 1973.

Condition 3: The asset is transferred to his/her son's wife.

Condition 4: Transfer may be direct or indirect.

Condition 5: The asset is transferred otherwise than for adequate consideration.

Condition 6: The asset may be held by the transferee in the same form or in a different form.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO A PERSON FOR THE BENEFIT OF SPOUSE [SEC. 64(1)(vii)]

Condition 1: The taxpayer is an individual.

Condition 2: He/she has transferred an asset.

Condition 3: The transfer may be direct or indirect.

Condition 4: The asset is transferred to a person or an association of persons.

Condition 5: It is transferred for the immediate or deferred benefit of his/her spouse.

Condition 6: The transfer is without adequate consideration.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME OF HIS MINOR CHILD [SEC. 64(1A)]

All income which arises or accrues to the minor child shall be clubbed in the income of his parent [sec. 64(1A)].

Clubbing in the hands of father or mother-The income of minor will be included in the income of that parent whose total income [excluding the income includible under section 64(1A)] is greater.

► The following points should be noted -

1. A is a minor child of X and Mrs. X. During the previous year 2022-23, income of A is Rs. 2,500 (this is the first income of A during his life time). During the previous year 2022-23, income of X is higher than that of Mrs. X. Consequently, income of A will be included in the income of X for the previous year 2022-23. In the subsequent years (during the minority of A), income of A will be included in the income of X, even if income of Mrs. X is higher than that of X in any of the subsequent years. However, there is one exception. If in the subsequent year, the Assessing Officer wants to include the income of minor child A in the hands of Mrs. X, it can be done only if it is necessary to do so and that too after giving an opportunity of being heard to Mrs. X.

2. Where the marriage of the parents does not subsist, the income of minor will be includible in the income of that parent who maintains the minor child in the relevant previous year.

3. The minor's income, in case both the parents are not alive, cannot be assessed in the hands of the grandparents or any other relatives or even in the hands of minor.

When clubbing is not attracted-In the cases given below, clubbing provisions of section 64(1A) are not applicable -

1. Income of minor child (from all sources) suffering from any disability of the nature specified under section 80U [see para 167] is not subject to clubbing provision given above.
2. Income of minor child on account of any manual work.
3. Income of minor child on account of any activity involving application of his skill, talent or specialised knowledge and experience.

Exemption under section 10(32) - In case the income of an individual includes an income of his or her minor child in terms of section 64(1A), such individual shall be entitled to exemption of Rs. 1,500 in respect of each minor child. Where, however, the income of any minor so includible is less than Rs. 1,500, the aforesaid exemption shall be restricted to the income so included in the total income of the individual.

Set-off And Carry Forward of Losses

Step 1: Inter-source adjustment under the same head of income

Step 2: Inter-head adjustment in the same assessment year [see para 134]. Step 2 is applied only if a loss cannot be set off under.

Step 3: Carry forward of a loss. Step 3 is applied only if a loss cannot be set off under Steps 1 and 2.

Inter-source adjustment under the same head of income

General rule- If the net result for any assessment year, in respect of any source under any head of income, is a loss, the assessee is entitled to have the amount of such loss set off against his income from any other source under the same head of income for the same assessment year

Exceptions - The following are the exceptions to the aforesaid rule-

- ▶ Loss from speculation business - Loss in a speculation business can be set off only against the profit in a speculation business.
- ▶ Loss from a specified business - Any loss, computed in respect of any specified business referred to in section 35AD, shall not be set off except against profits and gains, if any, of any other specified business.
- ▶ Long-term capital loss - Long-term capital loss can be set off only against long-term capital gain.
- ▶ Loss from the activity of owning and maintaining race horses - Loss incurred in the business of owning and maintaining race horses cannot be set off against income, if any, from any other source except income from such business.
- ▶ Loss cannot be set off against winnings from lotteries, crossword puzzles, etc. - By virtue of section 58(4), a loss cannot be set off against winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.
- ▶ Loss from sale of securities.
- ▶ Loss from transfer of virtual digital assets - Loss from transfer of virtual digital asset cannot be adjusted against any income.

Other Points:

1. Barring the aforesaid cases, any other loss can be set off against any other income within the same head of income. For instance, -
 - a. loss from a house property can be set off against income from any other house property;

- b. loss from a non-speculation business can be set off against income from speculation or non-speculation business;
- c. loss from a non-speculative business can be set off against income from business specified under section 35AD;
- d. short-term capital loss can be set off against any capital gain (whether long-term or short-term);
- e. under the head "Income from other sources" loss from an activity (other than the business of owning and maintaining race horses) can be set off against any income but other than winnings from lotteries, crossword puzzles, etc.

