Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

University of Delhi - B.Com.(H) Sem III
Income Tax Law & Practice
AY 2020-21
Session started from 10 August 2020 and Ended on 28 November 2020
COVID-19 Situation

Books Recommended:

1. Concept Building Approach to Income Tax Law & Practice (Assessment Year 2020-21) – ***By Dr. Naveen Mittal – Published by Cengage Learning India Pvt. Ltd. [B.Com.(H)]***
2. Principles of Income Tax Law & Practice (Assessment Year 2020-21) – ***By Dr. Naveen Mittal – Published by Cengage Learning India Pvt. Ltd. [B.Com.]***

Relevant original source:
www.incometaxindia.gov.in
www.incometaxindiaefiling.gov.in

Lecture 1

Income-tax Act, 1961
Income-tax Rules, 1962
Notifications issued by the CBDT (Central Board of Direct Taxes)
Circulars
Court Cases
Finance Acts
Taxation Amendment Acts

Lecture 2

Computation of total income of an assessee for the AY 2020-21:

	Salary			10,00,000
	HP			3,00,000
	PGBP			4,00,000
	Capital Gains:			
	Long-term capital gains [Normal LTCG]	20,000		
	Long-term capital gains [Sec. 112A]		1,10,000	
	Short-term capital gains [Normal STCG]	1,80,000		
	Short-term capital gains [Sec. 111A]		80,000	3,90,000
	Income from other sources:			
	Winnings from lottery		2,00,000	
	Interest income from a saving bank account	3,00,000	5,00,000	
	Gross total income			25,90,000
Less:	Deductions under section 80			
	80C		1,40,000	
	80G		50,000	
	80TTA		10,000	2,00,000
	Total income			23,90,000

Computation of tax payable by (refundable to) an assessee for the AY 2020-21:

	Tax on Total income	**XXX**
Less:	Rebate under section 87A	
Add:	Surcharge	
Add:	Health and Education cess	
Less:	Relief under section 89	
Add:	Interest/ Penalty	
Less:	Prepaid taxes	
	Tax payable	

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Tax rates:

Special tax rates:

In such case, it does not matter who you are. You may be an individual (Human being), HUF, firm, company (Adani Group, Tatas, etc.), AOP/ BOI, a local authority (MCD, DDA, CMC) or an artificial juridical person (DU, Supreme Court Bar Council).

1. Long-term capital gain [Sec. 112A]: 10% over and above Rs. 1,00,000
   Example: 10% of [(Rs. 1,10,000 – Rs. 1,00,000)] = 10% of Rs. 10,000 = Rs. 1,000
2. Normal Long-term capital gain: 20% (This rate is written under section 112)
   Example: 20% of Rs. 20,000 = Rs. 4,000
3. Short-term capital gain [Sec. 111A]: 15%
   Example: 15% of Rs. 80,000 = Rs. 12,000
4. Winnings from lottery, card games, gambling, betting, etc. [Sec. 115BB]: 30%
   Example: 30% of Rs. 2,00,000 = Rs. 60,000
5. Dividend income received from a domestic company:
   Till Rs. 10,00,000 per year (if received), no tax is payable by the shareholder.
   Over and above Rs. 10,00,000 is taxable in the hands of shareholders @ 10% under section 115BBDA.
   Example: If Mr. X received Rs. 11,00,000 dividend from a domestic company, the tax payable by him is 10% of [(Rs. 11,00,000 – Rs. 10,00,000)] = 10% of Rs. 1,00,000 = Rs. 10,000.
6. Unexplained incomes/ cash credits, etc.:
   60%

Normal tax rates:

These normal tax rates depend upon the category of persons –

Individuals: There are three categories of individuals:

*Category 1: All individuals **(resident)** whose age is 60 years or more during the PY 2019-20 but less than 80 years on the last day of the PY 2019-20:*

Up to Rs. 3,00,000	:	Nil
Rs. 3,00,001 to Rs. 5,00,000	:	5% of TI exceeding Rs. 3,00,000
Rs. 5,00,001 to Rs. 10,00,000	:	Rs. 10,000 + 20% of TI exceeding Rs. 5,00,000
Above Rs. 10,00,000	:	Rs. 1,10,000 + 30% of TI exceeding Rs. 10,00,000

Example: Age 65 years (Resident):
TI is Rs. 2,90,000 Tax is Nil
TI is Rs. 4,50,000 Tax is 7,500 [5% of (Rs. 4,50,000 – Rs. 3,00,000)]
TI is Rs. 8,00,000 Tax is Rs. 70,000
3,00,000 2,00,000 3,00,000
Nil 5% 20%
Nil + 10,000 + 60,000 = 70,000
TI is Rs. 17,00,000 Tax is Rs. 3,20,000

*Category 2: All individuals **(resident)** whose age is 80 years or more during the PY 2019-20:*

Up to Rs. 5,00,000	:	Nil
Rs. 5,00,001 to Rs. 10,00,000	:	20% of TI exceeding Rs. 5,00,000
Above Rs. 10,00,000	:	Rs. 1,00,000 + 30% of TI exceeding Rs. 10,00,000

Example: Age 85 years (Resident):
TI is Rs. 2,90,000 Tax is Nil
TI is Rs. 4,50,000 Tax is Nil
TI is Rs. 8,00,000 Tax is Rs. 60,000
TI is Rs. 17,00,000 Tax is Rs. 3,10,000

*Category 3: All individuals **(resident)** who are less than 60 years of age during the PY 2019-20/ all non-resident individuals (irrespective of age)/ **HUF** –*

Up to Rs. 2,50,000	:	Nil
Rs. 2,50,001 to Rs. 5,00,000	:	5% of TI exceeding Rs. 2,50,000
Rs. 5,00,001 to Rs. 10,00,000	:	Rs. 12,500 + 20% of TI exceeding Rs. 5,00,000

Above Rs. 10,00,000 : Rs. 1,12,500 + 30% of TI exceeding Rs. 10,00,000

Example: Age 45 years (Resident):
TI is Rs. 2,90,000 Tax is Nil
TI is Rs. 4,50,000 Tax is 10,000 [5% of (Rs. 4,50,000 – Rs. 2,50,000)]
TI is Rs. 8,00,000 Tax is Rs. 72,500
TI is Rs. 17,00,000 Tax is Rs. 3,22,500

Example: Age 98 years (Non-Resident):
TI is Rs. 17,00,000 Tax is Rs. 3,22,500

Example: X (HUF):
TI is Rs. 17,00,000 Tax is Rs. 3,22,500

Firm:
Taxable at a flat rate of 30%.

Example: M/s. Raj Kumar & Sons (a partnership firm):
TI is Rs. 17,00,000 Tax is Rs. 5,10,000
TI is Rs. 100 Tax is Rs. 30 [30% of Rs. 100]

Rebate under section 87A:
It is available to a **resident individual** whose TI does not exceed Rs. 5,00,000.
Amount of rebate:
Rs. 12,500 or 100% of tax, whichever is lower.

Example: Age 65 years (**Resident**):
TI is Rs. 4,50,000 Tax is 7,500 – Rs. 7,500 [Rs. 12,500 or 100% of Rs. 7,500, whichever is lower is Rebate U/S 87A)
= Nil
TI is Rs. 8,00,000 Tax is Rs. 70,000 – Rs. Nil (Rebate U/S 87A)
= Rs. 70,000
TI is Rs. 5,00,000 Tax is Rs. 10,000 – Rs. 10,000 (Rebate U/S 87A)
= Nil
TI is Rs. 5,00,100 Tax is Rs. 10,020 – Rs. Nil (Rebate U/S 87A)
= Rs. 10,020

Example: Age 65 years (Non-Resident):
TI is Rs. 4,50,000 Tax is 10,000 – Rs. Nil (Rebate U/S 87A)
= 10,000

Example: X (HUF) (Resident):
TI is Rs. 4,50,000 Tax is 10,000 – Rs. Nil (Rebate U/S 87A)
= 10,000

Example: M/s. Raj & Brothers, a firm (Resident):
TI is Rs. 4,50,000 Tax is 1,35,000 – Rs. Nil (Rebate U/S 87A)
= 1,35,000

Surcharge:
Example:
Mr. X (67 years and a resident) has a total income of Rs. 80,00,000 (including long-term capital gain under section 112A of Rs. 3,00,000).
Solution:

	Tax [10% of (Rs. 3,00,000 – Rs. 1,00,000) + Tax on remaining income of Rs. 77,00,000 (Rs. 80,00,000 – Rs. 3,00,000) i.e., Rs. 1,10,000 + 30% of (Rs. 77,00,000 – Rs. 10,00,000)]	21,40,000
Less:	Rebate under section 87A	Nil

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			21,40,000
Add:	Surcharge [10% of Rs. 21,40,000]	2,14,000	
	Total		**23,54,000**
Add:	Cess @ 4% [4% of Rs. 23,54,000]	94,160	
	Tax liability		**24,48,160**

Lecture 3

Practice cases

Lecture 4

Residential Status of an individual [Sec. 6]
Basic conditions:
1. PY 2019-20: Presence of 182 days or more
Or
2. PY 2019-20: Presence of 60 days or more + PY 2018-19 to 2015-16: 365 days or more

If any individual satisfies any one of the two basic conditions, the said individual will be treated as 'RESIDENT' for the PY 2019-20.

Note:
Date of coming into India and date of leaving India is treated as the day for which the assessee was present in India (provided timings of coming and leaving India is not given).

Example:
Mr. X came to India for the first time on 23 July 2019 and left India on 20 March 2020. What is his residential status for the AY 2020-21 (or PY 2019-20)?
Solution:
Presence in India during PY 2019-20: 242 days [9+31+30+31+30+31+31+29+20]
Mr. X is resident in India for the AY 2020-21 (or PY 2019-20) because he was present in India for 182 days or more during the PY 2019-20.

Lecture 5 and 6

Continuing the discussion on determining the residential status of an individual:
Basic condition 1: PY 2019-20: 182 days or more

Basic condition 2: PY 2019-20: 60 days or more + Last 4 years: 365 days or more
Exception of basic condition 2:
Exception 1: An Indian Citizen who **leaves** India during the PY for the purpose of employment outside India.
Exception 2: An Indian Citizen *(or a person of Indian Origin)* who **comes** on a visit to India during the PY.
Meaning of PIO:
A person who parents (or grandparents) were born in *undivided* India

Additional condition 1: Resident in at least 2 Years out of 10 immediately preceeding previous year
Additional condition 2: Present in India for 730 days or more during 7 years immediately preceeding the previous year

Rules of residence of an individual:
R: Must satisfy at least 1 basic condition
ROR: Must satisfy at least 1 basic + both the additional conditions
RNoR: Must satisfy at least 1 basic + Either none (or one) of the additional
NR: Must not satisfy any of the basic

Page 4 of chapter 2 [Book: Concept Building Approach]
Example:

Mr. P, a Canadian citizen, comes to India for the first time during the previous year 2015-16. Since then he is coming every year on a visit to India for some days. During the financial years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20, he was in India for 60 days, 60 days, 90 days, 190 days and 70 days, respectively. Determine his residential status for the assessment year 2020-21. Assume that he is a person of Indian origin.
Solution:
Basic condition 2 cannot be applied in this case because the assessee is a person of Indian origin who has come on a visit to India during the relevant previous year 2019-20. The residential status of Mr. P has to be determined on the basis of basic condition 1 which requires presence of 182 days or more during the relevant previous year 2019-20.
Additional conditions are applicable for every individual who has become resident in the relevant previous year.
Mr. P is a non-resident for the assessment year 2020-21 as he does not satisfy basic condition 1 which requires the presence of 182 days or more during the relevant previous year. He is present in India during the previous year 2019-20 for 70 days, and not for 182 days, as required.

Page 5 of chapter 2 [Book: Concept Building Approach]
Example:
Mr. P, a Canadian citizen, comes to India for the first time during the previous year 2015-16. Since then he is coming every year on a visit to India for some days. During the financial years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the assessment year 2020-21. Assume that he is **not** a person of Indian origin.
Solution:
Mr. P is a non-resident for the assessment year 2020-21 as he does not satisfy any of the following basic conditions:
1. He is present in India during the previous year 2019-20 for 70 days, and not for 182 days, as required.
2. He is present in India for a period of 60 days or more [70 days] during the previous year 2019-20 but not for 365 days or more [150+90+60+55 = 355 days] during 4 years immediately preceding the relevant previous year 2019-20.
Since Mr. P is neither an Indian citizen nor a person of Indian origin, basic condition 2 is also applicable in this case. Exemption from basic condition 2 is applicable only for an Indian citizen (or a person of Indian origin) who has come on a visit to India during the relevant previous year.

Determination of residential status of a HUF:
Resident: Control and management of the affairs of a HUF is situated in India (or partly in India and partly outside India).
ROR: If manager of the HUF (i.e., Karta) satisfies both the additional conditions, the entire HUF will be known as ROR
RNoR: If manager of the HUF (i.e., Karta) satisfies either none (or one) of the additional conditions, the entire HUF will be known as RNoR.
Non-Resident: Control and management of the affairs of a HUF is situated outside India.

Page 6 of chapter 2 [Book: Concept Building Approach]
Example:
The business of an HUF is transacted from Germany but some of the important policy decisions are taken there and some are taken in India also. P, the karta of the HUF, who was born in Kolkata, visits India during the previous year 2019-20 after a gap of 12 years. He comes to India on 10 May 2019 and leaves for Germany on 25 November 2019. Determine the residential status of P and the HUF for the assessment year 2020-21.
Solution: Discussed in the class

Lecture 7

Determination of residential status [Sec. 6]

Scope of total income [Sec. 5]

Example on scope of total income:
Mr. A, the assessee:

Particulars	ROR	RNoR	NR

1. **Rental** income from a house property in Chennai [Rs. 7,00,000] received in USA. Taxable value [Rs. 7,00,000 – 30% of Rs. 7,00,000] *Head: Income from House Property* [Income accrued in India]	4,90,000	4,90,000	4,90,000
2. **Salary** received in Mumbai from a company registered in Singapore and the assessee is also working in Singapore [Rs. 18,00,000] Taxable value [Rs. 18,00,000 – Rs. 50,000] *Head: Income from **Salary*** [Income received in India]	17,50,000	17,50,000	17,50,000
3. House property in France is **sold** and the amount is also received in France. The profit on such sale is Rs. 19,00,000. *Head: Income from **Capital Gains*** [Income **accrued as well as received outside India**. It is income from capital gains and thus, neither from a business/ profession]	19,00,000	----	----
4. Income from a business **in Kolkata**. The business income is Rs. 9,00,000 and the business is controlled from Italy. *Head: PGBP* [Income accrued in India]	9,00,000	9,00,000	9,00,000
5. Income from a business in Canada. The business income is Rs. 18,00,000 and the business is controlled from Austria. 30% of income is received in Mumbai. *Head: PGBP* [30% of income is received in India] [70% of income is accrued outside India as well as outside India. The business is controlled from outside India]	5,40,000 12,60,000	5,40,000 ----	5,40,000 ----
6. Income from a business in Mexico. The business income is Rs. 25,00,000 and the business is controlled from India. 40% of income is received in India. *Head: PGBP* [40% of income is received in India] [60% of income is accrued outside India as well as outside India. The business is controlled from India]	10,00,000 15,00,000	10,00,000 15,00,000	10,00,000 ----
7. Rental income [Rs. 10,00,000] is earned in Russia. Taxable value [Rs. 10,00,000 – 30% of Rs. 10,00,000] *Head: House Property* It is assumed that the income is received in Russia also. [Income is accrued outside India as well as outside India]	7,00,000	----	----

Note:
1. Rental income – 30% standard deduction = Taxable Value of Rent under the head House Property
2. While computing taxable salary under the head Salaries, Rs. 50,000 per year is allowed as standard deduction.

Lecture 8

Income deemed to be accrued in India [Sec. 9]

Lecture 9 & 10

Questions were practiced from the book: Concept Building Approach

Lecture 11

Books:
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Income under the head 'Salaries'

Computation of income under the head Salaries of an assessee for the AY 2020-21:

	Particulars			Rs.
	Basis salary			
	Bonus			
	Commission			
	Advance salary			
	Arrear salary			
	Retirement benefits:			
	Leave encashment			
	Gratuity			
	Pension			
	Provident fund			
	Retrenchment compensation			
	Voluntary retirement compensation			
	Received [Know]			
Less:	**Exempt [Compute]**			
	Taxable [Value required]			
	Income by way of allowances:			
	House rent allowance			
	Transport allowance			
	Entertainment allowance			
	Children education allowance			
	Hostel expenditure allowance			
	Tribal area allowance			
	Outstation allowance			
	Conveyance allowance			
	Travelling allowance			
	Uniform allowance			
	[Concentrate only on those allowances where Income-tax Act grants exemption under section 10]			
	Received [Know]			
Less:	**Exempt [Compute]**			
	Taxable [Value required]			
	Income by way of Perquisites [Rule 3]:			
	Convert non-monetary benefits into Monetary value			
	Accommodation			
	Use of motor car			
	Interest-free loan			
	Education facility			
	Medical facility			
	Use of movable assets			
	Sale of movable assets			
	LTC			
	ESOP/ Sweat equity shares			
	Taxable value [By applying Rule 3 of Income-tax Rules, 1962]			
	Gross salary			XXX
Less:	Deductions under section 16:			
	Standard deduction		50,000	
	Entertainment allowance	XX		
	Tax on employment/ Professional tax		XX	XXX
	Income under the head Salaries			XXXX

Lecture 12

Tax treatment of Leave Encashment:

1. In case of a Government employee, leave encashment received at the time of retirement (or leaving the job) is exempt from tax.

2. In case of a **non-Government employee,** leave encashment received at the time of retirement (or leaving the job) is exempt from tax but to the extent of least of the following:

a) Leave **salary** based on **completed/ actual** year of service [Leave entitlement cannot exceed **30 days** for every year of completed/ actual year of service]
b) 10 Months **salary**
c) Rs. 3,00,000 (Amount notified by the Government) – Amount exempted earlier
d) Leave encashment actually received

Note:
i. Salary:

	Basic salary		XX
+	Dearness allowance (if terms of employment so provide)		XX
+	Commission based on fixed percentage of turnover achieved by the employee	<u>XX</u>	
	Salary for the purpose of computing leave encashment exemption	<u>XX</u>	

ii. Salary is to be taken for 10 months preceeding the retirement.

iii. Dearness allowance (if terms of employment so provide) means that dearness allowance which is included in computing the retirement benefits of the employee.

Example:
X retires on 30 November 2019 after doing the service in A Ltd. for 23 years and 11 months. His basic salary at the time of retirement is Rs. 70,000 per month, dearness allowance is 20% of basic salary (80% of dearness allowance forms part of salary for the purpose of computing the retirement benefits) and commission is 3% of sales (sales during 1 December 2018 to 30 November 2019 achieved by him is Rs. 24,00,000 on evenly basis). His leave entitlement is 20 days for completed year and he has already claimed 280 days of leaves. He also gets a bonus of Rs. 30,000 in the month of September 2019. Compute his taxable salary for the assessment year 2020-21 assuming he received the leave encashment of Rs. 4,87,200 [(Rs. 81,200÷30) × 180] at the time of retirement. Further, he was in K Ltd. before joining A Ltd. and from K Ltd. also, he got the leave encashment of Rs. 5,00,000 out of which Rs. 2,28,930 got exempted in 1994-95.
Solution:
Computation of income under the head Salaries of X for the AY 2020-21:

			Rs.
	Basic salary [Rs. 70,000 × 8]		5,60,000
	Dearness allowance [20% of Rs. 5,60,000]	1,12,000	
	Commission [3% of (Rs. 24,00,000/12 × 8)]	48,000	
	Bonus		30,000
	Leave encashment – Note 1		<u>4,16,130</u>
	Gross Salary		11,66,130
Less:	Deductions under section 16		
	Standard deduction		<u>50,000</u>
	Income under the head Salaries	<u>11,16,130</u>	

Note 1: Computation of exemption of leave encashment (in case of non-Government employee):
Out of Rs. 4,87,200 received as leave encashment, least of the following is exempt from tax:

a) Rs. 5,23,200 [**Rs. 87,200** × **6**]
b) Rs. 8,72,000 [**10 Months salary**]
c) Rs. 71,070 [**Rs. 3,00,000** (Amount notified by the Government) – **Rs. 2,28,930** (Amount exempted earlier)]
d) Rs. **4,87,200**, being leave encashment actually received

Rs. 71,070, being the least, is exempt from tax.
Therefore, the taxable leave encashment is:

			Rs.
	Received		4,87,200
Less:	Exempt	71,070	
	Taxable	**4,16,130**	

Note 2: Salary for the purpose of computing exemption from leave encashment [1 February 2019 to 30 November 2019]:

		Rs.
Basic salary [Rs. 70,000 × 10]	7,00,000	
Dearness allowance (forming part)		
[80% of (20% of Rs. 7,00,000)]	1,12,000	
Commission [3% of (Rs. 24,00,000/12 × 10)]	60,000	
Salary for 10 months		8,72,000
Average monthly salary [Rs. 8,72,000/10]	87,200	

Note 3: Completed/ actual year of service means any fraction of the year is ignored.

	Computation of leave at the credit:	
	Leave entitlement [**20** × **23**]	**460** days
Less:	Leave actually availed	**280** days
	Leave at the credit	**180** days
	Leave the credit (in months)	**6** [180 days/ 30 days per month] months

Dearness allowance (if terms of employment so provide/ forming part)
Basic salary is Rs. 70,000.
Dearness allowance is Rs. 14,000 [20% of Rs. 70,000]
Suppose, the pension is 80% of Basic salary [Rs. 80% of Rs. 70,000 = Rs. 56,000]. After 20 years, inflation has risen, cost of living has risen but my pension remained at Rs. 56,000.

Employee's request:
When my pension was being fixed, please do not give me 80% of basic salary. Please give me 80% of (basic salary + Dearness allowance) as pension.

How much is DA (forming part) in the above example?
DA is Rs. 14,000 [20% of Rs. 70,000]
DA (forming part) is Rs. 11,200 [80% of Rs. 14,000]

Lecture 13

Example:
X retires on 30 November 2019 after doing the service in A Ltd. for 23 years and 11 months. His basic salary at the time of retirement is Rs. 70,000, dearness allowance is 20% of basic salary (80% of dearness allowance forms part of salary for the purpose of computing the retirement benefits) and commission is 3% of sales (sales during 1 December 2018 to 30 November 2019 achieved by him is Rs. 24,00,000 on evenly basis). *His leave entitlement is 40 days for completed year and on this basis, he has 440 days of credit available.* He also gets a bonus of Rs. 30,000 in the month of September 2019. Compute his taxable salary for the assessment year 2020-21 assuming he received the leave encashment of *Rs. 11,90,933 [(Rs. 81,200÷30) × 440]* at the time of retirement. Further, he was in K Ltd. before joining A Ltd. and from K Ltd. also, he got the leave encashment of Rs. 5,00,000 out of which Rs. 2,28,930 got exempted in 1994-95.
Solution:
Computation of income under the head Salaries of X for the AY 2020-21:

			Rs.
	Basic salary [Rs. 70,000 × 8]		5,60,000
	Dearness allowance [20% of Rs. 5,60,000]	1,12,000	
	Commission [3% of (Rs. 24,00,000/12 × 8)]	48,000	
	Bonus		30,000
	Leave encashment – Note 1		*11,19,863*
	Gross Salary		18,69,863
Less:	Deductions under section 16		
	Standard deduction		50,000
	Income under the head Salaries	18,19,863	

Note 1: Computation of exemption of leave encashment (in case of non-Government employee):
Out of *Rs. 11,90,933* received as leave encashment, least of the following is exempt from tax:

a) *Rs. 6,10,400 [Rs. 87,200 × 7]*
b) Rs. 8,72,000 [10 Months salary]
c) Rs. 71,070 [Rs. 3,00,000 (Amount notified by the Government) – Rs. 2,28,930 (Amount exempted earlier)]
d) *Rs. 11,90,933,* being leave encashment actually received

Rs. 71,070, being the least, is exempt from tax.
Therefore, the taxable leave encashment is:

			Rs.
	Received		*11,90,933*
Less:	Exempt	71,070	
	Taxable	*11,19,863*	

Note 2: Salary for the purpose of computing exemption from leave encashment [1 February 2019 to 30 November 2019]:

		Rs.
Basic salary [Rs. 70,000 × 10]	7,00,000	
Dearness allowance (forming part) [80% of (20% of Rs. 7,00,000)]	1,12,000	
Commission [3% of (Rs. 24,00,000/12 × 10)]	60,000	
Salary for 10 months		8,72,000
Average monthly salary [Rs. 8,72,000/10]	87,200	

Note 3: Completed/ actual year of service means any fraction of the year is ignored.

Computation of leave at the credit (as per the policy of the company):

	Leave entitlement [40 × 23]	920 days
Less:	Leave actually availed (Bal. Fig.)*	480* days
	Leave at the credit	440 days

Computation of leave at the credit (as per the Income-tax Department):

	Leave entitlement [**30** × **23**]	690 days
Less:	Leave actually availed	480 days
	Leave at the credit	*210 days*
	Leave the credit (in months)	*7 [210 days/ 30 days per month] months*

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Lecture 14

We have covered the tax treatment of leave encashment received at the time of retirement/ leaving the job (Both the cases whether the employee is a Government employee or a non-Government have been covered)

Leave encashment during continuity of employment
It is fully taxable (whether the employee is a Government/ non-Government).

Leave encashment at the time of death
Leave encashment at the time of death is not taxable (whether the employee is a Government/ non-Government).

GRATUITY

Tax treatment of gratuity received at the time of retirement (or leaving the job):

Government employee or Non-Government employee
- **100% tax-free**

In case of a non-Government

(a) The employee is covered under the Payment of Gratuity Act 1972

Gratuity received is exempt from tax but to the extent of least of the following:

i) 15 days salary based on salary **last drawn** by the employee for completed year of service in excess of 6 months

ii) Rs. 20,00,000 (Amount notified by the Government) – Amount exempted earlier

iii) Gratuity actually received

Note:

i. Salary (Monthly salary):

	Basic salary		XX
+	Dearness allowance (whether forming part or not)	XX	
	Salary for the purpose of computing gratuity here	XX	

ii. If service rendered is 23 years and 4 months, relevant value is 23. If service rendered is 23 years and 8 months, relevant value is 24. If service rendered is 23 years and 6 months, the relevant value is 23.

iii. $15 \text{ days salary} = \frac{\text{Salary}}{26} \times 15$

Example:

X retires on 31 January 2020 after doing the service in A Ltd. for 23 years and 11 months. His basic salary at the time of retirement is Rs. 70,000 per month, dearness allowance is 20% of basic salary (80% of dearness allowance forms part of salary for the purpose of computing the retirement benefits) and commission is 3% of sales (sales during 1 February 2019 to 31 January 2020 achieved by him is Rs. 24,00,000 on evenly basis). He also gets a bonus of Rs. 30,000 in the month of September 2019. Compute his taxable gratuity for the assessment year 2020-21 assuming he received the gratuity of Rs. 22,38,000 at the time of retirement. He is covered under the Payment of Gratuity Act 1972.

Solution:

Case of gratuity received by a non-Government employee at the time of retirement and the employee is covered under the Payment of Gratuity Act 1972:

Gratuity of Rs. 22,38,000 received is exempt from tax but to the extent of least of the following:

i) Rs. 11,63,077 [i.e., 15 days salary based on salary **last drawn** by the employee for completed year of service in excess of 6 months (Rs. 48,461.54 × 24)]

ii) Rs. 20,00,000 (Amount notified by the Government)

iii) Rs. 22,38,000 (Gratuity actually received)

Rs. 11,63,077, being the least, is exempt from tax.

Taxable amount of gratuity is:

	Received		22,38,000
Less:	Exempt	11,63,077	
	Taxable	10,74,923	

Note:

i. Salary (Monthly salary):

	Basic salary		70,000
+	Dearness allowance (whether forming part or not) [20% of Rs. 70,000]		14,000
	Salary for the purpose of computing gratuity here	84,000	

iii. $15 \text{ days salary} = \frac{84{,}000}{26} \times 15 = 48{,}461.54$

(b) The employee is not covered under the Payment of Gratuity Act 1972

Gratuity received is exempt from tax but to the extent of least of the following:

i) *Half months average* salary for completed year of service

ii) Rs. 20,00,000 (Amount notified by the Government) – Amount exempted earlier

iii) Gratuity actually received

Note:

i. Salary:

	Basic salary		XX
+	Dearness allowance (if terms of employment so provide)		XX
+	Commission based on fixed percentage of turnover achieved by the employee	XX	
	Salary for the purpose of computing gratuity here	XX	

ii. Salary is to be taken for 10 months immediately **preceeding the month** of retirement. For example, if employee retires on 31st December 2019, the period of 10 months is 1 Feb. 2019 to 30 November 2019.

iii. Half months' salary = $\frac{\text{Average Monthly salary}}{2}$

Example:

X retires on 31 January 2020 after doing the service in A Ltd. for 23 years and 11 months. His basic salary at the time of retirement is Rs. 70,000 per month, dearness allowance is 20% of basic salary (80% of dearness allowance forms part of salary for the purpose of computing the retirement benefits) and commission is 3% of sales (sales during 1 February 2019 to 31 January 2020 achieved by him is Rs. 24,00,000 on evenly basis). He also gets a bonus of Rs. 30,000 in the month of September 2019. Compute his taxable gratuity for the assessment year 2020-21 assuming he received the gratuity of Rs. 22,38,000 at the time of retirement. He is **not** covered under the Payment of Gratuity Act 1972.

Solution:

Case of gratuity received by a non-Government employee at the time of retirement and the employee is **not** covered under the Payment of Gratuity Act 1972:

Gratuity of Rs. 22,38,000 received is exempt from tax but to the extent of least of the following:

i) Rs. 10,02,800 [i.e., Half month's average salary for completed year of service (Rs. 43,600 × 23)]

ii) Rs. 20,00,000 (Amount notified by the Government)

iii) Rs. 22,38,000 (Gratuity actually received)

Rs. 10,02,800, being the least, is exempt from tax.

