

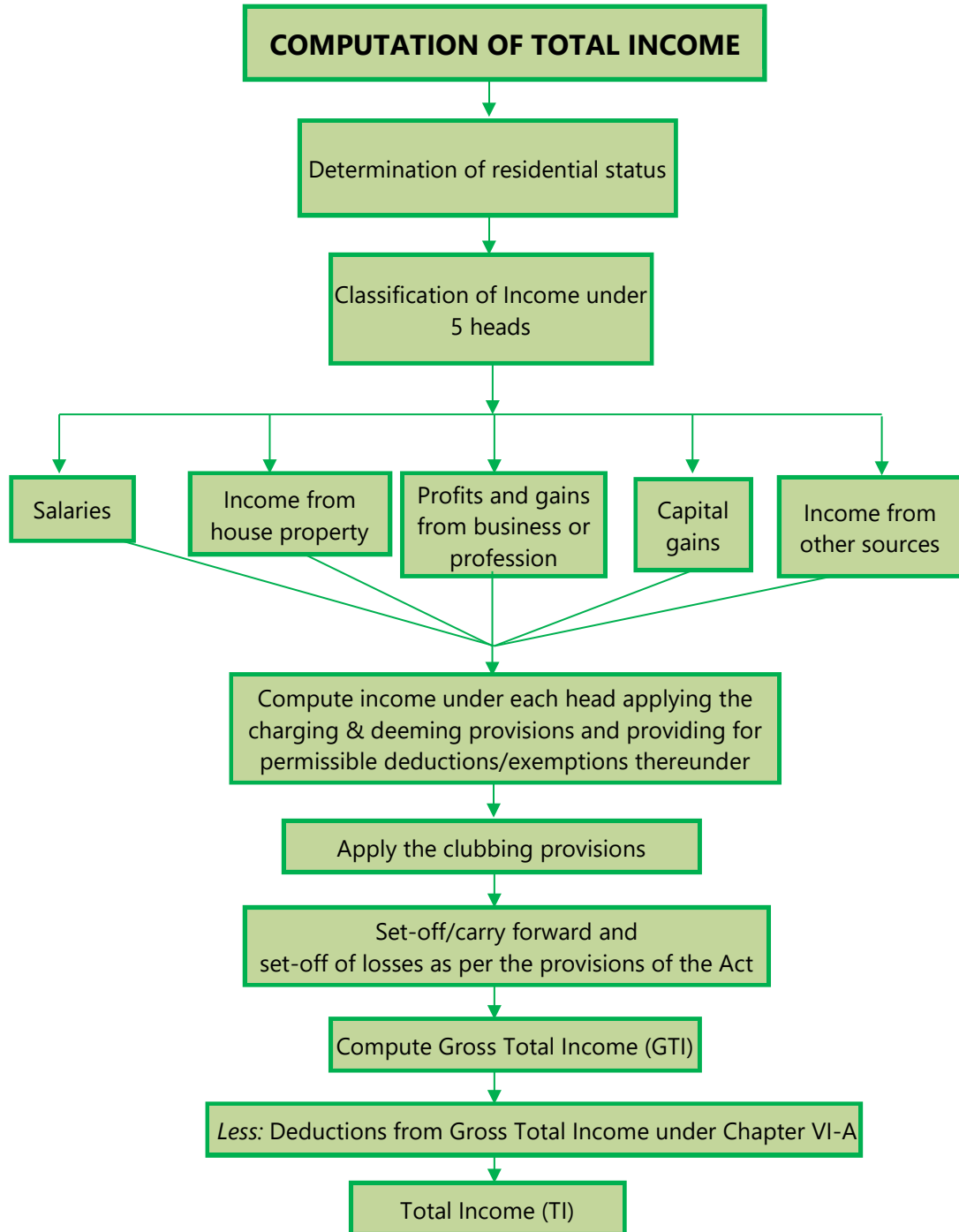
# COMPUTATION OF TOTAL INCOME AND TAX PAYABLE



## LEARNING OUTCOMES

**After studying this chapter, you would be able to–**

- ❑ **compute** the tax liability of an individual as per the normal provisions of the Income-tax Act, 1961;
- ❑ **examine** the applicability of the provisions of Alternate Minimum Tax (AMT) and if applicable, compute the tax liability applying such provisions and determine the tax credit, if any, to be carried forward;
- ❑ **compare** the tax liability computed under the regular provisions of the Act (including provisions relating to AMT, if applicable) with the tax liability computed under section 115BAC of the Act and determine which is more beneficial to the individual.

**CHAPTER OVERVIEW** 

## 1. MEANING OF TOTAL INCOME

The Total Income of an individual is arrived at after making deductions under Chapter VI-A from the Gross Total Income. As we have learnt earlier, Gross Total Income is the aggregate of the income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward & set-off of losses.

## 2. INCOME TO BE CONSIDERED WHILE COMPUTING TOTAL INCOME OF INDIVIDUALS

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iii) Share of profit in the firm is exempt in the hands of the partner.
(3)	As a member of HUF	(i) Share of income of HUF is exempt in the hands of the member (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF (iii) Income from self-acquired property converted into joint family property, without adequate consideration

(4)	Income of other persons included in the income of the individual	<p>(i) Transferee's income, where there is a transfer of income without transfer of assets</p> <p>(ii) Income arising to transferee from a revocable transfer of an asset.</p> <p>In cases (i) and (ii), income is includible in the hands of the transferor.</p> <p>(iii) Income of spouse as mentioned in section 64(1)(ii)/(iv)</p> <p>(iv) Income from assets transferred otherwise than for adequate consideration to any person for the benefit of spouse [Section 64(1)(vii)].</p> <p>(v) Income from assets transferred otherwise than for adequate consideration to son's wife or to any person for the benefit of son's wife [Section 64(1)(vi)/(viii)].</p> <p>(vi) Income of minor child as mentioned in section 64(1A)</p>
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### 3. COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The procedure for computation of total income for the purpose of levy of income-tax is detailed hereunder –

#### **Step 1 – Determination of residential status**

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

- ◆ In the case of an individual, the duration for which he is present in India in the relevant previous year or relevant previous year and the earlier previous years, as the case may be, determines his residential status.
- ◆ An individual/HUF can be either a –
  - Resident and ordinarily resident

- Resident but not ordinarily resident
- Non-resident
- ◆ An individual who is a citizen of India, having total income, other than the income from foreign sources, exceeding ₹ 15 lakh during the previous year, would be deemed resident in India in that previous year, if 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. Such deemed resident would be a resident but not ordinarily resident in India in that previous year.
- ◆ Persons, other than an individual and HUF, can be either resident or non-resident.
- ◆ An Indian company is resident in India.
- ◆ A company, not being an Indian Company and having its place of effective management in India in a particular year, would be resident in India for that year.
- ◆ The determining factor for every other assessee is the place where the control and management of its affairs are situated during that year i.e., whether in India or outside India.
- ◆ The residential status of a person determines the scope of his taxable income.
- ◆ For example, income which accrues outside India and is received outside India is taxable in the hands of a resident and ordinarily resident but is not taxable in the case of a non-resident.

### ***Step 2 – Classification of income under different heads***

- ◆ There are five heads of income, namely, -
  - Salaries,
  - Income from house property,
  - Profits and gains of business or profession
  - Capital Gains
  - Income from other sources
- ◆ The income of a person should be identified and grouped under the respective head of income.

- ◆ Each head of income has a charging section (for example, section 15 for salaries, section 22 for income from house property).
- ◆ Deeming provisions are also contained under certain heads, by which specific items are sought to be taxed under those heads.

For example, if bad debts allowed as deduction in an earlier year is recovered in a subsequent year, then the amount recovered would be deemed as business income of the person in the year of recovery.

- ◆ The charging section and the deeming provisions would help you to determine the scope of income chargeable under a particular head.

### ***Step 3 – Computation of income under each head***

- ◆ Income is to be computed in accordance with the provisions governing a particular head of income.
- ◆ Assess the income under each head by -
  - applying the charging and deeming provisions,
  - excluding items of income relating to that head in respect of which specific exemptions are provided in section 10.

There are certain incomes which are wholly exempt from income-tax e.g. agricultural income. These incomes have to be excluded and will not form part of Gross Total Income.