INTER-HEAD ADJUSTMENT - HOW MADE [SEC. 71]

Where the net result of computation made for any assessment year in respect of any head of income is a loss, the same can be set off against the income from other heads.

Exceptions - The following are the exceptions to the aforesaid rule-

- ▶ Loss in a speculation business - Loss in a speculation business cannot be set off against any other income.
- ▶ Loss in a business specified under section 35AD - Loss, computed in respect of any specified business referred to in section 35AD, cannot be set off against any other income.
- ▶ Loss under the head "Capital gains" - Losses under the head "Capital gains" cannot be set off against any income except income under the head "Capital gains".
- ▶ Loss from the activity of owning and maintaining race horses - Losses from the activity of owning and maintaining race horses cannot be set off against any other income.
- ▶ Business loss cannot be set off against salary income - Loss from business or profession (including depreciation) cannot be set off against income under the head "Salaries".
- ▶ House property loss exceeding Rs. 2,00,000 [Sec. 71(3A)] - House property loss (in excess of Rs. 2 lakh) cannot be set off against income under other heads of income.
- ▶ Loss cannot be set off against winnings from lotteries, etc. - By virtue of section 58(4) a loss cannot be set off against winnings from lotteries, crossword puzzles, races (including horse races), card games and other games of any sort or from gambling or betting of any form or nature.
- ▶ Loss from purchase of securities.
- ▶ House property loss in the case of an assessee who pays tax under the alternative tax regime - If an assessee pays tax under the alternative tax regime under section 115BAC, house property loss cannot be set off against income under any other head of income.
- ▶ Loss from transfer of virtual digital asset - Loss from transfer of virtual digital asset cannot be adjusted against any income.
- ▶ No adjustment of loss against undisclosed income - Loss cannot be adjusted against undisclosed income found in the course of search under section 132 or requisition under section 132A or survey under section 133A.

Carry-Forward of Losses

Type of loss to be carried forward to next year(s)	Income against which carried forward loss can be set off in next year(s)	For how many years loss can be carried forward	Should the business be continued	Is it necessary to submit return of loss in time
1. House property loss	Income under the head "Income from house property"	8 Years	NA	No
. Speculation loss (not being un-absorbed depreciation etc.)	Speculation profits	4 Years	Not Necessary	Yes

3. Non-speculation business loss				
3.1 On account of unabsorbed depreciation, capital expenditure on scientific research and family planning	Any income but other than income under the head "Salaries"	No Time Limit	Not Necessary	No
3.2 Loss from a specified business under section 35AD	Income from a specified business under section 35AD	No Time Limit	Not Necessary	Yes
3.3 Other remaining business loss	Any business profit (whether from speculation or otherwise)	8 Years	Not Necessary	Yes
4. Capital loss				
4.1 Short-term capital loss	Any income under the head "Capital gains"	8 Years	Not Necessary	Yes
4.2 Long-term capital loss	Long-term capital gains	8 Years	Not Necessary	Yes
5. Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses	4 Years	Yes	Yes

Question:

X, an individual, submits the following information relevant for the assessment year 2023-24

	Profits	Loss
Salary income (after standard deduction)	1,42,000	
Income from house property (after standard deduction) :		
House A	1,15,000	
House B		1,17,000
House C		3,21,000
Profits and gains of business or profession:		
Business A	1,08,000	
Business B		1,18,000
Business C (speculative)	1,11,000	
Business D (speculative)		1,23,000
Capital gains:		
Short-term capital gains	1,06,000	
Short-term capital loss		1,28,000
Long-term capital gains on sale of building	12,500	
Income from other sources:		
Income from card games	1,08,000	
Loss from card games.		1,07,010
Loss on maintenance of race horses		1,06,000

Interest on securities	1,04,000	
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Determine the net income of X for the assessment year 2023-24. Ignore section 115BAC.

DEDUCTIONS FROM GROSS TOTAL INCOME

80C, 80CCC, 80CCD, 80CCG, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80TTA, 80U

80CCC : DEDUCTION IN RESPECT OF PENSION FUND - WHEN AVAILABLE

What is the qualifying payment to avail deduction - Amount should be paid or deposited under an annuity plan of the LIC of India or any other insurer for receiving pension. Amount should be paid or deposited out of income chargeable to tax.