Taxable amount of gratuity is:

	Received		22,38,000
Less:	Exempt	10,02,800	
	Taxable	12,35,200	

Note:

i. Salary for 10 months [1 March 2019 to 31 December 2020]:

	Basic salary [Rs. 70,000*10]		7,00,000
+	Dearness allowance (forming part) [80% (20% of Rs. 7,00,000)]		1,12,000
+	Commission based on fixed percentage of turnover [Rs. 24,00,000/12* 10 = Rs. 20,00,000*3%]	60,000	
	Salary for the purpose of computing gratuity here	8,72,000	

Average monthly salary = Rs. 87,200 [Rs. 8,72,000/10]

Half months' salary = Rs. $\frac{87{,}200}{2}$ = 43,600

Gratuity received during continuity of employment

Gratuity received during continuity is fully taxable (whether a Government employee or a non-Government employee)

Gratuity received at the time of death

On the basis of circulars issued for leave encashment in similar situation, I say that gratuity received at the time of death is exempt from tax.

Lecture 15

Tax treatment of Pension

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Two types of pension schemes in India:
1. Old Pension Scheme
[In PY 2019-20, most of the people who are retiring from the Government job are covered under Old Pension Scheme]

2. New Pension Scheme [applicable to Government employees who have joined the job on or after 1 January 2004] **Will be discussed in detail in the chapter 11- Deductions under section 80**
For example, if X (49 years) joined the Government job in 2004 and the retirement age in that job is 60 years. In such a case, X is, by default, covered under NPS.

Tax treatment of old pension scheme:
Uncommuted pension (Monthly pension): Fully Taxable (Govt/ non-Govt.)
Commuted pension (Lump sum): Fully exempt in case of Government employees

Or
in case of non-Government employees,
Situation 1: The employee receives gratuity
Exemption is 1/3rd of commuted value

Situation 2: The employee does not receive gratuity
Exemption is ½ of commuted value

Example:
Ms. Harshita retires from Government job on 31st July 2019. After retirement, her pension was fixed at Rs. 40,000 per month. On 1st February 2020, her 80% pension was commuted for Rs. 48,00,000. Compute the taxable pension in the hands of Ms. Harshita for the AY 2020-21.
Solution:
Taxable pension for the AY 2020-21:

Uncommuted pension [Rs. 40,000*6 + (Rs. 40,000*20%)*2]	2,56,000	
Commuted pension (exempt)		----
Taxable pension		2,56,000

Example:
Ms. Vedika retires from a non-Government job on 31st July 2019. After retirement, her pension was fixed at Rs. 60,000 per month. On 1 January 2020, her 70% pension was commuted for Rs. 56,00,000. Compute the taxable pension in the hands of Ms. Vedika for the AY 2020-21 assuming:
(a) She does not receive any gratuity
(b) She receives a gratuity of Rs. 30,000.
Solution:
(a) When Ms. Vedika does not receives any gratuity:
Taxable pension for the AY 2020-21:

Uncommuted pension [Rs. 60,000*5 + (Rs. 60,000*30%)*3]		3,54,000	
Commuted pension			
Received	56,00,000		
Less: Exempt – Note	40,00,000		16,00,000
Taxable pension			19,54,000

Note:

Commuted pension received		56,00,000
70% conversion	56,00,000	
1% conversion	56,00,000/70	
100% conversion		56,00,000/70*100
Commuted value	**80,00,000**	
Exemption [1/2 of Rs. 80,00,000]	40,00,000	

(b) When Ms. Vedika receives any gratuity:

Taxable pension for the AY 2020-21:

Uncommuted pension [Rs. 60,000*5 + (Rs. 60,000*30%)*3]		3,54,000	
Commuted pension			
Received	56,00,000		
Less: Exempt – Note	26,66,667		29,33,333
Taxable pension			32,87,333

Note:

Commuted pension received		56,00,000
70% conversion	56,00,000	
1% conversion	56,00,000/70	
100% conversion		56,00,000/70*100
Commuted value	**80,00,000**	
Exemption [1/3 of Rs. 80,00,000]	26,66,667	

Example [Page 13 of the book: Concept Building Approach]

Y retired from a private job on 30 June 2019 and after retirement, he started receiving pension of Rs. 40,000 per month. On 1 February 2020, he gets 80% of the pension commuted for Rs. 16,00,000. Compute his taxable pension for the assessment year 2020-21 assuming:

a) he has received gratuity of Rs. 3,00,000; or

b) he has not received any gratuity.

Ans. (a) Rs. 12,29,333

(b) Rs. 8,96,000

Tax treatment of Provident Fund (PF)

1. Every yearly employee contributes as well as employer [Tax treatment required]
2. Interest credited on the accumulated balance of PF [Tax treatment required]
3. Lump sum amount of PF received at the time of retirement [Tax treatment required]

(a) [Employee's contribution + (b) Interest on Employee's contribution]

(c) Employer's contribution + (d) Interest on Employer's contribution

Lecture 16

SPF (Statutory PF)

RPF (Recognised PF)

UPF (Unrecognised PF)

PPF (Public PF)

Particulars	SPF	RPF	UPF	PPF
Employer's contribution [Rs. 3,00,000]	Exempt ----	Exempt upto 12% of Salary. Over and above 12% of salary is taxable.	Exempt ----	Employer cannot contribute
Employee's contribution [Rs. 1,50,000]	Deduction under section 80C [Rs. 1,50,000]	Deduction under section 80C [Rs. 1,50,000]	Deduction not allowed [-----]	Deduction allowed under section 80C [Rs. 1,50,000]
Interest credited [Rs. 34,000 @ 11%] [Balance in my PF Account*11% = Interest (Rs. 34,000)]	Exempt	Exempt if rate of interest does not exceed 9.5%. if exceeds 9.5%, excess is taxable. [Rs. 34,000/11*1.5 = **Rs. 4,636**]	Exempt	Exempt

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Lump	**E**xempt	Exempt but some conditions need to be followed [Sec. 10(12)]	Employer's contribution + Interest on it = Taxable under the head Salaries. Employee Contribution is not at income and thus, not taxable but Interest on employee's contribution = Taxable under the head Income from Other Sources	Exempt
Concept followed?	EEE		**EET**	

Salary for the purpose of computing RPF exemption is:
BS + DA (forming part) + Commission based on fixed percentage of turnover achieved by the employee.

Example on Page 18 of the Book [Concept Building Approach by Dr. Naveen Mittal]
During the previous year 2019-20, X has earned the following from the employer:
1. Basic pay: Rs. 10,000 per month
2. Dearness allowance: Rs. 3,000 per month (60% forms part of salary)
3. Commission (fixed): Rs. 31,000
He contributes Rs. 20,000 towards provident fund. The employer also makes a matching contribution. Interest credited in the provident fund on 7 February 2020 is Rs. 57,645 @ 14% p.a. At the time of retirement on 31 March 2020, the employee received Rs. 23,59,500 (employer's contribution Rs. 7,00,000 & interest thereon Rs. 3,01,000 as well as employee's contribution Rs. 9,50,000 & interest thereon Rs. 4,08,500). He has retired after continuous service of 11 years. Compute the total income of X for the assessment year 2020-21 assuming:
a) the provident fund is statutory; or
b) the provident fund is recognized; or
c) the provident fund is unrecognized.
Solution:

	Particulars		SPF		RPF	UPF
	Income from Salary:					
	Basic pay [10,000*12]		1,20,000	1,20,000		
	DA [3,000*12]		36,000		36,000	
	Commission		31,000		31,000	
	Employer's contribution					
	[20,000 – 12% of (1,20,000 + 60% of 36,000)]*		Exempt		3,008*	
	Interest credited					
	[57,645/14*4.5]**		Exempt		18,529**	
	Gross salary		1,87,000	2,08,537		
Less:	Standard deduction		50,000		50,000	
	Income under the head Salaries		1,37,000	1,58,537		
Add:	Income under other heads	Nil		Nil		
	Gross total income		1,37,000	1,58,537		
Less:	Deductions under section 80C					
	[Employee's contribution]	20,000		20,000		
	Total income (Rounded off)		1,17,000	1,38,540	15,46,500	

Rounded off
Total income as well as tax payable (or tax refundable) has to be rounded off to the nearest multiple of Rs. 10.
For example, if Total income is Rs. 1,98,976, TI should be written as 1,98,780.
If Total income is Rs. 1,98,975, TI should be written as 1,98,780.
If Total income is Rs. 1,98,974, TI should be written as 1,98,770.

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

If Total income is Rs. 1,98,974.99, TI should be written as 1,98,770.

Similar concept will apply in case of tax payable (or tax refundable).

Tax treatment of Retrenchment Compensation
Out of retrenchment compensation received, least of the following is exempt –
1. ……………….
2. Rs. 5,00,000 (Amount specified)
3. Retrenchment compensation actually received

Tax treatment of Compensation at the time of Voluntary Retirement
Out of voluntary compensation received, least of the following is exempt –
1. ……………….
2. ……………….
2. Rs. 5,00,000 (Amount specified)
3. Voluntary compensation actually received

Lecture 17

ALLOWANCES

Taxability of allowances is explained as below –
1. Where exemption depends upon the actual expenditure [6] [Sec. 10(14)]
Received – Exemption (Actual expenditure) = Taxable
a) Transfer/ Touring/ Travelling allowance
b) Conveyance allowance
c) Daily allowance
d) Helper allowance
e) Academic/ Research allowance
f) Uniform allowance
For example,
i) Z received helper allowance of Rs. 30,000 per year and he spent only Rs. 28,000 to engage a helper. Taxable helper allowance is Rs. 2,000 [Rs. 30,000 – Rs. 28,000].
ii) K received helper allowance of Rs. 30,000 per year and he spent Rs. 4,00,000 to engage a helper. Taxable helper allowance is Nil [Rs. 30,000 – Rs. 30,000*].

2. Where exemption does not depend upon the actual expenditure (but exemption depends upon the provisions of the Act) (8) [Sec. 10(14)]
Received – Exemption (does not depend upon the actual expenditure) = Taxable
For example, children education allowance is exemption @ Rs. 100 per month per child (exemption is allowed for a maximum of 2 children)
Received = Rs. 40,000 – Rs. 1,200 (Rs. 100*12*1) = Rs. 38,800
a) Children education allowance
Exemption is Rs. 100 per month per child (maximum exemption is for 2 children)
b) Hostel expenditure allowance
Exemption is Rs. 300 per month per child (maximum exemption is for 2 children)
c) Transport allowance (blind, deaf and dumb, orthopaedically handicapped)
Exemption is Rs. 3,200 per month

For example,
i) Z received education allowance for 3 children @ Rs. 800 per month per child but he actually spent Rs. 10,000 per month per child on their education.

Taxable education allowance is Rs. 26,400 [(Rs. 800*12*3) – (Rs. 100*12*2)].
ii) Z received Rs. 2,880 as education allowance for 3 children but he actually spent Rs. 10,000 per month per child on their education.
Taxable education allowance is Rs. 960 [(**Rs. 80*12*3**) – (**Rs. 80*12*2**)].
2880/3 = 960/12 = 80 per month per child

Lecture 18

3. Allowance where exemption depends upon the actual expenditure as well as the provisions of the Act
House rent allowance

Least of the following amount is exempt from tax:
1. 50% of salary if the house is situated in Bombay/Delhi/ Calcutta/ Madras (or 40% of salary if the house is situated in other places)
2. HRA actually received
3. Rent paid by the employee *minus* 10% of salary

	Received		XX
Less:	Exempt	XX	
	Taxable HRA		XX

Note:
1. Salary for the purpose of HRA exemption is:

	BS		XX
+	DA (forming part)		XX
+	Commission based on fixed percentage of turnover achieved by the employee	XX	
	Salary for the purpose of computing HRA exemption	XX	

2. Salary for the purpose of HRA exemption is always taken on 'due' basis:
Salary if become due, has to be included for the purpose of HRA exemption even if not received. Similarly, salary if not due, will not be included for the purpose of HRA exemption even if it is received.

For example, my previous year is 2019-20 [1 April 2019 to 31 March 2020]. During these 12 months, I received HRA from my employer. Basic salary till 31 December 2019 is Rs. 1,00,000 per month (Rs. 1,10,000 from 1 January 2020), dearness allowance is 20% of basic salary (not forming part). Basic salary of April 2020 is received in advance in March 2020. *Basic salary of December 2019 was given in May 2020.*

Salary for the purpose of HRA exemption:

	Basic salary [Rs. 1,00,000*9 + Rs. 1,10,000*3]	12,30,000	
+	DA		Nil
+	Commission based on fixed percentage	Nil	
	Salary for the purpose of HRA exemption	12,30,000	

Example on Page 25 of the book [Concept Building Approach by Dr. Naveen Mittal] – HRA
Y is a Government employee. During the previous year 2019-20, he earns the basic salary of Rs. 8,40,000 and dearness allowance (60% forms part of salary) of Rs. 2,52,000. He has also received the house rent allowance of Rs. 90,000 during the previous year 2019-20. In March 2020, he has received Rs. 70,000 as the advance salary of April 2020. Compute the amount of taxable house rent allowance for the assessment year 2020-21 assuming that he is living in Pune in a rented accommodation and paying a rent of Rs. 1,10,000. Also compute the income of Y under the head Salaries.

4. Allowances which are fully exempt [4]
Theory purpose
Sec. 10 – Gives the fully exempt allowances also.

5. Allowances which are fully taxable -------------------
All the allowances which are not covered in the above 4 categories are by default, fully taxable.
For example, dearness allowance, City Compensatory allowance, medical allowance, etc.

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

PERQUISITES

It is also a benefit given to the employee by the employer. It can be cash or non-cash.

Section 17(2): Meaning of 'Perquisites'

In case of retirement benefits and allowances, how taxable value was computed?

Received
Less: Exempt
Taxable

In case of perquisites, how taxable value was computed?

Received (DO NOT KNOW)
Less: Exempt (Difficult to compute how much is exempt)
Taxable

In case of perquisites, I will directly compute the taxable value of perquisite.

Lecture 19

Valuation of different perquisites [Rule 3]

1. Residential Accommodation:

(a) Unfurnished:

Government employee:

Value of unfurnished accommodation = Licence Fee – Amount payable by the employee

Example

Mr. X, a Secretary in the Ministry of Finance, got an accommodation from the Government of India on 1 June 2019. The market rent of similar property is Rs. 6,00,000 per month but the licence fee is Rs. 800 per month.

*Taxable value of unfurnished accommodation = Rs. 800*10 =* ***Rs. 8,000***

Non-Government employee:

Where the accommodation is owned by the employer

i. If population of the City exceeds 25 Lakhs as per 2001 Census, value = 15% of Salary – Amount payable by the employee

ii. If population of the City exceeds 10 Lakhs but does not exceed 25 Lakhs as per 2001 Census, value = 10% of Salary – Amount payable by the employee

iii. If population of the City does not exceed 10 Lakhs as per 2001 Census, value = 7.5% of Salary – Amount payable by the employee

Where the accommodation is taken on rent by the employer

Value = 15% of salary or rent payable by the employer, whichever is less.
From this value so arrived, deduct Amount payable by the employee

Meaning of Salary for the purpose of computing the value of accommodation:

Basis salary
\+ DA (forming part)
\+ Commission
\+ Bonus
\+ All monetary taxable benefits
\+ All taxable value of allowances

But this salary does not include the following:

a) Perquisites (monetary or non-monetary)

b) All retirement benefits given at the **time of retirement**

Note: While computing salary for this purpose, salary is to be taken on due basis only.

Example given on page 30 of the book [Concept Building Approach by Dr. Naveen Mittal]
X is an employee of a private sector company in Delhi. He got the residential accommodation from the company in Noida for the period during 16 July 2019 to 31 January 2020. The accommodation is owned by the company. The population of Noida as per 2001 Census is 6,50,000. Salary for the purpose of perquisite of accommodation is Rs. 8,90,000 for the previous year 2019-20. X is also supposed to pay Rs. 1,000 per month as rent to the employer.

	Value		36,156
Less:	Rent payable by the employee		
	[Rs. 1,000*6.5]	6,500	
	Taxable value		29,656

Example given on page 30 of the book [Concept Building Approach by Dr. Naveen Mittal]
Suppose, in the above case, the accommodation is not owned by the employer but the employer has also taken the accommodation on rent of Rs. 12,000 per month from a third party (market rent of this accommodation, however, is Rs. *22,000 per month). In this case, the population of the city does not matter as the accommodation is not owned by the employer.*
Value is 65,813

Lecture 20

(b) Furnished accommodation
First of all, assume this accommodation as Unfurnished and compute the accordingly.
Then, simply add the value of Furniture in the value so arrived.
Value of furniture:
Situation I: If furniture is owned by the employer
Value of furniture = Actual cost*10% p.a.

Situation II: If furniture is taken on rent by the employer:
Value of furniture = Rent payable by the employer

Thus, Value of furnished accommodation = Value of Unfurnished accommodation + Value of Furniture – Amount payable by the employee

(c) Hotel Accommodation
Value = 24% of salary or Hotel Tariff payable by the employer, whichever is less.
From this value so arrived, deduct amount payable by the employee.

Illustration given on page 4.33 of the book [Concept Building Approach by Dr. Naveen Mittal]
During the previous year 2019-20, X gets the following emoluments from his employer:

	Rs.
Basic salary per month	*80,000*
Dearness allowance (60% forms part of salary) per month	*20,000*
Commission (fixed) per annum	*50,000*
Children education allowance received for 2 children per month	*800*
Value of perquisite of domestic servants per annum	*1,20,000*
Gratuity received at the time of retirement	*13,00,000*

X has received the salary of April 2020 [Rs. 80,000] in the month of March 2020 itself.
Compute the salary for the purpose of Accommodation for the AY 2020-21.

2. Interest-free loan/ Loan at concessional rate
Value = Interest rate charged by the SBI on 1 April 2019 on such loans – Interest rate recovered from the employee

Example, Suppose, my employer has given me Rs. 5,00,000 at 2% p.a. on 1 July 2019.

Note:
a) The interest is to be computed on the maximum outstanding balance of each month and this maximum outstanding balance means the outstanding balance on the last day of each month.
b) No perquisite value to be computed if loan amount does not exceed Rs. 20,000 in aggregate in a year.
c) No perquisite value is to be computed if loan is given for a disease specified in rule 3A.

Illustration given on page 4.45 of the book [Concept ….]
3. X has taken a personal loan of Rs. *3,00,000 on 16 September 2019 from his employer at an interest rate of 12% p.a. Assume that the rate of SBI on 1 April 2019 for personal loan is 11% p.a.*
In this case, the value of perquisite of concessional loan for the assessment year 2020-21 is Nil because the employee is not getting any benefit from the employer as he is already paying the interest which is more than what he would have paid had he borrowed the amount from SBI.

4. *X has taken a car loan of Rs. 20,000 on 18 November 2019 from his employer at an interest rate of 5% p.a. Assume that the rate of SBI on 1 April 2019 for such car loan is 11% p.a.*
In this case, the value of perquisite of concessional loan for the assessment year 2020-21 is Nil because the loan amount does not exceed Rs. 20,000.

5. X has taken an interest-free car loan of Rs. *16,000 on 1 November 2019 from his employer and an interest-free personal loan of Rs. 10,000 on 1 December 2019. Assume that the rate of SBI on car loan on 1 April 2019 is 10% and on personal loan is 12%.*

Lecture 21

3. Perquisite of use of motor car
Three points need to be considered while determining the value of motor car:
1. Who provided the car [Employer/ Employee].
2. For what purpose the car is being used [official, personal, official cum personal]
3. Who incurs the running and maintenance expenses on car? [Employer/ Employee]

Situation I: Car is provided by the employer

Use	*Who incurs the Expenses?*	*Value*
1. Official	Does not matter	Nil
2. Personal	**Employer/** Employee	10% p.a. of actual cost (owned) or Hire charges payable (hire) Add: Actual expenditure on running and maintenance (if incurred by the employer) Add: Driver's expenses (if driver is provided by the employer) Less: Amount recovered from the employee = Taxable value
3. Off/ Per.	Employer	Rs. 1,800 per month if engine capacity of the car does not exceed 1.6 litre (1,600 cc) or Rs. 2,400 per month if engine capacity of the car exceeds 1.6 litre + Rs. 900 per month (if driver is also provided by the employer) *Note: Amount recovered from the employee is not deductible.*
	Employee	Rs. 600 per month (cc does not exceed 1.6 litre) or Rs. 900 per month (cc exceeds 1.6 litre) + Rs. 900 per month (if driver is also provided by the employer)

Note: Amount recovered from the employee is not deductible.

Note:
While computing the value of perquisite of motor car, the month means calendar month. Calendar month means complete month.

Illustration 2 from page 35 of the book [Concept Building Approach …….]
A Maruti WagonR [1,200 cc] which is owned by the employer has been given to the employee only for personal purposes on 8 July 2019. The actual cost of the car when purchased in November 2010 was Rs. *3,50,000 (written down value of the car is* Rs. *1,50,000 on 8 July 2019). The expenses incurred by the employee during 8 July 2019 to 31 March 2020 on petrol* Rs. *60,000, insurance* Rs. *10,000, service* Rs. *25,000 and driver's salary* Rs. *70,000 were reimbursed by the employer during the previous year. The employee has paid* Rs. *30,000 to the employer for the use of this car facility.*
Value is Rs. 1,61,250

Illustration 4 from page 35 of the book [Concept Building Approach …….]
Suppose in Illustration 2 above, the car is taken on hire charges of Rs. 12,000 per month by the employer.
Value is Rs. 2,43,000

Illustration 5 from page 36 of the book [Concept Building Approach …….]
A Toyota Fortuner [2,750 cc] which is hired by the employer on a monthly hire charge of Rs. 55,000 has been given to the employee for official as well as personal purposes on 31 October 2019. The expenses incurred by the employee during 31 October 2019 to 31 March 2020 on diesel Rs. 1,10,000, insurance Rs. 28,000, service Rs. 43,000 and driver's salary Rs. 1,40,000 were reimbursed by the employer during the previous year. The employee has paid Rs. 9,000 to the employer for the use of car facility.
Value is Rs. 19,800

<u>Situation II: Car is owned by the employee and running & maintenance expenses are incurred by the employer:</u>

Use	*Value*		
1. Official	Nil		
2. Personal	Expenses incurred by the employer		
	Less: Amount recovered from the employee		
	Taxable value		
3. Off/ Per.	Expenses incurred by the employer		XX
	Less: Amount attributable for official purpose:		
	Rs. 1,800 per month or Rs. 2,400 per month, depending upon the engine capacity		
	+		
	Rs. 900 per month (if driver is also provided by the employer) XX		
		OR	
	Actual official expense		
	Whichever is higher	*XX*	*XX*
			XX
	Amount recovered from the employee	XX	
	Taxable value		XX

Illustration 2 from page 36 of the book [Concept Building Approach …….]
A Maruti WagonR [1,200 cc] is owned by the employee. The expenses are, however, incurred by the employer on running and maintenance expenses of the car and amounts to Rs. *1,50,000 during the previous year 2019-20. Driver's salary of* *Rs. 2,00,000 is also paid by the employer. The employee has paid* Rs. *20,000 for the use of this car facility. The car is used only for personal purposes.*
Value is Rs. 3,30,000.

Illustration 3 from page 37 of the book [Concept Building Approach …….]
A Toyota Fortuner [2,750 cc] is owned by the employee but used for official as well as personal purposes from 8 November 2019. The expenses incurred by the employee during 8 November 2019 to

31 March 2020 on diesel Rs. *1,10,000, insurance* Rs. *28,000, service* Rs. *43,000 and driver's salary* Rs. *1,40,000*
were reimbursed by the employer during the previous year. The employee has paid only Rs. *9,000 to the employer for getting the benefit of running and maintenance expenses incurred by the employer. The employer has maintained the log-book of the car. The employer claims that the actual expenses incurred for official purpose is 80% of the actual expenditure.*
Value is Rs. 55,200

Note: If car facility is given to commute the distance from office to residence and back, the car facility is 100% exempt from tax.

4. Domestic servants [Watchmen, Sweeper, Gardener, etc.]
Value = Expenditure incurred by the employer – Amount recovered from the employee

Note:
If gardener is provided to the employee where the accommodation is owned by the employer, then the salary of gardener is not taxable separately – *Circular.*

Illustration 2 from page 39 of the book [Concept Building Approach …….]
X has been provided an unfurnished accommodation owned by the employer whose taxable value comes out to be Rs. 89,000. He has been provided a gardener also whose salary Rs. 1,20,000 during the previous year is paid by the employer. In this case, the salary of the gardener is not taxable in the hands of the employee because the salary of the gardener is not taxable as a perquisite when the gardener is provided along with the accommodation owned by the employer.

Illustration 1 from page 39 of the book [Concept Building Approach …….]
X has been provided a watchman at his house by the employer from 16 August 2019. The salary of watchman Rs. *10,000 per month is paid by the employer to the watchman. However, the employee pays only* Rs. *1,500 per month to the employer for this service.*
In this case, the value of perquisite of the watchman taxable for the assessment year 2020-21 in the hands of X is Rs. 63,750 [(Rs. 10,000 – Rs. 1,500) 7.5 months].*

Illustration 3 from page 39 of the book [Concept Building Approach …….]
X has been provided an unfurnished accommodation which is also taken on lease by the employer at a monthly rent of ` 20,000. The taxable value of this perquisite comes out to be Rs. 89,000. He has been provided a gardener also whose salary Rs. 1,20,000 during the previous year is paid by the employer.
Is gardener salary taxable separately or not? (Yes/ No)
Ans. Yes

5. Household amenities [Electricity facility, Water facility, Gas facility etc.]
Value = Expenditure incurred by the employer – Amount recovered from the employee

Lecture 22

6. Education facility

Lecture 23

7. Medical facility
Employee as well as the family
Family means –
(a) Spouse and children
(b) Parents/ brothers/ Sisters of the employee (if dependant on the employee)

(a) Medical facility provided in India

In the following cases, medical facility provided is exempt from tax:
1. Employer's hospital/ clinic/ dispensary
2. Government hospital
3. Prescribed diseases in rule 3A and availed in a hospital which is approved by the CIT.
4. Medical insurance premium for the employee.

(b) Medical facility provided outside India
1. Medical treatment [1] : Exempt to the extent permitted by RBI
2. Stay aboard [1 + 1] : Exempt to the extent permitted by RBI
3. Travelling [1 + 1] : Entire travelling expenditure reimbursed by the employer is exempt if Gross total income (excluding the said travelling expenditure reimbursed) does not exceed Rs. 2,00,000.

Example from the book Concept Building Approach –
X has incurred the following expenses on the medical treatment outside India during the previous year 2019-20:

	Exp. Incurred	Exp. Reimbursed	Permi. RBI
Medical expenditure of X	10,00,000	9,00,000	8,60,000
Stay abroad expenses of X and one attendant accompanying him	3,00,000	2,80,000	2,50,000
Travel expenses of X and one attendant accompanying him	4,00,000	3,80,000	—

Compute the value of perquisite of medical facility outside India in the hands of X for the assessment year 2020-21 assuming that his basic salary is Rs. 13,000 per month, income from other sources is Rs. 24,100 and he has invested Rs. 10,000 in his PPF account during the previous year 2019-20.

Solution:

Medical	40,000
Stay abroad	30,000
Travelling	3,80,000
Medical facility outside India	4,50,000

Note:

	Basic salary [Rs. 13,000*12]	1,56,000
	Perquisite of medical [40,000 + 30,000]	70,000
	Gross salary	2,26,000
Less:	Standard deduction	50,000
	Taxable salary	1,76,000
Add:	IFOS	24,100
	Gross total income	**2,00,100**

Lecture 24

8. Valuation of Leave travel concession/ leave travel assistance
Taxable value = Amount reimbursed by the employer – Actual Expenditure of the employee

Government employment:
Rs. 80,000 – Rs. 80,000 = Nil

Non-Government employment:
Rs. 90,000 – Rs. 80,000 = Rs. 10,000 – Taxable

9. Value of food

Exempt:
1. Tea or snacks during working hours is exempt.
2. Food/ lunch is exempt if cost per meal does not exceed Rs. 50. Excess of Rs. 50 is taxable.

10. Gift received from the employer
Gift received in cash is fully taxable.
However, gift in kind is exempt up to Rs. 5,000. Over and above Rs. 5,000 is taxable.

11. Value of use of movable assets (except use of motor car)
Value:

If movable assets are owned by the employer: Value is 10% p.a. of Actual Cost – Amount recovered from the employee

If movable assets are taken on rent by the employer, Value is Rent charges paid/ payable by the employer – Amount recovered from the employee

Note:
Use of laptop/ computers is a tax-free perquisite.

12. Value of Sale of movable assets

		Electronic Items	**Motor Car**	Other Assets
	Actual cost of the asset			
Less:	Normal wear and Tear On the basis of *completed year* Of service	[50% WDV]	[20% WDV]	[10% SLM]
	WDV Value			
	Sale value			

Note:
Electronic items mean official purpose items like computers, printers, scanners, fax machines. It does not mean household items like TV, Fridge, AC, Washing machines, etc.

