Introduction

The term tax to a common man means money paid to the Government out of compulsion without deriving any benefit directly by himself or his family members. Tax payer feels that the payment of tax is an additional expenditure or cost and if the amount of tax is too high then he treats it as loss. But to the students of taxation and for the progressive minded citizens the term ‘Tax’ means statutory payment to be made by the public and imposed by the Government. The word ‘tax’ is derived from a Latin word “Taxare” it means to estimate or value.

Tax is a compulsory payment by a person to the Government. The constitution of India does not define the word tax but according to Article 366 (28) of Indian Constitution taxation includes the imposition of any tax, general or special, and tax shall be construed accordingly.

Classification of Taxes

The following are the important types of taxes:

1. Direct taxes
2. Indirect taxes

Note: - Presently our study is confined to Direct and Indirect Taxes.

1. Direct taxes: A direct tax is one in which the immediate and ultimate
burden will be on the same person. Direct taxes are those taxes which are imposed on a person either on his income or wealth and the tax liability cannot be transferred to other persons i.e., if tax is levied directly on a person's income or wealth then it is known as direct tax. A direct tax is paid to the Government by the person on whom it is imposed. Income tax, wealth tax and professional tax are the examples for direct taxes. Direct taxes are paid after the income reaches in the hands of taxpayer.

The person on whom the tax is imposed is personally liable to pay the tax. In other words he cannot shift or transfer the burden to others and hence they are also known as personal taxes.

2. Indirect taxes: If the tax is levied on the price of goods or services then it is known as indirect tax. Indirect tax is collected by middle men in the channels of distribution of goods and it is remitted to the Government treasury. Indirect taxes are the taxes charged to a business man, first he pays the tax and latter on he shifts the tax burden to ultimate consumer by charging a higher price. The price charged to a consumer includes cost of goods, profit margin of the seller and indirect taxes paid by him at the time of purchase or production of the goods. Indirect taxes are paid before the goods/services reach the tax payer. Indirect taxes are also termed as hidden taxes because the purchaser of the goods is not aware how much tax he has paid for purchasing the goods or services. Sales tax, excise duty and customs duty, service tax are the examples of indirect taxes.

A comparative picture between Direct and Indirect Taxes

<table>
<thead>
<tr>
<th><strong>Direct Taxes</strong></th>
<th><strong>Indirect Taxes</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct taxes are levied on income or wealth of a person, as such it affects rich person.</td>
<td>Indirect taxes are levied on manufacturer or seller of the goods or both. They shift the tax burden to the next purchaser and finally to the consumer by charging a higher price.</td>
</tr>
<tr>
<td>The tax payer knows the tax liability, time and amount of tax to be paid.</td>
<td>Business men may charge much higher price than the tax amount and the same is included in the price as such the consumer is not aware about the tax effect.</td>
</tr>
<tr>
<td>Increase in tax rate may reduce savings and investment by the public.</td>
<td>Increase in the tax rate is bound to reduce consumption.</td>
</tr>
</tbody>
</table>
Income Tax Introduction

Income Tax means tax on total annual income of a 'person'. The term person includes an individual or a firm or a company etc. Presently our study is confined to know the provisions applicable to an "Individual". At present, the Income Tax Act of 1961 is in force in our country and extends to the whole of India. According to this Act, every person who earns income in India has to pay tax if the income exceeds the exempted limit. For the current assessment year i.e., for 2012-13 the exemption limit of an assessee whose status is "Individual" and residential status is "Resident" is as under:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Status of the assessee</th>
<th>Age in years</th>
<th>Basic Exemption limit in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Men</td>
<td>below 60</td>
<td>1,80,000</td>
</tr>
<tr>
<td>2.</td>
<td>Women</td>
<td>below 60</td>
<td>1,90,000</td>
</tr>
<tr>
<td>3.</td>
<td>Senior citizen (both for men &amp; women)</td>
<td>60 and below 80</td>
<td>2,50,000</td>
</tr>
<tr>
<td>4.</td>
<td>Super senior citizen (both for men &amp; women)</td>
<td>80 and above</td>
<td>5,00,000</td>
</tr>
</tbody>
</table>

There is a scope for tax evasion, either by not paying the taxes or tax payer may understated the income or wealth by suppressing the actual facts.