Also, some incomes are partially exempt from income-tax e.g. House Rent Allowance, Education Allowance. These incomes are excluded while computing income under the relevant head only to the extent of the limits specified in the Act.

- allowing the permissible deductions under that head, and
 

For example, while calculating income from house property, municipal taxes paid by the owner and interest on loan are allowed as deduction. Similarly, deductions and allowances are prescribed under other heads of income.
- disallowing the non-permissible deductions.

For example, while computing income under the head "Profits and gains from business or profession" expenditure of personal nature and expenditure which is in the nature of offence are not allowable as deduction. Hence, such expenditure, if any, debited to profits and loss

account, has to be added back while computing income under this head.

Likewise, while computing net consideration for capital gains, brokerage is a permissible deduction from gross sale consideration but securities transaction tax paid is not permissible.

#### ***Step 4 – Clubbing of income of spouse, minor child etc.***

- ◆ An individual in a higher tax bracket may have a tendency to divert his income to another person who is not subject to tax or who is in a lower tax bracket.

For example, an individual may make a fixed deposit in the name of his minor son, so that income from such deposit would accrue to his son, who does not have any other income.

- ◆ In order to prevent evasion of income-tax by such means, clubbing provisions have been incorporated in the Income-tax Act, 1961, under which income arising to certain persons (like spouse, son's wife etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability.

Further, income of a minor child, not being a minor child suffering from any disability of the nature specified in section 80U (other than income derived from exercise of special skills/talent or manual work done by him) is includible in the hands of the parent whose total income is higher before including minor's income. Such income will be included in the hands of the parent after providing for deduction of up to ₹ 1,500 under section 10(32).

#### ***Step 5 – Set-off or carry forward and set-off of losses***

An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. For instance, an individual may have profit from his let-out house property and loss from his self-occupied property. This loss can be set-off against the profits of the let-out property to arrive at the net income chargeable under the head "Income from house property".

- ◆ **Inter-source set-off of losses**

- A person may have income from one source and loss from another source under the same head of income. For instance, a person may have profit from wholesale trade of merchandise and loss from the business of plying vehicles.

The loss of one business can be set-off against the profits of another business to arrive at the net income under the head "Profits and gains of business or profession".

- Set-off of loss from one source against income from another source within the same head of income is permissible, subject to certain exceptions, like long-term capital loss cannot be set-off against short-term capital gains though short-term capital loss can be set-off against long-term capital gains.

◆ **Inter-head set-off of losses**

- Likewise, set-off of loss from one head (say, loss from house property) against income from another head (say, Salaries) is also permissible, subject to certain exceptions, like business loss cannot be set-off against salary income; loss under the head "Capital Gains" cannot be set-off against any other head of income.
- Also, loss under the head house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs.

◆ **Carry forward and set-off of losses**

- Unabsorbed losses of the current year can be carried forward to the next year for set-off only against the respective head of income.
- Here again, if there are any restrictions relating to inter-source set-off, the same will apply, like long-term capital loss which is carried forward can be set-off only against long-term capital gains and not short-term capital gains of a later year.
- The maximum number of years up to which any particular loss can be carried forward is also provided under the Act.

For example, business loss can be carried forward for a maximum of 8 assessment years to be set-off against business income. However, loss from specified business referred to in section 35AD can be carried forward indefinitely for set-off against profits of any specified business.

**Step 6 – Computation of Gross Total Income**

- ◆ The income computed under each head, after giving effect to the clubbing provisions and provisions for set-off and carry forward and set-off of losses, have to be aggregated to arrive at the gross total income.



- ◆ The process of computing GTI is depicted hereunder -

Add income computed under each head → Apply clubbing provisions → Apply the provisions for set-off and carry forward of losses

### Step 7 – Deductions from Gross Total Income

Certain deductions are allowable from gross total income to arrive at the total income. These deductions contained in Chapter VI-A can be classified as –

- ◆ **Deduction in respect of certain payments, for example,**

Section	Nature of Payment/Deposit
80C	Payment of life insurance premium, tuition fees of children, deposit in public provident fund, repayment of housing loan etc.
80D	Medical insurance premium paid by an individual/ HUF for the specified persons/ contribution to CGHS etc.
80E	Payment of interest on educational loan taken for self or relative

- ◆ **Deduction in respect of certain incomes, for example,**

Section	Nature of Income
80QQB	Royalty income of authors of certain books other than text books
80RRB	Royalty on patents

- ◆ **Deduction in respect of other incomes**

Section	Nature of Income
80TTA	Interest on savings account with a bank, co-operative society and post office.
80TTB	Interest on deposit with a bank, co-operative society and post office in case of senior citizens

- ◆ **Other Deductions**

Deduction under section 80U in case of a person with disability

These deductions are allowable subject to satisfaction of the conditions prescribed in the relevant sections. There are limits in respect of deduction under

certain sections. The payments/incomes are allowable as deduction subject to such limits. For example, the maximum deduction under section 80RRB is ₹ 3 lakhs; under section 80TTA is ₹ 10,000 and under section 80TTB is ₹ 50,000.

### **Step 8 – Total income**

- ◆ The gross total income as reduced by the above deductions under Chapter VI-A is the total income.

Total income = GTI – Deductions under Chapter VI-A

- ◆ It should be rounded off to the nearest multiple of ₹ 10.
- ◆ Tax is calculated on the total income of the assessee.

### **Step 9 – Application of the rates of tax on the total income**

- ◆ The rates of tax are specified in the Finance Act.
- ◆ For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 2,50,000. This means that no tax is payable by individuals with total income of up to ₹ 2,50,000. The rates of tax and level of total income are as under –

	<b>Level of total income</b>	<b>Rate of tax</b>
(i)	where the total income does not exceed ₹ 2,50,000	NIL
(ii)	where the total income exceeds ₹ 2,50,000 but does not exceed ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 2,50,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	₹ 12,500 <i>plus</i> 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,12,500 <i>plus</i> 30% of the amount by which the total income exceeds ₹ 10,00,000

- ◆ For a senior citizen (being a resident individual who is of the age of 60 years or more at any time during the previous year), the basic exemption limit is ₹ 3,00,000 and for a very senior citizen (being a resident individual who is of the age of 80 years or more at any time during the previous year), the basic

exemption limit is ₹ 5,00,000. Therefore, the tax slabs for these assesseees would be as follows –

**For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years)**

	Level of total income	Rate of tax
(i)	where the total income does not exceed ₹ 3,00,000	NIL
(ii)	where the total income exceeds ₹ 3,00,000 but does not exceed ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 3,00,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	₹ 10,000 <i>plus</i> 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,10,000 <i>plus</i> 30% of the amount by which the total income exceeds ₹ 10,00,000

**For resident individuals of the age of 80 years or more at any time during the previous year**

	Level of total income	Rate of tax
(i)	where the total income does not exceed ₹ 5,00,000	NIL
(ii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,00,000 <i>plus</i> 30% of the amount by which the total income exceeds ₹ 10,00,000

- ◆ Companies and firms are subject to a flat rate of tax, without any basic exemption limit.
- ◆ The rates of tax have to be applied on the total income to compute the tax liability.

- ◆ Rates of tax in respect of certain income are provided under the Income-tax Act, 1961 itself. For instance, the rates of tax for long term capital gains on certain assets, long-term capital gains on other assets, certain short-term capital gains and winnings from lotteries, crossword puzzles, races etc. are prescribed in sections 112, 112A, 111A and 115BB, respectively. The rates of tax are 20%, 10%, 15% and 30%, respectively, in the above cases. Under section 112A, long term capital gains exceeding ₹ 1,00,000 on transfer of equity shares of a company or unit of equity oriented fund or a unit of a business trust is taxable @10%.
- ◆ The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of total income after adjusting the basic exemption limit.
- ◆ The unexhausted basic exemption limit can, however, be adjusted against long-term capital gains taxable under section 112/112A and short-term capital gains taxable under section 111A in case of resident individual or HUF.

***Step 10 – Rebate under section 87A (where total income ≤ ₹ 5,00,000)/ Surcharge (where total income > ₹ 50,00,000)***

**Rebate under section 87A:** In order to provide tax relief to the individual tax payers who are in the 5% tax slab, section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed ₹ 5,00,000. The rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of ₹ 12,500, whichever is less.