Example
Mr. X purchased the following assets on 12 December 2019 from the employer

	Laptop	Car	AC
Sale price	10,000	50,000	2,000
Other information:			
Actual cost	90,000	6,00,000	44,000
Purchase date	14 Dec. 2017	11 Dec. 2016	15 January 2013

Solution:
Laptop:

	Actual cost on 14.12.17	90,000	
Less:	Normal W&T [50% - 14.12.17 to 13.12.18		45,000
	WDV on 14.12.18		45,000
Less:	Sale value		10,000
	Value		**35,000**

Car:

	Actual cost on 11 Dec. 2016			6,00,000
Less:	Normal W&T [20% - 11 Dec. 2016 to 10 Dec. 2017]			1,20,000
	WDV on 11 Dec. 2017		4,80,000	
Less:	Normal W&T [20% - 11 Dec. 2017 to 10 Dec. 2018]	96,000		
	WDV on 11 Dec. 2018		3,84,000	

Less:	Normal W&T [20% - 11 Dec. 2018 to 10 Dec. 2019]	76,800	
	WDV on 11 Dec. 2019		3,07,200
Less:	Sale value		50,000
	Value		2,57,200

AC:

	Value	15,600

Lecture 25

13. Valuation of Sweat Equity shares or Employees Stock Option Plan [ESOP]

Example:
X was employed with A Ltd. since 1994. On 5 October 2006, the company offered X that if you stay in our company till 4 October 2016, you will be given an option to purchase 1,000 shares at Rs. 20 per share. You can exercise this option for 4 years [5 October 2016 to 4 October 2020].
X exercised the option to purchase 800 shares on 12 December 2019.
The FMV is Rs. 100 per share on 5 October 2006; Rs. 700 per share on 5 October 2016; Rs. 1,300 per share on 12 December 2019 and Rs. 2,300 per share on 31 March 2020.
Solution:
Exercise Period: 5 October 2016 to 4 October 2020
The option will lapse automatically on 5 October 2020.

Value = (Rs. 1,300 – Rs. 20)*800 = Rs. 10,24,000 is the taxable value of the perquisite.
= The FMV of the share on the date of exercise of the option – The Price at which the option has been exercised

14. Treatment of employer's contribution towards Approved Superannuation Fund
Employer' contribution towards Approved SAF is exempt up to Rs. 1,50,000 per year. Over and above Rs. 1,50,000 is taxable as salary income of the employee.

15. Perquisite of telephone facility (including mobile phones) is a tax-free perquisite.

Deductions under section 16

	Salary (including retirement benefits)		
	Allowances **[Entertainment Allowance]**	**12,000**	
	Perquisites		
	Gross salary		
Less:	Deductions under section 16:		
	Standard deduction		50,000
	Entertainment allowance related deduction	***XXX***	
	Tax on employment/ Professional tax related deduction		

Entertainment allowance:
Let us suppose, entertainment allowance received by the employee is Rs. 12,000 per year.
What is the amount of deduction under section 16 in respect of entertainment allowance?
1. There is no deduction available to a non-Government employee.
2. Available only to Government employee:
Least of the following is allowed as deduction:
i. Rs. 5,000
ii. Entertainment allowance received
iii. 20% of **Basic salary**.

Example given on Page 55 of the Book [Concept Building Approach]
G, a Government employee, has earned the basic salary of Rs. *8,00,000 and* Rs. *36,000 as the entertainment allowance in the previous year 2019-20. His taxable salary for the assessment year 2020-21 is:*

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Ans. Rs. 7,81,000

Tax on employment/ Professional tax:
Amount actually paid is allowed as deduction.

Problem 9 from the book [Concept Building Approach]
Computation of total income of B for the Assessment year 2020-21:

	Particulars	Rs.	Amount (Rs.)
	Basic salary [Rs. 65,000*12]		7,80,000
	Tiffin allowance [Rs. 2,000*12]		24,000
	Perquisite of medical facility – Note 1		60,000
	Transport allowance [Rs. 200*12] – Assumed not a differently abled person		2,400
	Perquisite of unfurnished flat – Note 2		48,960
	Perquisite of sale of movable assets [Rs. 56,000 + Nil + Rs. 6,000]– Note 3		62,000
	Perquisite of use of movable assets [Rs. 15,000*10%*6/12]		750
	Employer's contribution towards RPF [18% of Rs. 7,80,000]	1,40,400	
Less:	Exempt [12% of Rs. 7,80,000]	93,600	46,800
	Interest [50,000/12.5*3(12.5-9.5)]		12,000
	Gross salary		10,36,910
Less:	Standard deduction		50,000
	Taxable salary		9,86,910
Add:	Income of other heads		Nil
	Gross total income		9,86,910
Less:	Deduction under section 80C [18% of Rs. 7,80,000]		1,40,400
Less:	Deduction under section 80G [Rs. 18,000*100%]		18,000
	Total income		8,28,510

Computation of tax payable by B for the assessment year 2020-21:

			Rs.
	Tax [Rs. 12,500 + 20% (Rs. 8,28,510 – Rs. 5,00,000)]	78,202	
Less:	Rebate under section 87A	Nil	
			78,202
Add:	Surcharge		Nil
			78,202
Add:	Cess @ 4%		3,128
	Tax payable		81,330

Note:
1. Since it is not mentioned where the expenditure has been incurred, it is assumed that the medical expenditure is incurred in a private clinic.
2. Since the accommodation is taken on rent by the employer, the value is 15% of salary or rent paid/ payable by the employer, whichever is lower.
Salary:

BS		7,80,000
Tiffin allowance	24,000	
Transport allowance		2,400
Salary		8,06,400

Value is 1,20,960 (15% of Rs. 8,06,400) or Rs. 2,16,000 (Rs. 18,000*12)
Thus, lower is Rs. 1,20,960. From this value, deduct amount recovered from the employee. Therefore, the taxable value is Rs. 48,960 [Rs. 1,20,960 – Rs. 72,000 (Rs. 6,000*12)].

3. Perquisite in respect of sale of movable assets:

			Car		Computer		Fridge
	Actual cost		4,00,000	60,000		20,000	
Less:	Normal W&T						
	[10 June 17 to 9 June 18]	80,000					
	[12 July 16 to 11 July 17]			30,000			
	[5 April 17 to 4 April 18]					2,000	
	WDV on						
	10 June 18/ 12 July/ 5 April		3,20,000	30,000		18,000	
Less:	Normal W&T						
	[10 June 18 to 9 June 19]	64,000					
	[12 July 17 to 11 July 18]			15,000			
	[5 April 18 to 4 April 19]					2,000	
	WDV on						
	10 June 19/12 July/ 5 April		2,56,000	15,000		16,000	
Less:	Normal W&T						
	[12 July 18 to 11 July 19]			7,500			
	WDV on 12 July 19				7,500		
	Sale value		2,00,000	8,000		10,000	
	Taxable value		56,000		Nil		6,000

Lecture 26

Deductions under section 80:

Section 80C:
Available to an individual and a HUF on savings/ investments/ deposits done during the previous year.
Following are eligible savings/ investments/ deposits:
1. Own contribution towards RPF/ PPF/ SPF/ Approved superannuation fund
2. Tuition fees of child (full-time education)
3. Principal payment of housing loan
4. Fixed deposits of 5 year period
5. Life insurance premium [Actual premium paid or 10% of sum assured, whichever is less]. However, if the policy is taken before 1 April 2012, then the eligible amount is Actual premium paid or 20% of sum assured, whichever is less. Further, if the policy is taken on or after 1 April 2013 for a differently abled person, then the eligible amount is Actual premium paid or 15% of sum assured, whichever is less.

Section 80G [Deduction available to any assessee for eligible donations]:
For some donations, 100% of the donated amount is eligible for deduction and for some donations, 50% of the donated amount is eligible for deduction.

Section 80TTA [Interest income from savings accounts with a bank/ co-operative society/ post office]:
1. Available to individuals and a HUF
2. The assessee should not be covered under section 80TTB (80TTB is for senior citizens.).
3. Maximum deduction is Rs. 10,000.

Section 80TTB [Interest income of Senior Citizens]:
1. Available to individuals whose age is 60 years or more.
2. Maximum deduction is Rs. 50,000.
3. It covers fixed deposits also.

Section 80U [Disability cases]
1. Available to a resident individual.
2. Amount of deduction is Rs. 75,000 (or Rs. 1,25,000 in case of severe disability).
3. Severe disability is when the disability is 80% or more.

Problem 18 from the book [Concept Building Approach]
Computation of total income of Arun for the assessment year 2020-21:

	Particulars	Amount (Rs.)
	Basic salary [Rs. 60,000*12]	7,20,000
	Dearness allowance [Rs. 20,000*12]	2,40,000
	Commission [Rs. 8,00,000*8%]	64,000
	Bonus	10,000
	Transport allowance [(Rs. 4,500 – Rs. 3,200)*12]	15,600
	Conveyance allowance [(Rs. 3,500 – Rs. 3,000)*12]	6,000
	House rent allowance [Rs. 3,84,000 – Rs. 1,47,200]	2,36,800
	Perquisite of interest-free loan - Note	Exempt
Less:	Employer's contribution towards RPF 1,08,000 Exempt [12% of (7,20,000 + 60% of 2,40,000 + Rs. 64,000)] 1,08,000*	Nil
	Interest credited to RPF [39,000/13*3.5 (13-9.5)]	10,500
	Lunch allowance [Rs. 2,000*12]	24,000
	Gross salary	13,26,900
Less:	Standard deduction	50,000
	Taxable salary	12,76,900
Add:	Income from other sources: Dividend income from a domestic company – Note Exempt interest income from a bank saving account 8,800	8,800
	Gross total income	12,85,700
Less:	Deduction under section 80C: Own contribution in RPF	1,08,000
Less:	Deduction under section 80TTA	8,800
Less:	Deduction under section 80U	75,000
	Total income	10,93,900

Computation of tax payable by Mr. Arun for the AY 2020-21:

	Tax [Rs. 1,12,500 + 30% (10,93,900 – 10,00,000)]	1,40,670	
Less:	Rebate under section 87A	Nil	
			1,40,670
Add:	Surcharge		Nil
			1,40,670
Add:	Cess @ 4%		5,627
	Tax payable (Rounded off)		1,46,300

Note:

Lecture 27

Problem 24 of the Book [Concept Building Approach]

24. Mr. Alok (a resident individual) retires from Reliance Retail Ltd. (Bengaluru) on 31 October 2019 after completing 19 years and 11 months of service. Compute his income under the head Salaries for the assessment year 2020-21 on the basis of following amounts received by him from his employer in the financial year 2019-20:

a) Basic salary: Rs. 1,80,000 p.m.

b) Dearness allowance: 35% of basic salary (40% forming part of salary for all retirement benefits).

c) Interest free personal loan: Rs. 6,00,000 on 1 July 2019. This loan was fully repaid by Mr. Alok on 27 October 2019. The SBI lending rate on such loan on 1 April 2019 is 12% p.a.

d) House rent allowance: Rs. 68,000 p.m. (rent paid by Mr. Alok is Rs. 65,000 p.m.). From 1 November 2019, he resides in his own house.

e) Innova car (2494 cc): The car is owned by the employer company and provided to Mr. Alok for official as well as personal purposes. Diesel expenses and Chauffeur's salary incurred by Mr. Alok is Rs. 14,000 p.m. Diesel expenses were reimbursed by the employer.

f) Pension: Rs. 1,00,000 p.m. (he gets 40% of the pension commuted for Rs. 20,00,000 on 1 November 2019).

g) Gratuity: Rs. 25,00,000 (he is covered under the Payment of Gratuity Act, 1972).

h) Accumulated balance from Recognised Provident Fund: Rs. 30,00,000.
i) Gift from employer company of Microwave oven at the time of retirement: Rs. 18,000.

[Delhi University B.Com.(H) 2019 (Modified)]

Lecture 28

Problem 13 of the Book [Concept Building Approach]

13. X (64 Years and resident) is a director of A Ltd. since 1984. He gets Rs. 1,10,000 per month as basic salary (up to 30 September 2019, it was Rs. 1,00,000 per month) and Rs. 3,000 per month as bonus. He received fixed commission of Rs. 2,00,000 from the employer during 2019-20. He owns a car which is used by him for official and personal purposes. The entire expenditure of car and driver of Rs. 1,95,000 is borne by the company. As per logbook of the car, 70% of the expenditure is attributable towards official use of the car. The company reimburses Rs. 20,200 on account of personal telephone bills and Rs. 48,000 on account of personal water bills during the financial year 2019-20. The company contributed 15% of salary towards recognized provident fund (X also made equal contribution) and credited Rs. 60,000 as interest @ 15% on 1 December 2019.

X retired from the company on 31 March 2020 and gets a gratuity of Rs. 12,00,000 (the employee is not covered under the Payment of Gratuity Act, 1972). After retirement he gets a fixed pension of Rs. 10,000 per month. Assuming that income of X from other sources is Rs. 2,38,000 (including bank deposit interest Rs. 55,000 from saving bank of Punjab National Bank), find out his taxable income and tax payable for the assessment year 2020-21. [Delhi University B.Com.(H) 2016 (Modified)]

Ans.:

	Gross salary		16,62,300
Less:	Std. Ded.		50,000
	Taxable Salary	16,12,300	
Add:	Income from other sources		
	Interest from Saving Account		55,000
	Other incomes		
	[2,38,000 – 55,000]		1,83,000
	Gross total income		18,50,300
Less:	Deduction under section 80C		
	[15% of Rs. 12,60,000]*	1,50,000	
Less:	Deduction under section 80TTB	50,000	
	Total income		16,50,300

Tax on

Lecture 29

Discussion on some points of 'Salaries'

1. Y is a regular employee of R Ltd. in Noida, U.P. He was appointed on 1 January 2019 in the pay scale of Rs. 20,000 – Rs. 1,000 – Rs. 30,000. How much is basic salary for the AY 2020-21?
Ans. Basic salary for PY 2019-20 is Rs. 2,43,000 [Rs. 20,000*9 + Rs. 21,000*3]

1 January 2019 to 31 December 2019: Rs. 20,000
1 January 2020 to 31 December 2020: Rs. 21,000
1 January 2021 to 31 December 2021: Rs. 22,000

2. Y is a regular employee of R Ltd. in Noida, U.P. He was appointed on 1 January 2019 in the pay scale of Rs. 20,000 – Rs. 1,000 – Rs. 30,000. He joined at Rs. 22,000. How much is basic salary for the AY 2020-21?
Ans. Basic salary for PY 2019-20 is Rs. 2,67,000 [Rs. 22,000*9 + Rs. 23,000*3]

1 January 2019 to 31 December 2019: Rs. 22,000
1 January 2020 to 31 December 2020: Rs. 23,000
1 January 2021 to 31 December 2021: Rs. 24,000

Problem 22 of the book [Concept Building Approach]

22. Dr. Kumar is a director of A Ltd. He furnishes the following particulars of his income for the assessment year 2020-21:

a) Basic salary: ` 5,000 p.m.
b) Bonus: ` 7,500 p.m.
c) House rent allowance received: ` 900 p.m. He resides in the house belonging to his H.U.F. and pays rent @ ` 950 p.m. in Delhi.
d) The company has provided him with a car (without driver) having engine capacity less than 1.6 litres but recovers ` 100 p.m. from him for possible personal use. This car was purchased by Dr. Kumar from the company on 1 September 2019 at a book value of ` 20,000; he sold this car after 3 months for ` 32,000.
e) Medical reimbursement for treatment of Dr. Kumar himself in a government hospital: ` 16,000.
f) The company has taken a personal accident policy for him, the annual premium being 1,300.
g) He contributes premium of ` 5,000 to the LIC.
You are required to compute Dr. Kumar's **income from salary** for the assessment year 2020-21.

[IAS Mains 1994 (Modified)]

Solution:
(d)(i) Use of motor from 1 April 2019 to 31 August 2019.
1,800*5 = Rs. 9,000
(ii) Perquisite of sale of movable assets: Nil
(iii) Gain on sale of personal car is not taxable.

f) According to labour laws in India, taking accident policy is the employer's duty.

Sale of movable Assets (Car):

	Actual cost	
Less:	Normal Wear and Tear [20% WDV]	
	Book value/ WDV	20,000
	Sale value	20,000

The car which was purchased on 1 September 2019 for Rs. 20,000 by me was sold on 1 December 2019 for Rs. 32,000. The gain of Rs. 12,000 is not taxable because **personal assets (except Jewellery and Immovable Properties) are not Capital Assets.**

Lecture 30

HOUSE PROPERTY

1. Basis of charge [Sec. 22]

3 conditions to be satisfied to tax the income under the head HP:
a) There must be a property.
b) Assessee must be the owner.
c) The property is not used for business or profession.

Income from house property.

22. The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him the profits of which are chargeable to income-tax, shall be chargeable to income-tax under the head "Income from house property".

2. Determination of Annual Value [Sec. 23]:

	Let out property (Rs.)		
Step 1: Expected rent [Municipal value or Fair rent whichever is higher but subject to a maximum of Standard rent]			
Step 2: A/R			
Step 3: (i) If A/R > ER, then A/R is the Annual value (before deduction of local taxes). (ii) If A/R < ER because of vacancy, then also A/R is the Annual value (before deduction of local taxes). (iii) If A/R < ER not only because of vacancy but because of other reasons also, then ER is the annual value (before deduction of local taxes).			

Fair rent: Rent of a similar property in a similar locality.
Standard rent: Rent which a person can legally recover from the tenant.

Examples:
1. If MV is Rs. 4,00,000, FR is Rs. 3,00,000 and SR is Rs. 9,00,000, Expected rent is Rs. 4,00,000.

Examples on page 5.5 of the book [Concept Building Approach]
2. A property is let out throughout the previous year 2019-20 at a monthly rent of ` 20,000. However, the tenant has refused to pay the rent of July 2019. Further, for the months of November 2019 and December 2019, the property remained vacant. The assessee has not yet received the rent of March 2020 (it will be received in April 2020). In this case, the actual rent received/receivable is calculated as:

	Rental income entitled [20,000*12]	2,40,000	
Less:	Unrealised Rent [Rs. 20,000*1]	20,000	
			2,20,000
Less:	Loss due to vacancy [Rs. 20,000*2]	40,000	
	Rent received/ receivable	1,80,000	

Different assumptions in example 2 discussed above:
(i) Suppose, my expected rent is Rs. 1,70,000, then annual value (before deduction of local taxes) is Rs. 1,80,000.
(ii) Suppose, my expected rent is Rs. 1,90,000, then annual value (before deduction of local taxes) is Rs. 1,80,000.
(iii) Suppose, my expected rent is Rs. 2,30,000, then annual value (before deduction of local taxes) is Rs. 2,30,000.
(iii) Suppose, my expected rent is Rs. 2,50,000, then annual value (before deduction of local taxes) is Rs. 2,50,000.

23. (1) For the purposes of section 22, the annual value of any property shall be deemed to be—
(*a*) **Expected Rent** [the sum for which the property might reasonably be expected to let from year to year]; **or**
(*b*) **A/R [A/R > ER]** where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (*a*), the amount so received or receivable; **or**
(*c*) A/R **[A/R < ER only because of vacancy]** where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (*a*), the amount so received or receivable :

Example
3. A property is let out throughout the previous year 2019-20 at a monthly rent of ` 20,000. However, the tenant has refused to pay the rent of July 2019. Further, for the months of November 2019 and December 2019, the property remained vacant. The assessee has not yet received the rent of March 2020 (it will be received in April 2020). ***For the month of May 2019, the property was self-occupied.*** *In this case, the actual rent received/receivable is calculated as:*

	Rental income entitled [20,000***11**]	2,20,000	
Less:	Unrealised Rent [Rs. 20,000*1]	20,000	
			2,00,000

Less:	Loss due to vacancy [Rs. 20,000*2]	40,000
	Rent received/ receivable	1,60,000

Different assumptions in example 3 discussed above:
(I) Suppose, my expected rent is Rs. 1,70,000, then annual value (before deduction of local taxes) is Rs. 1,60,000.
Step 1: ER is Rs. 1,70,000
Step 2: A/R is Rs. 1,60,000
Step 3: (i) A/R > ER, NO
(ii) A/R < ER (only because of vacancy), A/R is Annual value (before deduction of local taxes).
(iii) A/R < ER (not only because of vacancy but because of other factors), ER is the Annual value (before deduction of local taxes).
(II) Suppose, my expected rent *[calculated for 12 months]* is Rs. 1,70,000, then annual value (before deduction of local taxes) is 1,60,000.
Note: The self-occupied period, the vacancy period and the period for which tenant did not pay the rent, cannot affect my expected rent period.

Example given on page 5.7 of the book [Concept Building Approach] – Discussed

Lecture 31

Deemed to be let out property:
The annual value of a deemed to be let out property is always equal to Expected Rent [Sec. 23(1)(a)] because clause (b) and (c) of sub-section 1 of section 23 cannot be applied her.

Annual value how determined.
[12] **23.** (1) For the purposes of section 22, the annual value of any property shall be deemed to be—

(*a*) the [10]sum for which the property might reasonably be expected to let from year to year; or

(*b*) where the property or any part of the property is let[13] and the actual rent[13] received or receivable[13] by the owner in respect thereof is in excess of the sum referred to in clause (*a*), the amount so received or receivable; or

(*c*) where the property or any part of the property is let[13] and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (*a*), the amount so received or receivable :

Provided that the taxes levied[13] by any local authority in respect of the property shall be deducted (irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting regularly employed by him) in determining the annual value of the property of that previous year in which such taxes are actually paid by him.
Explanation.—For the purposes of clause (*b*) or clause (*c*) of this sub-section, the amount of actual rent received or receivable by the owner shall not include, subject to such rules[14] as may be made in this behalf, the amount of rent which the owner cannot realise.
(2) Where the property consists of a house **or part of** a house which—

(*a*) is in the occupation of the owner for the purposes of his own residence; or

(*b*) cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him,

the annual value of such house **or part of** the house shall be taken to be ***nil*.**
(3) The provisions of sub-section (2) shall not apply if—

(*a*) the house or part of the house is actually let during the whole or any part of the previous year; or

(*b*) any other benefit therefrom is derived by the owner.

(4) Where the property referred to in sub-section (2) consists of more than [15][*two houses*]—

(*a*) the provisions of that sub-section shall apply only in respect of [16][*two*] of such houses, which the assessee may, at his option, specify in this behalf;

(*b*) the annual value of the house or houses, [17][*other than the house or houses*] in respect of which the assessee has exercised an option under clause (*a*), shall be determined under sub-section (1) as if such house or houses had been let.]

[18][(5) Where the property consisting of any building or land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period up to [19][*two years*] from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be *nil*.]

- See More

Lecture 32

Example given on page 5.14 of the book [Concept Building Approach]
Mr. X took a loan of ` 15,00,000 from SBI @ 15% p.a. on **1 June 2015** for the **construction** of his house. The construction
of this house was completed on **1 January 2019**. Date of repayment of loan is 1 October 2019. Compute
the interest on capital borrowed for construction of the house for the assessment year 2020-21 assuming the house
is owned by him and is self-occupied during the financial year 2019-20.

Solution:
24(b): Interest for PY 2019-20:
1 April 2019 to 1 October 2019: Rs. 15,00,000*15%*6/12 = **Rs. 1,12,500**

Main issue is:
DOB: 1 June 2015 DOC: 1 January 2019 **[PY 2018-19]**.
Problematic period is 1 June 2015 to 31 December 2018: Interest was being payable to SBI but Income Tax Department was not giving me any benefit in Computation of HP income [Refer Explanation of Sec. 24(b)].
Explanation.— Where the property has been acquired or constructed with borrowed capital, the interest, if any, payable on such capital borrowed for the period **prior** to the **previous year in which the property has been acquired or constructed**, shall be deducted under this clause in equal instalments for the **said previous year** and for each of the four immediately succeeding previous years:

Interest from 1 June 2015 to 31 March 2018
Rs. 15,00,000*15%*34/12 = Rs. 6,37,500/ 5 = 1,27,500

Deduction in PY

2018-19:	1,27,500
2019-20:	**1,27,500**
2020-21:	1,27,500
2021-22:	1,27,500
2022-23:	1,27,500

Conclusion: Interest of PY 2019-20: Rs. 1,27,500 + Rs. 1,12,500 = **Rs. 2,40,000**
Deduction allowed under section 24(b): Rs. 2,00,000

Lecture 33

Problem 1 of the book [Concept Building Approach]
1. X has a property whose municipal valuation is ` 1,30,000, fair rent is ` 1,10,000 and the standard rent is ` 1,20,000. The property was let out for a rent of ` 11,000 p.m. throughout the previous year 2019-20. Rent of one month was unrealized. He paid municipal taxes @ 10% of municipal valuation on 7 March 2020. Interest on borrowed capital for repairs of house property was ` 40,000 for the financial year 2019-20. Compute the income from house property of X for the assessment year 2020-21.
Ans.

Problem 2 of the book [Concept Building Approach]
2. Y has a property whose municipal valuation is ` 2,50,000, fair rent is ` 2,00,000 and the standard rent is ` 2,10,000. The property was let out for a rent of ` 20,000 p.m. during 2019-20. However, the tenant vacated

the property on 31 January 2020. One month's rent was unrealized. He paid municipal taxes @ 8% of municipal valuation on 23 February 2020. Interest on borrowed capital for reconstruction of the property was ` 65,000 for the year 2019-20. Compute the income from house property of Y for the assessment year 2020-21.
Ans. Rs. 47,000

Problem 3 of the book [Concept Building Approach]
3. Z has one house property in Delhi. He stays with his family in the house. The rent of similar property in the neighbourhood is ` 25,000 p.m. The municipal valuation is ` 23,000 p.m. Municipal taxes paid is ` 8,000. The house **construction** began on **1 February 2013** with a loan of ` 20,00,000 taken from a nationalised bank @ 10% p.a. on the same date. The construction was completed on **30 November 2015**. During the previous year 2019-20, Z paid ` 50,000 as principal on 31 March 2020 apart from the interest. Compute his income from house property for the assessment year 2020-21.
Ans.

	Annual value		Nil
Less:	Deductions under section 24:		
	Standard deduction [Sec. 24(a)]	Nil	
	Interest on borrowed capital [Sec. 24(b)]	2,00,000	
	Income from house property		(2,00,000)

Note:
For the previous year 2019-20:
Rs. 20,00,000*10% = Rs. 2,00,000

Issue is Pre-Construction Period Interest:
DOB: 1 February 2013 to 31 March 2015 [PY 2015-16]
Interest for this period = Rs. 20,00,000*10%*26/12
= Rs. 4,33,333/ 5
= Rs. 86,667 [PY 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20]

Computation of interest of PY 2019-20:
2,00,000 + 86,667 = Rs. 2,86,667

Problem 4 of the book [Concept Building Approach]
4. P owns a house property in Mumbai. The municipal value of the property is ` 5,00,000, fair rent is ` 4,20,000 and standard rent is ` 4,80,000. The property was let out for ` 50,000 p.m. upto 31 December 2019. Thereafter, the tenant vacated the property and P used the house for self-occupation. Rent for the months of November and December 2019 could not be realized. He paid municipal taxes @ 12% during the year 2019-20. He had to pay interest of ` 35,000 during the year 2019-20 for amount borrowed for repairs for the house property but he has not yet paid the interest. Compute his income from house property for the assessment year 2020-21.
Ans.

	ER		4,80,000
	Actual Rent Received/ Receivable	3,50,000	
	Annual value (before deduction of local taxes)	4,80,000	
Less:	Local taxes [12% of 5,00,000]	60,000	
	Annual value		4,20,000
Less:	Deduction under section 24:		
	Std. Ded. [30% of Rs. 4,20,000]	1,26,000	
	Interest on capital borrowed		35,000
	IFHP		2,59,000

Problem 15 of the book [Concept Building Approach]
15. Raj Sethi is a Sales-tax officer at Jaipur. He owns two residential houses. The first house is in Delhi and was constructed on 31 December 1995. This has been let out on a rent of ` 30,000 p.m. to a company for its office. The second house is in Jaipur, which was constructed on 1 March 2019 and has been occupied by him for his own residence since then. He took a loan of ` 9,00,000 on 1 August 2017 @ 8% p.a. interest for the purpose of construction of this house. The entire loan is outstanding.

Other relevant particulars in respect of these houses for the financial year 2019-20 are given below:

	House I – Delhi	House II - Jaipur
Municipal valuation	2,40,000	1,80,000
Municipal taxes	10% of Municipal value	8% of municipal value
Expenses on repairs	20,000	60,000
Interest on Loan	—	72,000
Payment status of municipal taxes	Paid	Unpaid

He was transferred to Mumbai on 1 December 2019 where he resides in a house at a monthly rent of ` 40,000, and his house at Jaipur was let out on the same day on a rent of ` 20,000 per month. Compute the income from house property of Raj Sethi for the assessment year 2020-21.

[Delhi University B.Com. (H) 2016 (Modified)]

Ans.
House I: Rs. 2,35,200
House II: Rs. 44,400 [Interest is Rs. 81,600]
Income from HP: Rs. 2,79,600

Lecture 34

Problem 10 of the book [Concept Building Approach]

10. X owns two residential houses. You are requested to compute his income under the head House Property for the assessment year 2020-21. Details of the two houses are as follows:
House I in Delhi (Let out):
a) Municipal value: ` 2,40,000 per annum
b) Fair market value: ` 2,80,000 per annum
c) Rent receivable: ` 25,000 per month
d) Vacancy: 2 months
e) Municipal tax: 10% (paid on 31 March 2020)
f) Interest on borrowed capital: Loan of ` 6,00,000 was raised on 1 April 2012 for the construction of this house. Construction was started on 1 April 2011 and was completed on 10 October 2017. Half of the loan was repaid on 31 March 2016. Rate of interest was 12% p.a.
House II in Noida (Self-occupied):
a) Municipal value: ` 1,80,000 per annum
b) Standard rent: ` 1,50,000 per annum
c) Municipal tax: ` 18,000 per annum
d) House II was constructed on 31 January 2017 with a loan of ` 8,00,000 raised on 1 April 2013. Interest payable was 10% p.a. Entire loan and interest of the current previous year was outstanding on 31 March 2020. **[Delhi University B.Com. (H) 2012 (Modified)]**

Solution:
Calculation of Interest on capital borrowed:

Steps to be followed for computing the total amount of interest on capital borrowed

Step 1: Compute the pre-acquisition period or pre-construction period, if any. Pre-acquisition period or pre-construction period, as the case may be, starts from the date of borrowing of loan for such purpose and ends on 31 March of the year prior to the year in which the house is acquired or constructed.

Step 2: Compute the pre-acquisition period interest or pre-construction period interest, if any and make 5 equal annual instalments which are allowed to be deducted in 5 years starting from the year in which the house is acquired or completed, as the case may be and next 4 successive years.