The Government has to establish link with every tax payer as such the cost of collecting to the Government will be higher.

Ability of the tax payer is taken into account.

The scope for tax evasion by the ultimate consumer is not there.

The cost of collecting taxes to the Government is minimum when compared to direct taxes. Government collects tax directly from the producers of the goods and the business men.

Ability of the tax payer is ignored. Both rich and poor have to pay the same amount of tax.
Any person living within the territories of India is liable to pay tax according to the provisions of this Act. In some situations he has to pay tax on the income earned in foreign countries also. Citizenship of a person is not the criteria for tax purpose but residential status of a person has to be taken into consideration.

**Note:** A person who is not a citizen of India is treated as "Foreign National". If a foreign national is having a link with income earned in India then he is liable to pay income tax.

Taxation system in the world is as old as the human civilisation. There is ample evidence to prove that taxes on income in one form or the other were levied even in primitive and ancient communities. In India also the system of direct taxation as it is known today, has been inforce even from ancient times.

On studying the Indian scriptures and writings of Maharshi Sri Veda Vyasa, Dharma Shastra Kovid Manu and eminent economist and political philosopher Acharya Chanakya (Kautilya) it is observed that income tax was imposed right from the days of vedic period. According to the available historical records it is observed that (i) Income tax was imposed on rich people. It means tax exemption income limit was there. (ii) Persons deriving income or profit from business or profession viz, doctors, musicians, artistes etc. have to pay tax at 20% of their annual income in the form of gold or silver coins. (iii) The agriculturist has to pay tax after harvests of the crop. Persons deriving income from agriculture have to pay tax in the form of crop produced i.e. paddy, wheat, sugarcane etc. The tax rate varied between 10% to 16%.

According to Islamic religion every rich person has to set aside a minimum percentage of his annual income to the welfare of the poor people, such earmarked amount is known as "Zakat". Every Islamic religious practicing person will calculate his annual income and will set aside money for the zakat and the same is spent for the needy people during the month of "Ramzan". The contribution is made payable by a Muslim once in every year. Every Muslim male or female who at the end of the year is in possession of the equivalent of 85 grams of gold or more in cash or articles of trade, must pay his or her zakat at the minimum rate of 2.5 percent on net assets.

The followers of Christian religion will pay 10% of their earnings to the church as an offering. This offering is known as "Titche". This offering is based upon the principle of "Law of Reciprocation" i.e., you are paying back to the kingdom of God for what you have derived the monetary benefit from the public.

Similar practice can also be seen in other religions. Till the middle of 18th century the people were honest and sincere in respecting the religious rituals and
laws of the land. With the increase in dishonesty among the people in general and defaulters of tax payment in particular, the Governments have started legalising the payment of tax and punishing the defaulters under the provisions of the Act. During the period of British Rule in India for the first time income tax was introduced by Sir James Wilson in the year 1860. In the year 1922 a new Income Tax Act was passed and at present Income Tax Act 1961, remains inforce from the assessment year 1962-63 onwards.

One of the important functions of a Government is to promote welfare of the people in general and the poorer section in particular. For this purpose, modern Governments are working in a planned way. This envisages the Government to undertake economic activities in addition to the welfare programmes. To undertake these programmes, the Government mobilises the funds from various sources. One of the popular sources is through taxes both direct and indirect. To remove the inequalities of income and to establish a socialistic pattern of society, direct taxes are resorted to. The examples for direct taxes are Income Tax, Wealth Tax etc. As per the Indian Constitution, Income Tax is the subject of Central Government. Out of the total amount of tax collected. "Income Tax" part is shared by both Central and State Governments according to the recommendations made by the Finance Commission. Education Cess and Secondary & Higher Education Cess will be retained by the Central Government and the same will be spent for the purpose for which it is levied.