However, rebate under section 87A is not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.

**Surcharge:** Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax.

In case where the total income of an individual/ HUF/ **AOP (other than an AOP consisting of only companies as members)**/ BOI/ Artificial Juridical Person is above ₹ 50 lakhs, the rate of surcharge applicable would be as follows:

	<b>Particulars</b>	<b>Rate of surcharge on income-tax</b>	<b>Components of total income</b>	<b>Applicable rate of surcharge</b>
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<b>Example 1:</b> <ul style="list-style-type: none"> <li>• Dividend ₹ 10 lakhs;</li> <li>• STCG u/s 111A ₹ 20 lakhs;</li> <li>• LTCG u/s 112 ₹ 15 lakhs;</li> <li>• LTCG u/s 112A ₹ 20 lakhs; and</li> <li>• Other income ₹ 25 lakhs</li> </ul>	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 90 lakhs.
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%	<b>Example 2:</b> <ul style="list-style-type: none"> <li>• Dividend income ₹ 10 lakhs;</li> <li>• STCG u/s 111A ₹ 40 lakhs;</li> <li>• LTCG u/s 112 ₹ 55 lakhs;</li> <li>• LTCG u/s 112A ₹ 35 lakhs; and</li> <li>• Other income ₹ 50 lakhs</li> </ul>	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 1.90 crores.
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112	25%	<b>Example 3:</b> <ul style="list-style-type: none"> <li>• Dividend income ₹ 51 lakhs;</li> <li>• STCG u/s</li> </ul>	Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> <li>• Dividend income</li> </ul>

	<p>and 112A) &gt; ₹ 2 crore but ≤ ₹ 5 crore</p>		<p>111A ₹ 44 lakh;</p> <ul style="list-style-type: none"> <li>• LTCG u/s 112 ₹ 42 lakhs;</li> </ul>	<p>of ₹ 51 lakhs;</p> <ul style="list-style-type: none"> <li>• STCG of ₹ 44 lakhs chargeable to tax u/s 111A;</li> </ul>
	<p>The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A</p>	<p>Not exceeding 15%</p>	<ul style="list-style-type: none"> <li>• LTCG u/s 112A ₹ 55 lakh; and</li> <li>• Other income ₹ 3 crores</li> </ul>	<ul style="list-style-type: none"> <li>• LTCG of ₹ 42 lakhs chargeable to tax u/s 112; and</li> <li>• LTCG of ₹ 55 lakhs chargeable to tax u/s 112A.</li> </ul> <p>Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income</p>
(iv)	<p>Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) &gt; ₹ 5 crore</p>	<p>37%</p>	<p><b>Example 4:</b></p>	
	<p>Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A</p>	<p>Not exceeding 15%</p>	<ul style="list-style-type: none"> <li>• Dividend income ₹ 60 lakhs;</li> <li>• STCG u/s 111A ₹ 50 lakhs;</li> <li>• LTCG u/s 112 ₹ 42 lakhs;</li> <li>• LTCG u/s 112A ₹ 65 lakhs; and</li> <li>• Other income ₹ 6 crore</li> </ul>	<p>Surcharge@15% would be levied on income-tax on:</p> <ul style="list-style-type: none"> <li>• Dividend income of ₹ 60 lakhs;</li> <li>• STCG of ₹ 50 lakhs chargeable to tax u/s 111A;</li> <li>• LTCG of ₹ 42 lakhs chargeable to tax u/s 112; and</li> <li>• LTCG of ₹ 65 lakhs chargeable to tax u/s 112A.</li> </ul> <p>Surcharge @37% would be leviable on the income-tax</p>

				computed on other income of ₹ 6 crores included in total income.
(v)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	<b>Example 5:</b>	
			<ul style="list-style-type: none"> <li>• Dividend income ₹ 55 lakhs;</li> <li>• STCG u/s 111A ₹ 60 lakhs;</li> <li>• LTCG u/s 112 ₹ 42 lakhs;</li> <li>• LTCG u/s 112A ₹ 55 lakhs; and</li> <li>• Other income ₹ 1.10 crore</li> </ul>	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 3.22 crore.

**An AOP consisting of only companies as members**

**(a) In case of an AOP consisting of only companies as members, whose total income > ₹ 50 lakhs but is ≤ ₹ 1 crore**

Where the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore, surcharge is payable at the rate of 10% of income-tax computed on total income.

**(b) In case of an AOP consisting of only companies as members, whose total income > ₹ 1 crore**

Where the total income exceeds ₹ 1 crore, surcharge is payable at the rate of 15% of income-tax computed on total income.

**Step 11– Health and Education cess (HEC) on Income-tax**

The income-tax is to be increased by health and education cess @ 4% on income-tax plus surcharge/ minus rebate under section 87A, wherever applicable. This cess is payable by all assesseees who are liable to pay income-tax irrespective of their level of total income.

<b>Total Tax Liability of an individual</b>	= Tax on total income at applicable rates	+ Surcharge, at applicable rates, if total income > ₹ 50 lakhs,	+ HEC@4%
		or	
		- Rebate u/s 87A, if total income ≤ ₹ 5 lakh	

### **Step 12 – Alternate Minimum Tax (AMT)**

The Income-tax Act, 1961 contains profit-linked and investment-linked deductions in order to encourage investment in various industries and infrastructure facilities. Taxpayers who are eligible to claim such deductions end up paying no income-tax or marginal income-tax though they are capable of paying higher taxes. It has to be kept in mind that our Government also needs regular/consistent inflow of tax, which is one of its major source of revenue, to fund various expenses for the welfare of the country. Hence, in order to ensure payment of reasonable tax by such zero-tax paying/ marginal-tax paying entities, the concept of alternate minimum tax has been introduced in the Income-tax Act, 1961.

Chapter XII-BA contains the special provisions for levy of alternate minimum tax in case of persons other than a company<sup>1</sup>. Any person other than a company, who has claimed deduction under any section (other than section 80P) included in Chapter VI-A under the heading "C – Deductions in respect of certain incomes" or under section 10AA or investment-linked deduction under section 35AD would be subject to AMT [Section 115JEE(1)].

The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh [Section 115JEE(2)].

**Further, the provisions of AMT would also not apply in case an individual or HUF opting for concessional rates of tax under section 115BAC and co-operative society opting for section 115BAD.**

**Note** - At intermediate level, since profit-linked deductions provided under section 80-IA to 80-IE, section 80JJA, 80LA, 80M, 80P and 80PA have been excluded from the scope of syllabus by way of Study Guidelines and computation of total income and tax liability is restricted to individual assesseees only, the discussion in relation to AMT in this chapter is limited with respect to deduction under section 10AA, section 35AD and deduction under section 80JJAA, 80QQB & 80RRB only.

<sup>1</sup> Since in respect of companies, minimum alternate tax (MAT) provisions are applicable, which will be dealt with at the Final level.



Accordingly, where the regular income-tax payable by a person for a previous year computed as per the provisions of the Income-tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5% *plus* surcharge, if applicable, and HEC @4% [Section 115JC]. **However, in case of a co-operative society, alternate minimum tax would be 15% of adjusted total income plus surcharge, if applicable, and HEC @4%.**

“Adjusted total income” would mean the total income before giving effect to Chapter XII-BA as increased by

- (i) the deductions claimed, if any, under section 10AA;
- (ii) the deduction claimed under section 35AD, as reduced by the depreciation allowable under section 32, as if no deduction under section 35AD was allowed in respect of the asset for which such deduction is claimed; and
- (iii) deduction under any section included in Chapter VI-A under the heading C-Deductions in respect of certain incomes [For Intermediate level, the relevant sections are 80JJAA, 80QQB & 80RRB].

#### **Tax credit for AMT [Section 115JD]**

Tax credit is the excess of AMT paid over the regular income-tax payable under the provisions of the Income-tax Act, 1961 for the year. Such tax credit shall be carried forward and set-off against income-tax payable in the later year to the extent of excess of regular income-tax payable under the provisions of the Act over the AMT payable in that year. The balance tax credit, if any, shall be carried forward to the next year for set-off in that year in a similar manner.

AMT credit can be **carried forward for set-off upto a maximum period of 15** assessment years succeeding the assessment year in which the credit becomes allowable.