Step 3: Compute the amount of interest on capital borrowed for the relevant financial year as follows: Amount of loan outstanding during the relevant financial year × Rate of interest.

Step 4: Total amount of interest on capital borrowed eligible for deduction for the relevant financial year = Amount computed in Step 2 eligible for deduction in the relevant financial year + Amount computed in Step 4 for the relevant financial year.

For example, if the total amount of interest on capital borrowed eligible for deduction for the relevant financial year 2019-20 is required, it will be equal to the total of amount computed in Step 2 eligible for deduction in the relevant financial year 2019-20 *plus* amount computed in Step 4 for the relevant financial year 2019-20.

Example given on page 5.14 of the Book [Concept Building Approach]
Mr. X took a loan of ` 15,00,000 from SBI @ 15% p.a. on 1 June 2015 for the construction of his house. The construction
of this house was completed on 1 January 2019. Date of repayment of loan is 1 October 2019. Compute
the interest on capital borrowed for construction of the house for the assessment year 2020-21 assuming the house
is owned by him and is self-occupied during the financial year 2019-20.
Solution
Computation of total amount of interest on capital borrowed for construction of the house for the previous year 2019-20:
Step 1: Compute the pre-construction period.
Pre-construction period ends on March 31 immediately preceding the year in which the construction is completed. Construction is completed on 1 January 2019 and thus, the pre-construction period ends on 31 March 2018.
Step 2: Compute the pre-construction period interest and make 5 equal annual instalments which are allowed to deducted in 5 years starting from the year in which the house is completed and next 4 successive years.
Interest for the period during 1 June 2015 to 31 March 2018, i.e., for 34 months [2015-16: 10 months, 2016-17: 12 months and 2017-18: 12 months] is allowed to be deducted in 5 equal annual instalments and the first instalment starts from the year in which the house is constructed.
Total interest of pre-construction period is ` 6,37,500 [` 15,00,000 × 15% × 34/12] and each instalment is ` 1,27,500 [` 6,37,500/5] which will be deducted during the previous years 2019-20 to 2023-24.
Step 3: Compute the amount of interest on capital borrowed for the relevant financial year 2019-20 as follows: Amount outstanding during the previous year 2019-20 × Rate of interest.
Since the loan is repaid on 1 October 2019, interest during the previous year 2019-20 is payable for 6 months [1 April 2019 to 30 September 2019]. Thus, interest during the previous year 2019-20 is ` 1,12,500 [` 15,00,000 × 15% × 6/12].
Step 4: Total amount of interest on capital borrowed eligible for deduction for the relevant financial year 2019-20 = Amount computed in Step 2 eligible for deduction in the relevant financial year 2019-20 + Amount computed in Step 4 for the relevant financial year 2019-20.
Thus, total interest allowable as deduction during the previous year 2019-20 is ` 2,40,000 [` 1,27,500 + ` 1,12,500].
Since the property is a self-occupied property whose annual value is always Nil, interest on borrowed capital allowed
as deduction under section 24(b) is subject to limit (as explained below). Here, the capital is borrowed on or after 1 April 1999 for the purpose of construction and such construction is completed within 5 years from the end of the year in which capital is borrowed (i.e., the construction is completed till 31 March 2020), the maximum
interest allowable as deduction is ` 2,00,000.

Problem 12 of the Book [Concept Building Approach]
12. A owns a property at Ghaziabad (Municipal value: ` 1,90,000, Fair rent: ` 2,04,000, Standard rent: ` 1,85,000). The house is let out upto 29 February 2020 at a monthly rent of ` 18,500. From 1 March 2020, the property is self-occupied for own residence.
Expenses incurred by A during the previous year 2019-20 are as follows:
Municipal Taxes: ` 10,000 (half of it was paid by tenant), Repairs: ` 20,000 and Fire Insurance premium: ` 5,000, Interest on capital borrowed for acquiring the property: ` 1,80,000.
Assuming that income of A from other sources is ` 4,50,000, find out the net income of A for the assessment year 2020-21. Does it make any difference if the property is let out upto 29 February 2020 @ ` 16,500 per month? **[Delhi University B.Com. (H) 2013 (Modified)]**
Ans. Rs. 4,08,950; Rs. 3,96,000

Problem 13 of the Book [Concept Building Approach]
13. X owns a house at Gurgaon, particulars of which are given below:
`
Municipal valuation 3,20,000
Fair rent 3,40,000
Standard rent 3,00,000

Municipal taxes paid by X 30,000
Land revenue (payable) 10,000
Fire insurance premium (paid) 10,000
He borrowed ` 20,00,000 @ 9% p.a. from LIC Housing Premium Ltd. for the construction of this house on 1 June 2015. Construction on this house was completed on 10 September 2017. The entire loan amount is still outstanding.
Compute his income from the house property for the assessment year 2020-21 assuming:
a) House property is self-occupied throughout the previous year.
b) House is let out throughout the previous year at a monthly rent of ` 28,000.

[Delhi University B.Com. (H) 2015 (Modified)]

Ans: Rs. (2,00,000); Rs. (31,800)

Lecture 35

Problem 5 of the book [Concept Building Approach]

5. P has three houses, all of which are self-occupied. The particulars of the houses for the year 2019-20 are as under:

	house I	house II	house III
Municipal value	1,00,000	1,50,000	2,00,000
Fair rent	75,000	1,75,000	80,000
Standard rent	90,000	1,60,000	1,10,000
Municipal taxes paid during the year	12%	8%	4%
Interest on capital borrowed for repair of property during the year	----	55,000	27,000

Compute P's taxable income for the assessment year 2020-21 assuming his income from other sources is ` 2,00,000 and he has deposited ` 40,000 in PPF during the previous year 2019-20.

Solution:

Computation of taxable income of P for the assessment year 2020-21:

		Option A	Option B	Option C
	Income from House I	Nil (SO)	54,600 (DLO)	Nil (SO)
	Income from House II	(30,000) (SO)	(30,000) (SO)	48,600 (DLO)
	Income House III	44,400 (DLO)	(27,000) (SO)	(27,000) (SO)
	Income from HP	14,400	(2,400)	21,600
Add:	Income from other heads (IFOS)	2,00,000	2,00,000	2,00,000
	Gross total income	2,14,400	1,97,600	2,21,600
Less:	Deductions under sections 80C	40,000	40,000	40,000
	Taxable Income	1,74,400	1,57,600	1,81,600

Conclusion:
Option B is the best option and thus, P will assume the houses II and III and self-occupied and house I as deemed to be let-out.

Notes:
1. Computation of income from HP assuming the houses are deemed to be let out:

		House I	House II	House III
	Step 1: Expected Rent	90,000	1,60,000	1,10,000
	Annual Rent (before deduction of local taxes)	90,000	1,60,000	1,10,000
Less:	Local taxes	12,000	12,000	8,000
	Annual value	78,000	1,48,000	1,02,000
Less:	Deductions under section 24:			
	Standard deduction [30%]	23,400	44,400	30,600
	Interest on capital borrowed	Nil	55,000	27,000
	Income from house property	54,600	48,600	44,400

2. Computation of income from HP assuming the house are self-occupied:

	House I	House II	House III

	Annual value	Nil	Nil	Nil
Less:	Deduction under section 24:			
	Standard deduction	Nil	Nil	Nil
	Interest on capital borrowed	Nil	30,000*	27,000
	Income from house property	Nil	(30,000)	(27,000)

Problem 6 of the Book [Concept Building Approach]

6. B owns a house in Delhi. During the previous year 2019-20, 2/3rd portion of the house was let out for residential purposes at a rent of ` 8,000 p.m. and 1/3rd portion was self-occupied. Municipal value of the property is ` 3,00,000 p.a., fair rent is ` 2,70,000 p.a. and standard rent is ` 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year 2019-20. Interest on loan (loan was taken for acquisition of the house property in 2016 and the house was acquired in 2016 itself) paid during the previous year 2019-20 was ` 1,20,000. Compute his income from house property for the assessment year 2020-21.

Solution:

The part of the house which is self-occupied is treated as a self-occupied house and the part of the house which is let out is treated as let out house.

Computation of income from HP:

		LO	SO
	Step 1: ER	2,00,000	
	Step 2: Actual Rent:		
	Rental income entitled	96,000	
Less:	U/R	Nil	
		96,000	
Less:	Vacancy loss	Nil	
	Actual Rent Received/ Receivable	96,000	
	Step 3: Annual value		
	(before deduction of local taxes)	2,00,000	
Less:	Municipal taxes	20,000	
	Annual value	1,80,000	Nil
Less:	Deductions under section 24:		
	Standard deduction	54,000	Nil
	Interest on capital borrowed	80,000	40,000
	Income from HP	46,000	(40,000)

Income from HP is Rs. 6,000 [Rs. 46,000 + Rs. (40,000)].

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Note:
Bifurcation of amounts:

	LO [2/3]	SO [1/3]
MV	2,00,000	1,00,000
FR	1,80,000	90,000
SR	2,20,000	1,10,000
Rent income per month	8,000	
MT	20,000	10,000
Interest on loan taken for acquisition	80,000	40,000

Lecture 36

11. R owns a big house. The house has three independent residential units. Unit 1 (50 per cent of the floor area) is let out for residential purposes on a monthly rent of ` 16,000 (this unit is, however, used by him from 15 January 2020 to 15 March 2020 for his residential purposes). A sum of ` 1,000 could not be collected from the tenant.
Unit 2 (25 per cent of the floor area) is used by him for the purpose of his residence, while Unit 3 (the remaining 25 per cent) is used by him for the purpose of his business.
Other particulars of the house are: municipal valuation: ` 3,84,000; municipal taxes (paid): ` 32,000; repairs: ` 40,000; ground rent: ` 16,000; land revenue (paid): ` 9,800, insurance premium: ` 16,000 and interest on capital borrowed for payment of municipal tax: ` 14,000.
Income of R from business is ` 4,61,200 (without debiting house rent and other incidental expenditure including admissible depreciation of ` 1,600 on the one-fourth portion of house used for business). Determine the taxable income of R for the assessment year 2020-21.

[Delhi University B.Com. (H) 2012 (Modified)]

Solution:

	Unit I [50%] LO – 10M SO – 2M	Unit II [25%] SO – 12M	Unit III [25%] Business – 12 M
Types of Property and Heads	LO	SO	**PGBP**
MV	1,92,000	96,000	96,000
MT (Paid)	16,000	8,000	8,000
Repairs	20,000	10,000	10,000
GR	8,000	4,000	4,000
LR	4,900	2,450	2,450
Insurance Premium	8,000	4,000	4,000
Interest on capital borrowed	7,000	3,500	3,500
Depreciation			1,600
Rent per month	16,000		
Unrealised rent	1,000		
Business Income			4,61,200

Computation of Income from HP:

		I	II
Step I: ER		1,92,000	
Step 2:			
	Rental income entitled [16,000*10]	1,60,000	
Less:	U/R	1,000	
		1,59,000	
Less:	Vacancy Loss	Nil	
	Rent received/ receivable	1,59,000	

Step 3: Here, Rent received/ receivable is

	less than the ER not only because of vacancy		
	annual value (before …)	1,92,000	
Less:	MT	16,000	
	Annual value	1,76,000	Nil
Less:	Deductions under section 24:		
	Std. Ded. [30%]	52,800	Nil
	IOCB	Nil	Nil
	IHFP	1,23,200	Nil

Computation of income under the head Profits and Gains of Business or Profession [Unit III]:

	Income from business (before deducting the following expenses)	4,61,200
Less:	Expenses allowed to be deducted: [8,000 + 10,000 + 4,000 + 2,450 + 4,000 + 3,500 + 1,600]	33,550
	Income from business	4,27,650

Computation of taxable income:

	HP [1,23,200 + Nil]	1,23,200
	PGBP	4,27,650
	Gross total income	5,50,850
Less:	Deductions under section 80	Nil
	Taxable income	5,50,850

Lecture 37

Special provision for arrears of rent and unrealised rent received subsequently.

25A. (1) The amount of arrears of rent received from a tenant or the unrealised rent realised subsequently from a tenant, as the case may be, by an assessee shall be deemed to be the income from house property in respect of the financial year in which such rent is **received or realised**, and shall be included in the total income of the assessee under the **head "Income from house property"**, whether the **assessee is the owner of the property or not in that financial year.**
(2) A sum equal to thirty per cent of the arrears of rent or the unrealised rent referred to in sub-section (1) shall be allowed as deduction.

Example:
Mr. A, the owner of the house had an unrealised rent in the PY 2011-12 of Rs. 3,00,000. On 12th December 2019, he recovered Rs. 2,60,000 as the unrealised rent. However, he has already sold this house in the PY 2016-17. Determine the taxability of this transaction for the AY 2020-21.
Solution:

	AY 2020-21	
	Unrealised rent recovered	2,60,000
Less:	Standard deduction [30%]	78,000
	Income under the head HP	1,82,000

Property owned by co-owners.

26. Where property consisting of buildings or buildings and lands appurtenant thereto is owned by **two or more persons** and their respective shares are **definite and ascertainable**, such persons shall not in respect of such property be assessed as an association of persons, **but the share of each such person in the income from the property as computed in accordance with sections 22 to 25** shall be included in his total income.
Explanation.—For the purposes of this section, in applying the provisions of sub-section (2) of section 23 for computing the share of each such person as is referred to in this section, such

share shall be computed, as if each such person is individually entitled to the relief provided in that sub-section.

Hon'ble Supreme Court says what?

If each co-owner has occupied the property for his own-residence, then each co-owner can take his share of property as self-occupied and each co-owner can show the annual value of the property as Nil – *CIT* vs *Bijoy Kumar Almal [1995] 80 Taxman 76 (SC).*

Do you remember section 23(2)?

Self-occupied or vacant because of.. …..

Example given on page 5.16 of the Book [Concept Building Approach]

*A property was **co-owned equally** by three owners A, B and C. Interest on capital borrowed on loan taken to acquire the property comes out to be ` 8,00,000 during the previous year 2019-20. The capital was borrowed equally by the three co-owners. The capital was borrowed on 9 April 2013 to acquire the property and the property was acquired on 29 March 2017. The property was self-occupied by the co-owners for the entire year 2019-20.*

Solution:

Maximum interest allowed as deduction for the PY 2019-20:

Rs. 2,00,000

AY 2020-21

		A	B	C
	Annul value	Nil	Nil	Nil
Less:	Deduction under section 24:			
	Standard deduction	Nil	Nil	Nil
	Interest on borrowed capital	2,00,000	2,00,000	2,00,000

DEEMED OWNERSHIP

"Owner of house property", "annual charge", etc., defined.

27. For the purposes of sections 22 to 26—

(*i*) an individual who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live apart, or to a minor child not being a married daughter, shall be deemed to be the owner of the house property so transferred;

EXAMPLE:

Mr. X **Mrs. X** [Should be either inadequate consideration or Not because of agreement of living separately]

OR

Mr. X **Minor child** [Other than a minor married daughter]

But for the purpose of computing HP income, Mr. X remains the owner.

(*ii*) the holder of an impartible estate shall be deemed to be the individual owner of all the properties comprised in the estate;

(*iii*) a member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a house building scheme of the society, company or association, as the case may be, shall be deemed to be the owner of that building or part thereof;

(*iiia*) a person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882 (4 of 1882), shall be deemed to be the owner of that building or part thereof;

(*iiib*) a person who acquires any rights (excluding any rights by way of a lease from month to month or for a period not exceeding one year) in or with respect to any building or part thereof, by virtue of any such transaction as is referred to in clause (*f*) of section 269UA, shall be deemed to be the owner of that building or part thereof;

(*vi*) taxes levied by a local authority in respect of any property shall be deemed to include service taxes levied by the local authority in respect of the property.

Lecture 38

PROFITS AND GAINS OF BUSINESS OR PROFESSION

	Sales [Should be as per the provisions of the Income-tax Act]	XX
Less:	Expenses [Should be as per the provisions of the Income-tax Act]	XX
	Income under the head Profits and Gains of Business or Profession	XX

Section 28: Basis of charge

Section 29: Computation of income under the head PGBP

Expenses which are allowed to be deducted while computing income under the head PGBP
Section 30: Rent, Repairs, Insurance etc. of Buildings used for Business/ Profession

Section 31: Repairs, Insurance, Rent etc. of Plant and Machinery, Furniture used for Business/ Profession

Section 32: **Depreciation**
Conditions:
1. Owner of the Assets
2. Assets can be tangible (Building, Furniture, Machinery & Plant) or intangible (Know-how, copyright, trademark, etc.)
3. Assets must be used for Business/ Profession

Point to be noted:
1. Depreciation is calculated on the basis of WDV of the block of assets:

Building	Furniture	Machinery & Plant	Intangible Assets
5%	10%	15%	25%
10%		30%	
40%		45%	

2. Depreciation for the PY 2019-20 = WDV on 31 March 2020* Rate of Depreciation (ROD)
3. If any asset is acquired and put to use for less than 180 days during the year in which it is acquired, then on this asset, half the rate of normal rate of depreciation is allowed. While computing depreciation, first preference is always given to such assets.
4. If there is no machine in the block on 31 March 2020, depreciation is Nil.

Examples from the book [Concept Building Approach]:
Type I:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **August** 2019 for ` 4,00,000. Machine B and C were sold for ` 5,00,000 (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [5,00,000 – 50,000] [2]	4,50,000
	WDV of the block on 31 March 2020	12,50,000
	Depreciation [Closing WDV * ROD] [12,50,000*15%]	**1,87,500**
	WDV of the block on 1 April 2020	10,62,500

Type II:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. Machine B and C were sold for ` 5,00,000 (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [5,00,000 – 50,000] [2]	4,50,000
	WDV of the block on 31 March 2020	**12,50,000**
	Depreciation [Closing WDV * ROD] [4,00,000*7.5% + 8,50,000 (12,50,000 – 4,00,000)*15%]	**1,57,500**
	WDV of the block on 1 April 2020	10,92,500

Type III:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. Machine B and C were sold for ` **15,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**15,00,000** – 50,000] [2]	**14,50,000**
	WDV of the block on 31 March 2020	**2,50,000**
	Depreciation [Closing WDV * ROD] [2,50,000*7.5%]	**18,500**
	WDV of the block on 1 April 2020	2,31,250

Type IV:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired on 9 **December** 2019 for ` 4,00,000 **but put to use on 6 July 2020**. Machine B and C were sold for ` **5,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000

Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000] **[2]**	3,00,000
		13,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**5,00,000** – 50,000] [2]	**4,50,000**
	WDV of the block on 31 March 2020	**8,50,000**
	Depreciation [Closing WDV * ROD] **[8,50,000*15%]**	**1,27,500**
	WDV of the block on 1 April 2020 [7,22,500 + **4,00,000]**	11,22,500

Type VI:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. Machine B and C were sold for ` **25,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**25,00,000** – 50,000]* [2]	**17,00,000***
	WDV of the block on 31 March 2020	**Nil**
	Depreciation [Closing WDV * ROD]	**Nil**
	WDV of the block on 1 April 2020	Nil

Type VII:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. **All the machines are sold** for ` **5,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.
Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**5,00,000** – 50,000]* [2]	**4,50,000***
	WDV of the block on 31 March 2020	**12,50,000**
	Depreciation [Closing WDV * ROD]	**Nil**
	WDV of the block on 1 April 2020	Nil

Lecture 39

Concept of additional depreciation
Additional depreciation is applicable in case of **New Machinery and Plant** if installed on or after 1 April 2005. The rate of additional depreciation is **20% of actual cost.**
The machines must be used for manufacturing to claim additional depreciation.

Example on Additional Depreciation:
The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 30,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. Machine B and

C were sold for ` **15,00,000** (expenses on sale: ` 50,000). Both the Machines D and E are new and the assessee is into the business of manufacturing.

Solution:

Machinery & Plant [ROD: 15%]

	WDV of the block on 1 April 2019 **[3]**		30,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**		7,00,000
			37,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**15,00,000** – 50,000] [2]		14,50,000
	WDV of the block on 31 March 2020		**22,50,000**
	Depreciation [Closing WDV * ROD]		
	Normal Depreciation [4,00,000*7.5% + 18,50,000*15%]	3,07,500	
	Additional Deprecation [3,00,000*20% + 4,00,000*10%]	1,00,000	**4,07,500**
	WDV of the block on 1 April 2020		18,42,500
Add:	Actual cost of the assets ……. During 2020-21		
Less:	Sale value ….		
	WDV of the block on 31 March 2021		
	Depreciation:		
	Normal		
	Additional [4,00,000*10%]		40,000

Section 35: Scientific Research

1. Revenue expenditure incurred by the assessee (if it relates to the business): 100%
2. Capital expenditure (except the cost of land) incurred by the assessee (if it relates to the business): 100%
3. Donation to an approved research association/ University/ College (if donation is used for natural science): 150%
4. Donation to an approved research association/ University/ College (if donation is used for social science) : 100%
5. Donation to a National Laboratory or a University or IIT: 150%
6. Donation to a company registered in India for use in scientific research: 100%

Lecture 40

Sections which are complete till now are:
28, 29, 30, 31, 32 and 35

Section 35AD: 100% capital expenditure is allowed as deduction under section 35AD if the assessee is in the specified business.

Section 35D: Amortization of Preliminary Expenses
Preliminary expenses are allowed as deduction in five equal annual instalments, while computing income under the head PGBP.

Section 35DDA: Expenditure in respect of VRS
VRS expenses are allowed as deduction in five equal annual instalments, while computing income under the head PGBP.

Section	Purpose
28	Basis of charge
29	Computation of income under the head PGBP
Section 30 to 35DDA [30, 31, 32, 35, 35AD, 35D, 35DDA]	**Heavy Expenses** Expenses: NAME Conditions: MENTIONED

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

	Calculation: REQUIRED
Section 36	Expenses: NAME Conditions: MENTIONED Calculation: NOT REQUIRED
Section 37	Expenses: NO NAME, NO CALCULATION But some COMMON CONDITIONS
Section 40(a)	Expenses/ Amounts which are not allowed to be deducted

Lecture 41

Section 36:
The following are allowed to be deducted while computing the income under the head PGBP:
1. Insurance premium to cover the business stock
2. Insurance premium to cover the health of employees
3. Bonus or commission to employees
4. Interest on capital borrowed for the purpose of business or profession
5. *Employer's contribution towards recognised provident fund of the employees*
6. Employer's contribution towards approved superannuation fund of the employees
7. Employer's contribution towards new pension scheme (NPS) of the employees is also allowed as a valid expenditure but only to the extent of 10% of salary.
8. Employer's contribution towards an approved gratuity fund of the employees
9. Any sum *received* by the employer from his employees as contributions to any provident fund/superannuation fund/any fund set up under the employees' state insurance act, 1948/any other fund for the welfare of employees [Sec. 36(1)(va)]

Example of point no. 9:
Mr. X is employed with P Ltd.

		Salary Slip
	Basic salary	13,00,000
	Dearness allowance	9,00,000
	Gross income	24,00,000
Less:	TDS	3,00,000
	Association Fund	10,000
	PF Account	2,90,000
	Income received	18,00,000

Lecture 42

10. Bad debts written off as irrecoverable
Bad debts are allowed as deduction but provision for bad debts are not allowed as deduction while computing income under the head PGBP.

Illustration –
During the previous year 2016-17, X has sold some goods for ` 2,50,000 to Y and shows ` 2,50,000 as sales while computing the business income of the previous year 2016-17.
Y paid ` 50,000 through cash and remaining ` 2,00,000, he agreed to pay in 20 months. Thus, X has a debt of ` 2,00,000 (because Y is a debtor for X). Y paid ` 80,000 on 16 December 2018. For the previous year 2018-19, X had written off ` 30,000 as bad debt against the outstanding from Y and thus, deduction of ` 30,000 is allowed to X while computing the business income in the previous year 2018-19. During the previous year 2019-20, X recovered full and final payment from Y as:
(a) ` 70,000; (b) ` 90,000; or (c) ` 1,05,000.
In this case, the amount of debt is ` 1,20,000 [i.e., ` 2,00,000 (Debtor – ` 80,000 (amount received)] and the amount deducted earlier as bad debt against this debtor while computing the business income is ` 30,000. Thus, ` 90,000 [` 1,20,000 – ` 30,000] is the maximum expected bad debts of X assuming the debtor does not pay any amount. The tax treatment of the amount recovered as full and final payment is as follows:
Solution:
Rs. 30,000 as bad debts shown in th

e P&L Account (debit side) is correctly shown under section 36 in the PY ***2018-19.***

However, in the PY 2019-20,

	Bad debts	*Tax Treatment*
(a) Rs. 70,000	*90,000*	*Rs. 20,000 is allowed as deduction under section 36*
(b) Rs. 90,000	*90,000*	*No treatment*
(c) Rs. 1,05,000	*90,000*	*Rs. 15,000 to be taxable as PGBP income.*

Question:

Profit and loss account [P Ltd.]
[as per the provisions of Companies Act]

Opening stock	10,00,000	Sales	80,00,000
Purchases	25,00,000		
Interest on loan taken for business purposes	2,00,000		
Employer's contribution towards RPF of the employee	7,00,000		
Employer's contribution towards approved SAF of the employee	3,80,000		
Employer's contribution towards NPS of the employee [Employee's salary for the purpose of NPS is Rs. 15,00,000]	2,40,000		
Employer's contribution in an approved gratuity fund of the employees	86,000		
Employee's contribution towards PF given to the employer (Mr. X is the employee) and transferred to the concerned authority within the prescribe time [Sec. 36(1)(va)]	2,90,000		
Net Profit	3,00,000		

Solution:

	Net profit as per the profit and loss account	3,00,000
Add:	**Income under section 2(24)(x)**	**2,90,000**
		5,90,000
Add:	Expenses disallowed:	
	Employer's contribution towards NPS exceeding 10% of salary [2,40,000 – 10% of 15,00,000]	90,000

6.10 **General deductions [Sec. 37(1)]**

Any expenditure which satisfies all the following conditions is allowed as deduction while computing the income under the head Profits and Gains of Business or Profession –

1. The expenditure is not covered under sections 30 to 36.
2. The expenditure is not a capital expenditure.
3. The expenditure is not a personal expenditure of the assessee.

4. The expenditure is laid out (or expended) wholly and exclusively for the purposes of the business or profession.
5. The expenditure incurred by an assessee is not for the purpose which is an offence or which is prohibited by law.

Lecture 43

Amounts which are not allowed to be deducted [Sec. 40(a)]

Example 1:
Mr. X paid Interest on borrowed capital [Rs. 10,00,000] to Mr. Y (a non-resident) outside India. This payment is subject to TDS provisions but Mr. X did not deduct the tax. Is Section 40(a)(i) applicable?
Ans: Yes. Rs. 10,00,000 cannot be deducted in the PY 2019-20.
If I assume that TDS on Rs. 10,00,000 is deposited in 2027-28, then Rs. 10,00,000 can be deducted in the PY 2027-28.

Example 2:
Mr. X paid Interest on borrowed capital [Rs. 10,00,000] to Mr. Y (a resident individual) outside India. This payment is subject to TDS provisions but Mr. X did not deduct the tax. Is Section 40(a)(i) applicable?
Ans: Yes. Rs. 10,00,000 cannot be deducted in the PY 2019-20.

Example 3:
Mr. X paid Interest on borrowed capital [Rs. 10,00,000] to Mr. Y (a non-resident individual) in India. This payment is subject to TDS provisions but Mr. X did not deduct the tax. Is Section 40(a)(i) applicable?
Ans: Yes. Rs. 10,00,000 cannot be deducted in the PY 2019-20.

Example 4:
Mr. X paid Interest on borrowed capital [Rs. 10,00,000] to Y Ltd. (a resident foreign company) in India. This payment is subject to TDS provisions but Mr. X did not deduct the tax. Is Section 40(a)(i) applicable?
Ans: Yes. Rs. 10,00,000 cannot be deducted in the PY 2019-20.

Example 5:
Mr. X paid Interest on borrowed capital [Rs. 10,00,000] to P Ltd. (an Indian company) in India. This payment is subject to TDS provisions but Mr. X did not deduct the tax. Is Section 40(a)(i) applicable?
Ans: No. Rs. 10,00,000 can be deducted in the PY 2019-20.

Conditions of Sec. 40(a)(i) [PY 2019-20]
1. Any payment made [PY 2019-29]
2. Outside India or in India (to a foreign company) or ……
3. TDS is required before making the payment. [PY 2019-20, then during 1/04/2019 to 31/03/2020, TDS was required]
4. TDS not deducted during the PY 2019-20 (Till March 31, 2020)
OR
Deducted during the PY (till March 31, 2020) but not deposited till due date of furnishing return of income under section 139(1) [PY is 2019-20 then the due date of filing return of income is 31 July 2020]

Lecture 44

Expenses of which sections can be shown on the debit side of P&L Account:
1. Sections 30 to 35DDA
2. Section 36
3. Section 37(1)

Practice of Section 40(a)(i) with the help of a numerical:
Example 1:
PY 2019-20 [**1 April 2019 to 31 March 2020**]:

	Mr. X P&L	
To Fees for technical services	30,00,000	----

[payable outside India] – 37(1)	

Net profit	13,00,000

Additional information:
1. This Fees is subject to TDS provisions. But Mr. X has not deducted the tax at source till 31 March 2020. Mr. X deposited the tax at source on 12 December 2024.

Solution:

	PY 2019-20	
	Net profits as per P&L Account	13,00,000
Add:	Expenses disallowed:	
	Fees for technical services [Sec. 40(a)(i)]	30,00,000
	PY 2024-25	
	Net profit as per P&L Account	---
Less:	Fees for technical services [PY 2019-20]	30,00,000

Example 2:
PY 2019-20 [**1 April 2019 to 31 March 2020**]:

Mr. X
P&L

To Fees for technical services [payable outside India] – 37(1)	30,00,000	----
	----	
Net profit	13,00,000	

Additional information:
1. This Fees is subject to TDS provisions. But Mr. X has deducted the tax at source on 28 March 2020 but deposited it on 7 August 2020.