Under the existing provisions of the Constitutione very year, the Union Minister for Finance presents Budget to the Parliament, in which the fiscal policy of the Government is made clear. Along with the Budget a Finance Bill will be presented to the Parliament. It contains proposals in the areas of Direct taxes. For example, the rate of taxes on the incomes, the mode of collecting taxes etc. When the Parliament approves the Finance Bill, it will be sent to the President of Indian Republic for his/her assent. When the President gives his assent to the Bill, then it becomes an Act.

The Finance Act, specifies the limit of the tax-free income. The total income of a person is, aggregate of income computed under different heads of income. Each head of income has a method of computing the income under it. All sources of income have been classified into five heads of income which are as under:

1. Income from Salary
2. Income from House Property
3. Profits and gains from Business or Profession

5. Income from Other Sources

To illustrate let us study an example. Mr. Swamy Nathan is working as a manager in a Private Limited Company and his particulars of Income are as follows:

Salary received from the company Rs. 3,85,500, Rent from the Building Rs. 84,000, Interest on debentures of a Limited Company Rs. 10,000, profits from a business Rs. 2,81,000. Profit on sale of Jewellery Rs. 75,000 and winning from lottery Rs. 60,000.

Salary received from the Company is "Income from Salary", Rent received from the Building is "Income from House Property", Interest received on debentures of a Company is "Income from Other Sources", Profit from the business is "Income from the Business", Profit on sale of jewellery is "Capital gain" and winning from lottery is "Income from other sources".

Income may be received either in cash or in kind. When it is received in kind, valuation is made as per the rules of Income Tax Act. In the absence of any specific rule, valuation is made at the market price.

**Income Tax for "Individuals"**

If the assessee is an individual then he or she is liable to pay tax on the income earned during the previous year. For the purpose of determining tax rate and to calculate tax liability individuals can be classified into four categories.
(1) Men (2) Women (3) Senior citizens (4) Super Senior citizens.

**Note**: If an individual (male or female) during the relevant previous year (between 1-4-2011 to 31-3-2012) attains the age of 60 years on any day then he/she will be treated as "senior citizen". Similarly if the person attains the age of 80 years he/she will be treated as "very senior citizen" or "super senior citizen". For senior citizens and super senior citizens some tax benefits and incentives are provided in the Income Tax Act during their life time.

**Rounding off of income under each head**

While computing income under each head, the income is rounded off to the nearest one rupee. If the fraction value is 0.5 or more then it is rounded off to the next rupee e.g. Rs. 8,456.72 is made as Rs. 8,457. Similarly if the fraction value is less than 0.5 then ignore the fraction value e.g. Rs. 10,842.48 is made as Rs.10,842.

**Rounding off of Total Income**: The Total income shall be rounded off to
the nearest multiple of Rs.10. If the last figure in the amount is Rs. 5 or more, then it is rounded to next multiple of Rs.10. If the last figure is less than Rs. 5 then the amount shall be reduced to next lower amount, which is multiple of Rs. 10 for e.g. Rs. 84,506 will be made as Rs. 84,510 and Rs. 97,803 will be made as Rs. 97,800.

Rounding off of Tax/ Refund of Tax The amount of tax liability/refund of tax shall be rounded off to the nearest multiple of Rs.10. If the last figure in the tax amount is Rs. 5 or more then it is rounded to next multiple of Rs. 10. If the last figure is less than Rs.5 then the amount shall be reduced to next lower amount which is multiple of Rs.10. For e.g. tax of Rs. 4,505 shall be made as Rs. 4,510 and Rs. 6,702 will be made as Rs. 6,700.

Education Cess: The rate of Education Cess is 2% of Income tax.

Secondary & Higher Education Cess: Additional Cess is levied on income tax is known as "Secondary & Higher Education Cess". The rate of Secondary & Higher Education Cess is 1% of income tax.

Types of Tax rates: The rates of income tax are of two types: (1) Flat rate (2) Slab rate.

1. Flat rate: Under this method the entire income is taxed with one rate. Presently flat rates are 15%; Short term Capital Gain 20% on Long term Capital Gain and 30% on Casual Income.

