

INCOME TAX PRACTICAL MANUAL

(Accounting & Taxation 1st year)

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INCOMETAX PRACTICALS

SYLLABUS

1. **a) Identification of types of persons viz. Individual, H.W.F. Firm and company etc.**

Giving list of names – identification.

Field work visit to Markets and entering about the shops and Establishments with regard to their firm of organization viz. sole trader, firm etc. and accordingly determining their status as per I.T. Act.

b) Determination of previous year and Assessment year under different situations viz, newly started business discontinued business and running business, newly recruited persons, retired persons.
2. **a) Collecting the Income particulars of 10 persons belonging to different groups.**

Classifying each in case head wise for each assessee (not computation of income)

b) Problems on tax rebate u/s 88C and 88D

c) Problems on tax calculation given computed Income (not more than 3 heads of income in each problem)
3. **Agricultural Income**

Visit to 5 Assesses to find out agriculture income and other incomes/tax computation.
4. **The Lecturer has to give different incomes to determine whether the income is Revenue or capital – similarly for expenses.**
5. **Lecturer has to give problems the taxable and exempted incomes With an assessment to find out exempted incomes**

6. **Collecting the Salary Income of 5 government employees and 2 to 3 private sector employees – for calculation of salary income.**
7. **Collecting Income details of 5 Assesses who are having the income from house property.**
8. **Problems on Interest on securities**
9. **Simple problem on computation of total income of an individual covering deductions 80CCC, 80 D, etc.(Giving income details of 2 heads of Income only)**

CONTENTS

	Page No.
1. Introduction	5
2. Lesson I	6
3. Lesson II	7
4. Lesson III	7
5. Lesson IV	8
6. Lesson V	8
7. Lesson VI	9
8. Lesson VII	9
9. Lesson VIII	10
10. Model Question Paper	19

INCOME TAX PRACTICALS

Special Note: - The Principal of the college has to contact the following in undergoing training and for fieldwork to the students.

- 1) Chartered Accountants / Tax Consultants / Advocates, dealing in taxation cases.
- 2) Income Tax assessing officers [From Income – Tax Department].
- 3) Merchants Associations.
- 4) Executives or Top Officials of Government Departments and Private Business Organisations.
- 5) Office bearers of Charitable / Education Societies.

The Object of contacting the above said persons is to seek Co – operation in getting the required particulars from different types of Assesses.

It is suggested to convene a meeting with the above said persons 3 times in a year.

- a) Before commencing the practicals to the students.
- b) While the practicals are in progress.
- c) At the End of the Academic Year.

The Principal has to assure the traders and other assesses that the data collected by the students is used for academic purpose only. And it will be kept confidential. The collected data is not to be allowed for any academic research work or for any enquiry or investigation by the income tax department.

LESSON - I

Preparing the Students to answer the following questions before they have been sent to fieldwork. The following questions and answers are suggested for the assessment year 2005-06. The lecturer is requested to add some more questions and answers.

Question 1 :- What is the exempted income limit ?

a) 1) Rs 50,000

b) It is reported in the new paper that up to Rs.1,00,000/- income, there is no tax how far is it true?

Ans : Income is exempted from tax upto Rs.50,000/- only but tax payable on the excess income in excess of exempted income becomes nil due to tax rebate u/s 88D.

Example : If tax Rs.5000/- then rebate is allowed up to Rs.5,000/- on account of this tax liability becomes nil.

Question 2 :- Rebate U/S 88D is allowed to whom?

Ans : It is allowed to an assessee whose status is individual i.e. it is not allowed to H.U.F, Firms and Companies.

Question 3 :- Whether rebate U/S 88D is allowed only on salary income?

Ans : No, It is allowed to all the heads of income namely rebate is allowed to a person who is having the salary income, it is allowed to a business man and it is also allowed to a profession person .

Question 4 :- Any special rebate is allowed for women?

Ans : Yes, According to section 88 C it is allowed to women up to Rs.5,000/-. If the age of the women is less than 65years.

Question 5 :- Is there any tax rebate for old men?

Ans : Yes, According to Income Tax Act if a person's age is 65 years or more he or she is known as senior citizen. According to section 88B tax rebate is allowed upto Rs.20,000/- to a Senior Citizen.

LESSON II

Computation of rebate u/s 88B,88C,88D are to be worked out.

Note : For details refer chapter 1.

LESSON No.III – Assignment

Identifying the nature of income i.e taxable income or exempted income.
If it is a taxable income then it comes under which head of income.