Solution:

	PY 2019-20	
	Net profits as per P&L Account	13,00,000
Add:	Expenses disallowed:	
	Fees for technical services [Sec. 40(a)(i)]	30,00,000
	PY 2020-21	
	Net profit as per P&L Account	---
Less:	Fees for technical services [PY 2019-20]	30,00,000

Simplifying Section 40(a)(i):
Assuming the expense on which TDS provisions are applicable is related to the PY 2019-20, the default will be if the payer has not deducted tax at source till March 31, 2020

or

if the payer has deducted tax at source till March 31, 2020 but not deposited it till 31 July 2020 (i.e., the due date of furnishing return of income of an individual assessee for the PY 2019-20)

Lecture 45

Section 40(a)(ia)

Practice of Section 40(a)(ia) with the help of a numerical:

Example 1:
PY 2019-20 [**1 April 2019 to 31 March 2020**]:

Mr. X
P&L

To Fees for technical services [payable outside India to a Resident] – 37(1)	40,00,000	----
	----	
Net profit	16,00,000	

Additional information:
1. This Fees is subject to TDS provisions. But Mr. X has not deducted the tax at source till 31 March 2020. Mr. X deposited the tax at source on 12 December 2024. Assume that Section 40(a)(ia) is applicable.

Solution:

PY 2019-20

	Net profits as per P&L Account	16,00,000
Add:	Expenses disallowed:	
	Fees for technical services [Sec. 40(a)(ia)] [30% of 40,00,000]	12,00,000

PY 2024-25

	Net profit as per P&L Account	---
Less:	Fees for technical services [PY 2019-20]	12,00,000

Completed Section 40(a)(i), 40(a)(ia), 40(a)(iii) – These three are related to TDS
Completed Section 40(a)(ii) – This is related to TDS

Lecture 46

Section 40(b): Amount not allowable as deduction [But applicable only in case of a firm assessee]

Will be discussing with you in the chapter "Assessment of Firms"

Section 40A: Amount not allowable as deduction while computing the income under the head PGBP:
1. Payment to Relatives which is unreasonable/ excessive [Sec. 40A(2)]

	Mr. X [30%]
To Stationary [Mrs. X]	**1,00,000**

	Net profit	------
Add:	Expenses disallowed	
	Payment excessive [40A(2)]	20,000

Mrs. X [Stationary Business] [5%]
Sales 1,00,000

2. Payment exceeding Rs. 10,000 per day made in cash [Sec. 40A(3)]

3. Provision for Gratuity Fund [Sec. 40A(7)]

Generally, gratuity is paid at the time of retirement.

P&L Account
[PY 2019-20]

Provision for Approved Gratuity Fund [for employees who will retire later on]	2,00,000
Provision for **Unapproved Gratuity Fund** [for **employees who will retire later on**]	Disallowed
Gratuity actually paid	Allowed [30,00,000]
Gratuity actually paid (out of provisions debited and allowed as deduction earlier)	Disallowed
Provision for Approved/ **Unapproved Gratuity Fund** [for gratuity which has become payable]	Allowed [28,00,000]

Example:
In PY 2019-20, 50 employees retired to whom I was supposed to pay Rs. 90 lakhs. I paid them Rs. 30 lakhs in this year's P&L account, paid Rs. 10 lakhs from the provision made earlier (these provisions were debited in the PY 2013-14 and PY 2016-17 and allowed too) and Rs. 50 lakhs will be paid after 3 years and for the purpose of this Rs. 50,00,000, I contributed Rs. 28 lakhs in the provision for unapproved gratuity fund in the PY 2019-20 and Rs. 22 lakhs, I will contribute in next years.
Solution:
30,00,000: Allowed as deduction in the PY 2019-20
10,00,000: Not allowed as deduction in the PY 2019-20 because it has already been allowed as deduction earlier. [Explanation of Sec. 40A(7)]

4. Employer's contribution towards non-statutory funds [Sec. 40A(9)]
Employer's contribution towards any fund for the benefit of the employee is not allowed as deduction except the following funds:
1. Employer's contribution Approved Superannuation Fund and RPF (subject to the conditions of section 36)
2. Employer's contribution towards NPS (subject to the conditions of section 36)
3. Employer's contribution towards Approved Gratuity Fund (subject to the conditions of section 36)
4. Employer's contribution toward any Fund which is prescribed under law.

Example:
There are 300 employees in X Ltd. and these employees have their association in the company. X Ltd. contributed Rs. 10,000 towards the association of its employees. Can X Ltd. show Rs. 10,000 on the debit side of its P&L Account?
Ans: Disallowed expenditure under section 40A(7)

Till today, the completion structure of PGBP:
Sec.

28:	**Basis of charge**
29:	**Computation**
30 to 35DDA:	**Expenditure allowed**
36:	**Expenditure allowed**
37(1):	**Expenditure allowed**
37(2B):	**Expenditure allowed**
40(a):	**The above expenditures which are allowed might be disallowed**
40(b):	**The above expenditures which are allowed might be disallowed**
40A:	**The above expenditures which are allowed might be disallowed**
43B:	

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Lecture 47

Section 43B:
It says if a businessman wants to claim the deduction of those expenses which are written in section 43B, then he/ she/ it has to –
1. make the actual payment during the PY to which such expenses relates; or
2. make the actual payment till 31 July of the PY to which such expenses relates and also submit the proof of such payment.

Note:
If the payment of such expenses is not made till due date of furnishing return of income under section 139(1), then the deduction will not be allowed in the PY to which such expenses relates but it will be allowed in the PY in which the payment is actually made.

Example 1:
PY 2019-20: Indirect Tax of Rs. 40,00,000 and Income Tax of Rs. 30,00,000
Additional information:
1. Indirect Tax of PY 2019-20 is paid on 29th February 2020 and Income Tax is paid on 30th March 2020.

	P&L [PY 2019-20]
Indirect Tax	40,00,000

Note: Income Tax is disallowed under section 40(a). Indirect Tax is allowed under section 43B because the amount is paid till 31 July 2020.

Example 2:
PY 2019-20: Indirect Tax of Rs. 40,00,000.
Additional information:
1. Indirect Tax of PY 2019-20 is paid on 30 July 2020.

	P&L [PY 2019-20]
Indirect Tax	40,00,000

Note: Indirect Tax is allowed under section 43B because the amount is paid till 31 July 2020.

Example 3:
PY 2019-20: Indirect Tax of Rs. 40,00,000.
Additional information:
Situation 1: Indirect Tax of PY 2019-20 is paid on 28 January 2025.
Ans: Sec. 43B : PY 2024-25, I will debit my P&L Account with Rs. 40,00,000.

Situation 2: Indirect Tax of PY 2014-15 was Rs. 20,00,000. Rs. 8,00,000 was paid on 30 June 2015 and Rs. 9,00,000 was paid on 28 March 2020 and remaining Rs. 3,00,000 not yet paid.
Ans: Rs. 8,00,000 allowed as deduction in the PY 2014-15
Rs. 9,00,000 allowed as deduction in the PY 2019-20
Rs. 3,00,000 not yet allowed.

Situation 3: Indirect Tax of **PY 2014-15** was Rs. 20,00,000. Rs. 8,00,000 was paid on 30 June 2015 and Rs. 9,00,000 was paid on 28 July 2020 and remaining Rs. 3,00,000 not yet paid.
Ans: Rs. 8,00,000 allowed as deduction in the PY 2014-15
Rs. 9,00,000 allowed as deduction in the PY 2020-21 [Due date is relevant only for the first year to which the expense is related. If that year has crossed, then due date does not make any sense and then the year [April to March will prevail]
Rs. 3,00,000 not yet allowed.

Lecture 48

Understanding the way of attempting the questions of PGBP:

Example:

P&L Account for the year ended 31 March 2020

Purchases	10,00,000	Sales	50,00,000
Depreciation	7,00,000	LTCG	4,00,000
Provision for bad debts	6,00,000		
Payment in cash for 1 purchase	30,000		
Household expenses of the owner	9,00,000		
Net profits	21,70,000*		
	54,00,000		54,00,000

Additional information:
1. The depreciation as per section 32 is Rs. 6,80,000.

Compute the total income of X for the AY 2020-21.

Solution:

Computation of total income of X for the AY 2020-21:

	Net profit		21,70,000
Add:	Expenses disallowed:		
	Excess depreciation written off		
	[7,00,000 – 6,80,000]	20,000	
	Provision for bad debts	6,00,000	
	Payment in cash [Sec. 40A(3)]	30,000	
	Household expenses	9,00,000	15,50,000
			37,20,000
Less:	Incomes not related to business:		
	LTCG		4,00,000
	Income under the head PGBP		33,20,000
Add:	LTCG		4,00,000
	Gross total income		37,20,000
Less:	Deductions under section 80C to 80U		Nil
	Total income		37,20,000

Presumptive taxation scheme

Section 44AD, Section 44ADA and Sec. 44AE

Section 44AD:

Applicable:
1. Resident Ind/ Resi HUF/ Resi Firm
2. If turnover during the PY does not exceed Rs 2 crore
3. If they are not in the business of plying, leasing or hiring goods.
4. If they are not in professions mentioned in section 44AA.

Amount:

8% of total turnover (6% in case of that amount of sales which is through backing channel) is treated as taxable income under the head PGBP.

Consequences:

For example, in the PY 2019-20, I opted for Sec. 44AD.

From PY 2020-21 to 2024-25, I should not opt for normal provisions. If I opt for normal provisions in any of the PY during 2020-21 to 2024-25, then for next 5 PYs, you cannot opt for 44AD.

For instance, if I do not opt for 44AD in the PY 2023-24, then during PY 2024-25 to PY 2028-29, you cannot opt for 44AD.

Example given on page 6.38 of the Book 'Concept Building Approach to Income Tax Law & Practice'

A partnership firm, a resident assessee, is engaged in the business of trading of utensils (turnover of previous year 2019-20 is ` 90,00,000 out of which ` 80,00,000 is received through account payee cheques). The firm has computed the income under the head Profits and Gains of Business or Profession as follows:

	Sales		90,00,000
Less:	Expenses:		
	Cost of material used	10,00,000	
	Salary to employees	56,00,000	
	Depreciation under section 32	15,00,000	
	Salary and interest to partners as per section 40(b)	5,00,000	86,00,000
	Income from business		4,00,000

As a tax consultant, what would be your advice to the partnership firm? The firm has a short-term capital gain of ` 3,00,000 in the previous year 2019-20.

Solution:

The firm is advised to compute the business income as per the normal provisions:

	PGBP	4,00,000
	STCG	3,00,000
	GTI	7,00,000
Less:	Deductions under section 80	Nil
	Total income	7,00,000

Note 1: Computation of business income as per the normal provisions:
Rs. 4,00,000

Note 2: Computation of business income as per the provisions of section 44AD:
8% of 10,00,000 + 6% of 80,00,000 = 5,60,000

Lecture 49

Section 44ADA:

Dr. Keshav has the following information to show for the PY 2019-20:

	Receipts		40,00,000
Less:	Expenses		
	Clinic rent	6,00,000	
	Receptionist salary	2,40,000	
	Sweeper charges	1,00,000	
	Consumables	20,000	9,60,000
	Professional income		30,40,000

In this case, if he wants to apply section 44ADA,
The professional income would be Rs. 20,00,000.
Better:
To apply section 44ADA.

Section 44AE:

Example on page 6.42 of the book 'Concept Building Approach' by Dr. Naveen Mittal

Solution:

PGBP income as per the normal provisions is Rs. 10,00,000

PGBP income as per section 44AE is:

A	[10*5*14*1,000]	7,00,000
B	[9*2*7,500]	1,35,000
C (Sold vehicle)	[4*1*7,500]	30,000
C (Unsold vehicles)	[5*2*7,500]	75,000
		9,40,000

Lecture 50

Mercantile basis Numerical of PGBP

Solution of Case 6 given on page 6.52 of the book 'Concept Building Approach to Income Tax Law & Practice' by Dr. Naveen Mittal

Computation of taxable income of Ms. X for the assessment year 2020-21:

	PGBP – Note 2	1,25,760	**5,69,000 [Assumption]**
	STCG	31,000	
	Income from other sources:		
	Interest on debentures	25,000	
	Gift from father (Exempt)	---	
	GTI	1,81,760	
Less:	Deduction under section 80C	2,000	
Less:	Deduction under section 80G [2,500*100%]	2,500	
	Total income	1,77,260	

Note 1: Computation of PGBP income as per the normal provisions:

	Net profit as per P&L Account		5,53,000
Add:	Expenses disallowed:		
	Salary to self	50,000	
	Bonus to employees [Sec. 43B]	30,000	
	Payment to relatives [Sec. 40A(2)]	5,000	
	Payment in cash [Sec. 40A(3)]	40,000	
	Household expenses	2,500	
	Income-tax [Sec. 40(a)]	19,000	
	Donation to NDF	2,500	
	LIP – Personal	2,000	
	Provision for bad debts	2,000	1,53,000
			7,06,000
Less:	Depreciation [40,000 – 32,000]		8,000
Less:	Contribution to National Laboratory [1,00,000*150% - 1,00,000]		50,000
			6,48,000
Less:	*Incomes not related to PGBP:*		
	Interest on debentures		25,000
	STCG		31,000
	Gift from father		22,000
			5,70,000
Less:	Refund of income-tax		1,000
	PGBP		5,69,000

Note 2: Computation of PGBP income on presumptive taxation basis [Sec. 44AD]:

PGBP income [15,72,000*8%]	1,25,760

Thus, it is better to apply section 44AD but in this case, she cannot opt to compute the PGBP income for the next 5 years as per the normal provisions and if she computes the PGBP income in any of the 5 years as per the normal provisions, then she cannot opt for section 44AD for next 5 years from the year in which she opted for normal provisions.

Lecture 51

CASH BASIS Numerical of PGBP

Solution of Case 3 given on page 6.47 of the book 'Concept Building Approach to Income Tax Law & Practice' by Dr. Naveen Mittal

Computation of total income of Y for the assessment year 2020-21:

	Income from profession:	
	Fees [10,60,000 + 45,000]	11,05,000
	Presents from clients	20,000
	Gross receipts	11,25,000
Less:	Expenses allowed as deduction	

	Depreciation on Furniture [10% of Rs. 28,000]	2,800	
	Car expenses [1,22,500*80%]	98,000	
	Depreciation on car [1,35,000*80%]	1,08,000	
	Depreciation on computers [50,000*40%]	20,000	
	Office expenses	10,000	
	Salary to staff	4,41,000	
	Office rent	20,000	6,99,800
			4,25,200
	Income from other sources		3,70,000
	Gross total income		7,95,200
Less:	Deductions under section 80C:		
	PPF	20,000	
	Subscription ……..	6,000	26,000
	Total income		7,69,200

Lecture 52

Chapter 16
Assessment of Partnership Firm as Such [PFAS]

Covered section 184 and 40(b)

Question 9 of the chapter Assessment of Firms [Page 16.24 of the Book Concept Building Approach – Dr. Naveen Mittal]

Computation of net income of firm for the AY 2020-21:

	Net profit		**(9,750)**
Add:	*Expenses disallowed:*		
	Depreciation [1,35,250 – 1,20,000]	15,250	
	Excess Payment to Relatives [Sec. 40A(2)] [1,50,000 – 1,25,000]	25,000	
	Donation to an approved charitable trust	30,000	
	Provision for bad debts	55,000	
	Interest on capital [1,17,000/20*8]	46,800	1,72,050
			1,62,300
Add:	Undervaluation of closing stock [90,000/90*10]		10,000
			1,72,300
Less:	Undervaluation of opening stock [81,000/90*10]		9,000
Less:	O/S sales tax liability paid in our PY [Sec. 43B]		20,000
			1,43,300
Less:	Income not related to PGBP [LTCG]		55,000
			88,300
Add:	Remuneration to partners		2,34,000
	Book-Profit		3,22,300
Less:	Remuneration to partners as per the provisions of section 40(b)		
	Remuneration as per book profit rule		
	On 1st Rs. 3,00,000 of the B/P, 1,50,000 or 90% of B/P, More	2,70,000	
	On remaining balance of Rs. 22,300 of the B/P, 60% of B/P	13,380	
		2,83,380	
	Or		
	Remuneration as per deed	**2,34,000**	2,34,000
	Income under the head PGBP		**88,300**

Add:	LTCG	55,000
	GTI	1,43,300
Less:	Deduction under section 80G [8,830*50%]	4,415
	Total income (Rounded off)	1,38,890

Computation of tax to be payable by the firm for the AY 2020-21:

	Tax on LTCG [55,000*20%]	11,000
	Tax on remaining income [(1,38,890 – 55,000)*30%]	25,167
		36,167
Add:	HEC @ 4%	1,447
	Tax to be payable (Rounded off)	37,610

Profit after tax of Rs. 1,01,280 [1,38,890 – 37,610] will be distributed amongst the partners in the profit sharing ratio.

Computation of total income and tax liability of partners for the AY 2020-21:

		R	S	T
	PGBP:			
	Remuneration from the firm [2,34,000 is divided in the ratio of remuneration as per deed]	1,02,000	60,000	72,000
	Interest from the firm [43,000/20*12; 70,000/20*12; 4,000/20*12]	25,800	42,000	2,400
	Share of profit from the firm [Exempt under section 10(2A)]	----	----	----
	PGBP	1,27,800	1,02,000	74,400
	IFOS:			
	Interest on Bank (Term Deposit)	12,00,000	9,10,000	14,20,000
	Dividend from Indian Companies [Till Rs. 10,00,000, exempt]	----	----	----
	GTI	13,27,800	10,12,000	14,94,400
Less:	Deduction under section 80C	60,000	40,000	65,000
	Total income	12,67,800	9,72,000	14,29,400
	Tax	1,92,840	1,06,900	2,41,320
Add:	Cess @ 4%	7,714	4,276	9,653
	Tax payable (Rounded)	2,00,550	1,11,180	2,50,970

Note: It is assumed that the individuals are resident and the age of these does not exceed 60 years of age during PY 2019-20

Sec. 40(b)

Explanation 3.—For the purposes of this clause, "book-profit" means the net profit, as shown in the profit and loss account for the relevant previous year, computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to all the partners of the firm if such amount has been deducted while computing the net profit.

One change in the above question only for the purpose of showing you the treatment of remuneration to partners:
Assume that the remuneration as per the book profit comes out to be Rs 2,27,000 in place of 2,82,380. In this case, following two changes will take place in the above solution:
Change I: While computing total income of the firm, the remuneration deductible would be Rs. 2,27,000 instead of Rs. 2,34,000.

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Change II: While computing the PGBP income of partners, the remuneration taxable would be Rs. 2,27,000 and should be apportioned in the ratio of 102:60:72 which will come out as:

	R	S	T
2,27,000/234*102 …….	98,949	58,205	69,846

Lecture 53

Capital Gains

Basis of charge [Sec. 45(1)]
The income is taxable under the head CG if all the following conditions are satisfied:
1. Capital Asset
2. Transfer
3. During the PY

Capital Asset [2(14)]
Everything in this world is a capital asset except the following:
1. Stock-in-trade
2. Personal movable belongings except Personal Jewellery
3. Agricultural land in India provided ……….
4. Some Gold Bonds and Special Bearer Bonds

Transfer [2(47)]
Transfer includes –
1. Sale
2. Exchange
3. Compulsory acquisition, etc.
There are some transactions which are not treated as 'transfer' [Sec. 47]:
1. Distribution of capital assets at the time of partition of HUF
2. Transfer by way of gift or will
3. Transfer by holding company to subsidiary company ….
4. Transfer by subsidiary company to holding company ….
5. Transfer at the time of conversion of firm into a company …..
6. Transfer at the time of amalgamation …..
7. Transfer at the time of demerger …..
8. Transfer at the time of conversion of sole proprietorship into a company

Types of Capital Assets [Sec. 2]
1. Short-term capital Assets:
a. List shares: 12 M
b. Unlisted shares and/ or Immovable Property: 24 M
c. Other Capital Assets: 36 M
2. Long-term capital Assets: Which is not a short-term capital asset

Lecture 54

Types of Capital Gains [Sec. 2]
1. Short-term capital gain/ loss: Gain/ loss arising on transfer of STCA
2. Long-term capital gain/ loss: Gain/ loss arising on transfer of LTCA

How to compute the Capital Gains [Sec. 48]
Example:
Property

Purchase	10,00,000
Commission at the time of purchase	50,000
Paint expenses	40,000
Sale within 1 year	22,00,000

	Commission at the time of sale	1,00,000

Solution:

	Full value of consideration	22,00,000
Less:	Expenses on sale	1,00,000
	Net full value	21,00,000
Less:	Cost of acquisition (10,00,000 + 50,000)	10,50,000
Less:	Cost of improvement	40,000
	STCG	10,10,000

Computation of STCG/ STCL:

Full value of consideration
Less: Expenses on sale
Less: Cost of acquisition
Less: Cost of improvement
If + ve, STCG and if – ve, STCL

Computation of LTCG/ LTCL:

Full value of consideration
Less: Expenses on sale
Less: Indexed cost of acquisition
Less: Indexed cost of improvement
If + ve, LTCG and if – ve, LTCL

Note:
1. Indexation is not allowed when LTCA mentioned in section 112A are transferred.
2. Indexation is not allowed when LTCA being bonds/ debentures are transferred.
3. Computation of Indexed cost of acquisition (ICA):

ICA = COA x CII of the year in which the asset is transferred

CII of the year in which the asset was held by the assessee*
[previous owner in case of section 49(1)]
Or
CII of the PY 2001-02,
Whichever is later

My example given below, 10,50,000 * PY 2019-20
PY 2007-08 or PY 2001-02 [Later]

Illustration 2: Acquired in PY 2002-03, my denominator CII will be of PY 2002-03
Illustration 3: Acquired in PY 1998-99, my denominator CII will be of PY 2001-02

4. Computation of Indexed cost of improvement (ICI):

ICI = COI * CII of the year in which the asset is transferred

CII of the year in which improvement is actually done

Example:
Property

Purchase [PY 2007-08]	**10,00,000**
Commission at the time of purchase	50,000
Paint expenses [PY 2013-14]	40,000
Sale within 13 year [2019-20]	90,00,000
Commission at the time of sale	1,00,000

Solution:
Property – Transferred after holding it for more than 24 Months. LTCA

Full value of consideration	**90,00,000**	PY 2019-20

Less:	Expenses on sale	1,00,000	PY 2019-20
	Net full value	89,00,000	
Less:	Indexed Cost of acquisition 10,50,000/129*289	23,52,326	PY 2019-20
Less:	Indexed Cost of improvement 40,000/220*289	52,545	PY 2019-20
	LTCG	64,95,129	

Cost Inflation Index:

Base year 2001-02:	100
PY 2019-20:	289

Lecture 55

Heading 1. Basis of charge
Heading 2. Meaning of Capital Assets
Heading 3. Meaning of Transfer
Heading 4. Transactions which are not treated as 'Transfers'
Heading 5. Types of Capital Assets
Heading 6. Types of Capital Gains
Heading 7. Computation of Capital Gains
All 7 headings are covered earlier

Example 1:
Mr. X purchased a house on 17 December 2017 for Rs. 10,00,000 and sold it on 15 December 2019 for Rs. 30,00,000. Compute the capital gains.
Solution:
Since the house is transferred within 2 years from the date of its purchase, the asset is thus, a short-term capital asset [Holding Period].

		AY 2020-21
	Sale	30,00,000
Less:	COA	10,00,000
	STCG	20,00,000

Example 2:
Mr. K purchased a house on 2 July 2006 for Rs. 20,000 and transferred it to Mr. X on 17 December 2017 for Rs. 10,00,000. Mr. X further transfers it to Mr. Y on 15 December 2019 for Rs. 30,00,000. Compute the capital gains for the AY 2020-21.
Solution:
Assessee is Mr. X for the AY 2020-21
Holding period: Within 2 years from the date of its purchase.

		AY 2020-21
	Sale	30,00,000
Less:	COA	10,00,000
	STCG	20,00,000

Example 3:
Mr. K purchased a house on 2 July 2006 for Rs. 20,000 and gifted it to his friend Mr. X on 17 December 2017. Mr. X transfers it to Mr. Y on 15 December 2019 for Rs. 30,00,000. Compute the capital gains for the AY 2020-21. CII of 2006-07 is 122, for 2017-18 is 272 and for 2019-20 is 289.
Solution:
Assessee for the AY 2020-21 is Mr. X.
Holding period: *2 July 2006 till 2018-19:* More than 2 Years and therefore, asset is **Long-term Capital Asset**.
New concepts applied are Sec. 49(1) [Cases of acquisition by way of gift/ will/ succession/ inheritance] and 'Previous Owner' [The person who became the owner of the capital by any other mode other than by way of gift/ will/succession/ inheritance]

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Heading 8: Determination of holding period: COVERED
Heading 9: Special Cases of acquisition of capital asset [Sec. 49]: COVERED

In the cases of acquisition which are covered under section 49(1) [gift/ will/ succession/ inheritance], the period of holding of previous owner is also included in determining the period of holding of the capital asset.

		AY 2020-21
	Sale	30,00,000
Less:	Indexed cost of Acquisition	
	[20,000/122*289]	47,377
	LTCG	29,52,623

Points to be remembered:
For cases of acquisition covered under section 49(1), go back to the previous owner for the following things:
1. Determining the holding period
2. Determining the cost of acquisition
3. Determining the CII year

Lecture 56

Heading 10: Meaning of cost of acquisition [Sec. 55(2)]
There are 5 different types of capital assets for the purpose of determining the meaning of cost of acquisition as well as the value of cost of acquisition:
Category 1. Goodwill ………………. [TO BE DISCUSSED LATER ON]
Category 2. Where capital asset became the property of the assessee before 1 April 2001,
COA is FMV on 1 April 2001 or Actual cost [Higher] **– Optional**
Category 3. Where the capital asset became the property of the assessee by any of the modes mentioned in section 49(1) and the capital asset became the property of the previous owner before 1 April 2001
COA is FMV on 1 April 2001 or Actual cost of the PY [Higher] **– Optional**
Category 4. Bonus shares/ Right shares/ Right entitlement
Category 5. Section 112A capital assets

Example on Heading 10 (*on Category 2):*
Mr. K purchased a house on 2 July 1986 for Rs. 20,000 and transferred it to Mr. X on 17 December 1997 for Rs. 10,00,000. Mr. X further transfers it to Mr. Y on 15 December 2019 for Rs. 30,00,000. Compute the capital gains for the AY 2020-21. FMV of the asset on 1 April 2001 is Rs. 13,00,000
Solution:
Holding period starts from 17 December 1997 and thus, more than 24 Months, the asset is a LTCA.
COA: Rs. 13,00,000

		AY 2020-21
	Sale	30,00,000
Less:	ICA [13,00,000/100* 289]	37,57,000
	LTCG	(7,57,000)

Example on Heading 10 (*on Category 3):*
Mr. K purchased a house on 2 July 1984 for Rs. 20,000 and gifted it to his friend Mr. X on 17 December 2017. Mr. X transfers it to Mr. Y on 15 December 2019 for Rs. 30,00,000. Compute the capital gains for the AY 2020-21. CII of 2001-02 is 122, for 2017-18 is 272 and for 2019-20 is 289. FMV on 1 April 2001 is Rs. 12,00,000.
Solution:
Holding period start from 2 July 1984 because the case is covered under section 49(1) which is more than 24 months and thus, the capital gain will be long-term.
COA of the assessee: COA to the previous owner [20,000] or FMV on 1 April 2001 [12,00,000] – Higher

		AY 2020-21
	Sale	30,00,000
Less:	ICA	
	[12,00,000/100* 289]	34,68,000
	LTCG	(4,68,000)

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Question:
If capital asset became the property of the assessee by any of the modes referred to in section 49(1) and the capital asset became the property of the previous owner on or after 1 April 2001?
Ans: Which category of COA?
This is not at all covered under any category of COA?
It is already covered in Example 3 given under the heading Lecture 55.

Heading 11: Meaning of cost of improvement [Sec. 55(1)(b)]

Category I: Where the capital asset became the property of the assessee or the previous owner before 1 April 2001

All improvement incurred before 1 April 2001 are ignored.
Explanation:
Purchased in 1996 for Rs. 10,00,000
Improvement in 1998 for Rs. 2,00,000
FMV on 1 April 2001 for ……… [Will be having the reflection of all such improvement incurred before April 2001]

Category II: Where the capital asset became the property of the assessee or the previous owner on or after 1 April 2001

COI: Actual cost of improvement

Category III: Goodwill [To be discussed later on]

Lecture 57

Topics to be followed in sequence:
1. Introduction [45(1)]
2. Capital Asset [2(14)]
3. Transfer [2(47)]
4. Transaction which is not treated as 'Transfer' [47]
5. Type of Capital Asset – Long-term or Short-term by way of determining the Holding Period of the Capital Asset
6. Type of Capital Gain – Long-term or Short-term
7. Mode of computation of Capital Gains [48]
8. Determination of Cost of Acquisition in some special cases [49] – This heading does not tell you the value of Cost of Acquisition. This heading only tells you the point of time which you will us the value of Cost of Acquisition.
9. Determination of value of Cost of Acquisition – There are 5 Categories out of which we have covered only 2 categories till this discussion.
10. Determination of Cost of Improvement and the value of Cost of Improvement – There are 3 categories out of which we have covered only 2 categories till this discussion.
11. Determination of Indexed Cost of Acquisition and Indexed Cost of Improvement
12. **Exemptions under the head Capital Gains**

Exemption under section 54:
1. Individual/ HUF
2. Sold a residential house
3. The house sold must be a Long-term Capital Asset.
4. The assessee has purchased within 1 year before or within 2 years after the date of sale of the house

Or

Constructed within 3 years from the date of sale of house,
Another 1 residential house in India.

Amount of exemption:

Amount investment in purchasing/ constructing another residential house in India.

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

In case LTCG does not exceed Rs. 2 Crores, then investment in 2 residential houses in India are eligible for exemption under section 54 but this is the life-time option available.