2. Slab rate: Under this taxable income is divided into different parts known as "Slab", and each part or slab income is taxed with different rate of tax. Example for male assessee first Rs. 1,80,000 (First Rs.1,80,000) no tax ; the next income Rs. 3,20,000 (1,80,000 to 5,00,000) is taxed at 10%; the next Rs. 3,00,000 (5,00,000 to 8,00,000) with 20% and the balance of income (more than Rs. 8,00,000) is taxed @ 30% rate. All other heads of incomes are taxed on slab basis. Slab rates are as under:

In the case of Resident "Men" whose age is below 60 years and also for "Non-Resident" Men, Non-Resident Women” Non-Resident Senior Citizen & Non-Resident Super senior citizen

<table>
<thead>
<tr>
<th>Income in Rs.</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Rs.1,80,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Rs. 1,80,001 to Rs. 5,00,000</td>
<td>10%</td>
</tr>
<tr>
<td>5,00,001 to 8,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>8,00,001 and above</td>
<td>30%</td>
</tr>
</tbody>
</table>
In the case of Resident "Women" whose age is below 60 years

<table>
<thead>
<tr>
<th>Income in Rs.</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,90,000</td>
<td>Nil</td>
</tr>
<tr>
<td>1,90,001 to 5,00,000</td>
<td>10%</td>
</tr>
<tr>
<td>5,00,001 to 8,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>8,00,001 and above</td>
<td>30%</td>
</tr>
</tbody>
</table>

In the case of Resident "Senior citizen"---- Men & Women whose age is 60 but less than 80 years

<table>
<thead>
<tr>
<th>Income in Rs.</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 2,50,000</td>
<td>Nil</td>
</tr>
<tr>
<td>2,50,001 to 5,00,000</td>
<td>10%</td>
</tr>
<tr>
<td>5,00,001 to 8,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>8,00,001 and above</td>
<td>30%</td>
</tr>
</tbody>
</table>

In the case of Resident "Super Senior citizen"---- Men & Women whose age is 80 years or more

<table>
<thead>
<tr>
<th>Income in Rs.</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 5,00,000</td>
<td>Nil</td>
</tr>
<tr>
<td>5,00,001 to 8,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>8,00,001 and above</td>
<td>30%</td>
</tr>
</tbody>
</table>

Practicals

1. Calculating tax liability on Flat Rate:

   Every person has to pay tax in three components.

   (1) Income Tax

   (2) Education Cess

   (3) Secondary and Higher Education Cess.

   Tax Liability = Income Tax + Education Cess @ 2% and Secondary and Higher Education Cess @ 1%.

   Illustration 1: Calculate Tax Liability on Flat rate method @ 20% if total income of Sri Janaki Ram is ` 8,70,000.
Rule: For men basic exemption is `. 1,80,000.

Step 1: Calculating Taxable income:
Total Income = 8,70,000
Less: Basic exemption = 1,80,000
Taxable income = 6,90,000

Step 2: Calculating tax liability
Income tax = 6,90,000 X 20% = 1,38,000
Add: Education Cess @ 2% (on Income tax)
2% on 1,38,000 = 2,760
Add: Secondary and Higher Education Cess 1%
on 1,38,000 = 1,380
Tax liability = 1,42,140
Tax liability Rs. 1,42,140.

Illustration 2: Smt Radha, Age 33 years is having 4,20,000 Total income calculate Tax liability if flat rate of tax is 15%.

Solution:

Step 1: Calculating Taxable income:
Rule: For women basic exemption is 1,90,000
Total income = 4,20,000
Less: Basic exemption is income = 1,90,000
Taxable income = 2,30,000

Step 2: Calculating tax liability
Income tax = 2,30,000 X 15% = 34,500
Education Cess 2% = 690
Secondary and Higher Education cess 1% = 345
Tax liability = 35,535
Tax liability Rs. 35,540.
**Illustration 3**: Calculate tax liability in the following situation on a flat rate of tax 20% if the total income is 10,50,000.

**Situation**: If the tax payer is male person.
2. If the tax payer is female person.
3. If the tax payer is senior citizen.
4. If the tax payer is a super citizen.