#### **Tax Credit allowable even if Adjusted Total Income does not exceed ₹ 20 lakh in the year of set-off [Section 115JEE(3)]**

In case where the assessee has not claimed any deduction under section 10AA or section 35AD or deduction under section 80JJAA, 80QQB & 80RRB in any previous year and the adjusted total income of that year does not exceed ₹ 20 lakh, it would still be entitled to set-off his brought forward AMT credit in that year.

**Note:** The provisions of the Income-tax Act, 1961 relating to advance tax, interest under sections 234A, 234B and 234C etc. shall also apply to an assessee paying alternate minimum tax.

### Step 13 – Examine whether or not to exercise the option under section 115BAC for availing concessional tax slab rates

#### I. Option to pay income-tax at concessional tax slab rates

As per section 115BAC, individuals or HUFs have an option to pay tax in respect of their total income (other than income chargeable to tax at special rates under Chapter XII such as section 111A, 112, 112A, 115BB etc.) at the following concessional rates, subject to certain conditions specified under section 115BAC(2) –

(i)	Upto ₹ 2,50,000	NIL
(ii)	From ₹ 2,50,001 to ₹ 5,00,000	5%
(iii)	From ₹ 5,00,001 to ₹ 7,50,000	10%
(iv)	From ₹ 7,50,001 to ₹ 10,00,000	15%
(v)	From ₹ 10,00,001 to ₹ 12,50,000	20%
(vi)	From ₹ 12,50,001 to ₹ 15,00,000	25%
(vii)	Above ₹ 15,00,000	30%

II. Conditions to be satisfied for availing concessional rates of tax: The following are the conditions to be satisfied for availing concessional rates of tax:

S. No.	Particulars										
(1)	<p><b>Certain deductions/exemptions not allowable:</b> Section 115BAC(2) provides that while computing total income, the following deductions/exemptions would not be allowed, if an individual or HUF opts for concessional rates of taxes under section 115BAC(1):</p> <table border="1"> <thead> <tr> <th>Section</th> <th>Exemption/Deduction</th> </tr> </thead> <tbody> <tr> <td>10(5)</td> <td>Leave travel concession</td> </tr> <tr> <td>10(13A)</td> <td>House rent allowance</td> </tr> <tr> <td>10(14)</td> <td>Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose) (See additional point 1 on page no. 8.20).</td> </tr> <tr> <td>10(17)</td> <td>Daily allowance or constituency allowance of MPs and MLAs</td> </tr> </tbody> </table>	Section	Exemption/Deduction	10(5)	Leave travel concession	10(13A)	House rent allowance	10(14)	Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose) (See additional point 1 on page no. 8.20).	10(17)	Daily allowance or constituency allowance of MPs and MLAs
Section	Exemption/Deduction										
10(5)	Leave travel concession										
10(13A)	House rent allowance										
10(14)	Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose) (See additional point 1 on page no. 8.20).										
10(17)	Daily allowance or constituency allowance of MPs and MLAs										

	10(32)	Exemption in respect of income of minor child included in the income of parent
	10AA	Tax holiday for units established in SEZ
	16	(i) Standard deduction under the head "Salaries" (ii) Entertainment allowance (iii) Professional tax
	24(b)	Interest on loan in respect of self-occupied property
	32(1)(iia)	Additional depreciation
	35(1)(ii),(iia),(iii) or 35(2AA)	Deduction in respect of contribution to <ul style="list-style-type: none"> <li>- notified approved research association/ university/ college/ other institutions for scientific research [Section 35(1)(ii)]</li> <li>- approved Indian company for scientific research [Section 35(1)(iia)]</li> <li>- notified approved research association/ university/ college/ other institutions for research in social science or statistical research [Section 35(1)(iii)]</li> <li>- An approved National laboratory/ university/ IIT/ specified person for scientific research undertaken under an approved programme [Section 35(2AA)]</li> </ul>
	35AD	Investment linked tax incentives for specified businesses
	57(iia)	Deduction in respect of family pension
	80C to 80U	Deductions under Chapter VI-A (other than employers contribution towards NPS under section 80CCD(2) and deduction in respect of employment of new employees under section 80JJAA).
(2)	<b>Certain losses not allowed to be set-off:</b> While computing total income, set-off of any loss -	

	<p>(i) carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in (1) above; or</p> <p>(ii) under the head house property with any other head of income; would <b>not</b> be allowed.</p>
(3)	<p><b>Depreciation or additional depreciation:</b> Depreciation u/s 32 is to be determined in the prescribed manner. Depreciation in respect of any block of assets entitled to more than 40%, would be restricted to 40% on the written down value of such block of assets. Additional depreciation u/s 32(1)(iia), however, cannot be claimed.</p>
(4)	<p><b>Exemption or deduction for allowances or perquisite:</b> While computing total income, any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being force in India would <b>not</b> be allowed.</p>

**Additional points:**

- An individual opting for the provisions of section 115BAC would be entitled for
  - travelling allowance (i.e., allowance granted to meet the cost of travel on tour or transfer);
  - daily allowance (i.e., allowance 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);
  - conveyance allowance (i.e., allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit, where free conveyance is not provided by the employer); and
  - exemption in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of ₹ 3,200 p.m.
- An individual, being an employee opting for section 115BAC, would **not** be entitled for exemption of perquisite of free food and non-alcoholic beverages provided by an employer through paid vouchers

3. In case of an individual or HUF opting for section 115BAC, total income should be computed without set-off of any loss brought forward or depreciation from any earlier assessment year, where such loss or depreciation is attributable to any of the deductions listed in (1) above [Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year]

Where there is a depreciation allowance in respect of a block of asset from an earlier assessment year attributable to additional depreciation u/s 32(1)(ia), which has not been given full effect to prior to A.Y. 2021-22 and which is not allowed to be set-off in the A.Y.2021-22 due to exercise of option u/s 115BAC from that year, corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2020 in the prescribed manner i.e., the WDV as on 1.4.2020 will be increased by the unabsorbed additional depreciation not allowed to be set-off. .

**Example 6:** Let us consider the case of Mr. X, who carries on business of manufacturing of steel. He has unabsorbed depreciation as on 1.4.2020, which includes amount attributable to additional depreciation u/s 32(1)(ia) of P.Y.2019-20 or any earlier previous year in respect of block of plant and machinery. If he exercises option under section 115BAC for P.Y.2020-21 relevant to A.Y.2021-22, the amount so attributable to additional depreciation of earlier years remaining unabsorbed as on 1.4.2020 would not be eligible for set-off against current year income. Accordingly, the WDV of the block as on 1.4.2020 has to be increased by the said amount not allowed to be set-off.

- III. Time limit for exercise of option:** The concessional rate would be applicable only if option is exercised in the prescribed manner -
- (i) **In case of an individual or HUF having no income from business or profession:** Where such individual or HUF has no business income, the option has to be exercised along with the return of income to be furnished under section 139(1) for a previous year relevant to the assessment year. In effect, such individual or HUF can choose whether or not to exercise the option in each previous year. He may choose to exercise the option in one year and not to exercise the option in another year.
  - (ii) **In case of an individual or HUF having income from business or profession:** The option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for

any previous year and once such option is exercised, it would apply to subsequent assessment years.

The option can be withdrawn only once where it was exercised by the individual or HUF having business or profession income for a previous year other than the year in which it was exercised. Thereafter, the individual or HUF shall never be eligible to exercise option under this section, except where such individual or HUF ceases to have any business income in which case, option under (i) above shall be available.

**IV. Consequences for failure to satisfy conditions mentioned in section 115BAC(2):** The following are the consequences for failure to satisfy the conditions mentioned above:

(i) **In case of an individual or HUF having no income from business or profession:** On failure to satisfy the conditions mentioned in II. above in any previous year, the option exercised would be **invalid** in respect of the assessment year relevant to that previous year.

Consequently, the other provisions of the Income-tax Act, 1961 would apply as if the option had not been exercised for the assessment year relevant to that previous year.

(ii) **In case of an individual or HUF having income from business or profession:** On failure to satisfy the conditions mentioned in II. above in any previous year, the option exercised would be **invalid** in respect of the assessment year relevant to that previous year and subsequent assessment years.

Consequently, the other provisions of the Income-tax Act, 1961 would apply to the person as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.