How much deduction available under section 80CCC - The maximum amount deductible under section 80CCC is Rs. 1,50,000

What is tax treatment of pension - If deduction is claimed under section 80CCC and later on pension is received by the assessee (or his nominee), such pension will be taxable in the hands of recipients in the year of receipt. Likewise, where (after claiming deduction under section 80CCC) the assessee or his nominee surrenders the annuity before maturity date of such annuity, the surrender value shall be taxable in the hands of the assessee or his nominee, as the case may be, in the year of the receipt

80CCD ■ DEDUCTION IN RESPECT OF CONTRIBUTION TO A NATIONAL PENSION SYSTEM (NPS) [SEC. 80CCD]

- ▶ What is NPS - NPS covers New Pension Scheme (notified under Notification No. F.No. 5/7/2003-ECB & PR, dated December 22, 2003) and Atal Pension Yojana (as per Notification No. SO 529(E), dated February 19, 2016).
- ▶ Who can join NPS - An individual who is employed by the Central Government (on or after January 1, 2004) will have to join NPS on compulsory basis. Any other employee (irrespective of date of joining employment) may become member of NPS (it is optional). Even a self-employed person may join NPS.
- ▶ Employer's contribution to NPS - Is it income - Employer's contribution to NPS is taxable as salary income in the year of contribution.
- ▶ Deduction available under section 80CCD(2) in respect of employer's contribution to NPS - Contribution by the employer to NPS is deductible in the hands of the concerned employee in the year in which contribution is made. However, no deduction is available in respect of employer's contribution, which is in excess of 10 per cent (14 per cent, if employer is the Central Government or a State Government) of the salary of the employee.
- ▶ Deduction available under section 80CCD(1) in respect of employee's contribution to NPS - Employee's contribution to NPS is deductible in the year in which contribution is made. However, deduction on account of employee's contribution to NPS is limited to 10 per cent of the salary of employee. If contribution is made by a person (other than an employee), deduction is limited to 20 per cent of gross total income.
- ▶ Is there any combined maximum ceiling - The aggregate amount of deduction under sections 80C, 80CCC and 80CCD(1) cannot exceed Rs. 1,50,000. However, employer's contribution towards NPS shall not be considered for the ceiling of Rs. 1,50,000
- ▶ Additional deduction of Rs. 50,000 under section 80CCD(1B) - Section 80CCD(1B) provides for an additional deduction in respect of any amount paid (up to to Rs. 50,000) for contributions made by any individual assessee under the NPS. On this additional contribution, the ceiling of Rs. 1,50,000 (as given above) is not applicable.
- ▶ What is "salary" - For calculating 10 per cent limit for the above purpose, "salary" includes dearness allowance, if the terms of employment so provide and commission (if commission is calculated at a percentage of turnover

achieved by an employee). However, it excludes all other allowances and perquisites (in other words, "salary" for this purpose has the same meaning which is applicable in the case of house rent allowance).

80 D : DEDUCTION IN RESPECT OF MEDICAL INSURANCE PREMIA - WHEN AND TO WHAT EXTENT AVAILABLE:

Payment should be made by any mode other than cash. However, payment on account of preventive health check-up can be made by any mode (including cash).

For whose benefit payment can be made	Deduction in the case of individual		Deduction in the case of individual
	Family	Parents	Any member of HUF
a. Medi-claim insurance premium	Eligible	Eligible	Eligible
b. Contribution to CGHS/notified scheme	Eligible		
c. Preventive health check-up payment	Eligible	Eligible	
Maximum deduction -			
General deduction [applicable in respect of (a), (b) and (c)]	25,000	25,000	25,000
Additional deduction [applicable only in case of (a) when medi-claim policy is taken on the life of a senior citizen]	25,000	25,000	25,000
Medical expenditure on the health of a person who is a senior citizen if medi-claim insurance is not paid on the health of such person	Eligible	Eligible	Eligible
Maximum deduction in respect of (B)	50,000	50,000	50,000
Maximum deduction in respect of (A) and (B)	50,000	50,000	50,000