**Solution**:

**Step 1**: Calculating Taxable income:
If the tax payer is male person.

**Rule**: For men, basic exemption is ₹ 1,80,000.

**Step 2**: Calculating tax liability

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Situation 1 Male</th>
<th>Situation 2 Female</th>
<th>Situation 3 Senior citizen</th>
<th>Situation 4 Super citizen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>10,50,000</td>
<td>10,50,000</td>
<td>10,50,000</td>
<td>10,50,000</td>
</tr>
<tr>
<td>Less: Basic exemption</td>
<td>1,80,000</td>
<td>1,90,000</td>
<td>2,50,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>8,70,000</td>
<td>8,60,000</td>
<td>8,00,000</td>
<td>5,50,000</td>
</tr>
<tr>
<td>Income tax @ 20%</td>
<td>1,74,000</td>
<td>1,72,000</td>
<td>1,60,000</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Secondary Education 2% &amp; Higher Education 1%</td>
<td>3,480</td>
<td>3,440</td>
<td>3,200</td>
<td>2,200</td>
</tr>
<tr>
<td>Tax liability</td>
<td>1,79,220</td>
<td>1,77,160</td>
<td>1,64,800</td>
<td>1,13,300</td>
</tr>
</tbody>
</table>
Short Answer Type Questions

1. Define Tax.

2. Explain about classification of taxes.

3. What are the differences between direct taxes and indirect taxes? Explain.

4. Write about different kinds of income?
Some of the important terms used in the Act have been defined under Sec. 2 of the Income Tax Act, 1961 are as under:

1. Assessee: [Sec. 2 (7)]

Assessee means a person by whom any tax or any other sum of money such as interest or penalty etc., is due under the Income Tax Act or in respect of whom any proceedings under the Act has been taken for the assessment of his income or the income of other person for which he is assessable or any refund is due to him or to such other person. On studying the above definition it can be seen that a person shall be treated as an “Assessee” under the following situations.

Situation 1: For the assessment of his personal income: A person who is liable to pay any amount due to the Income Tax Department towards tax, penalty and interest etc. is known as an assessee. The term person includes Individual, Firm and Company etc., i.e. If a person’s annual income is more than the exempted limit then he becomes automatically an assessee. i.e. when the person is still having statutory time limit to pay the amount due, as such Income Tax Department has not yet taken any administrative or legal action.

Situation 2: A Person on whom administrative proceedings initiated: Every person in respect of whom any proceedings under this Act has been taken for the assessment of his income. If an Individual's total income exceeds the exempted limit i.e., Rs.1,80,000 for men, Rs. 1,90,000 for women, Rs 2,50,000 for senior citizen and Rs 5,00,000 for super senior citizen for the
Assessment year 2012-13, if he has not filed the “Tax Return” or tax paid amount is less than tax liability or penalty or interest is not yet paid then the I.T.O. will issue notice and proceedings will be initiated, such a person is known as an assessee.

**A person to whom a refund is due.** If the person has paid more tax in advance or tax deducted at source is more than the actual tax then he is entitled to receive refund from the Income Tax Department. To claim the refund, the person has to file a return of income. Such a person will be treated as an assessee.

2. **Person[Sec.2(31)]**

According to Income Tax Act, 1961 the term person includes the following types of assesses who are as follows:

(i) **A Natural person** he/she who is liable to pay tax on his personal income is designated as an “Individual” i.e., an individual who is assessed in respect of his personal income.

(ii) **A Hindu Undivided Family**: A Hindu undivided family means a group of persons lineally descended from a common ancestor. The Head of the Hindu Undivided Family is known as Karta. Karta is assessed for the income derived by the Joint Hindu Family. If other member of the family is managing and controlling then he will be designated as Manager and is liable to pay tax.

(iii) **Company**: A Company which is incorporated under the Companies Act of 1956.

(iv) **Firm**: A partnership of two or more persons carrying on a business or profession under the Indian Partnership Act, 1932.

(v) **An Association of persons or a body of individuals**:

For eg., A group of persons formed for promoting a Joint venture business or trustees of a trust etc.