Question 1 :- Mr.Ravi received Scholarship Rs.3,000/- from state government.

Ans : It is an exempted income.

Question 2 :- Mr.Vikas received Rs-10,000/- from his employer as remuneration.

Ans: It is taxable income under the head "Income from salary".

Question 3 :- Mr.Verma received Rs.5,000/- from his employer as loan?

Ans : Loan taken from anyone is not an income.

Question 4 :- Mr.Hari won a lottery prize Rs.6,000/-

Ans : This is casual income and also taxable income. This income is taxable under the head "Income from other Sources"

Question 5 :- Mr.Vimal made a profit Rs.5,000/- By selling his gold ring

Ans : This is taxable income under the head "Capital Gain"

Question 6 : Mr.Gupta received rent from house Rs.16,000/-

Ans : This is taxable income under the head “Income from house property”.

Question 7 : Mr.Satish received rent from Hut Rs. 6,00/-

Ans : This is taxable income under the head “Income from other sources”

Question 8 :- Mr.Mohan received / earned Rs.19,000/- from a business

Ans : This is taxable income under the head “Income from business or Profession”

Question 9 :- Dr.Reddy received 1,000/- from a patient

Ans : This is taxable income under the head “Income from business or Profession”

Question 10 :- Mr.sailesh received 8,000/- as pension from his employer

Ans : This is taxable income under the head “Income from salary”

Note :- The lecturer is requested to frame similar type of questions

LESSON - IV

Calculating or computing tax liability

Note : Please refer to Chapter No I

LESSON - V

Calculating tax liability when agricultural income is there Next line please refer to chapter No.III

LESSON - VI

Determining the residential status please refer to chapter V

LESSON No - VII

Identification of types of persons namely Individual, H.U.F, Firm, and Company.

From each Assessee (Assessee having the income from business or profession).

Format of Schedule :-

1. Name of the business (example Top Ten Bakery, Balaji Ratanlal Sweet shop, Vikas Private limited etc)
2. Name of the Owner / Owners.

Hint : a) If there is only one owner -> Sole Trader - "Individual"

b) If more than one owner -> Partnership - "Firm"

c) If registered under Companies Act 1956 -> Company -> "Company"

d) Family running the business with undivided property

Assets -> Hindu Undivided Family -> "Hindu undivided Family"

e) Associations / Charitable institutions -> "Association of person"

Note : Please refer Chapter No II for further details.

LESSON VIII

Collecting income particulars from Assesses

Format for Assessee who is housing income from salary.

1. Name
2. Address
3. (To determine nature of employment employer is Government or not)
 - a. Central Government b) State Government c) Local Authority d) Private Sector
4. Particulars of Employment
 - a. Working for more than one year YES/NO
 - b. Working for less than one year YES/NO

PARTICULARS OF SALARY :-

1. Basic Pay
2. Bonus
3. Commission
4. Advance Salary
5. Arrears of Salary
6. Pension from former employer
7. Interim Relief

Particulars of Allowances:-

1. Dearness Allowance
2. House Rent Allowance
3. City Compensatory Allowance
4. Education Allowance
5. Medical Allowance
6. Traveling Allowance
7. Education Allowance for Children
8. Hostel Allowance for children

9. Other allowances (if any)

Particulars of Perquisites

- | | |
|--|----------------------|
| 1. Rent free accommodation provided by the employer | YES/NO |
| 2. If Yes furnish the following particulars | |
| a) Employer is own building | YES/NO |
| b) Building hired by the employer | YES/NO |
| c) Rent paid by employer in Rs/ per month | <input type="text"/> |
| 3. Value of furniture provided | |
| 4. Rent of the furniture paid by the employer | |
| 5. Rent recovered by the employer i.e Rent paid by the employee to the employer for using the house. | |
| 6. Provision of Motor Car. | |
| 7. Use of the Car. | |
| a) For official Use. | |
| b) For personal Use. | |
| c) For official and personal uses | |

Note : In the case of personal use specify approximately how much for personal use and how much for official.

Details of Car :-

- a) Name of car
- b) Small car or Big car.

Expenses on car for personal use Paid by the employer in Rs.

Other perquisites :-

- I.
 - 1. Loans given by the employer
 - 2. Amount of loan
 - 3. Date of loan sanctioned

4. Rate of interest charged by the employer
5. Purpose of loan / Housing / Car / Two Wheeler / Others

II Free Meals

III Gifts given by the employer

IV Other perquisites.