Notes -

1. Family includes individual, spouse of the individual and dependent children of the individual.
2. Parents include father and mother (dependent or otherwise). Father-in-law and mother-in-law are not included.
3. The aggregate payment on account of preventive health check-up of self, spouse, dependent children, father and mother cannot exceed Rs. 5,000.
4. The above payments [given under (A) and (B)] should be made by any mode other than cash. However, payment on account of preventive health check-up can be made by any mode (including cash).
5. "Senior citizen" is a resident individual who is at least 60 years of age at any time during the previous year.
6. In case of single premium health insurance policies having cover of more than one year, the aforesaid

Question:

For the previous year 2022-23, the business income of X (age: 29 years) is Rs. 11,53,000. During the year, he pays the following by cheque to get tax benefit:

Insured person	Mediclaim insurance premium	Life Insurance premium (Policy taken during 2010-11)
Taxpayer, spouse and children –		
X	22,000	15,000
Mrs. X (not dependent upon X)	4,500	20,000

Son (not dependent upon X)	800	2,000
Daughter (dependent upon X)	2,500	700
Parents of the taxpayer -		
Father (age: 62 years, resident in India, not dependent upon X)	11,000	1,200
Mother (age: 59 years, dependent upon X)	37,000	6,000
Others -		
Grand parents (dependent upon X)	500	2,000
Father of Mrs. X (dependent upon X)	800	7,000
Brother (dependent upon X)	900	4,500

† Less than 20 per cent of sum assured.

Besides, X pays Rs. 1,16,000 towards pension fund of LIC.

Find out the net income of X for the assessment year 2023-24.

DEDUCTION IN RESPECT OF MAINTENANCE INCLUDING MEDICAL TREATMENT OF A DEPENDENT BEING A PERSON WITH DISABILITY - WHEN AND TO WHAT EXTENT AVAILABLE [SEC. 80DD]

The provisions of section 80DD are given below-

- ▶ *Who can claim deduction* - A resident individual or a resident HUF can claim deduction under section 80DD.
- ▶ *What is the qualifying expenditure* - A resident individual/HUF can claim deduction under section 80DD, if he/ it has incurred an expenditure for the medical treatment (including nursing), training and rehabilitation of a dependent relative (being a person with a disability). Deduction can also be claimed, if the resident individual/ HUF has paid or deposited under any approved scheme of LIC (or any other insurer) or UTI for the maintenance of such dependent relative.
- ▶ *Who is dependent relative suffering from disability* - In the case of an individual, "dependant" means spouse, children, parents, brothers and sisters, who is wholly and mainly dependent upon the individual. In the case of Hindu undivided family, "dependant" means any member (of the family) who is wholly and mainly dependent upon the family. "Person with disability" means a person who suffers 40 per cent or more of any of the following - blindness, low vision, leprosy-cured, hearing impairment, locomotor disability, mental retardation and mental illness.
- ▶ *How much is deductible under section 80DD* - A fixed deduction of Rs. 75,000 is available. A higher deduction of Rs. 1,25,000 is available if such dependent relative is suffering from a severe disability (i.e., having disability of 80 per cent or above). Deduction under this section is available regardless of actual expenditure.
- ▶ *Certificate* - For claiming the above deduction, the assessee should have a certificate issued by the medical authority. This may be furnished to the Assessing Officer whenever he wants to examine it. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

DEDUCTION IN RESPECT OF MEDICAL TREATMENT, ETC. - TO WHAT EXTENT AVAILABLE [SEC. 80DDB]

The provisions of section 80DDB

- ▶ *Who can claim deduction* - A resident are given below - individual or a resident HUF can claim deduction under section 80DDB.
- ▶ *What is the qualifying expenditure* - A resident individual/HUF can claim a deduction under section 80DDB, if he/it has actually incurred expenditure for the medical treatment of a specified disease or ailment as prescribed by the Board". Expenditure should be incurred for medical treatment of the assessee himself or wholly/mainly dependent husband/wife, children, parents, brothers and sisters of the individual (any member of the family in the case of HUF).

► *How much is deductible under section 80DDB*-Actual expenditure on medical treatment or Rs. 40,000 (Rs. 1,00,000 in the case of a senior citizen), whichever is lower, is deductible. Deduction under this section shall be reduced by the amount received, if any, under insurance from an insurer, or reimbursed by an employer, for the medical treatment of the person referred to above.

► *Certificate if any required* – The assessee is required to obtain a prescription from a specialist doctor for the purpose of availing this deduction.

DEDUCTION IN RESPECT OF PAYMENT OF INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION - WHEN AND TO WHAT EXTENT AVAILABLE [SEC. 80E]

The following are salient features of section 80E –

► *Who can claim deduction* - Only an individual can claim deduction under section 80E.