(vi) **A Local authority**: Eg. Municipalities, Local Bodies etc.

(vii) **Every artificial juridical person**: Not falling in any of the preceding categories. Eg: A statutory Corporation or A Hindu deity.

**Illustration. 1**: Determine the status of the following

1. Mr. Pandit Prakashveer Shastry, Lecturer in a college.
2. Osmania University.
4. Live-well company limited
5. A Joint family of Mrs. & Mr. Arvind and their sons Kapil and Nikil.
6. Hyderabad Urban Development Authority.
7. Kanaka Laxmi Printers (P) Ltd.
8. Ramdev and Co. (Ramdev and Namdev are partners).

**Solution**

1. An Individual
2. Artificial Juridical (legal) person
3. Association of persons
4. Company
5. Hindu Undivided Family
6. Artificial Juridicial person
7. Company
8. Firm

According to Income Tax Rules income earned in an year is assessable for tax in the next year. Income year is known as previous year and the year in which the income is assessed by the Income Tax Officer is known as assessment year.

Explanation: The income earned in 1st year is assessed to tax in the second year. 1st year is known as previous year and 2nd year as the assessment year. Similarly for 2nd year income is assessed in the 3rd year and so on. Previous year is also known as income year.

According to the provision of Income Tax Act all assesses have to adopt Indian financial year as the previous year for all sources of income. Indian Financial year commences on 1st of April of every year and ends on 31st March next. The relevant financial year for our study is 1-4-2011 to 31-3-2012.

**3. Assessment Year [Sec.2(9)]**

Assessment year means the period of 12 months commencing from 1st April of every year and ending on 31st March next. The current assessment year is 2012-13. It starts on 1st April, 2012 and ends on 31st March, 2013.

During this period the total income of an assessee earned during the previous
year is assessed to tax, i.e. Assessment year is the year in which income of the relevant previous year and income of earlier period, if not taxed is assessed to tax. It is also known as tax year. Assessment year ending does not mean that the assessment of an assessee must be completed. It only signifies the provision of Income Tax Act existing of that period are to be applied in computing taxable income and tax liability.

4. Previous Year [Sec.3]

Previous year is the preceding 12 months period to the relevant assessment year. It starts on 1st April and ends on 31st March next. Total income earned during the above period is considered for tax purposes, therefore it is also known as Income Year or Accounting year. Previous year is the financial year immediately preceding the assessment year. Eg, For the assessment year 2012-13 relevant previous year is 2011-12.

Determination of first previous year for a newly setup business/profession or for a new source of income.

In the case of a newly started business/profession during the previous year or for a new source of income which came into existence during the previous year, the period of previous year will be from the date of commencement of the business/profession or from the date of new source of income came into existence to 31st March next. For example if a new business is started on 5-10-2011, then the first previous year will be from 5-10-2011 to 31-3-2012. Similarly a new house is purchased or construction is completed on 26-6-2011 then the period of first previous year will be 26-6-2011 to 31-3-2012. The period of first previous year of a newly setup business/profession or for a new source of income will be either exactly 12 months (if the commencement date is 1-4-2011) or less than 12 months but in no case it shall exceed 12 months period.

Summary Points

1. If a person has become first time liable to pay income tax in his life time then his previous year will commence from the date of receiving first time his income and ends an 31st March next.

2. The second and subsequent previous years always commences on 1st April of the year and ends on 31st March next.

3. If there is no change in the source/sources of income then the previous year for every person will commence from 1st April of an year and ends on 31st March next.
Illustration 2: Determine the period of first previous year in relation to the assessment year 2012-13 in the following cases.

(i) Mr. Srikanth started a computer business on 15-7-2011.

(ii) Mr. G.S. Reddy was appointed as Internal Auditor in a limited company on 1-10-2011.

(iii) Sri R.D. Burman purchased a house on 1-4-2011 and let out on a monthly rent of Rs. 5,000.

(iv) Sri Vishnu Vardhan purchased a house on 1-1-2012 and let out on a monthly rent of Rs. 6,000.

(v) Smt Y.J. Rani presently working as a lecturer and residing in her own house. She purchased another house on 15-5-2011 for letting out.