**AMT liability not attracted:** Individuals or HUFs exercising option u/s 115BAC are **not** liable to alternate minimum tax u/s 115JC.

**Notes:** (1) It may be noted that in case of individuals or HUFs not having income from business or profession, the total income and tax liability (including provisions relating to AMT, if applicable under normal provisions) may be computed every year both in accordance with normal provisions of the Income-tax Act, 1961 and in accordance with the provisions of section 115BAC, in order to determine which is more beneficial and accordingly decide whether or not to opt for section 115BAC for that year.

(2) Surcharge would be attracted at the same rates and above the same thresholds of total income as under the regular provisions of the Income-tax Act, 1961. Further, HEC @4% would be attracted on income-tax so calculated plus surcharge, if applicable.

(3) For the purpose of tax deduction at source, the CBDT has, vide Circular No. C1 of 2020, dated 13<sup>th</sup> April, 2020, clarified that an employee, having income other than income under the head "Profits and gains of business or profession" and intending to opt for the concessional rate under section 115BAC, is required to intimate to the deductor, being his employer, of such intention for each previous year and upon such intimation, the deductor shall compute his total income, and deduct tax at source thereon in accordance with the provisions of section 115BAC. If such intimation is not made by the employee, the employer shall deduct tax at source without considering the provisions of section 115BAC.

It is also clarified that the intimation so made to the deductor shall be only for the purposes of TDS during the previous year and cannot be modified during that year. However, the intimation would not amount to exercising option in terms of section 115BAC and the person shall be required to do so alongwith the return to be furnished under section 139(1) for that previous year. Thus, option at the time of filing of return of income under section 139(1) could be different from the intimation made by such employee to the employer for that previous year.

Further, in case of a person who has income under the head "Profit and gains of business or profession" also, the option for taxation under section 115BAC once exercised for a previous year at the time of filing of return of income under section 139(1) cannot be changed for subsequent previous years except in certain circumstances.

Accordingly, a person having income under the head "Profits and gains from business or profession" shall also intimate to his employer. However, the intimation to the employer in his case for subsequent previous years must not deviate from the option under section 115BAC once exercised in a previous year.

#### ***Step 14 – Credit for advance tax, TDS and TCS***

- ◆ Tax is deductible at source at the time of payment of salary, rent, interest, fees for professional services, royalty etc.
- ◆ The payer has to deduct tax at source at the rates specified in the respective sections.

- ◆ Such tax deducted at source has to be reduced by the payee to determine his net tax liability.
- ◆ Tax is collectible by the seller in case of certain goods at the rate specified in the respective section. Credit of such tax collection at source is allowable to determine the tax liability.
- ◆ The Income-tax Act, 1961 also requires payment of advance tax in instalments during the previous year itself on the basis of estimated income, if the tax payable, after reducing TDS/TCS, is ₹ 10,000 or more.
- ◆ Both Corporate and non-corporate assesseees are required to pay advance tax in four instalments, on or before 15<sup>th</sup> June, 15<sup>th</sup> September, 15<sup>th</sup> December and 15<sup>th</sup> March of the financial year.
- ◆ Assesseees opting for presumptive provisions under section 44AD or under section 44ADA can, however, pay the entire advance tax on or before 15<sup>th</sup> March of the financial year.
- ◆ From the total tax due, deduct the TDS, TCS and advance tax paid for the relevant assessment year to arrive at tax payable.

Tax payable = Total tax liability - TDS - TCS - Advance tax paid

### **Step 15 - Tax Payable/Tax Refundable**

After adjusting the advance tax, tax deducted and collected at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of tax payable (called self-assessment tax) at the time of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

**Note:** *Students are advised to read the above steps carefully and follow the given procedure while solving problems on computation of total income and tax liability.*



## LET US RECAPITULATE

### Computation of Total Income and Tax liability of Individuals:

Income-tax is levied on an assessee's total income. Total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The following steps has to be followed for computing the total income of an assessee:

#### Step 1 – Determination of residential status

- Resident
  - Resident and ordinarily resident
  - Resident but not ordinarily resident
- Non-resident

**Note** – An Indian citizen who is a deemed resident in India would be a resident but not ordinarily resident in India.

#### Step 2 – Classification of income under five heads

- Salaries,
- Income from house property,
- Profits and gains of business or profession
- Capital Gains
- Income from other sources

#### Step 3– Computation of income under each head

- Income under each head – exemptions - deductions

#### Step 4 – Clubbing of income of spouse, minor child etc.

#### Step 5 – Set-off current year losses and brought forward losses

- Inter-source set-off of losses
- Inter-head set-off of losses
- Set-off of brought forward losses
- Set-off of unabsorbed depreciation
- Carry forward of losses and unabsorbed depreciation

#### Step 6 – Computation of Gross Total Income

Gross Total Income	= Add income computed under each head	→ Apply clubbing provisions	→ Apply the provisions for set- off and carry forward of losses
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**Step 7 – Deductions from Gross Total Income**

- Deductions in respect of certain payments
- Deductions in respect of certain incomes
- Deduction in respect of other incomes
- Other deductions

**Step 8 – Computation of Total income**

- Gross Total Income – Deduction under Chapter VI-A
- Rounded off to the nearest multiple of ₹ 10

**Step 9 – Application of rates of tax on total income in case of an individual**

Total income (in ₹)	Rate of Tax
Upto ₹ 2,50,000 (below 60 years)	Nil
Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)	
Upto ₹ 5,00,000 (above 80 years and resident in India)	
₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000	5%
₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

**Step 10 – Surcharge and Rebate****Surcharge**

Total Income (assuming that the same does not include dividend, LTCG u/s 112A, 112 and STCG u/s 111A)	Surcharge
> ₹ 50 lakhs ≤ ₹ 1 crore	10% of income-tax
> ₹ 1 crore ≤ ₹ 2 crore	15% of income-tax
> ₹ 2 crore ≤ ₹ 5 crore	25% of income-tax
> ₹ 5 crore	37% of income-tax

It may be noted that the enhanced rates of surcharge@25% and 37% will not apply in respect of dividend income, long-term capital gains taxable u/s 112A, **112** and short-term capital gains taxable u/s 111A. For detailed surcharge table, see page 8.13 to 8.15.

**Rebate under section 87A:** Rebate of up to ₹ 12,500 for resident individuals having total income of up to ₹ 5 lakh

However, rebate under section 87A is not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.

**Step 11 – Health and Education cess on Income-tax:**

Health and Education cess	4% of income-tax and surcharge, if applicable
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Total Tax Liability	=	Tax on total income at applicable rates	+	Surcharge, at applicable rates, if total income > ₹ 50 lakhs, or - Rebate u/s 87A, if total income ≤ ₹ 5 lakh	+	H & EC@4%
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**Step 12 – Examine the applicability of AMT**

- Any person other than a company, who has claimed deduction under section 10AA or under section 35AD or section 80JJAA, 80QQB & 80RRB would be subject to AMT.
- The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh
- Compute AMT [18.5% **(15% in case of a co-operative society)** of adjusted total income *plus* surcharge, if applicable *plus* HEC @4%]
- If AMT > tax computed as per regular provisions, adjusted total income would be deemed to be total income.
- Tax is leviable @18.5% **(15% in case of a co-operative society)** of adjusted total income *plus* surcharge, if applicable *plus* HEC @4%
- Tax credit to be c/f = AMT *less* Tax computed as per regular provisions
- Individuals or HUFs exercising option u/s 115BAC and co-operative society exercising option u/s 115BAD are not liable to alternate minimum tax u/s 115JC.

**Step 13 – Examine whether or not to exercise the option under section 115BAC for availing concessional tax slab rates**

As per section 115BAC, individuals or HUFs have an option to pay tax in respect of their total income (other than income chargeable to tax at special rates under Chapter XII) at following concessional rates, if they do not avail certain exemptions/deductions like LTC, standard deduction under the head "Salaries", interest on housing loan on self-occupied property, deductions

under Chapter VI-A (other than 80CCD(2) or section 80JJAA), set-off of brought forward loss or depreciation, if they relate to any of the above deductions, set-off of loss from house property against income under any other head, etc. –

(i)	Upto ₹ 2,50,000	Nil
(ii)	From ₹ 2,50,001 to ₹ 5,00,000	5%
(iii)	From ₹ 5,00,001 to ₹ 7,50,000	10%
(iv)	From ₹ 7,50,001 to ₹ 10,00,000	15%
(v)	From ₹ 10,00,001 to ₹ 12,50,000	20%
(vi)	From ₹ 12,50,001 to ₹ 15,00,000	25%
(vii)	Above ₹ 15,00,000	30%

Surcharge would be attracted at the same rates and above the same thresholds of total income as under the regular provisions of the Income-tax Act, 1961. Further, HEC @4% would be attracted on income-tax so calculated *plus* surcharge, if applicable.