► *What is the qualifying expenditure* - If loan is taken by an individual for higher education from a bank, financial institution or an approved charitable institution, interest is deductible in the year in which interest is paid. "Higher education" means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school/board/university recognised by the Central Government/State Government/local authority (or by any other authority authorised by the Central Government/State Government/local authority to do so).

► *For whose education loan should be taken* - Interest is deductible if loan is taken for pursuing assessee's own education or for the education of his relatives (i.e., spouse, children or any student for whom the individual is the legal guardian).

► *Maximum monetary ceiling* - Entire interest is deductible in the year in which the assessee starts paying interest on loan and subsequent 7 years or until interest is paid in full. However, interest should be paid out of income chargeable to tax.

DEDUCTION IN RESPECT OF RENT PAID - TO WHOM AND TO WHAT EXTENT AVAILABLE [SEC. 80GG]

The following are salient features of section 80GG –

► *Who can claim deduction* - Only an individual can claim deduction under section 80GG. He can be a self-employed person. Alternatively, he can be an employee who does not get house rent allowance from the employer.

► *What is the qualifying expenditure*-Only an individual who pays rent for a residential accommodation for himself (and family) can avail deduction under section 80GG OGG provided he gives a declaration electronically in Form No. 10BA.

► *Can a person who pays rent to avail this deduction own a house* - The following persons should not own any residential accommodation at the place where the taxpayer resides, performs the duties of his office, or employment or carries on his business or profession-

- a. the taxpayer;
- b. his/her spouse;
- c. his/her minor child (including minor step child and minor adopted child); and
- d. the Hindu undivided family of which the taxpayer is a member.

If the taxpayer owns a residential accommodation at a place other than the place noted above, then in respect of that house the concession in respect of self-occupied property is not claimed by him.

► *What is amount of deduction* - The amount deductible under section 80GG is the least of the following-
25 per cent of "total income"; or
Rs. 5,000 per month;
c. the excess of actual rent paid over 10 per cent of "total income".

"Total income", for this purpose, is gross total income minus long-term capital gains, short-term capital gains under section 111A, deductions under sections 80C to 80U (not being section 80GG) and income under section 115A

Question:

X, a professional tax consultant, based at New Delhi furnishes the following particulars of his income/expenditure relevant for the assessment year 2023-24:

	Rs.
Income from profession	6,80,000
Short-term capital gain (covered by section 111A).	4,000
Long-term capital gain under section 112	10,000
Winning from a camel race.	1,700
Winning from a horse race	2,000
Winning from lottery	1,600
Income from other sources	10,000
Payment of medical insurance premium on own life	8,000
Preventive health check up expenditure of father.	28,000
Payment of rent	80,000
Contributions towards public provident fund	70,000

Determine the amount deductible under section 80GG and the net income for the assessment year 2023-24.

DEDUCTION IN RESPECT OF INTEREST ON DEPOSITS IN SAVINGS ACCOUNTS - WHEN AVAILABLE [SEC. 80TTA & 80TTB]

Interest on Post Office Savings Bank [exemption under section 10(15)(i)]	Exemption up to Rs. 3,500 in a single account and Rs. 7,000 in a joint account
Interest on savings account with a bank, co-operative bank and Post Office (deduction under section 80TTA)	Deduction up to Rs. 10,000 or interest whichever is lower
Interest on savings account with a bank, co-operative bank and Post Office for Senior Citizen (deduction under section 80TTB)	Deduction up to Rs. 50,000 or interest whichever is lower

DEDUCTION IN THE CASE OF A PERSON WITH DISABILITY - TO WHAT EXTENT AVAILABLE [SEC. 80U]

The provisions of section 80U are given in brief-

► Conditions - The following conditions should be satisfied -

1. The taxpayer is an individual and resident in India.
2. He suffers 40 per cent or more than 40 per cent of any disability (i.e., blindness, low vision, leprosy-cured, hearing impairment, locomotor disability, mental retardation, mental illness).
3. The taxpayer shall have a certificate issued by the medical authority. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

► Amount of deduction - Fixed deduction of Rs. 75,000 is available. A higher deduction of Rs. 1,25,000 is allowed in respect of a person with severe disability (i.e., having disability of 80 per cent or above).