Example on Page 7.25 of the book Concept Building Approach
*Illustration (a) X, a non-**resident** individual, has earned a **long-term capital gain** of ` 17,00,000 in the previous year 2019-20 by selling a residential house on 10 December 2019. This house was purchased by him 10 years ago. The long-term capital gain of ` 17,00,000 can be exempt under section 54 with the amount invested by him in –*
1. Purchasing a residential house in India during 11 December 2018 or 9 December 2021; or
2. Constructing a residential house in India during 10 December 2019 to 9 December 2021.

*Illustration (b) Continuing the above illustration (a), suppose he purchases a residential house in India on **30 June 2020** for ` 15,00,000. In this case, he will get the exemption of ` 15,00,000 under section 54 and the taxable long-term capital gain during the previous year 2019-20 becomes ` 2,00,000 [` 17,00,000 (longterm capital gain before exemption) – ` 15,00,000 (exemption under section 54)]. He should not sell this house because of which he got an exemption of ` 15,00,000 till 29 June 2023.*
*Suppose, he sold this house on **28 June 2022** for ` 24,00,000, then short-term capital gain during the previous year 2022-23 will be computed as follows –*

	Sale	24,00,000
Less:	Expenses on sale	Nil
	Cost of Acquisition [15,00,000 (Cost) – 15,00,000 (Exemption taken)]	Nil
	STCG	24,00,000

***Suppose,** he purchases a residential house for Rs. 18,00,000, then exemption is available for Rs. 17,00,000 and the LTCG during 2019-20 is Nil [17,00,000 (LTCG) – 17,00,000 (Maximum eligible exemption from investment in new house)]*
*Suppose, he sold this house on **28 June 2022** for ` 24,00,000, then short-term capital gain during the previous year 2022-23 will be computed as follows –*

	Sale	*24,00,000*
Less:	*Expenses on sale*	*Nil*
	Cost of Acquisition [18,00,000 (Cost) – 17,00,000 (Exemption taken)]	*1,00,000*
	STCG	*23,00,000*

Continuing the above illustration (a), suppose he has not taken the decision of purchasing or constructing the residential house till 31 July 2020 (i.e., the due date of filing return of income of the previous year 2019-20, the year in which the long-term capital gain has arisen), he can still claim the exemption under section 54 if he deposits the amount, which he wants to claim as an exemption under section 54, in Capital Gains Deposit Account Scheme till 31 July 2020 i.e., the due date of filing return of income of the previous year 2019-20, the year in which the long-term capital gain has arisen.
*Now, let us suppose, he has deposited ` 14,00,000 on 31 July 2020 in Capital Gains Deposit Account Scheme for the purpose of claiming exemption under section 54. In this situation, he can claim the exemption under section 54 of ` 14,00,000 in the previous year 2019-20 and the taxable long-term capital gain in the previous year 2019-20 will be ` 3,00,000 [` 17,00,000 (**long-term capital gain**) – ` 14,00,000 (amount deposited in the Capital Gains Deposit Account Scheme till 31 July 2020)].*
However, he has to withdraw the amount of ` 14,00,000 either for purchasing the residential house till 9 December 2021 or for constructing the residential house till 9 December 2022.

Illustration (d) Continuing the above illustration (c) where he has deposited ` 14,00,000 till 31 July 2020, suppose he has purchased a residential house of ` 2,00,000 on 2 June 2020 and deposited ` 14,00,000 also till 31 July 2020 for the purpose of claiming exemption under section 54, the total amount eligible for exemption under section 54 for the previous year 2019-20 will be treated as ` 16,00,000 [` 2,00,000 (actually invested till due date of filing return of income) + ` 14,00,000 (amount deposited till due date of filing return of income)] and the taxable long-term capital gain in the previous year 2019-20 becomes ` 1,00,000 [` 17,00,000 – ` 16,00,000].

Illustration (e) Continuing the illustration (c) above, where he has deposited ` 14,00,000 till due date of filing return of income, suppose he has utilised ` 13,00,000 for purchasing the residential house till 9 December2021, the unutilised amount of ` 1,00,000 [` 14,00,000 (amount deposited) – ` 13,00,000 (amount actually utilised within the eligible time-limit)] will be taxable as long-term capital gain of the previous year in which the limit of 3 years expires. Thus, ` 1,00,000 will be taxable as ***long-term capital gain*** *in the previous year 2022-23 (i.e.,* ***on 10 December 2022,*** *the date on which the time-limit of 3 years expires). For the purpose of taxation of unutilised amount, the time-limit will be taken as 3 years even if the amount was utilised for purchasing the residential house where 2 years are allowed. The unutilised amount of ` 1,00,000 can be withdrawn by the assessee from the Capital Gains Deposit Account Scheme as per the rules of the scheme.*

Profit on sale of property used for residence.

54. (1) Subject to the provisions of sub-section (2), where, in the case of an assessee being an individual or a Hindu undivided family, the capital gain arises from the transfer of a long-term capital asset, being buildings or lands appurtenant thereto, and being a residential house, the income of which is chargeable under the head "Income from house property" (hereafter in this section referred to as the original asset), and the assessee has within a period of one year before or two years after the date on which the transfer took place purchased, or has within a period of three years after that date constructed, one residential house in India, then, instead of the capital gain being charged to income-tax as income of the previous year in which the transfer took place, it shall be dealt with in accordance with the following provisions of this section, that is to say,—

(*i*) if the amount of the capital gain is greater than the cost of the residential house so purchased or constructed (hereafter in this section referred to as the new asset), the difference between the amount of the capital gain and the cost of the new asset shall be charged under section 45 as the income of the previous year; *and for the purpose of computing in respect of the new asset any capital gain arising from its transfer within a period of three years of its purchase or construction, as the case may be, the cost shall be nil;* ***[My example of Rs. 17,00,000 is covered under (i)]****or*

(*ii*) if the amount of the capital gain is equal to or less than the cost of the new asset, the capital gain shall not be charged under section 45; *and for the purpose of computing in respect of the new asset any capital gain arising from its transfer within a period of three years of its purchase or construction, as the case may be, the cost shall be reduced by the amount of the capital gain:*

[2][**Provided** *that where the amount of the capital gain does not exceed two crore rupees, the assessee may, at his option, purchase or construct* ***two*** *residential houses in India, and where such option has been exercised,—*

(a) *the provisions of this sub-section shall have effect as if for the words "one residential house in India", the words "two residential houses in India" had been substituted;*

(b) *any reference in this sub-section and sub-section (2)to "new asset" shall be construed as a reference to the two residential houses in India:*

Provided further *that where during any assessment year, the assessee has exercised the option referred to in the first proviso, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.*]

(2) The amount of the capital gain which is not appropriated by the assessee towards the purchase of the new asset made within one year before the date on which the transfer of the original asset took place, or which is not utilised by him for the purchase or construction of

the new asset before the date of furnishing the return of income under section 139, shall be ***deposited by him*** *before furnishing such return [such deposit being made in any case not later than the due date applicable in the case of the assessee for furnishing the return of income under sub-section (1) of section 139] in an account in any such bank or institution as may be specified in, and utilised in accordance with, any scheme which the Central Government may, by notification in the Official Gazette, frame in this behalf and such return shall be accompanied by proof of such deposit;* and, for the purposes of sub-section (1), the amount, if any, already utilised by the assessee for the purchase or construction of the new asset together with the amount so deposited shall be deemed to be the cost of the new asset :

Provided that if the amount deposited under this sub-section is not utilised wholly or partly for the purchase or construction of the new asset within the period specified in sub-section (1), then,—

(*i*) the amount not so utilised shall be charged under section 45 as the income of the previous year in which the period of three years from the date of the transfer of the original asset expires; and

(*ii*) the assessee shall be entitled to withdraw such amount in accordance with the scheme aforesaid.

Explanation.— [*Omitted by the Finance Act, 1992, w.e.f. 1-4-1993.*]

Exemption 54B

Exemption 54D

Lecture 58

Exemption under section 54EC
Page 7.31 of the book [Concept Building Approach]
1. *X has transferred a commercial property on 6 May 2019 and earned a long-term capital gain of ` 22,00,000. He invested ` 13,00,000 from the sale proceeds of commercial property in NHAI bonds on 31 October 2019.*
Taxable LTCG = Rs. 22,00,000 – Rs. 13,00,000 (Exemption under 54EC) = Rs. 9,00,000.
3. *X has transferred gold on 6 May 2019 and earned a long-term capital gain of ` 22,00,000. He invested ` 13,00,000 from the sale proceeds of gold in NHAI bonds on 31 October 2019.*
Taxable LTCG = Rs. 22,00,000 – Nil (Exemption under section 54EC) = Rs. 22,00,000.

Exemption under section 54EE

Exemption under section 54F
Page 7.33 of the book [Concept Building Approach]
Illustration:
X, a resident individual, has sold gold on ***10 December 2019*** *which was purchased by him 10 years ago. The sale value of gold was ` 22,30,000, expenses on sale were ` 30,000 and indexed cost of acquisition of gold was ` 5,00,000. Thus, he earned a long-term capital gain of ` 17,00,000 [` 22,30,000 – ` 30,000 – ` 5,00,000] in the previous year 2019-20 by selling gold. Suppose he purchases a residential house in India on* ***30 June 2020*** *for ` 15,00,000.*

Exemption under section 54F $= \dfrac{\text{LTCG}}{\text{Net Sale consideration}} \times \text{Investment}$

$= \dfrac{17{,}00{,}000}{22{,}00{,}000} \times 15{,}00{,}000$

$= 11{,}59{,}091$

Taxable LTCG = 17,00,000 – 11,59,091 = 5,40,909

Exemption under section 54F is not available –
(*a*) the assessee,—

(*i*) **owns** more than one residential house, **other than the new asset**, on the date of transfer of the original asset; or

Example:

Sale date of gold in above example was 10 December 2019. Suppose, I have already one residential house. Another residential house on which I got the exemption has been purchased by me on 30 June 2020.

Suppose, rather than 30 June 2020, had I purchased the house on 8 September 2019, would I get the exemption under section 54F? Answer is YES

Suppose, rather than 30 June 2020, had I purchased the house on 8 September 2019 (and I am already having two house for the past 20 years), would I get the exemption under section 54F? Answer is NO

(*ii*) **purchases** any residential house, **other than the new asset**, within a period of **one** year after the date of transfer of the original asset; or

(*iii*) **constructs** any residential house, other than the new asset, within a period of **three** years after the date of transfer of the original asset; and

Explanation.—For the purposes of this section,—

"net consideration", in relation to the transfer of a capital asset, means the full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

Consequences if another house is purchased or constructed within 1 year or within 3 years from the date of sale

(2) Where the assessee purchases, within the period of **two[CLARIFICATION NEEDED]** years after the date of the transfer of the original asset, or constructs, within the period of three years after such date, any residential house, the income from which is chargeable under the head "Income from house property", **other than the new asset**, the amount of capital gain arising from the transfer of the original asset not charged under section 45 on the basis of the cost of such new asset as provided in clause (*a*), or, as the case may be, clause (*b*), of sub-section (1), shall be deemed to be income chargeable under the head "Capital gains" relating to long-term capital assets of the previous year in which such residential house is purchased or constructed.

Consequences if the house on which I got the exemption is transferred within 3 years

(3) Where the new asset is transferred within a period of three years from the date of its purchase or, as the case may be, its construction, the amount of capital gain arising from the transfer of the original asset not charged under section 45 on the basis of the cost of such new asset as provided in clause (*a*) or, as the case may be, clause (*b*), of sub-section (1) shall be deemed to be income chargeable under the head "Capital gains" relating to long-term capital assets of the previous year in which such new asset is transferred.

(4) The amount of the net consideration which is not appropriated by the assessee towards the purchase of the new asset made within one year before the date on which the transfer of the original asset took place, or which is not utilised by him for the purchase or construction of the new asset before the date of furnishing the return of income under section 139, shall be deposited by him before furnishing such return [such deposit being made in any case not later than the due date applicable in the case of the assessee for furnishing the return of income under sub-section (1) of section 139] in an account in any such bank or institution as may be specified in, and utilised in accordance with, any scheme which the Central Government may, by

notification in the Official Gazette, frame in this behalf and such return shall be accompanied by proof of such deposit ; and, for the purposes of sub-section (1), the amount, if any, already utilised by the assessee for the purchase or construction of the new asset together with the amount so deposited shall be deemed to be the cost of the new asset :

Provided that if the amount deposited under this sub-section is not utilised wholly or partly for the purchase or construction of the new asset within the period specified in sub-section (1), then,—

(*i*) the amount by which—

(*a*) the amount of capital gain arising from the transfer of the original asset not charged under section 45 on the basis of the cost of the new asset as provided in clause (*a*) or, as the case may be, clause (*b*) of sub-section (1), exceeds

(*b*) the amount that would not have been so charged had the amount actually utilised by the assessee for the purchase or construction of the new asset within the period specified in sub-section (1) been the cost of the new asset,

shall be charged under section 45 as income of the previous year in which the period of three years from the date of the transfer of the original asset expires; and

(*ii*) the assessee shall be entitled to withdraw the unutilised amount in accordance with the scheme aforesaid.

Explanation.—[*Omitted by the Finance Act, 1992, w.e.f. 1-4-1993.*]

LTCG [3,00,000] * Deposited Amount [14,00,000]
Net Sale [15,00,000]
= 2,80,000 [54F]

LTCG [3,00,000] * Unutilised Amount [2,00,000]
Net Sale [15,00,000]
= 40,000 [Taxable as LTCG after the expiry of 3 year period]

Lecture 59

Page 7.36 of the book [Concept Building Approach by Naveen Mittal]

Illustration

X, a resident individual, has earned a long-term capital gain of ` 17,00,000 in the previous year 2019-20 because of transfer of machinery used in the business of an industrial undertaking situated in an urban area. The transfer has been done because of shifting of the undertaking from an urban area to a non-urban area on 10 December 2019. He purchases a building on ***30 June 2020*** *for ` 15,00,000.*

AY 2020-21

	LTCG (before exemption)	17,00,000
Less:	Exemption under section 54G	15,00,000
	LTCG	2,00,000

Suppose he sold this building on ***28 June 2022*** *for ` 24,00,000.*

AY 2023-24

	Sale	24,00,000
Less:	COA	
	[15,00,000 – 15,00,000 (Exemption u/s 54G)]	Nil
	STCG	24,00,000

Special Cases of Capital Gains:

1. Compute capital gain in case of depreciable assets [Sec. 50]

Application of Section 50(1):

Type VI [The same Question which we have discussed in the chapter PGBP]:

The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of 3 plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. Machine B and C were sold for ` **25,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.

Solution:

Computation of depreciation:

	Machinery & Plant [ROD: 15%]	
	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**25,00,000** – 50,000]* [2]	**17,00,000***
	WDV of the block on 31 March 2020	**Nil**
	Depreciation [Closing WDV * ROD]	**Nil**
	WDV of the block on 1 April 2020	Nil

* Net sale cannot exceed the total of opening WDV + Actual cost of Asset acquire

Computation of capital gains:

	Sale value	25,00,000
Less:	Expenses on sale	50,000
Less:	WDV of the BOA on 1 April 2019	10,00,000
Less:	Actual cost of asset acquired	7,00,000
	STCG **[Sec. 50(1)]**	7,50,000

Application of Section 50(2):

Type VII [The same Question which we have discussed in the chapter PGBP]:

The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **December** 2019 for ` 4,00,000. **All the machines are sold** for ` **5,00,000** (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.

Solution:

Computation of Depreciation:

	Machinery & Plant [ROD: 15%]	
	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [**5,00,000** – 50,000]* [2]	**4,50,000***
	WDV of the block on 31 March 2020	**12,50,000**
	Depreciation [Closing WDV * ROD]	**Nil**
	WDV of the block on 1 April 2020	Nil

Computation of capital gain:

	Sale	5,00,000
Less:	Expenses on sale	50,000
Less:	WDV of the BOA in beginning	10,00,000
Less:	Actual cost of asset acquired	7,00,000
	STCL [Sec. 50(2)]	12,50,000

Note:

Sec. 50(1) always gives STCG but Sec. 50(2) can give either STCG or STCL.

Non-application of Sec. 50 even though depreciable assets are sold:

Type I [The same Question which we have discussed in the chapter PGBP]:

The written down value of the block of Machinery and Plant (Rate of depreciation: 15%) consisting of three plants A, B and C, on 1 April 2019 was ` 10,00,000. Machine D was acquired as well as put to use on 7 July 2019 for ` 3,00,000 and Machine E was acquired as well as put to use on 9 **August** 2019 for ` 4,00,000. Machine B and C were sold for ` 5,00,000 (expenses on sale: ` 50,000). Ignore the additional depreciation, if any.

Solution:

Computation of depreciation:

	Machinery & Plant [ROD: 15%]	
	WDV of the block on 1 April 2019 **[3]**	10,00,000
Add:	Actual cost of the assets (same block) acquired as well as put to use during 2019-20 [1 April 2019 to 31 March 2020] [3,00,000 + 4,00,000] **[2]**	7,00,000
		17,00,000
Less:	Net Sale proceeds of the assets (same block) happened during 2019-20 [5,00,000 – 50,000] [2]	4,50,000
	WDV of the block on 31 March 2020	12,50,000
	Depreciation [Closing WDV * ROD] [12,50,000*15%]	**1,87,500**
	WDV of the block on 1 April 2020	10,62,500

Computation of capital gains:

Capital gain cannot be computed in this case because neither Sec. 50(1) is applicable nor Sec. 50(2).

Had you computed the amount of capital gains without knowing the provisions of Sec. 50?

	Sale	*5,00,000*
Less:	*Expenses on sale*	*50,000*
Less:	*Opening WDV*	*10,00,000*
Less:	*Actual cost*	*7,00,000*
	STCL	***12,50,000***

2. Special provision in case of transfer of land or building [Sec. 50C]

(a) 105% of Actual Sale < Stamp Duty value,	SDV is taken as Sale value for the purpose of CG
(b) 105% of Actual Sale > Stamp Duty value,	Actual sale value is taken as Sale value for the purpose of CG
(c) 105% of Actual Sale = Stamp Duty value,	Actual sale value is taken as Sale value for the purpose of CG

Example:

1. Sale = 50,00,000 and SDV = 53,00,000, 105% of 50,00,000 = 52,50,000	Sale value should be taken as 53,00,000
2. Sale = 50,00,000 and SDV is 52,40,000,	Sale value should be taken as 50,00,000
3. Sale = 50,00,000 and SDV is 52,50,000,	Sale value should be taken as 50,00,00

3. Treatment of Advance Money Forfeited [Sec. 51]

Advance money forfeited by the assessee is taxable as IFOS.

It has no effect under the Capital Gains but amount forfeited till 31 March 2014 was not taxable under the head IFOS. In fact, that forfeited amount was deducted from the Cost of Acquisition while computing income under the head CG.

Lecture 60

Sec. 112: Tax on LTCG

Tax on long-term capital gains.

112. (1) Where the total income of an assessee includes any income, arising from the transfer of a long-term capital asset, which is chargeable under the head "Capital gains", the tax payable by the assessee on the total income shall be the aggregate of,—

(*a*) in the case of an individual or a Hindu undivided family, being a **resident,**—

(*i*) the amount of income-tax payable on the **total income [9,00,000]** as reduced by the amount of such **long-term capital gains [4,00,000]**, had the total income as so reduced been his total income ; and

(*ii*) the amount of income-tax calculated on such long-term capital gains at the rate of 20%:

Provided that where the total income **[4,30,000 {2,00,000 LTCG + 2,30,000 IFOS}]** as reduced by such long-term capital gains **[2,00,000]** is below the maximum amount which is not chargeable to income-tax,

If **2,30,000** (TI - LTCG) < 2,50,000 (Exemption Limit)

+ 20,000

2,50,000

then, such long-term capital gains shall be **reduced** by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax and the tax on the balance of such long-term capital gains shall be computed at the rate of twenty per cent ;

Relief = 2,50,000 (Exemption Limit) – TI as reduced

= 2,50,000 – 2,30,000

= 20,000

Taxable LTCG = 2,00,000 – 20,000 = 1,80,000 @ 20%

Explanation.—[***]

Provided that where the tax payable in respect of any income arising from the transfer of a long-term capital asset, being listed securities (other than a unit) or zero coupon bond, **exceeds** 10% of the amount of capital gains before giving effect to the provisions of the second proviso to section 48, then, such excess shall be ignored for the purpose of computing the tax payable by the assessee :

Explanation.—For the purposes of this sub-section,—

(*aa*) "listed securities" means the securities which are listed on any recognised stock exchange in India;

(2) Where the gross total income of an assessee includes any income arising from the transfer of a long-term capital asset, the gross total income shall be reduced by the amount of such income and the deduction under Chapter VI-A shall be allowed as if the gross total income as so reduced were the gross total income of the assessee. **In other words, deduction under section 80 are not allowed from such LTCG. For example,** if LTCG (covered under section 112) is Rs. 4,00,000, IFOS is 70,000 and deduction under section 80C is Rs. 90,000; his total income is

	LTCG	4,00,000
	IFOS	70,000
	GTI	4,70,000
Less:	Deduction under section 80C	70,000*
	Total income	4,00,000
	LTCG of ……… will be taxed at 20%.	

Relief:

TI – LTCG < Exemption Limit

4,00,000 – 4,00,000 < 2,50,000

0 < 2,50,000

Relief of Rs. 2,50,000 is allowed and LTCG taxable will be 1,50,000 [4,00,000 – 2,50,000].

Example on Sec. 112 given on page 7.40 from the book [Concept Building Approach]

X (49 years), a resident individual, has taxable long-term capital gain of ` 3,50,000 from sale of a house property during the previous year 2019-20 (it is to be noted that the long-term capital gain from sale of a house property is not covered under section 112A). His income from other sources is ` 60,000 during the previous year 2019-20. Compute his tax liability for the assessment year 2020-21 on the assumption that he has deposited ` 10,000 in PPF during the previous year 2019-20.

Solution:

		AY 2020-21
	LTCG	3,50,000
	IFOS	60,000
	GTI	4,10,000
Less:	Deduction u/s 80C	10,000
	TI	**4,00,000**

	Tax on LTCG @ 20% U/S 112 [(3,50,000 – 2,00,000)*20%]	30,000
	Tax on remaining income [4,00,000 – 3,50,000]	Nil
		30,000
Less:	Rebate under section 87A	12,500
		17,500
Add:	Cess @ 4%	700
	Tax payable	18,200

Note:

Relief is available from LTCG computed as follows –

1. Resident Individual
2. TI – LTCG < Exemption limit [4,00,000 – 3,50,000] < 2,50,000

Relief = Exemption limit – TI excluding LTCG
= 2,50,000 – 50,000
= 2,00,000

Example given on page 7.42 of the book [Concept Building Approach] – Option to pay tax on LTCG @ 10%

X (39 years), a resident individual sold 1,000 equity shares on 10 December 2019 for ` 3,90,000 and also paid **STT** at the time of sale. However, when these were acquired on 6 May 2013 for ` 2,20,000, *STT was not paid.* Compute his total income and tax liability for the assessment year 2020-21 assuming his income from other sources during 2019-20 is ` 3,59,000. CII for 2013-14 and for 2019-20 is 220 and 289 respectively.

Solution:

Sec. 112A is not applicable in the present case because STT was not paid at the time of acquisition of equity shares.

In case of listed securities, the holding period is 12 Months.

		AY 2020-21
	Sale	3,90,000
Less:	ICA [2,20,000/220* 289]	2,89,000
	LTCG	1,01,000
	IFOS	3,59,000
	GTI	4,60,000
Less:	Deduction u/s 80	Nil
	TI	4,60,000

Will relief be available?
TI – LTCG < Exemption Limit
4,50,000 – 1,01,000 < 2,50,000
3,49,000 is not less than the exemption limit of the assessee and thus, no relief is available from LTCG.

	Tax on LTCG – Note	17,000
	Tax on remaining income [4,60,000 – 1,01,000 = 3,59,000 as per the slab of the assessee] i.e., 3,59,000 – 2,50,000 = 99,000*5%	5,450
		22,450
Less:	Rebate under section 87A	12,500
		9,950
Add:	Cess @ 4%	398
	Tax payable (Rounded off)	10,350

Note:

		Option I [With indexation]		option II [Without indexation]
	Sale	3,90,000		3,90,000
Less:	ICA	2,89,000		2,20,000 [Cost]
	LTCG	1,01,000		1,70,000
	Tax @ 20%	20,200	tax @ 10%	17,000

Lecture 61

Sec. 112A: Tax on LTCG

Tax on long-term capital gains in certain cases.

112A. (1) Notwithstanding anything contained in section 112, the tax payable by an assessee on his total income shall be determined in accordance with the provisions of sub-section (2), if—

(*i*) the total income includes any income chargeable under the head "Capital gains";

(*ii*) the capital gains arise from the **transfer of a long-term capital asset being an equity share** in a company or a unit of an equity oriented fund or a unit of a business trust;

(*iii*) securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004 (23 of 2004) has,—

(*a*) in a case where the long-term capital asset is in the nature of an equity share in a company, **been paid on acquisition and transfer of such capital asset**; or

(*b*) in a case where the long-term capital asset is in the nature of a unit of an equity oriented fund or a unit of a business trust, been paid on transfer of such capital asset.

(2) **The tax payable** by the assessee on the total income referred to in sub-section (1) shall be the aggregate of—

(*i*) the amount of income-tax calculated on **such long-term capital gains exceeding one lakh rupees at the rate of ten per cent**; and

(*ii*) the amount of income-tax payable on the total income as reduced by the amount of long-term capital gains referred to in sub-section (1) as if the total income so reduced were the total income of the assessee:

Provided *that in the case of an individual or a Hindu undivided family, being a resident, where the total income as reduced by such long-term capital gains is below the maximum amount* *which is not chargeable to income-tax, then, the long-term capital gains, for the purposes of clause (i), shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax.*

(4) The Central Government may, by **notification** in the Official Gazette, specify the nature of **acquisition in respect of which the provisions of sub-clause (*a*) of clause (*iii*) of sub-section (1) shall not apply.**

(5) Where the gross total income of an assessee includes any long-term capital gains referred to in sub-section (1), the deduction under Chapter VI-A shall be allowed from the gross total income as reduced by such capital gains.

(6) Where the total income of an assessee includes any long-term capital gains referred to in sub-section (1), the *rebate under section 87A* shall be allowed from the income-tax on the total income as reduced by tax payable on such capital gains.

Explanation.—For the purposes of this section,—

Lecture 62

Sec. 111A

Lecture 63

A brief discussion to clear any confusion:

	Sec. 112	Sec. 112A	Sec. 111A
Covers	**Normal LTCG**	**Special LTCG**	**Special STCG**
Tax Rate	20% (or 10% in some cases)	10% exceeding Rs. 1 lakh	15%

Note: For normal STCG, there is no separate section of tax rate.

How to compute LTCG covered under section 112A?

1. LTCA
2. Equity shares
3. STT is paid at the time of sale as well as at the time of **Purchase (exceptions to pay STT at the time of purchase are there)**.
4. The transaction of sale is taking place on or after 1 April 2018.

As we know that capital gains (whether long-term or short-term) are computed as per section 48.

	Sale	xx
Less:	EOS	xx
Less:	**ICA**	xx
	LTCG	xx

There is a technicality in computing Cost of Acquisition of the assets covered under section 112A

Lecture 64

Practice of one numerical question:

13. Compute the capital gains in the hands of Gurmeet for the assessment year 2020-21 and 2021-22 on the basis of following information:

a) Gurmeet sold a **residential house** on 28 June 2019 for ` 30,00,000 (Stamp duty value: ` 34,00,000) which was purchased by him on 1 October 2006 for ` 5,20,000. He had spent ` 2,70,000 on improvement of the house during the year 2007-08.

b) He purchased a **new house** on 21 October 2019 for ` 8,50,000 and on 16 July 2020, he sold it for ` 10,00,000.

c) He again purchased another house on 21 November 2020 for ` 8,00,000.
CII for the financial year 2006-07 is 122, 2007-08 is 129 and for 2019-20 is 289. Gurmeet has filed his return of income of assessment year 2020-21 on 5 July 2020. [Delhi University B.Com.(H) 2019 (Modified)]

Solution:

AY 2020-21

	Sale – Note 1	34,00,000
Less:	Expenses on sale	Nil
Less:	Indexed cost of acquisition	
	[5,20,000/122* 289]	12,31,803
Less:	Indexed cost of improvement	
	[2,70,000/129*289]	6,04,884
	LTCG (before exemption)	15,63,313
Less:	Exemption under section 54	**8,50,000**
	LTCG	7,13,313

AY 2021-22

	Sale	10,00,000
Less:	Cost of Acquisition	
	[8,50,000 – 8,50,000 (Exemption already claimed)]	Nil
	STCG	**10,00,000**

Note:
1. Applicability of Sec. 50C:
105% of sale value is Rs. 31,50,000 [105% of 30,00,000] and SDV > 105% of Sale Value. Therefore, SDV is taken as sale value for the purpose of capital gains.
2.

COMPUTATION in case of some capital assets where there is a possibility of being self-generated

Computation of cost of acquisition [Referring Sec. 55(2)(a) and dealing with Goodwill of a business, right to manufacture/ produce/ process any article (or thing) and right to carry on any business/ profession, loom hours, stage carriage permits and tenancy rights. In these capital assets, the COA is determined as follows:

1. If these are purchased, COA is your purchase price
2. If these are acquired by the assessee as per section 49(1), COA of the assessee is the COA of the previous owner.
3. In all other cases of acquisition, COA is NIL.
Further, neither indexation is allowed nor FMV on 1 April 2001 concept is applicable here.

Example
RIL wants to sell its goodwill today and asking for Rs. 1,00,000 crore. Suppose, RIL started the business in 1973.
FMV of Goodwill must be existing on 1 April 2001 and it is Rs. 12,000 crore

	Sale	1,00,000 Crore
Less:	*Indexed cost of acquisition*	
	[12,000 crore/100 289]*	
	COA as 12,000 crore	
	LTCG in this example will be Rs. 1,00,000 Crore.	