Examine the tax liability computed under the regular provisions of the Act (including provisions relating to AMT, if applicable) with the tax liability computed under section 115BAC. Thereafter, if tax liability is lower as per the provisions under section 115BAC, then opt to pay tax as per section 115BAC.

**Note** - If an individual or HUF having income from business or profession exercises option to pay tax under section 115BAC in a previous year, then, the said provisions would apply for all subsequent previous years.

An individual or HUF not having income from business or profession can exercise the option to pay tax under section 115BAC for each previous year. He may exercise the option in a particular previous year, but may not do so in another previous year, depending on whether or not exercising the option is beneficial to him in the respective previous year.

#### **Step 14 – Credit for advance tax, TDS and TCS**

Tax payable = Total tax liability - TDS - TCS - Advance tax paid

#### **Step 15 – Tax payable/ Tax refundable**

- Tax payable should be rounded off to the nearest multiple of ₹ 10.
- The assessee has to pay the amount of tax payable (called self-assessment tax) at the time of filing of the return
- If any refund is due, assessee will get the same after filing the return of income.

## TEST YOUR KNOWLEDGE

### Question 1

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2022 and came to India for the first time on 16.03.2022. She left for USA on 19.9.2022. She returned to India again on 27.03.2023. While in India, she had purchased a show room in Mumbai on 30.04.2022, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2022. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2023. She had received the following cash gifts from her relatives and friends during 1.4.2022 to 31.3.2023:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000) ₹ 1,72,000

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2023-24.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

### Answer

- I. Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:
- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
  - (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2023-24 has to be determined on the basis of her stay in India during

the previous year relevant to A.Y. 2023-24 i.e., P.Y.2022-23 and in the preceding four assessment years.

Her stay in India during the previous year 2022-23 and in the preceding four years are as under:

**P.Y. 2022-23**

01.04.2022 to 19.09.2022	-	172 days
27.03.2023 to 31.03.2023	-	<u>5 days</u>
Total		<u>177 days</u>

**Four preceding previous years**

P.Y. 2021-22 [1.4.2021 to 31.3.2022]	-	16 days
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019 to 31.3.2020]	-	Nil
P.Y.2018-19 [1.4.2018 to 31.3.2019]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2023-24.

**Computation of total income of Miss Charlie for the A.Y. 2023-24**

Particulars	₹	₹
<b>Income from house property</b>		
Show room located in Mumbai remained on rent from 01.05.2022 to 31.03.2023 @ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] <b>(See Note 1 below)</b>		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	
	1,80,000	95,000

<b>Income from other sources</b>		
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.		
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. <b>(See Note 2 below)</b>	1,72,000	1,72,000
<b>Total income</b>		<b>2,67,000</b>

**Computation of tax liability by Miss Charlie for the A.Y. 2023-24**

<b>Particulars</b>	<b>₹</b>
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
<b>Total tax liability</b>	<b>884</b>
<b>Total tax liability (rounded off)</b>	<b>880</b>

**Notes:**

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).

3. Since Miss Charlie is a non-resident for the A.Y. 2023-24, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
4. The tax liability of Miss Charlie would be the same even if she opts to pay tax as per section 115BAC, since she would be eligible for deduction under section 24(b), for interest on housing loan in respect of let out property under regular provisions as well as under section 115BAC of the Income-tax Act, 1961.

## II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2022-23 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2022-23.

### Question 2

*Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31<sup>st</sup>, 2023 is as under:*

<b>Expenditure</b>	<b>₹</b>	<b>Income</b>	<b>₹</b>
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450



To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	<b>59,63,800</b>		<b>59,63,800</b>

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
- |           |                           |              |
|-----------|---------------------------|--------------|
| 1.4.2022  | Opening W.D.V.            | - ₹ 5,00,000 |
| 7.12.2022 | Acquired (cost) by cheque | - ₹ 2,00,000 |
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2022, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2022-23.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27<sup>th</sup> March, 2023 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2023-24 under the regular provisions of the Income-tax Act, 1961, assuming that she has not opted for to pay tax under section 115BAC.

## Answer

**Computation of total income of Dr. Niranjana for  
A.Y. 2023-24**

	Particulars	₹	₹	₹
<b>I</b>	<b>Income from Salary</b>			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		50,000	40,000
<b>II</b>	<b>Income from house property</b>			
	Gross Annual Value (GAV)		27,000	
	Less : Municipal taxes paid		2,000	
	<b>Net Annual Value (NAV)</b>		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
<b>III</b>	<b>Income from profession</b>			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V.(net of TDS) – taxable under the head "Income from other sources"	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			

on ₹ 5,00,000@15%	75,000		
on ₹ 2,00,000@7.5%	15,000		
(On equipments acquired during the year in December 2022, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
100% deduction is allowable in respect of the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.	-	90,000	
		2,72,450	
<i>Add:</i> Items of expenditure not allowable while computing business income			
(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	3,04,450
<b>IV Income from other sources</b>			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
<b>Gross Total Income</b>			<b>4,22,900</b>
<i>Less: Deductions under Chapter VI-A:</i>			
(a) Section 80C - Tuition fee paid to			

university for full time education of her daughter		1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible		55,000	1,83,000
<b>Total income</b>			<b>2,39,900</b>

**Notes:**

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

**Question 3**

*Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2023 reads as follows:*

<b>Expenditure</b>	<b>(₹)</b>	<b>Income</b>	<b>(₹)</b>	<b>(₹)</b>
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
		Consultancy	12,70,000	55,98,300
		Dividend on shares of X Ltd., an Indian company (Gross)		10,524

Office rent	12,24,000	Income from UTI (Gross)	7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers	15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out	85,600
Purchase of car (for official use)	80,000		
Repair, maintenance and petrol of car	4,000		
Travelling expenses	5,25,000		
Municipal tax paid in respect of house property	3,000		
Net Profit	9,28,224		
	<b>57,17,824</b>		<b>57,17,824</b>

**Other Information:**

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2022 to 30-09-2023.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.

- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹5,000 and ₹10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹10,000 in National Saving Certificate.
- (ix) She has paid ₹70,000 towards advance tax during the P.Y. 2022-23.
- Compute the total income and tax payable of Ms. Purvi for the assessment year 2023-24.

**Answer**

**Computation of total income and tax payable of Ms. Purvi for the A.Y. 2023-24 under the regular provisions of the Act**

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
<b>Gross Total Income</b>		<b>10,11,944</b>
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
<b>Total Income</b>		<b>10,01,944</b>
<b>Total Income (rounded off)</b>		<b>10,01,940</b>
<b>Tax on total income</b>		
Upto ₹2,50,000	Nil	
₹2,50,001 - ₹5,00,000 @5%	12,500	
₹5,00,001 - ₹10,00,000 @20%	1,00,000	
₹10,00,001 - ₹10,01,940 @30%	582	1,13,082
Add: Health and Education cess @4%		4,523
<b>Total tax liability</b>		<b>1,17,605</b>
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian Company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
<b>Tax Payable</b>		<b>45,793</b>
<b>Tax Payable (rounded off)</b>		<b>45,790</b>

**Computation of tax payable in accordance with the provisions of section 115BAC**

Particulars	₹	₹
<b>Gross Total Income</b>		<b>10,11,944</b>
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts for special provisions under section 115BAC, since deduction claimed by her under these heads is allowable even under section 115BAC]		
<i>Less:</i> Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A, by virtue of section 115BAC(2)]		Nil
<b>Total Income</b>		<b>10,11,944</b>
<b>Total Income (rounded off)</b>		<b>10,11,940</b>
<b>Tax on total income</b>		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 7,50,000 @10%	25,000	
₹ 7,50,000 - ₹ 10,00,000 @15%	37,500	
₹ 10,00,000 – ₹ 10,11,940 @ 20%	2,388	77,388
<i>Add:</i> Health and Education cess @ 4%		3,096
<b>Total tax liability</b>		<b>80,484</b>
<i>Less:</i> Advance tax paid		70,000
<i>Less:</i> Tax deducted at source on dividend income from Indian Companies u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
<b>Tax Payable</b>		<b>8,672</b>
<b>Tax Payable (rounded off)</b>		<b>8,670</b>

Since tax payable as per the provisions of section 115BAC is lower than the tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to opt for section 115BAC. She has to exercise this option

on or before the due date of furnishing the return of income i.e., 31<sup>st</sup> October 2023, in her case since she is liable to get her books of account audited. Further, since she is having income from business or profession during the previous year 2022-23, if she opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.