INCOME FROM HOUSE PROPERTY :-

1. Name of the Assessee
2. Are you receiving rent from house YES/NO
3. Address of the house
4. House is permanent structure / temporary structure like hut.

Note : If YES please furnish the following particulars

1. Own House or Rented House

Note : If it is rented house it means, it is sublet and income from such house property shall be treated as “income from other sources”.

2. If the rent is derived from own house furnish the following particulars.
3. Rent received is :-For using the house only / for using house and furniture and for the services provided.
4. Apportionment of rent received per month in Rs.-

- a) For the use of house only
- b) For the use of furniture
- c) For availing the services provided

Total Rent per Month

Note:- Rent Received for using the furniture and for services provided will be treated as income from other sources.

5. Rent of similar building / house in your street or in locality (per month).
6. Municipal rental value per month
7. Standard Rent per month / As fixed by Rent Control Authority
8. Age of ownership of the house (from the date of purchase or construction or inheritance to 31st March 2005).

Tick the Correct one.

- a. More than one Year.
- b. Less than One Year.

If it is less than one year Mention the period in months from the date of registration to 31st March 2005.

9. Details of Let out.

- a. Let out for 1 year YES/ NO
- b. If No How many months the house
was vacant (between 1-4-2004 to 31-3-2005) YES/ NO

10. Details of Rent received

- a. Whether rent is received is for 1 year fully YES / NO
- b. If No. How much of amount of Rent is not received.
- c. Reasons for non – recovery.
- d. Tenant became insolvent / Tenant is absconding.
- e. Tenant died without leaving any assets.

11. Whether the defaulting tenant is still occupying
/ living in the same house

YES/NO

12. Details of loan taken on house.

- a. Loan is taken for purchasing or constructing the house.
- b. Loan is taken for repairs and rennovation of the house.
- c. Loan is taken for other purposes.
- d. Total interest paid (Plus) (+) Still interest is payable
(from 1-4-2004 to 31-3-2005)
- e. Details of expenses from (1-4-2004 to 31-3-2005)

Nature of expenditure	Paid	Payable
Total		
1. Municipal taxes (paid by the owner)		
2. Municipal taxes (paid by the tenant)		
3. Repair expenses paid by tenant / owner		
4. Insurance premium		
5. Electricity Charges		
6. Water Charges		
7. Interest on Loan (paid by the owners)		
8. Other expenses (if any)		

13. Details of Services provided by the owners to the tenant.

Nature of Expenditure	Paid	Payable	Total
1. Lift operator's Salary			
2. Gardener's Salary			
3. Watch man and Security			
4. Staff Salary			

14. Details of furniture provided by the landlord to the tenant.

Name of the Asset	Value as on 1-4-2004	Depreciation for the year	Value on 31-3-2005
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Lift Machinery Fans,
Coolers etc)
(Other assets)

Hire charges of furniture provided to the tenant during the year.

CAPITAL GAIN

- I. Name of the Assessee
- II. Details of Assets transferred.

Nature of Asset	Selling Price	Selling Expenses	Purchase Price
1. Building			
2. Jewellery			
3. Shares			
4. Debentures			

Date of Sale	Date of Acquisition	Period of holding In months	Short-term gain or long term gain
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Note :- Shares and Debentures are known as financial assets in the case of financial assets. If the period of holding is 1 year or more then it is a long term, capital asset in the case of other assets if the period holding is 36 months (3 years) or more then it is considered as a long term Capital Asset.

INCOME FROM BUSINESS

1. Name of the Assessee
2. Nature of Business
3. Place of Business
4. Stock Value on 1-4-2004 [opening stock] XXX
5. Stock on 31-3-2005 [closing stock] XXX
6. Purchases (from 1-4-2004 to 31-3-2005) XXX
7. Sales (from 1-4-2004 to 31-3-2005) XXX
8. Purchase returns [from 1-4-2004 to 31-3-2005] XXX
9. Sales return [from 1-4-2004 to 31-3-2005] XXX
10. Details of Expenses [From 1-4-2004 to 31-3-2005]

Nature of Expenditure	Paid	Payable/Outstanding
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Total

1. Staff Salaries
2. Wages paid to staff
3. Rent of Building
4. Rent of Machinery
5. Rent of Furniture
6. Rent of any other Asset
7. Electricity Charges (for production)
8. Electricity charges for General use
9. Telephone Charges
10. Cell phone Charges
11. Fax Charges
12. Internet Charges