Solution:

Assessment year 2012-13

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Assessee</th>
<th>Date of new source of income</th>
<th>Period of previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Srikanth</td>
<td>15-7-2011</td>
<td>15-7-2011 to 31-3-2012</td>
</tr>
<tr>
<td>2</td>
<td>Sri G.S. Reddy</td>
<td>1-10-2011</td>
<td>1-10-2011 to 31-3-2012</td>
</tr>
<tr>
<td>3</td>
<td>Sri R.D. Burman</td>
<td>1-4-2011</td>
<td>1-4-2011 to 31-3-2012</td>
</tr>
<tr>
<td>4</td>
<td>Sri Vishnu Vardhan</td>
<td>1-1-2012</td>
<td>1-1-2012 to 31-3-2012</td>
</tr>
<tr>
<td>5</td>
<td>Smt Y. J. Rani</td>
<td>15-5-2011</td>
<td>15-5-2011 to 31-3-2012</td>
</tr>
</tbody>
</table>

5. Permanent Account Number (P.A.N) [Sec. 139 A]

Permanent Account Number means the number which is allotted by the tax assessing officer to the assessee for easy identification. In case of need, this number is useful to trace out the previous returns submitted by the assessee and assessment orders passed on by the Department. The Central Board of Direct Taxes (C.B.D.T.) has introduced a new scheme of allotment of computerised 10 digit Permanent Account Number. According to the new guidelines everyone is required to apply for a permanent account number.

Under section 139 A & Rule 114, the number is allotted by the Assessing Officer when the assessee applies for the same.

Income exceeds the exempted incomes limit, then has to apply to the concerned I.T.O. for allotment of the number. Once the number is allotted the
assessee or PAN card holder need not apply every year. If there is a change in the residential address or if any corrections are required then he can apply for such changes.

The assessee shall intimate the Assessing Officer any change in his address or in the name and nature of his business on the basis of which the permanent account number was allotted to him. If the PAN card holder loses his card then a new card will be issued for a nominal fee. In the case of business or profession if the sales or gross receipts exceeds `.5,00,000 one has to apply for the same though the person may not have the taxable income.

**Person liable to obtain PAN:** The following person are required to obtain PAN

1. Every person whose taxable income exceeds the basic exempted limit and who is liable to pay Income tax for the first time.

   **Note:** (i) Once the Income Tax Department has allotted PAN then there is no need to apply for every year.

   (ii) One person is not supposed to have more than one PAN. In case he got more PAN numbers he should surrender extra cards, otherwise he is punishable.

2. If the person is having income from profession and when the gross receipts are likely to exceed Rs. 5,00,000.


4. Exporter and Importer ® Under Customs Act.

5. Manufacturers ® Under Excise Act

6. Service tax assessees

7. Traders/Manufacturers registered under CST or VAT


9. Investment of Rs. 50,000 or more in a company for acquiring shares.

10. Payment of insurance premium exceeding Rs. 1 lakhs per policy per annum.

11. Transfer of Share in physical form.

The assessee has to quote the P.A.N. in all future correspondence with the
Department like on "Return forms", challans and on the documents which are prescribed by the Board.

From 1-11-1998 onwards quoting P.A.N. is compulsory in the following transactions.

(i) Sale/Purchase of any immovable property valued at Rs. 5,00,000 or more

(ii) Sale/Purchase of motor vehicle (other than two wheeled vehicles) which requires registration under Motor vehicles Act, 1988

(iii) Time deposit (Fixed Deposit) exceeding Rs. 50,000 with a bank

(iv) Deposit exceeding Rs. 50,000 in Post Office savings bank

(v) Sale/Purchase of securities exceeding Rs. 1,00,000

(vi) Opening of an account with a bank (The Ministry of Finance has instructed the banks not to insist this condition)

NOTE: A minor can open a Bank account or Time deposit account by PAN of his Father / Mother / Guardian.

Special Note:- If a minor is not having any taxable income but wishes to open bank account or wants to deposit more than Rs. 50,000 fixed deposit then he has to quote his Father/Mother or Guardian PAN No.