Computation of cost of improvement [Referring Sec. 55(1)(b) and dealing with Goodwill of a business, right to manufacture/ produce/ process any article (or thing) and right to carry on any business/ profession. In these capital assets, the COI is Nil

Note that in case of loom hours, stage carriage permits and tenancy rights, COI is actual COI. However, COA in these three capital assets (if self-generated) is Nil.

A separate query related to section 54F

	A	B	C
Net sale	3,00,000	5,00,000	2,00,000
LTCG (before exemption) [a]	50,000	90,000	**80,000**

Exemption U/S 54F				
[6,00,000 investment made]		III	II	I
		----	4,00,000	2,00,000
Amount of 54F	[b]	Nil	72,000	80,000
54F is available				
[LTCG/ Net sale* **Investment**]				
% of LTCG/ Net sale		16.67%	18%	40%
Taxable LTCG [a - b]		50,000	18,000	Nil

Computation of amount to be distributed:
X*40% = 80,000
X*18% = 90,000

Lecture 65
Income from other sources

1. Basis of charge [Sec. 56(1) and Sec. 56(2)]

Discussion on some incomes taxable under the head IFOS which requires detailed discussion:
1. Dividend [Sec. 2(22), Sec. 115-O, Sec. 115BBDA and Sec. 10(34)]

What is dividend? [Sec. 2(22)]

Computation of effective tax rate of dividend distribution tax [Sec. 115-O]

Dividend declared [**GROSS** Dividend]	100	Value of X
Dividend tax [15%] [Govt. of India]	15	
Shareholder gets [Net Dividend]	85	500

For example, X Ltd. (a domestic company) wants to distribute Rs. 500 to the shareholders.

	X		588.24	100
Less: 15% of X	???	+	88.24	15
	500		**500**	**85**

If 85 = 500
Then 1 = 500/85
Therefore, 100 = 500/85*100 = 588.24

Cross check is to be done as follows:
15% of 588.24 = 88.24
Effectively, the Govt. has received = 88.24/500*100 = 17.648%
If you determine it on the basis of 100 = 15/85*100 = 17.647%
In the Finance Acts, it is written that on Dividend tax under section 115-O, by default, surcharge @ 12% is also added. Now the effective rate is further increased to
17.647 + 12% of 17.647% = 19.76464%
It is further increased by Cess @ 4% which will increase it further to 19.76464 + 4% of 19.76464 = **20.555%.**

Note: Effective dividend tax rate for dividends covered under section 2(22)(e) in the hands of a domestic company will be 30% + 12% of 30% + 4% of (30% + 12% of 30%) which makes it to 34.944%

Tax on distributed profits of domestic companies.

115-O. (1) Notwithstanding anything contained in any other provision of this Act and subject to the provisions of this section, in addition to the income-tax chargeable in respect of the total income of a **domestic company** for any assessment year, any amount **declared, distributed or paid by such company by way of dividends** (whether interim or otherwise) on or after the 1st day of April, 2003 [90]**[***but on or before the 31st day of March, 2020***]**, whether out of current or accumulated profits shall be charged to additional income-tax (hereafter referred to as tax on distributed profits) @ 15%:

Provided that in respect of dividend referred to in sub-clause (*e*) of clause (*22*) of section 2, this sub-section shall have effect as if for the words "fifteen per cent", the words "30%" had been substituted.

(1B) For the purposes of determining the tax on distributed profits payable in accordance with this section, any amount by way of dividends referred to in sub-section (1), **shall be increased to such amount as would**, after reduction of the tax **on such increased amount** at the rate specified in sub-section (1), be equal to the net distributed profits:

Provided that this sub-section shall not apply in respect of dividend referred to in sub-clause (*e*) of clause (*22*) of section 2.

Tax on dividend received in the hands of shareholder [Sec. 115BBDA]
Over and above Rs. 10,00,000 per year, the excess is taxable in the hands of shareholders @ 10%.

Exemption under section 10(34)
The amount received by a shareholder as dividend from a domestic company is exempt in his hands under section 10(34) till the amount received per year does not exceed Rs. 10,00,000.

(*34*) any income by way of dividends referred to in section 115-O :

Provided that nothing in this clause shall apply to any income by way of dividend chargeable to tax in accordance with the provisions of section 115BBDA;

Lecture 66

2. Casual incomes [Lottery/ Gambling/ Card Games/ Horse Races, etc.]
Tax rate on such incomes is 30%.

TDS on Lottery incomes, other gambling incomes (except horse races) etc. [Sec. 194B]
Rate of TDS is 30% if the amount of income exceeds Rs. 10,000.

TDS on Horse Races [Sec. 194BB].
Rate of TDS is 30% if the amount of income exceeds Rs. 10,000.

Gross up of gambling income:
Example:
Mr. X (40 years) earned a lottery income of Rs. 1,00,000. He will receive Rs. 70,000 because Rs. 30,000 [30% of 1,00,000] will be deducted by the payer of this income to Mr. X.
How much amount Mr. X will show in his head IFOS?
Solution:

		AY 2020-21
	Taxable Salary (Assumed)	12,00,000
	IFOS:	
	Lottery income	1,00,000
	Gross total income	13,00,000
Less:	Deductions U/S 80	Nil
	Total income	13,00,000

	Tax [1,12,500 + 30% (13,00,000 – 10,00,000)]	2,02,500
Less:	Rebate under section 87A	Nil
		2,02,500
Add:	Surcharge	Nil
		2,02,500
Add:	HEC @ 4%	8,100
	Tax liability	2,10,600
Less:	TDS	30,000
	Tax payable	1,80,600

HOW TO DO GROSSING UP OF GAMBLING INCOME?

If lottery income **received** is Rs. 1,40,000, the lottery income **earned** is Rs. 2,00,000 [$\frac{1,40,000}{(1 - .30)}$]

Amount earned = $\frac{\text{Amount received}}{\text{1-TDS (.90)}}$

3. Interest income

Interest on securities is having special calculations.
'Record Date'
Example:
X Ltd.'s securities of Rs. 2,00,000 are owned by Mr. Salman on which the company policy says that interest @ 5% will be paid every year on 31 July.
Mr. Salman transferred these securities of Rs. 2,00,000 to Mr. Rahul on 31 March 2019.
Assuming the PY 2019-20, 31st July will come on 31 July 2019.
Mr. Rahul will get the interest on 31st July 2019 for entire 1 year [Rs. 10,000] but in reality, he held the securities only for 4 Months [April 2019 to July 2019].
Unfortunately, Mr. Salman held the securities for 8 Months [1 August 2018 to 31 March 2019].
*In reality, Mr. Salman will get the 8 months from Rahul of Rs. 6,667 [10,000*8/12] and though Rahul will get Rs. 10,000 from the company on 31 July 2019 but his actual real income is Rs. 3,333.*
As per Income-tax Act, ***Mr. Rahul will include the entire interest income of Rs. 10,000 in the PY 2019-20*** *and there is no need for Salman to include Rs. 6,667 in his hands.*

TDS in case of 'interest on securities' incomes [Sec. 193]:
1. TDS rate is 10% if the interest in payable to a Resident Assessee. Further, no TDS is required in case of securities of Central Government or State Government.

2. TDS in case of interest incomes other than 'interest on securities' incomes [Sec. 194A]:
This section is applicable if all the following conditions are satisfied –
1. Income is **earned** by way of interest other than 'Interest on securities'.
2. The recipient of such interest income is a **resident** person.
3. The payer of such interest is **any person except** that an **individual/HUF** whose total sales/gross receipts/ turnover from the **business** (or profession) carried on by him **does not exceed ` 1 crore** in case of business (or ` **50 lakhs in case of profession**) during the financial year immediately preceding the financial year in which such interest is credited/paid.
If all the above conditions are satisfied, the person responsible to pay such interest has to deduct **10% tax** at source at time of credit of such income to the account of the payee (or at the time of payment thereof in cash/ by issue of a cheque/by way of issue of a draft/by any other mode), whichever is earlier.

Note: No TDS is required under section 194A in the following cases –
1. If aggregate amount of such interest credited/paid (or likely to be credited/paid) during the **financial year** does not exceed –
a) ` 40,000 (or ` 50,000 in case of resident individual who is **60 years or more** of age, at any time during the relevant previous year), where the payer is a **banking company**; and
d) ` 5,000 in any other case.
2. If such interest is credited/paid by a **firm to its partners**.
4. If such interest is credited/paid on deposits [other than time deposits (including recurring deposits)] **with a bank**.

Grossing up of interest income

Income earned = $\dfrac{\textit{Income Received}}{1 - TDS\ (.10)}$

Lecture 67

4. Gift received from any person (other than the employer)

(a) Cash Gift [AGGREGATE]

If Amount per year > Rs. 50,000, entire amount is taxable.

Example

Naveen receives Rs. 15,000 each from 4 of his **friends** during PY 2019-20. The total cash received per year is Rs. 60,000. In this case, Rs. 60,000 is taxable in Naveen's hands under his income head IFOS.

(b) Immovable Property Gift without any consideration [SINGLE TRANSACTION]

If SDV > Rs. 50,000, SDV is taxable.

Example

i. Ashish receives an immovable property (free of cost) from a **friend** whose SDV is Rs. 40,000. In this case, Rs. 40,000 is not taxable.

ii. Ashish receives an immovable property (free of cost) from a **friend** whose SDV is Rs. 60,000. In this case, Rs. 60,000 is taxable in his hands under the head IFOS.

(c) Immovable Property Gift with consideration and the consideration < SDV [SINGLE TRANSACTION]

Example

i. Mahesh receives an immovable property from a friend by making a payment of Rs. 80,00,000, the SDV of the property is Rs. 1 Crore.

In this case,

Is Rs. 20,00,000 > Rs. 4,00,000 which is Higher of **(a) 50,000**

(b) **4,00,000** [5% of 80,00,000]

Here, Rs. 20,00,000 is taxable in his hands under the head IFOS.

ii. *P received an immovable property (a residential house) from his friend N on 8 December 2019 for ` 11,00,000 and the stamp duty value of this property is ` 11,40,000.*

In this case, the amount taxable is

Is Rs. 40,000 exceeds Higher of (a) Rs. 50,000 or Rs. 55,000 (5% of 11,00,000).

No, Rs. 40,000 does not exceed Rs. 55,000.

Nothing is taxable in his hands for this transaction.

(d) Movable property Gift without any consideration [AGGREGATE TRANSACTIONS]

If Aggregate FMV > Rs. 50,000, the aggregate FMV is taxable.

Example

Ms. Sneha received 2 movable properties from her friends during PY 2019-20 free of cost. The FMV of property 1 is Rs. 30,000 and the FMV of property 2 is Rs. 22,000.

In this case, Rs. 52,000 > Rs. 50,000 and thus, Rs. 52,000 is taxable as IFOS.

(e) Movable property Gift consideration and the consideration < FMV [AGGREGATE TRANSACTIONS]

If difference b/w Aggregate FMV and the consideration > Rs. 50,000, then the difference is taxable in his hands under the head IFOS.

Example

Mr. Suraj receives a movable property for Rs. 40,000 whose FMV is Rs. 95,000.

Here, the difference of Rs. 55,000 > Rs. 50,000 and thus, Rs. 55,000 is taxable as IFOS.

Sec. 56(2)

(*x*) where any person receives, in any **previous year**, from any **person or persons** on or after the 1st day of April, 2017,—

(*a*) any sum of money, without consideration, the **aggregate value** of which exceeds fifty thousand rupees, *the whole of the aggregate value of such sum*;

(*b*) any **immovable property**,—

(*A*) **without consideration**, the **stamp duty value** of which exceeds **fifty thousand rupees**, *the stamp duty value of such property*;

(*B*) **for a consideration**, *the* ***stamp duty value of such property as exceeds such consideration***, ***if*** the amount of such excess is more than the higher of the following amounts, namely:—

(*i*) the amount of fifty thousand rupees; and

(*ii*) the amount equal to [13]**[***five***]** per cent of the consideration:

(*c*) **any property**, other than immovable property,—

(*A*) **without consideration**, the **aggregate fair market value** of which exceeds **fifty thousand rupees**, *the whole of the aggregate fair market value of such property;*

(*B*) for a **consideration** which is **less than the aggregate fair market value** of the property by an amount exceeding fifty thousand rupees, *the aggregate fair market value of such property as exceeds such consideration*:

Provided *that this clause shall not apply to any sum of money or any property received* ***[Gift is exempt if received from the following]*** —

(*I*) from any **relative**; or

(*II*) on the occasion of the **marriage** of the individual; or

(*III*) under a **will or by way of inheritance;** or

(*IV*) in contemplation of death of the payer or donor, as the case may be; or

(*V*) from any **local authority** as defined in the *Explanation* to clause (*20*) of section 10; or

(*VI*) from any fund or foundation or **university or other educational** institution or hospital or other medical institution or any trust or institution referred to in clause (*23C*) of section 10; or

(*VII*) from or by any charitable **trust or charitable institution**

Meaning of 'Property'

"property" means the following capital asset of the assessee, namely:—

(*i*) **immovable property** being land or building or both;

(*ii*) shares and securities;

(*iii*) jewellery;

(*iv*) archaeological collections;

(*v*) drawings;

(*vi*) paintings;

(*vii*) sculptures;

(*viii*) any work of art; or

(*ix*) bullion;

"relative" means,—

(*i*) in case of an individual (For example, Mr. X)—

(*A*) spouse of the individual (Mrs. X);

(*B*) brother or sister of the individual (Mr. X's brother and sister);

(*C*) brother or sister of the spouse of the individual (Mrs. X's brother and sister);

(*D*) brother or sister of either of the parents of the individual (Mr. X's parents brothers and sisters);

(*E*) any lineal ascendant or descendant of the individual (Mr. X's father, grandfather and so on, Mr. X's son, grandson and so on);

(*F*) any lineal ascendant or descendant of the spouse of the individual (Mrs. X's father, grandfather and so on, Mrs. X's son, grandson and so on);

(*G*) spouse of the person referred to in items (*B*) to (*F*) ; and

Deductions allowed while computing IFOS [Sec. 57].

57. The income chargeable under the head "Income from other sources" shall be computed after making the following deductions, namely :—

(*i*) in the case of [17]**[***dividends, other than dividends referred to in section 115-O***]**, or interest on securities, any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such dividend or interest on behalf of the assessee;

(*iia*) in the case of income in the nature of **family pension**, a deduction of a sum equal to 1/3rd of such family pension or Rs. 15,000, whichever is less.

Explanation.—For the purposes of this clause, "family pension" means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death ;

Example:

Mr. X died and after this death, his spouse received a family pension of Rs. 3,00,000 during PY 2019-20.

Mrs. X will show it as IFOS by Rs. 2,85,000 [3,00,000 – Rs. 15,000].

(*iii*) any other **expenditure (not being in the nature of capital expenditure)** laid out or expended wholly and exclusively **for the purpose of making or earning such income**;

Example:

X has borrowed Rs. 1,00,000 @ 10% p.a. interest and given Rs. 1,00,000 to another person as loan @ 13% interest.

In this case, X will earn [1,00,00*13%]		13,000
Less:	Expenses [1,00,000*10%]	<u>10,000</u>
	Taxable IFOS	<u>3,000</u>

(*iv*) While computing interest on compensation or interest on enhanced compensation, 50% of such interest is allowed as deduction.

Amounts not deductible while computing the income under the head IFOS [Sec. 58]

1. Personal expenses of the assessee
2. Expenses incurred to earn the casual incomes

Interest incomes which are exempt from tax [Sec. 10(15)]

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

1. Interest income from saving account in a Post office is exempt till Rs. 3,500 in case of single account and till Rs. 7,000 in case of joint account.
Example:
i. Mr. X has earned Rs 12,000 from saving bank account of SBI. His taxable IFOS is Rs. 12,000.
ii. Mr. X has earned Rs. 12,000 from saving account of Post Office. His taxable IFOS is Rs. 8,500 [12,000 – Rs. 3,500].

Lecture 68
Clubbing of income

Example
Mr. X transferred Rs. 20,00,000 to Mrs. X. Mrs. X earned Rs. 2,00,000 as interest income on this amount received from his husband. Mr. X has a business income of Rs. 14,00,000.

		Mr. X	Mrs. X
	PGBP	14,00,000	----
	IFOS	----	2,00,000
	GTI	14,00,000	2,00,000
Less:	Deduction under section 80	Nil	Nil
	Total income	14,00,000	2,00,000
	Tax		Nil
	2,00,000*30% decrease by	60,000	

After applying the provisions of clubbing of income, the computation of total income would be as follows:

		Mr. X	Mrs. X
	PGBP	14,00,000	----
	IFOS [Clubbing]	2,00,000	----
	GTI	16,00,000	----
Less:	Deduction under section 80	Nil	Nil
	Total income	16,00,000	----
	Tax		Nil
	2,00,000*30%	+ 60,000	

Lecture 69

Sec. 64(2)
Illustration
Mr. X was the owner of the property which is giving the annual rental income of Rs. 10,00,000. During the PY 2019-20, the property was transferred by him to the HUF without adequate consideration (Mr. X, Mrs. X, Child A and Child B are the members of the HUF having equal share).
Solution:
1. Rental income before transferring the property to the HUF: Taxable in the hands of Mr. X.
2. Rental income after transferring the property to the HUF: Taxable in the hands of Mr. X [Sec. 64(2)(b)].

After 3 years, this property was to be partitioned by the HUF, each member will get equal share.

	X	*Mrs. X*	*A*	*B*
Rental income	*2,50,000*	*----*	*2,50,000*	*2,50,000*
Clubbing [64(2)(c)]	*2,50,000*			

Lecture 70
***Set off* OR *carry forward and set off* of losses**

Salaries : Can never give a loss

HP	:	HP 1	(1,00,000)
		HP 2	30,000

HP 3 <u>50,000</u>
<u>(20,000)</u> – *I applied Step 1: Intra-head (or Inter source)*

PGBP : Speculative business
Non-speculative business:
1. Specified Business [Sec. 35AD]
2. Other non-speculative Business

CG : Short-term capital gain (1,00,000)
Long-term capital gain <u>1,15,000</u>
15,000 – *I applied Step 1: Intra-head*
House property <u>(15,000)</u> – *I applied Step 2: Inter-head*
<u>Nil</u>
Rs. 5,000 HP loss will be carried forward to the next year – *I applied Step 3: Carry forward and set off*

IFOS : Casual incomes/ losses (e.g. horse races)
Activity of owning and maintaining race horses
Others

Simplification Table for the rules of Step 1 [Intra-head] and Step 2 [Inter-head]

Profits / Losses	Salaries	HP	PGBP			CG		IFOS		
			Speculative business	Non-speculative: Specified business [Sec. 35AD]	Non-speculative: Other non-speculative business	STCG	LTCG	Casual incomes	Owning and maintaining race horses	Other incomes
HP**	Y	Y	Y	Y	Y	Y	Y	No	Y	Y
PGBP:										
1. Speculative	No	No	Y	No	No	No	No	No	No	No
2. Non-speculative:										
(a) Specified Business [Sec. 35AD]	No	No	No	Y	No	No	No	No	No	No
(b) Other non-speculative	No	Y	Y	Y	Y	Y	Y	No	Y	Y
3. Capital Losses:										
(a) STCL	No	No	No	No	No	Y	Y	No	No	No
(b) LTCL	No	No	No	No	No	No	Y	No	No	No
4. IFOS:										
(a) Casual losses	No	No	No	No	No	No	No	No	No	No
(b) Owning and maintaining race horses	No	No	No	No	No	No	No	No	Y	No
(c) Other losses	Y	Y	Y	Y	Y	Y	Y	No	Y	Y

**** HP loss is allowed to be adjusted inter-head but the maximum amount which can be adjusted is Rs. 2,00,000.** For example, HP loss in the PY 2019-20 is Rs. 9,00,000 and LTCG is Rs. 5,00,000. In this case, LTCG is Rs. 3,00,000 [Rs. 5,00,000 – Rs. 2,00,000]. However, the assessee can forward remaining unadjusted HP loss of Rs. 7,00,000 and in case it is assumed that in the PY 2020-21, the assessee has a positive HP income of Rs. 13,00,000; then entire will Rs. 7,00,000 carried forward HP is allowed to be adjusted. The final taxable HP income during the PY 2020-21 will be Rs. 6,00,000 [Rs. 13,00,000 – Rs. 7,00,000].

Note: The understanding of different colours is as follows:
1. For Intra-head:
(a) Allowed is shown by Black Font and Letter 'Y'
(b) Not Allowed is shown by Red Font and Word 'No'

2. For Inter-head:
(a) Allowed is shown by Sky Blue Font and Letter 'Y'
(b) Not Allowed is shown by Red Font, Yellow Background and Word 'No'

Simplification Table for the rules of Step 3 [Carry-forward and set off]

	Income under the head	Maximum time-limit (in years)	Is it necessary to submit return of income on time to claim the benefit of set off?
HP loss	HP	8	No
Speculative business loss	Speculative business profits	4	Yes
Specified business loss under section 35AD	Specified business profits under section 35AD	No time limit	Yes
Other non-speculative business loss	Speculative business profits, specified business profits under section 35AD as well as against other non-speculative business profits	8	Yes
STCL	STCG/ LTCG	8	Yes
LTCL	LTCG	8	Yes
Owning and maintaining race horse losses	Owning and maintaining race horses incomes	4	Yes

Note:
1. Once loss of any head is carried forward, in next year, it will be adjusted only intra-head.
2. Under the head IFOS, except the loss of owning and maintaining race horses, no other loss is allowed to be carried forward.

Examples on Carry forward:
1. During the PY **2017-18**, Mr. X has a HP loss of Rs. 8,60,000 and the non-speculative business income of Rs. 10,00,000.

In this case,		Non-speculative business loss	10,00,000
	Less:	HP loss	(2,00,000)
		Taxable non-speculative business loss	8,00,000

Note: Rs. 6,60,000 HP loss will be carried forward till the PY 2025-26. After this year, if it remains unadjusted, it will lapse automatically.

Example on Page 10.13 of the book [Concept Building Approach]
2. A submits the following particulars of his income and loss for the assessment year 2020-21:
`

Income from house property (computed)	2,57,000
Income from interest from a partnership firm	1,500
Profit from cloth business (before depreciation)	40,000
Income from speculation business	3,200

Long-term capital gain	9,100
Dividend from UTI	2,000
Current year's depreciation	2,000

The following items have been brought forward from the ***preceding*** *year:*

Loss from cloth business	10,000
Unabsorbed depreciation	7,500
Loss from speculation	7,000
Short-term capital loss	4,200
Long-term capital loss	11,400

You are required to compute his gross total income and deal with carry forward of losses.

[Delhi University B.Com.(H) 2016 (Modified)]

Solution:

Computation of gross total income of A for the assessment year 2020-21:

	Particulars	Rs.	Rs.
	HP		2,57,000
	PGBP:		
	Non-speculative:		
	Interest	1,500	
	Profit from cloth business	40,000	
Less:	Depreciation	2,000	
	Taxable business income from cloth business	39,500	
Less:	Brought forward loss in cloth business	10,000	
Less:	Unabsorbed depreciation	7,500	22,000
	Speculative business:		
	Income	3,200	
Less:	Brought forward speculation loss	3,200*	Nil
	Capital Gains:		
	LTCG	9,100	
Less:	LTCL	9,100*	Nil
	GTI		2,79,000

Note:
1. Dividend from UTI is exempt under section 10(35).
2. Speculation loss of Rs. 3,800 [7,000 – 3,200] will be carried forward to the next years and can only be adjusted till the PY 2022-23.
3. LTCL of Rs. 2,300 [11,400 – 9,100] will be carried forward to the next years and can be adjusted against LTCG only till the PY 2026-27.
4. STCL of Rs. 4,200 will be carried forward to the next years and can be adjusted against STCG as well as LTCG only till the PY 2026-27.

Discussion on some common points of Chapter Set off:
1. Applying the provisions of Set off is compulsory.
2. Losses of exempt incomes are not allowed to be adjusted.
Example: Borrowed Rs. 1,00,000 @ 10% = Expense is Rs. 10,000 per year.
I invested this Rs. 1,00,000 in the shares of a domestic company. Suppose the dividend received during PY 2019-20 is Rs. 3,000.
Income [Nil – 10,000] = (Rs. 10,000). It is not allowed.
2. If nothing is mentioned whether the busines is speculative or non-speculative, then, as a convention, it is a non-speculative business.

Lecture 71
Deductions under sections 80C to 80U

Some of the deductions are income based [80TTA, 80TTB, 80QQB, 80RRB, etc.] whereas some are payment based [80C, 80CCC, 80G, etc.].

Sec. 80A:

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

1. There are deductions available under sections 80C to 80U.
2. These deductions cannot exceed the GTI.

80AC:
To avail income-based deductions, it is necessary to furnish the return of income on time under section 139(1).

80B:
Defines GTI as the total income computed after applying all the provisions of the Act except deductions under section 80.

80C:
Applicability:
1. Individual/ HUF
2. Paid/ deposited during the PY
3. Maximum limit is Rs. 1,50,000.

Eligible payments:
1. PPF
2. SPF
3. RPF
4. Tuition fees of 2 children
5. Fixed deposits of 5 years or more tenure
6. Approved superannuation fund
7. Principal payment of housing loan
8. LIP [Actual premium paid or 10% of sum assured, LOWER. However, if the policy is issued till 31 March 2012, the eligible amount is Actual premium paid or 20% of sum assured, LOWER].
Note: Own life/ Spouse/ Children
9. NSC
10. Sukanya Samridhi Account

80CCC: Annuity Pension Plans
Individuals
Max. amount is Rs. 1,50,000.

80CCD: NPS

80CCD(1)	: *Own contribution*	:	Maximum 10% of Salary
80CCD(1B)	: *Own contribution*	:	Rs. 50,000 Maximum
80CCD(2)	: Employer's contribution	:	Maximum 10% of salary (14% of salary in case the employer is Central Government)

Note: Salary means BS + DA (forming part) + Commission based on fixed %age of turnover achieved by the employee.

Example given on page 11.9 of the book [Concept Building Approach]
During the previous year 2019-20, X gets ` 30,000 per month as basic salary and ` 10,000 per month as dearness allowance (60% is considered for retirement benefits). Employer contributes ` 45,000 towards NPS. X, however, annually contributes ` 55,000. Income from other sources of X is ` 9,40,000. X deposits every year ` 90,000 in PPF. X is also eligible for a deduction of ` 25,000 under section 80CCC. Compute the taxable income of X for the assessment year 2020-21.

Solution:

	Basic salary	3,60,000
	Dearness allowance	1,20,000
	Employer's contribution towards NPS	<u>45,000</u>
	Gross salary	5,25,000
Less:	Standard deduction	<u>50,000</u>
	Taxable salary	4,75,000
Add:	IFOS	<u>9,40,000</u>

	GTI		14,15,000
Less:	Deductions under section 80:		
	80C	90,000	
	80CCC	25,000	
	80CCD(1)	5,000	1,20,000
	80CCD(1B)		50,000
	80CCD(2) [10% of 4,32,000]		43,200
	Total income		12,01,800

Note:
1. Salary for the purpose of NPS deductions is 4,32,000 [3,60,000 + 72,000 (1,20,000*60%) + Nil].
2. It is assumed that the employee is not a Central Government employee.
3. Under section 80CCE, the cumulative amount of deduction under section 80C + 80CCC + 80CCD(1) cannot exceed Rs. 1,50,000.

Another way of attempting the deduction related to NPS:

	Basic salary		3,60,000
	Dearness allowance		1,20,000
	Employer's contribution towards NPS		45,000
	Gross salary		5,25,000
Less:	Standard deduction		50,000
	Taxable salary		4,75,000
Add:	IFOS		9,40,000
	GTI		14,15,000
Less:	Deductions under section 80:		
	80C	90,000	
	80CCC	25,000	
	80CCD(1) [Max. 10% of 4,32,000]	43,200	1,50,000*
	80CCD(1B) [55,000 – 43,200]		11,800
	80CCD(2) [10% of 4,32,000]		43,200
	Total income		12,10,800

Lecture 72

Sec. 80D, 80DD, 80DDB, 80E, 80EEA and 80EEB

Lecture 73

Sec. 80G:
Donations
Any assessee can claim this deduction.

Table 1: Where there is **no limit** on the amount of donations
100%:

National Defence Fund	:
National Relief Fund	:
PM CARES Fund	:
Zila Saksharta Samiti	:
National Blood Transfusion Council (NTC)	:
National Children Fund	:
Etc.	: Donated amount is eligible Rs. 4,00,000 is donated amount and it is also the eligible. Deduction 80G is 4,00,000 [4,00,000 (eligible)*100%]

50%:

The **Prime Minister's Drought** Relief Fund	:
Jawahar Lal Nehru Memorial Fund	:
Indira Gandhi Memorial Trust	:
Rajiv Gandhi Foundation	: Donated amount is eligible Rs. 3,00,000 is donated amount and it also the eligible.

Deduction 80G is Rs. 1,50,000 [3,00,000 (eligible)*50%]

Table 2: Where there is **a limit** on the amount of donations
100%:
Donation to Government, charitable institution etc. for the purpose of promoting family planning
: Donated amount **needs to be checked** that how much is eligible
50%:
Donation to Government, charitable institution etc. for any purpose **other than family planning** :
Donated to any temple/ mosque/ Gurudwara/ Church :
Donated to promote the interest of minority community :
: Donated amount needs to be checked that how much is eligible

How to check the eligible amount for Table 2 donations:
Total of Table 2 donations (including 100% and 50% donations) must not exceed 10% of adjusted gross total income. In case, it exceeds, that excess is ineligible amount.
Here, adjusted GTI = GTI – LTCG (whether sec. 112 or sec. 112A) – STCG (Sec. 111A) – Deductions under section 80C to 80U (except 80G).