13. Transport Charges for purchase of goods (freight inward)
14. Transport Charges for selling the goods i.e free. Delivery to customers (carriage outward or freight outward).
15. Traveling expenses to staff
16. Traveling expenses for business purpose
17. Insurance (General insurance) Charges
18. Municipal taxes
19. Sales taxes or commercial taxes
20. Professional tax
21. V.A.T
22. Customs duty
23. Excise duty
24. Entertainment expenses [Tea, Tiffin, Meals provided to staff and tips given to staff.
25. Bonus to Staff
26. Commission to staff
27. Interest paid on loan taken
28. Discount allowed
29. Advertisement
30. Bank Charges
31. Packing
32. Postage
33. Expenses on pooja
34. Expense on Diwali Festival
35. Expense on National Festivals.

Details of Incomes from (1-4-2004 to 31-3-2005)

- | 1. Nature of Income | Income Received | Still Revisable | Total |
|----------------------------------|-----------------|-----------------|-------|
| 2. Discount | | | |
| 3. Commission | | | |
| 4. Interest Charged to Customers | | | |

5. Rent from Staff, Quarters.

Note : Interest on bank deposits interest on Savings account is to be shown. Under the head income from other sources. Similarly interests on debentures is income from other source.

Hint : Dividend on Shares and income from mutual benefit fund investment is an exempted income.

Details of Assets :

Nature of Asset during	Value on 1-4-2004	Purchases During the year	Sale the year
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Closing balance as balance on 31-3-2005

15. Rate of Depreciation, Depreciation amount]

1. Machinery
2. Buildings
3. Furniture
4. Motor Car or Van
5. Other Assets

Details of losses Suffered from 1-4-2004 to 31-3-2005

1. Nature of losses	Loss Suffered	Loss recovered	Net loss
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1. Bad debts
2. Stock destroyed
3. Other losses if any

MODEL QUESTION PAPER

INCOME TAX

PRACTICALS

I. Compute the tax liability and fill in the particulars in “Return Form”

Marks : 20

Mr.J.N.Reddy, S/o.Sri V.R.Reddy resident of Kurnool is working in a limited company. His income details and other particulars are as under:

Basic Salary Rs.17,500 p.m.

D.A. Rs.3,000 p.m.

H.R.A. Rs.2,500 p.m.

Entertainment allowance Rs.5,000 p.m.

Children education allowance for his son Rs.1,800 p.m.

He is owning a house and using for his residential purpose expenses paid on the house municipal taxes Rs.11,000; Repairs Rs.7,500 interest on loan taken to particulars the house Rs.52,000

His income for other sources Rs.1,56,000 from

His Payments :

1)Medical insurance premium Rs.14,000

2)Repayment of education loan Rs.60,000

Tax relate u/s 88 as per I.T.Act is Rs.10,000

Date of Birth 16-7-1984

Telephone No.21644914

II. Answer any 4 of the following : 4 X 5 = 20

1. Sri Rama's total income for the current assessment year is Rs.1,63,420

Tax deducted at source is Rs. 21,000 and advance tax paid is Rs.11,800. Draft an application for refund of tax in the prescribed format.

2. Sri S.K.Patel is a citizen of India has left for pairs to setup his business On 15-4-2004 and did not return to India during the year 2004-05. Determine his residential status for the Assessment year 2005-2006.
3. Sri S.S.Krishna is working in Education Department Government of Andhra Pradesh in Hyderabad. His salary particulars are as under :
Basicpay : Rs.1,800p.m
D.A : Rs.750 p.m
H.R.A.Rs.600 p.m (Rent paid Rs.750p.m)
Calculate the expected and of H.R.A.
4. Calculate the value of the loans given by the perquisite for employer
 - i) Housing loan Rs.5,00,000 @ 4%, the outstanding loan amount is Rs.4,20,000
 - ii) Car loan Rs.2,00,000
5. Mr.Mohan is the owner of the house.Half of the house is letout on a monthly rent of Rs.6,000 and remaining is used for his residential purpose.
Expenses :
Municipal Tax Rs.12,000
Insurance Rs.800
Insurance loan taken to construct the house Rs.21,000 compute income for House Property.
6. Calculate income for interest on securities.
U.P.Government Loan Rs.80,000; 7%
Tax free Bands of Tamil Nadu Government
Rs.1,00,000; 10%
Tax free duties of X Ltd., coated (unlisted) Rs.10,000;10%
Debentures of Y coted Rs.10,000; 12%
Collection charges Rs.25 and interest paid on loan taken to U.P.Government loan bonds Rs.1,400.