AGRICULTURAL INCOME

Section 10(1) exempts agricultural income from income-tax. By virtue of section 2(1A) the expression "agricultural income" means:

1. Any rent or revenue derived from land which is situated in India and is used for agricultural purposes [sec. 2(1A)(a)].
2. Any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market or sale of such produce [sec. 2(1A)(b)]

Any rent or revenue derived from land which is situated in India and is used for agricultural purposes [sec. 2(1A)(a)].

According to section 2(1A)(a), if the following three conditions are satisfied, income derived from land can be termed as "agricultural income":

- a. rent or revenue should be derived from land (may be in cash or kind);
- b. the land is one which is situated in India (if the land is situated in a foreign country, this condition is not satisfied); and
- c. the land is used for agricultural purposes.

Any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market or sale of such produce [sec. 2(1A)(b)]

Section 2(1A)(b) gives the following three instances of agricultural income:

- a. any income derived by agriculture from land situated in India and used for agricultural purposes;
- b. any income derived by a cultivator or receiver of rent-in-kind of any process ordinarily employed to render the produce raised or received by him to make it fit to be taken to market; or
- c. any income derived by such land by the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him in respect of which no process has been performed other than a process of the nature described in (b).

The aforesaid income are agricultural income, if such income are derived from land which is situated in India and is used for agricultural purposes.

Any surplus arising on sale or transfer of agricultural land (in urban area) is not treated as rent or revenue derived from land.

WHAT ARE INSTANCES OF INCOME HELD TO BE AGRICULTURAL/NON-AGRICULTURAL INCOME

In the following cases, income is held as agricultural income:

1. If denuded parts of the forest are replanted and subsequent operations in forestry are carried out, the income arising from the sale of replanted trees.
2. Profit on sale of standing crop or the produce after harvest by a cultivating owner or tenant of land.
3. Rent for agricultural land received from sub-tenants by mortgagee-in-possession.
4. Compensation received from an insurance company for damage caused by hail storm to the green leaf forming part of assessee's tea garden (moreover, no part of such compensation consists of manufacturing income, as such compensation cannot be apportioned under rule 8 between manufacturing income and agricultural income).
5. Income from growing flowers and creepers.
6. Salary received by a partner for rendering services to a firm which is engaged in agricultural operations is agricultural income as payment of salary is only a mode of adjustment of the firm's income [it may be noted that share of profit from such firm is not taken as "agricultural income" as such share is exempt under section 10(2A)].
7. Interest on capital received by a partner from the firm engaged in agricultural operations.
8. If nursery is maintained by carrying out basic operations and subsequent operations are carried out in pots in continuation of basic operations, then income from such nursery would be agricultural income.

► Instances of non-agricultural income:

1. Annual annuity received by a person in consideration of transfer of agricultural land even if it is charged on land, as source of annuity is covenant and not land.

2. Interest on arrears of rent in respect of agricultural land as it is neither rent nor revenue derived from land.
3. Interest accrued on promissory notes obtained by a zamindar from defaulting tenants.
4. Income from sale of forest trees, fruits and flowers growing on land naturally, spontaneously and without the intervention of human agency.
5. Income from sale of wild grass and reeds of spontaneous growth.
6. Income of salt produced by flooding the land with sea water as it is not derived from land used for agricultural income.
7. Profit accruing from the purchase of a standing crop and resale of it after harvest by a merchant, having no interest in land except a mere licence to enter upon the land and gather upon the produce, as land is not the direct, immediate or effective source of income.
8. Remuneration received by managing agent at a fixed percentage of net profit from a company having agricultural income.
9. Interest received by a money-lender in the form of agricultural produce.
10. Income of sale of agricultural produce received by way of price for water supplied to land.
11. Commission earned by the landlord for selling agricultural produce of his tenant.
12. Income derived from land let out for storing crops.
13. Income from fisheries.
14. Maintenance allowance charged on agricultural land.
15. If the assessee takes loans on hypothecation of agricultural produce cultivated by him and advances the same to its sister concerns, interest earned thereupon (is not agricultural income).
16. Royalty income of mines.
17. Income from butter and cheese making.
18. Income from poultry farming.
19. Income from sale of trees of forest which are of spontaneous growth and in relation to which forestry operations alone are performed.
20. Where the assessee-company is growing various kinds of hybrid/germ plasm seeds after conducting agri-genetic agricultural research costing crores of rupees, income earned on sale of such seeds cannot be treated as agricultural income'.
21. Receipts from TV serial shooting in farm house.