### Working Notes:

#### (1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

**Note** - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

#### (2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724



Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% <b>(See Note (i) below)</b>		12,000
		<b>9,20,200</b>

**Notes :**

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

**Note:** *Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).*

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2023 to 30.9.2023 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

**(3) Income from other sources**

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	<b>33,924</b>

**(4) Deduction under Chapter VI-A :**

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
<b>Total deduction under Chapter VI-A</b>	<b>10,000</b>

**Notes:**

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

**Question 4**

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2023 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
  - (a) Income from UTI ₹ 22,000 (Gross)
  - (b) Interest on debentures ₹ 17,500 (Gross)
  - (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
 

Opening stock ₹ 8,000.

Closing stock ₹ 12,000.

- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes.  $\frac{3}{4}$ <sup>th</sup> is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2023 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings ₹ 10,000.
- (11) Investment in NSC ₹ 15,000.

Compute the total income of Mr. Y for the assessment year 2023-24, assuming that he has not opted to pay tax under section 115BAC.

**Answer**

**Computation of total income of Mr. Y for the A.Y. 2023-24**

Particulars	₹
Profits and gains of business or profession <b>(See Working Note 1 below)</b>	11,21,500
Income from other sources <b>(See Working Note 2 below)</b>	54,500
<b>Gross Total Income</b>	<b>11,76,000</b>
Less: Deduction under section 80C (Investment in NSC)	15,000
<b>Total Income</b>	<b>11,61,000</b>

**Working Notes:****1. Computation of profits and gains of business or profession**

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
<i>Add:</i> <b>Expenses debited to profit and loss account but not allowable as deduction</b>		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) <b>[See Note (iii)]</b>	10,000	
Investment in NSC <b>[See Note (iii)]</b>	15,000	1,02,000
		12,22,000
<i>Add:</i> Under statement of closing stock		12,000
		12,34,000
<i>Less:</i> Under statement of opening stock		8,000
<i>Less:</i> Contribution to a University approved and notified under section 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
<i>Less:</i> <b>Incomes credited to profit and loss account but not taxable as business income</b>		
Income from UTI [taxable under the head "Income from other sources"]	22,000	

Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
<i>Less:</i> Depreciation allowable under the Income-tax Rules, 1962		50,000
		<b>11,21,500</b>

**Notes:**

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

**2. Computation of "Income from Other Sources"**

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	<b>54,500</b>

**Question 5**

Balamurugan furnishes the following information for the year ended 31-03-2023:

<i>Particulars</i>	<i>₹</i>
<i>Income from textile business</i>	<i>(1,35,000)</i>
<i>Income from house property</i>	<i>(15,000)</i>
<i>Lottery winning (Gross)</i>	<i>5,00,000</i>
<i>Speculation business income</i>	<i>1,00,000</i>
<i>Income by way of salary (Computed)</i>	<i>60,000</i>
<i>Long term capital gain u/s 112</i>	<i>70,000</i>

Compute his total income, tax liability and advance tax obligations. Assume he does not opt for section 115BAC.

**Answer****Computation of total income of Balamurugan for the year ended 31.03.2023**

<b>Particulars</b>	<b>₹</b>	<b>₹</b>
Salaries	60,000	
Less: Loss from house property (Can be set off from long term capital gain also)	(15,000)	
Net Salary (after set off of loss from house property)		45,000
<b>Profits and gains of business or profession</b>		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
<b>Capital Gains</b>		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000

<b>Income from other sources</b>	
Lottery winnings (Gross)	5,00,000
<b>Total Income</b>	<b>5,80,000</b>

**Computation of tax liability for A.Y.2023-24**

Particulars	₹
On total income of ₹ 45,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 35,000 (unexhausted basic exemption limit can be adjusted against LTCG taxable u/s 112)	Nil
On lottery winnings of ₹ 5,00,000 @ 30%	<u>1,50,000</u>
	1,50,000
<i>Add:</i> Health and Education cess @ 4%	6,000
<b>Total tax liability</b>	<b>1,56,000</b>

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,000 (₹ 1,56,000 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

**Notes:**

- (1) The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary income of ₹ 45,000. The unexhausted basic exemption limit of ₹ 2,05,000 can be adjusted against long-term capital gains of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31<sup>st</sup> March, 2023. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of

₹ 6,000 (₹ 1,56,000 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

### Question 6

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2022-23.

#### Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2022) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2023 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife)(paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2022 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2022 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000



		Motor car maintenance	10,000
		Closing balance (31.3.2023) Cash on hand and at Bank	19,15,000
	<b>62,50,000</b>		<b>62,50,000</b>

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2022 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

**Note:** Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2023-24 assuming that he has not opted to pay tax under section 115BAC.

**Answer**

**Computation of total income of Mr. Rajiv for the assessment year 2023-24**

Particulars	₹	₹	₹
<b>Income from house property</b>			
<b>Self-occupied</b>			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self occupied property		(30,000)	
<b>Let out property</b>			
Annual value (Rent receivable has been			

taken as the annual value in the absence of other information)	60,000		
<i>Less:</i> Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of ₹ 88,000)	<u>44,000</u>	62,000	(2,000)
<b>Loss from house property</b>			(32,000)
<b>Profits and gains of business or profession</b>			
Fees from professional services		59,38,000	
<i>Less:</i> Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
<b>Gross Total income</b>			<b>24,92,500</b>
<i>Less:</i> Deductions under Chapter VI-A			
<b>Deduction under section 80C</b>			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		

Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
<b>Deduction under section 80D</b>			
Medical insurance premium paid ₹ 18,000		18,000	1,62,000
<b>Total income</b>			<b>23,30,500</b>

**Question 7**

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 and as per section 115BAC for the A.Y.2023-24. Advise Mr. Siddhant whether he would opt for section 115BAC:

<b>Particulars</b>	<b>₹</b>
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2015, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) House Insurance ₹ 860
- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2016-17, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- (e) Siddhant received a gift of ₹ 30,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

## Answer

**Computation of total income and tax liability of Siddhant  
for the A.Y. 2023-24**

Particulars	₹	₹
<b>Salary Income</b>		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction under section 16(ia)		50,000
		3,19,000
<b>Income from house property</b>		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
	35,310	2,390
<b>Income from speculative business</b>		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		

<b>Income from Other Sources</b>		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)	3,800	
<i>Less: Exempt under section 10(32)</i>	1,500	
	2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,28,000
<b>Gross Total Income</b>		<b>4,49,390</b>
<i>Less: Deduction under section 80C</i>		
Contribution to Public Provident Fund		50,000
<b>Total Income</b>		<b>3,99,390</b>

Particulars	₹
Tax on total income of ₹ 3,99,390 [₹ 3,99,390 – ₹ 2,50,000 = ₹ 1,49,390@5%]	7,470
<i>Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000</i>	7,470
<b>Tax liability</b>	Nil

**Computation of total income and tax liability of Siddhant in accordance with the provisions of section 115BAC for the A.Y. 2023-24**

Particulars	₹	₹
<b>Salary Income</b>		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		

(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
<i>Less: Standard deduction under section 16(ia) [not allowable as per section 115BAC(2)]</i>		Nil
		3,69,000
<b>Income from house property</b>		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
<i>Less: Municipal taxes paid</i>	4,300	
Net Annual Value (NAV)	37,700	
<i>Less: Deductions under section 24</i>		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
	35,310	2,390
<b>Income from speculative business</b>		
Income from share speculation business	2,700	
<i>Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700</i>	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
<b>Income from Other Sources</b>		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	

(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
<b>Gross Total Income</b>		<b>5,00,890</b>
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
<b>Total Income</b>		<b>5,00,890</b>

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 10% of ₹ 890]	12,589
Add: Health and education cess @4%	504
<b>Tax liability</b>	<b>13,093</b>
<b>Tax liability (rounded off)</b>	<b>13,090</b>

Since Mr. Siddhant is not liable to pay any tax as per the regular provisions of the Income-tax Act, 1961, it would be beneficial for him to **not** opt for section 115BAC for A.Y.2023-24.