Example given on page 11.18 of the Book [Concept Building Approach] – Deduction 80G

X has made the following donations during the previous year 2019-20:

1. Donation to the Government for the purpose of promoting family planning	: 1,00,000
2. Donation to the Government for promoting the interest of minority community	: 60,000
3. PM National Relief Fund	: 50,000
4. Rajiv Gandhi Foundation	: 20,000

His gross total income is ` 16,00,000. Compute his total income for the assessment year 2020-21 assuming he has contributed ` 40,000 towards his PPF account.

Solution:

	GTI	16,00,000
Less:	Deductions under section 80C	40,000
Less:	Deductions under section 80G – Note	1,88,000
	TI	13,72,000

Note on calculation of Sec. 80G deductions:

	Donated	*Eligible*	*Deduction 80G*
Donations without any limit:			
100%			
PM NRF	50,000	50,000	**50,000** [50,000*100%]
50%			
RGF	20,000	20,000	**10,000** [20,000*50%]
Donations with limit:			
100%			
Family planning	1,00,000	1,00,000	**1,00,000** [1,00,000*100%]
50%			
Minority community	60,000	56,000*	**28,000** [56,000*50%]
	1,60,000	**1,56,000**	

Calculation of limit:
10% of Adjusted GTI = 10% of [16,00,000 – 40,000]
= 10% of 15,60,000
= 1,56,000

Total deduction under section 80G = 1,88,000 [50,000 + 10,000 + 1,00,000 + 28,000]

Discussion on the above example of 80G for the purpose of just removing some confusion:
Doubt 1: Can we allot eligible amount in Table 2 donations first towards 50% and then 100%; my answer is Yes but in that case, your deduction 80G will be less.

Note on calculation of Sec. 80G deductions:

	Donated	*Eligible*	*Deduction 80G*
Donations without any limit:			

100%			
PM NRF	50,000	50,000	**50,000** [50,000*100%]
50%			
RGF	20,000	20,000	**10,000** [20,000*50%]
Donations with limit:			
100%			
Family planning	1,00,000	96,000*	**96,000** [96,000*100%]
50%			
Minority community	60,000	60,000	**30,000** [60,000*50%]
	1,60,000	**1,56,000**	

Total deduction 80G is 1,86,000 [50,000 + 10,000 + 96,000 + 30,000]

Doubt 2: While computing the eligible amount for those donations which are covered in Limit Category (i.e., Table 2 donations), donated amount should not be compared with the 10% of Adjusted GTI. The donations amount should be multiplied by the respective percentages and then the amount which will come has to be compared with the Adjusted GTI.

Note on calculation of Sec. 80G deductions:

	Donated	*Eligible*	*Deduction 80G*
Donations without any limit:			
100%			
PM NRF	50,000	50,000	**50,000** [50,000*100%]
50%			
RGF	20,000	20,000	**10,000** [20,000*50%]
Donations with limit:			
100%			
Family planning	1,00,000	1,00,000	**1,00,000** [1,00,000*100%]
50%			
Minority community	60,000	56,000*	**28,000** [56,000*50%]
	1,60,000	**1,56,000**	

Why you are comparing Rs. 1,60,000 with the 10% of adjusted GTI?
Why you are not comparing Rs. 1,30,000 with the 10% of adjusted GTI?

Donations with limit:				
100%				
Family planning	1,00,000*100% =	1,00,000	1,00,000	**1,00,000** [1,00,000*100%]
50%				
Minority community	60,000*50% =	30,000	30,000*	**30,000** [60,000*50%]
		1,30,000	**1,56,000**	

While computing the eligible amount for those donations which are covered in Limit Category (i.e., Table 2 donations), donated amount should not be compared with the 10% of Adjusted GTI. The donations amount should be multiplied by the respective percentages and then the amount which will come has to be compared with the Adjusted GTI.

Lecture 74

Deduction under section 80GG:
Available in case rent is being paid for the residential accommodation provided HRA is not being received
Least of the following:
1. Rent paid – 10% of Total income
2. Rs. 5,000 per month
3. 25% of Total income

'Total income' for this purpose = GTI – LTCG (whether Sec. 112 or 112A) – STCG (Sec. 111A) – Deductions 80C to 80U (except 80GG)

Example:

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Mr. X, a salaried employee, earns Rs. 1,00,000 per month as basic salary. He is not receiving any HRA. His LTCG is Rs. 2,00,000. He is living in a rented house by paying a rent of Rs. 30,000 per month. Compute his total income.
Solution:

	BS	12,00,000	
Less:	Std. Ded.	50,000	11,50,000
	LTCG		2,00,000
	GTI		13,50,000
Less:	Deduction 80GG		60,000
	TI		12,90,000

Note:
1. Rs. 60,000
2. 2,87,500 being 25% of (13,50,000 – 2,00,000)
3. 2,45,000 [3,60,000 – 10% of 11,50,000]

Deduction under section 80QQB:
Royalty income:
Example:

	IFOS [Royalty – Lump Sum]	4,00,000
	GTI	4,00,000
Less:	80QQB	3,00,000
	TI	1,00,000

Example:

	IFOS [Royalty – 12% of ….]	4,00,000
	GTI	4,00,000
Less:	80QQB [4,00,000 or 3,00,000, Lower]	3,00,000
	TI	1,00,000

Example:

	IFOS [Royalty – 18% of ….]	4,00,000
	GTI	4,00,000
Less:	80QQB [4,00,000/18* 15 = **3,33,333** or 3,00,000, Lower]	3,00,000
	TI	1,00,000

Lecture 75

Deduction under section 80TTB, 80TTA, 80-IAC and 80-IBA

Lecture 76
Agricultural income

1. Agricultural income in India is 100% exempt from tax [10(1)]
2. Meaning [2(1A)]
3. Scheme of Partial Integration [Finance Act]
Applicability:
1. The assessee is an individual, HUF, association of persons or body of individuals or artificial juridical person.
2. The net agricultural income exceeds Rs. 5,000.
3. The non-agricultural total income exceeds the exemption limit of the assessee.
Example
For the assessment year 2020-21, Mrs. X (Date of birth: 1 Sept 1951), a resident, furnishes the following information:

Gross agricultural income	: Rs. 12,21,000
Expenditure on earning agricultural income	: Rs. 90,000
Non-agricultural income (Gross total income)	: Rs. 4,00,000

Determine the tax liability of Mrs. X for the assessment year 2020-21 on the assumption that she contributes

` 60,000 towards PPF and pays insurance premium of ` 35,000 on her life insurance policy (sum assured: ` 1,50,000, policy issued on 23 March 2010).
Solution:
Computation of net agricultural income:
Net agricultural income = 11,31,000 [12,21,000 – 90,000]

Computation of total income:

	GTI	4,00,000
Less:	Deductions 80C:	
	PPF	60,000
	LIP	30,000
	Total income	3,10,000

In the present case, scheme of partial integration is applicable because all the following three conditions are satisfied:
1.
2. Agri > 5,000
3. Non-agri > Exemption limit

Computation of tax:
Step 1: Tax on **14,41,000** [3,10,000 + 11,31,000] = 2,42,300 [1,10,000 + 30% (14,41,000 – 10,00,000)]
Step 2: Tax on 14,31,000 [3,00,000 + 11,31,000] = 2,39,300 [1,10,000 + 30% (14,31,000 – 10,00,000)]
Step 3: Difference of Step 1 and Step 2

	2,42,300 – 2,39,300	=	**3,000**
Less:	Rebate under section 87A		
	[12,500 of 100% of tax, lower]		**3,000**
			Nil
Add:	Surcharge		Nil
			Nil
Add:	HEC @ 4%		Nil
			Nil
Less:	Prepaid taxes (if any)		Nil
	Tax liability		Nil

Note: To apply rebate and surcharge, non-agricultural total income is considered

In this case, I should not have done like the way given below:
Agri is 11,31,000 – Exempt
Non-agri is 3,10,000

	Tax [5% of (3,10,000 – 3,00,000)]	***500***
Less:	*Rebate under section 87A*	
	[12,500 or 500]	***500***
	Tax	*Nil*

Lecture 77
Alternate Minimum Tax [AMT]
(not applicable to companies)

MAT which is applicable to companies
1. AY 1988-89, MAT came to tax Zero-tax companies.
MAT [Sec. 115JB] – Applicable in PY 2019-20
It says
If Tax as per normal provisions < Tax as per book profits [Sec. 115JB], then you have to pay as per section 115JB.
Example:
1. Tax as per normal = Rs. 3,50,000
2. Tax as per book profit [15% of 40,00,000] = Rs. 6,00,000
You have to pay **Rs. 6,00,000**

AMT [Sec. 115JC]: Applicable to assessees (other than companies)

If tax payable as per normal provisions < 18.5% of Adjusted Total Income, then tax payable by the assessee is 18.5% of Adjusted Total Income (ATI).
Example
AY 2020-21:
Tax as per normal = Rs. 5,00,000
Tax as per 18.5% of ATI = Rs. 7,00,000
Tax to be paid is Rs. 7,00,000.

Tax credit [Sec. 115JD]
Maximum 15 years are allowed for tax credit

Example:
AY 2020-21: Excess than the normal is Rs. ***2,00,000*** *[7,00,000 – 5,00,000].*
AY 2021-22:
Tax as per normal = Rs. 4,00,000
Tax as per 18.5% of ATI = Rs. 4,70,000
Tax to be paid is Rs. 4,70,000.
AY 2021-22 Excess than the normal is Rs. 70,000 [4,70,000 – 4,00,000]

AY 2022-23:
Tax as per normal = Rs. 9,00,000
Tax as per 18.5% of ATI = Rs. 7,40,000
For the purpose of tax credit adjustment, I need to see the amount of normal tax which is more than AMT is 1,60,000 [9,00,000 – 7,40,000]
Here, tax as per normal > Tax as per AMT by Rs. 1,60,000
Tax to be paid is 7,40,000 [9,00,000 – 1,60,000 (out of Rs. 2,00,000)]
Remaining tax credit for AY 2020-21 is Rs. 40,000 and for AY 2021-22, it is Rs. 70,000.

13.3 **Application of AMT to certain persons [Sec. 115JEE]**
This section discusses the provisions related to applicability as well as non-applicability of AMT to certain persons.
Applicability of AMT
The provisions of AMT are applicable to a person (other than companies) who has claimed any deduction under section 80-IAC, 80-IBA, 80JJA, 80QQB, 80RRB, 80TTA, 80TTB, 10AA or 35AD.
Non-applicability of AMT
AMT is not applicable to an individual, an HUF, an association of persons or a body of individuals (whether incorporated or not), or an artificial juridical person, if the adjusted total income of such person does not exceed ` 20,00,000.

Lecture 78

12. B is employed by ***A Ltd.*** at **Delhi** throughout the financial year ended on 31 March 2020. He furnishes the following particulars for computation of his total income for the assessment year 2020-21:
a) Basic salary: ` 50,000 per month.
b) Personal pay: ` 30,000 per month.
c) Conveyance allowance: ` 3,000 per month.
d) Uniform allowance: ` 2,000 per month.
e) Knowledge update allowance: ` 2,500 per month (amount spent: ` 1,800 per month).
f) Medical allowance: ` 5,000 per month (amount spent: ` 4,000 per month).
g) Entertainment allowance: ` 1,000 per month.
h) He is provided with gift vouchers worth ` 25,000 per year.
i) His employer contributes 15% of the basic salary to his recognized provident fund account. Similar amount is deducted from his salary as his contribution to the fund.
j) He gets house rent allowance of ` 20,000 per month against a rent of ` 25,000 per month paid by him for his residential accommodation.
k) His employer paid electricity and telephone bills of his residential house amounting to ` 70,000 and ` 20,000 respectively for the whole year.
l) During the year he made the following payments:

i. Life insurance premium on own policy: ` 1,20,000 (sum assured is ` 10 lakhs)
ii. Life insurance premium on the life of his major son: ` 25,000
iii. Mediclaim policy premium paid in cash: ` 30,000
iv. Donation of ` 2,00,000 to an approved charitable trust
Compute his total income for the assessment year 2020-21 assuming life insurance policies have been taken in 2017 and his long term capital gains is ` 4,00,000. **[IAS Mains 2015 (Modified)]**

Solution:

Computation of total income of B for the AY 2020-21:

	BS			6,00,000
	PP			3,60,000
	Conveyance A			36,000
	Uniform A			24,000
	KU A [(2,500 – 1,800)*12]			8,400
	Medical A			60,000
	Enter A			12,000
	Gift [25,000 – 5,000]			20,000
	Employer contribution to RPF [15% of (6,00,000 + 3,60,000)]		1,44,000	
Less:	Exempt [12% of (6,00,000 + 3,60,000 + Nil + Nil)]		1,15,200	28,800
	HRA		2,40,000	
Less:	Exempt		2,04,000	36,000
	Perquisite of electricity			70,000
	Telephone facility			Nil
	Gross Salary			12,55,200
Less:	Std deduction		50,000	
	Entertainment allowance		Nil	50,000
	Taxable salary			12,05,200
	LTCG			4,00,000
	GTI			16,05,200
Less:	Deductions			
	80C:			
	Employee's contribution in RPF	1,44,000		
	Own LIP [1,20,000 or 10% of 10,00,000, Less]	1,00,000		
	Son's LIP	25,000		1,50,000*
	80D			Nil
	80G [1,05,520*50%]			52,760
	Total income			14,02,440

Note 1: HRA exemption:
1. 4,80,000 [50% of 9,60,000]
2. Rs. 2,40,000
3. **2,04,000** [3,00,000 – 10% of 9,60,000]

Note 2:

10% of AGTI = 10% [16,05,200 – 4,00,000 – Nil – 1,50,000]
= 1,05,520

Following steps should be followed to compute the total income of an individual –

Step 1 Determination of residential status

It is necessary to see whether the individual is resident and ordinarily resident, resident but not ordinarily resident or non-resident. The residential status of an individual helps in determining the following –

a) Whether any income is taxable in his hands or not; and

b) Whether any deduction is allowed to him or not.

Step 2 Computation of income of the individual under different heads of income as per the provisions applicable for the respective head.

Step 3 Apply the provisions of clubbing of income.

Step 4 Apply the provisions of set-off (or carry forward and set-off) of losses.

Step 5 Compute the deductions under section 80.

Step 6 Compute the total income.

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Following steps should be followed to compute the tax payable by (or refundable to) an individual –

Step 1 Compute the tax on total income by applying special tax rates on special incomes and normal slab rates on remaining income.

Step 2 Deduct rebate under section 87A, if applicable.

Step 3 Add surcharge, if applicable.

Step 4 Add health and education cess.

Step 5 Deduct pre-paid taxes paid by the individual and the figure arrived at is the tax payable by (or refundable to) an individual.

Lecture 79

Page 15.2 of the book [Concept Building Approach]

X (HUF) is having four members, Mr. X (64 years), Mrs. X, major son and minor daughter. Mr. X, being the senior most member of the family is the karta of X (HUF). The X (HUF) and the members of the X (HUF) have earned the following incomes during the previous year 2019-20:

1. Rental income from a let out property earned by the X (HUF): ` 4,00,000
2. Long term capital gains earned by the X (HUF): ` 2,00,000
3. Gross salary of Mr. X from A Ltd.: ` 6,10,000
4. X (HUF) has an income of ` 1,00,000 from fixed deposits in a bank.
5. Mr. X has an income of ` 90,000 from fixed deposits in a bank.

Determine the total income as well as tax liability of the X (HUF) and Mr. X for the assessment year 2020-21. Further, X (HUF) as well as Mr. X are resident and ordinarily resident in India.

Solution:

Computation of total income of X (HUF) for the AY 2020-21:

	Rental income/ Annual value	4,00,000	
Less:	Std. Ded. [30% of Annual value]	1,20,000	2,80,000
	LTCG		2,00,000
	IFOS – Interest income from FD		1,00,000
	GTI		5,80,000
Less:	Deduction under section 80TTB (not allowed to a HUF)		Nil
	TI		5,80,000

Computation of tax liability of X (HUF) for the AY 2020-21:

	Tax on LTCG [2,00,000*20%] under section 112	40,000
	Tax on remaining income of 3,80,000 [5,80,000 – 2,00,000] i.e., 5% (3,80,000 – 2,50,000)	6,500
		46,500
Add:	HEC @ 4%	1,860
		48,360

Computation of total income of Mr. X for the AY 2020-21:

	Gross salary	6,10,000	
Less:	Std. Ded.	50,000	5,60,000
	IFOS – Interest income from FD		90,000
	GTI		6,50,000
Less:	Deduction under section 80TTB		50,000
	TI		6,00,000

Computation of tax liability of Mr. X for the AY 2020-21:

	Tax on 6,00,000 [10,000 + 20% (6,00,000 – 5,00,000)]	30,000
Add:	HEC @ 4%	1,200
		31,200

The following steps should be followed to compute the total income of an HUF –

Step 1 Determination of residential status

It is necessary to see whether the Hindu undivided family is resident and ordinarily resident, resident but not ordinarily resident or non-resident. The residential status of an HUF helps in determining the following –

a) Whether any income is taxable in its hands or not; and
b) Whether any deduction is allowed to it or not.

Step 2 Computation of income of the HUF under different heads of income (except income from salaries) as per the provisions applicable for the respective head.

Step 3 Apply the provisions of clubbing of income under section 64(2).

Step 4 Apply the provisions of set-off (or carry forward and set-off) of losses.
Step 5 Compute the deductions under section 80.
Step 6 Compute the total income.

The following steps should be followed to compute the tax payable by an HUF –
Step 1 Compute the tax on total income by applying special tax rates on special incomes and normal slab rates on remaining income. The normal slab rate applicable to a non-resident individual is applicable to every HUF.
Step 2 Add surcharge, if applicable
Step 3 Add health and education cess
Step 4 Deduct pre-paid taxes paid by the HUF and the figure arrived at is the tax payable by (or refundable to) an HUF.

Lecture 80
Return of Income
[with reference to the PY 2019-20 (AY 2020-21)]

1. Who has to furnish the return of income? [Sec. 139]

1.1 Who has to compulsorily furnish the return? [Sec. 139(1)]
1) Every company [1 Person]
2) Firm [1 Person]
3) **Every assessee [5 Person]** (other than the company and firm) whose total income > the maximum amount which is not chargeable to tax. For example, If TI of Mr. X (40 years) is Rs. 6,00,000, he has to compulsorily furnish his return of income.
Note:
1. For every assessee **[5 Person]** (other than the company and firm) has to compulsorily furnish the return of income in the following cases even if the TI does not exceed the maximum amount which is not chargeable to tax –
a) If his deposits during the PY in one or more current accounts > Rs. 1 crore; or
b) If expense on foreign travel during the PY > Rs. 2,00,000; or
c) If electricity consumption during the PY > Rs. 1,00,000.
For example, if TI of Mr. X (40 years) is Rs. 10,000 but his electricity consumption during the PY is Rs. 1,30,000, he has to compulsorily furnish his return of income.
2. An *individual/ HUF/ AOP or BOI/ AJP* **[4 Person]** has to compulsorily furnish the return of income if the TI without giving effect to the provisions of sections 54 to 54G and without giving deductions under section 80 exceeds the maximum amount which is chargeable to tax.
For example, if Mr. X's taxable salary is Rs. 3,40,000 and his deduction under section 80C is Rs. 1,20,000, his total income is Rs. 2,20,000. In this case, since the total income without deducting section 80C is Rs. 3,40,000, he has to furnish the return of income.
3. Return has to be furnished till due date in the prescribed manner.
4. Return has to be verified also in the prescribed manner.
5. Due date of furnishing return of income:

S. No.	Assessee	Due date
(1)	An assessee who has entered into an *international transaction* or specified domestic transaction during the previous year	30 November of the assessment year
(Assuming PY 2019-20 is going on, the due date in this case is 30 November 2020)		
(2)	The following assessees if not covered under point (1) above – (a) A company (b) A person (other than a company) whose accounts are required to be audited (c) A partner of a firm whose accounts are required to be audited	31 October of the assessment year
(3)	Assessees who are not covered under point (1) and (2) above	31 July of the assessment year

6. Fees of late filing of return of income [Sec. 234F] –
A person who is required to furnish a return of income under section 139 but not furnishing it till the due date has to pay a fee of –
1. ` 5,000 (if the return is furnished till 31st December of the assessment year);

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Example, if Mr. X's due date is 31 July 2020 and he has furnished the return on 30 November 2020, Rs. 5,000 is the fee.
2. ` 10,000 (if the return is furnished after 31st December of the assessment year)
However, if the total income of such person does not exceed **` 5,00,000,** the fee payable cannot exceed *` 1,000.*

1.2 Belated Return [139(4)]
Return furnished after due date is Belated Return.

1.3 Revised Return [139(5)]
When I have already furnished either Original Return or Belated Return and later on found some defects in the such submitted return, the new return which will be furnished will be known as Revised Return.

1.4 Defective [139(9)]
When ITD tells me that the return submitted by me is defective, it is known as defective return.

2. E-filing of Return

2.1 **Offline** filling the form and then submit online
Step 1: www.incometaxindiaefiling.gov.in
Step 2: Download section and download the applicable ITR [ITR-1 to ITR-7]
Step 3: Fill the excel file and generate .xml
Step 4: Login on the above website www.incometaxindiaefiling.gov.in with your PAN and password. Select your AY, ITR and upload the .xml version.
Step 5: Return submitted and acknowledgement in ITR-V will be generated automatically
Step 6: Verify through online (through passwords like Aadhar, Bank ATM, Net banking, EVC) or offline (Send the print of ITR-V with your Signatures at CPC, Bengaluru)

2.2 Prepare the form online and submit directly
Step 1: Login on the above website www.incometaxindiaefiling.gov.in with your PAN and password. Select your AY, ITR and ***prepare and submit online [the option of online is available only for ITR-1 and ITR-4]***.
Step 2: Return submitted and acknowledgement in ITR-V will be generated automatically
Step 3: Verify through online (through passwords like Aadhar, Bank ATM, Net banking, EVC) or offline (Send the print of ITR-V with your Signatures at CPC, Bengaluru)

3. Forms applicable for the AY 2020-21

Covered

4. Manner of submitting the returns

Covered

5. E-verification of Return of income

6. Form 26AS

Lecture 81

Deduction of tax at source and Advance payment

Deduction of tax at source:
Example
If Mr. X pays Rs. 3,00,000 to Mr. J as fees for professional services, Mr. X will deduct tax at source on behalf of Mr. J. Suppose. Rs. 30,000 has been deduction and Rs. 2,70,000 has been given to Mr. J.
Here, **Mr. J [AY 2020-21]**

Income	3,00,000
Other incomes	----
GTI	

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Less:	Ded.	
	TI	
	Tax on TI	
	87A/ Surcharge/ HEC	
		XXX
Less:	TDS	**30,000**
	Tax payable	XXX

Mr. X has to furnish the TDS returns and to deposit the tax of Rs. 30,000 with the Government of India on time.

TDS provisions relevant:
1. TDS on gambling incomes (except horse race) [194B]
2. TDS on horse races [194BB]

TDS Returns:

1. Types of TDS Returns:

Form No.	Periodicity	Purpose for which forms are submitted
24Q	Quarterly	Statement of deduction of tax under section **192 [Salary income]**
27Q	Quarterly	Statement of deduction of tax under sections 193 to 196D in respect of the following deductees – *1. A non-resident (not being a company);* *2. A foreign company; or* *3. A resident but not ordinarily resident.*
26Q	Quarterly	Statement of deduction of tax under sections 193 to 196D in respect of all deductees ***other than the following*** – *1. A non-resident (not being a company);* *2. A foreign company; or* *3. A resident but not ordinarily resident.*

2. Due date of TDS returns

The following are the due dates of different returns forms required to be submitted quarterly –

Quarter ending of financial year	***Due date***
30 June	31st July of the financial year
30 September	31st October of the financial year
31 December	31st January of the financial year
31 March	31st May of the financial year immediately following the financial year in which the deduction is made.

Advance payment of tax:
If expected tax liability is Rs. 10,000 or more during PY 2019-20.

Due date of instalment	***Amount of advance tax***
On or before the 15 June	Not less than 15% of such advance tax
Till 15 June 2019	*30,000 [15% of 2,00,000]*
On or before the 15 September	Not less than 45% of such advance tax *minus* the amount (if any), paid in the earlier instalment
Till 15 Sept 2019	*60,000 [(45% of 2,00,000) – 30,000]*
On or before the 15 December	Not less than 75% of such advance tax *minus* the amount (if any), paid in the earlier instalments
Till 15 December 2019	*60,000 [(75% of 2,00,000) – 30,000 – 60,000]*
On or before the 15 March	The whole amount of such advance tax *minus* the amount (if any), paid in the earlier instalments
Till 15 March 2020	*50,000 [2,00,000 – 30,000 – 60,000 – 60,000]*

For example, I expected Rs. 2,00,000 as my tax liability during the PY 2019-20.

Books:
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2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Permanent Account Number [PAN] [Sec. 139A]
Self-Study

Lecture 82
Supreme Court Cases
Covered

MANY THANKS
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The file is available at www.srcc.edu/e-resources

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

Income Tax Law & Practice
Session Plan

Lecture	Topics Covered
1	Basics of Income Tax Law & Practice
2	Computation of total income and tax liability of an individual/ HUF/ Firm/ Company for the AY 2020-21; Special incomes and special tax rates; Tax slabs
3	Tax computation – Practice Cases
4	How to read the original Income-tax Act; Determination of Residential Status
5	Determination of Residential status – Individuals
6	Determination of Residential status – HUF, Company and all other assessees
7	Tax incidence
8	Tax incidence – Incomes deemed to accrue/ arise in India [Sec. 9]
9	Residential status – Practice cases
10	Residential status – Practice cases
11	Salaries – Introduction
12	Salaries – Leave Salary practice
13	Salaries – Leave Salary practice
14	Salaries – Gratuity
15	Salaries – Pension
16	Salaries – Provident Fund
17	Salaries – Taxability of allowances covered under section 10(14)
18	Salaries – House rent allowance, Fully exempt allowances, Fully taxable allowances and Perquisites – Introduction
19	Salaries – Accommodation
20	Salaries – Accommodation and Interest-free loan
21	Salaries – Motor car, domestic servants and household amenities
22	Salaries – Education
23	Salaries – Medical
24	Salaries – LTC, Food, Gift from the employer, Use of movable assets, Sale of movable assets
25	Salaries – ESOPs, Approved SAF, Telephone facility, Deductions under section 16
26	Salaries – Practice Questions
27	Salaries – Practice Questions
28	Salaries – Practice Questions
29	Salaries – Practice Questions
30	HP: Introduction and Determination of annual value of let out property
31	HP: Determination of annual value of a deemed to be let out property, Cases when annual value of a property is Nil
32	HP: Interest on borrowed capital
33	HP: Practice Questions
34	HP: Practice Questions
35	HP: Practice Questions
36	HP: Practice Questions
37	HP: Sec. 25A, Sec. 26 and Sec. 27
38	PGBP: Introduction
39	PGBP: Section 28, 29, 30
40	PGBP: Section 31, 32
41	PGBP: Additional Depreciation + Section 35
42	PGBP: Section 36 and 37(1)
43	PGBP: Section 40(a)(i)
44	PGBP: Section 40(a)(i) – Numerical
45	PGBP: Section 40(a)(ia)/ (ii)/ (iii)
46	PGBP: Section 40(b), Section 40A

Books:
1. Concept Building Approach to Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal
2. Principles of Income Tax Law & Practice (AY 2020-21): By Dr. Naveen Mittal

47	PGBP: Section 43B
48	PGBP: Section 44AD
49	PGBP: Section 44ADA and Section 44AE
50	PGBP: Mercantile Basis case for practice
51	PGBP: Cash Basis case for practice
52	Firms: Assessment of Firms
53	CG: Section 45(1A), 2(14), Meaning of 'Transfer', Section 47, Types of Capital Assets
54	CG: Types of Capital Gains, Mode of computation of Capital Gains [Sec. 48]
55	CG: Practice questions of earlier 7 headings covered, Determination of holding period, Sec. 49(1)
56	CG: Meaning of Cost of Acquisition, Meaning of Cost of Improvement
57	CG: Exemption under section 54
58	CG: Exemption under section 54B and 54D
59	CG: Exemption under section 54EC and 54EE
60	CG: Exemption under section 54F
61	CG: Sec. 50
62	CG: Sec. 50C and 51
63	CG: Sec. 112
64	CG: Sec. 112A
65	CG: Sec. 111A
66	CG: Computation of LTCG under section 112A
67	CG: Self-generated assets
68	IFOS: Introduction and Dividend
69	IFOS: Casual incomes and Interest incomes
70	IFOS: Gift, Sec. 57, Sec. 58 and Sec. 10(15)
71	Clubbing: Sec. 60, 61, 63, 64(1) and 64(1A)
72	Clubbing: Sec. 64(2)
73	Set-off: Intra-head and Inter-head Provisions
74	Set-off: Carry Forward Provisions and Miscellaneous
75	Deductions: Sec. 80A, 80AC, 80B. 80C, 80CCC, 80CCD and 80CCE
76	Deductions: Sec. 80D, 80DD, 80DDB, 80E, 80EEA and 80EEB
77	Deductions: Sec. 80G
78	Deductions: Sec. 80GG, 80GGA, 80GGB, 80GGC, 80JJA, 80QQB, 80RRB and 80U
79	Deductions: Sec. 80-IAB, 80-IBA, 80TTB and 80U
80	Agricultural income
81	Alternate Minimum Tax
82	Assessment of Individuals
83	Assessment of HUF
84	Return of Income
85	TDS and Advance Tax
86	Some Leading Cases of Supreme Court

Books Recommended:

1. Concept Building Approach to Income Tax Law & Practice (Assessment Year 2020-21) – By Dr. Naveen Mittal – Published by Cengage Learning India Pvt. Ltd. [B.Com.(H)]
2. Principles of Income Tax Law & Practice (Assessment Year 2020-21) – By Dr. Naveen Mittal – Published by Cengage Learning India Pvt. Ltd. [B.Com.]

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