**Notes:**

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2023;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.
- (3) Alternatively, computation total income as per the special provisions of section 115BAC can also be presented as follows:

Particulars	₹	₹
<b>Total Income as per regular provisions of the Income-tax Act</b>		<b>3,99,390</b>
Add:(i) Standard deduction u/s 16(ia), as it would not be allowable under the special provisions	50,000	

(ii) Exemption under section 10(32), as it would not be available under the special provisions	1,500	
(iii) Deduction under section 80C, as no deduction under Chapter VI-A would be allowed under the special provisions	<u>50,000</u>	1,01,500
<b>Total Income</b>		<b>5,00,890</b>

### Question 8

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2023:

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25<sup>th</sup> wedding anniversary.
- Music System purchased on 01.04.2022 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2022 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2022.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.



Compute the total income and tax payable thereon for the A.Y. 2023-24. Assume Ramdin does not opt for section 115BAC.

**Answer**

**Computation of Total Income for the A.Y.2023-24**

Particulars	₹	₹
<b>Income from Salaries</b>		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity ( <b>See Note 1</b> )		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt ( <b>See Note 2</b> )	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 <sup>th</sup> wedding anniversary by employer ( <b>See Note 3</b> )		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
<b>Profits and Gains of Business or Profession</b>		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000

<b>Income from Other Sources</b>		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
<b>Gross total Income</b>		<b>5,99,160</b>
<i>Less: Deductions under Chapter VI-A</i>		
<b>Section 80C</b>		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
<b>Section 80D – Mediclaim Insurance</b>		22,500
<b>Section 80G (See Note 4)</b>		10,600
<b>Total Income</b>		<b>4,40,690</b>
<b>Tax on total income</b>		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
<i>Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000</i>		9,535
Tax liability		Nil
<i>Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)</i>		754
<b>Net tax refundable</b>		<b>754</b>
<b>Tax refundable (rounded off)</b>		<b>750</b>

**Notes:**

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)  
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$   
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of

perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.

4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

### Question 9

*From the following particulars furnished by Mr. X for the year ended 31.3.2023, you are requested to compute his total income and tax payable for the assessment year 2023-24, assuming that he does not opt for paying tax under section 115BAC.*

- Mr. X retired on 31.12.2022 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.*
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.*
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.*
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.*
- After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2023.*
- Mr. X has deposited ₹ 1,00,000 in public provident fund.*

## Answer

## Computation of total income of Mr. X for A.Y.2023-24

Particulars	₹	₹
<b>Income from Salaries</b>		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)( <b>Note 1</b> )	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) ( <b>Note 2</b> )	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) ( <b>Note 3</b> )	2,45,000	70,000
<b>Gross Salary</b>		<b>3,13,000</b>
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
<b>Profits and gains of business or profession</b>		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
<b>Gross Total income</b>		<b>2,63,000</b>
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
<b>Total income</b>		<b>1,63,000</b>
<b>Tax on total income</b> (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		<b>Nil</b>

## Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000

(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

- (3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired <b>(See Note 4 below)</b>	3,18,500
(iv) Statutory limit	3,00,000

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= <u>15 days/year x 26 = 390 days</u>
Earned leave to the credit of Mr. X at the time of his retirement	390 days

Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= $390 \times ₹ 24,500 / 30 = ₹ 3,18,500$
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**Question 10**

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2023:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2023-24 and tax thereon. Ignore the provisions of section 115BAC.

Answer

**Computation of taxable income of Mrs. Rosy and Mrs. Mary  
for the A.Y.2023-24**

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	<b>Salaries</b>		
	Pension received from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16(ia) ₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
	<b>-</b>	<b>10,000</b>	
(II)	<b>Income from house property</b>		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a)@30%	18,000	9,000
		<b>42,000</b>	<b>21,000</b>
(III)	<b>Capital gains</b>		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		<b>1,20,000</b>	<b>3,50,000</b>
(A)	<b>Gross Total Income [(I)+(II)+(III)]</b>	<b>1,62,000</b>	<b>3,81,000</b>
	Less: Deductions under Chapter VIA		
	1. Deduction under section 80C		
	1. LIC Premium paid	-	10,000

	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		<b>40,000</b>	<b>30,000</b>
2.	Deduction under section 80D – Mediclaim premium paid		25,000
		<b>40,000</b>	<b>55,000</b>
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	<b>Total income (A-B)</b>	<b>1,22,000</b>	<b>3,50,000</b>
	<b>Tax liability of Mrs. Rosy for A.Y.2023-24</b>		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		<b>23,000</b>	
	<b>Tax liability of Mrs. Mary for A.Y.2023-24</b>		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] <b>[See Notes 3 &amp; 4 below]</b>		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	<b>Total tax liability</b>	<b>23,920</b>	<b>2,600</b>

**Notes:**

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.



- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,00,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2023-24.

### Question 11

*Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2018-19 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2021-22, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1<sup>st</sup> April, 2022 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.*

*Relevant details for the financial year 2022-23 are as follows:*

<b>Particulars</b>	<b>₹</b>
<i>Profit of unit located in SEZ</i>	<i>40,00,000</i>
<i>Export sales of above unit</i>	<i>80,00,000</i>
<i>Domestic sales of above unit</i>	<i>20,00,000</i>
<i>Profit from operation of warehousing facility (before considering deduction under Section 35AD)</i>	<i>1,05,00,000</i>

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for Assessment Year 2023-24 both as per regular provisions of the Income-tax Act and as per section 115BAC for Assessment Year 2023-24. Advise Mr. X whether he should opt for section 115BAC.

### Answer

#### Computation of total income and tax liability of Mr. X for A.Y.2023-24 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
<b>Total Income</b>		<b>48,00,000</b>
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess@4%		50,100
<b>Total tax liability</b>		<b>13,02,600</b>

#### Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>48,00,000</b>
Add: Deduction under section 10AA		32,00,000
		80,00,000

Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32 On building @10% of ₹ 65 lakhs <sup>2</sup>	6,50,000	58,50,000
<b>Adjusted Total Income</b>		<b>1,38,50,000</b>
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
<b>Tax liability u/s 115JC (rounded off)</b>		<b>30,64,450</b>

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

**Computation of total income and tax liability of Mr. X for A.Y.2023-24  
(under the provisions of section 115BAC of the Income-tax Act, 1961)**

Particulars	₹	₹
<b>Total Income (as computed above as per regular provisions of income tax)</b>		<b>48,00,000</b>
Add: Deduction under section 10AA (not allowable)		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32 On building @10% of ₹ 65 lakhs <sup>3</sup> (normal depreciation under section 32 is allowable)	6,50,000	58,50,000
<b>Total Income</b>		<b>1,38,50,000</b>

<sup>2</sup> Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

<sup>3</sup> Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

<b>Computation of tax liability as per section 115BAC</b>	
Tax on ₹ 1,38,50,000	38,92,500
Add: Surcharge@15%	5,83,875
	44,76,375
Add: Health and Education cess@4%	1,79,055
<b>Total tax liability</b>	<b>46,55,430</b>

**Notes:**

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Individuals or HUFs exercising option u/s 115BAC are **not** liable to alternate minimum tax u/s 115JC.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **not to opt for section 115BAC for A.Y. 2023-24**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,02,600
	<b>17,61,850</b>

**Notes:**

- (1) **Deduction under section 10AA in respect of Unit in SEZ =**

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$₹40,00,000 \times \frac{₹80,00,000}{₹1,00,00,000} = ₹ 32,00,000$$

- (2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2023-24 in respect of specified business of setting up and operating

a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2021-22 and capitalized in the books of account on 1.4.2022, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.