(vii) Payment in cash for purchase bank draft/pay order / Bankers cheque of Rs. 50,000 or more.

(viii) Cash deposit of Rs. 50,000 in a bank in one day.

(ix) Application for installation of a telephone connection including cellular connection

(x) Payment of hotel/restaurants bills exceeding Rs. 25,000 at any time.

(xi) Payment in cash in connection with travel to a foreign country of an amount exceeding Rs. 25,000 at any one time.

Travel to any foreign country shall not include travel to the neighbouring countries and places of pilgrimage as notified by CBDT. Like Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka similarly travel to Saudi Arabia on Haj pilgrimage organised by Central Haj Committee, and to China on pilgrimage to Kailash Manasarovar organised by Ministry of External Affairs, Government of India.
(xii) A person on whose income, tax at source is likely to be deducted.

(xiii) A person who has deducted the tax at source.

(xiv) Buyer/seller of alcoholic/liquor/timber/or any other forest products.

**Penalty:** If any person fails to comply with the provisions of Sec 139A has to pay a penalty of Rs. 10,000.

**Note:** A person has to quote General u/s 272 Index Register number (G.I.R) till the Permanent Account Number is allotted.

Quoting P.A.N. is not required to the following persons

1) If the person is Non-Resident.

2) Persons who do not have any taxable income but do have agricultural income.

**Biometric Pan Card:** The Government has decided to issue biometric PAN cards to taxpayers across the country to weed out the problem of duplicate and fake ones. The proposed new biometric Permanent Account Number (PAN) cards would bear the Income Tax assessee’s finger prints (Two from each hand) and prints from the face.

**Not mandatory:** There could be an option for existing PAN card holders to Opt for the biometric cards but it may not be mandatory.

**Short Answer Type Questions**

(1) Explain the meaning of previous year and assessment year with examples

(2) Explain the provisions relating to Permanent Account Number.

(3) Explain the following terms used in the Income tax Act.

(a) Assessee (b) Person (c) Previous year
Agricultural Income

Sec. 10(1) of the Income Tax Act, 1961 has exempted agricultural income from tax, however the agricultural income is included in the total income to determine the tax on the non agricultural income. One of the reasons for exemption of agricultural income from tax (under the I.T. Act) is that the subject of agricultural income is a State Government's subject. Sec 2(1A) deals with the agricultural income.

**Agricultural Income**

1. If the owner or tenant of the agricultural land situated in India receives sale money of crop either in cash or in kind or

2. If the owner or tenant of the agricultural land performs certain processes to make the agricultural product fit for sale and receives sales money or

3. Income derived by owner or tenant of the agricultural land from a building situated in the farm house, if the house/building situated in rural area.

**Explanation**: (1) Income derived from agricultural land situated in rural or urban area is treated as agricultural income.

(2) Income received from the house or building situated in the farm house provided the agricultural land is situated in rural area, shall be treated as agricultural income.

(3) If the farm house is in urban area then the income from house/building shall be treated as income from House property or Income from Other Sources.
The above three incomes are treated as agricultural income only when the following conditions are satisfied.

1. Rent or revenue derived from land.
2. The land is used for agricultural purpose.
3. The land is situated in India.

1. Rent or Revenue Derived from the Land

If the owner of the land gives agricultural land on lease i.e., granting the right of using the land for agricultural purpose then the rent received by the landlord from the tenant either in cash or in kind or a share in the output of the produce of a grower, will be treated as agricultural income. If the tenant has given the lands on sublease rent received by him will also be considered as the agricultural income.

The term revenue means the sale proceeds of agricultural produce or an income directly related to the land, for eg., if the output of a crop is 10 bags which is sold in the market @ Rs. 2,000 per bag, then the sale proceeds `20,000 is known as revenue. If some amount of money is received for renewal of agricultural lands which are given on lease is also treated as agricultural income.

Where income is derived indirectly from land the same cannot be considered as agricultural income. Eg. Dividends received by a share holder out of agricultural income of a company engaged in agriculture.

2. The Land is used for Agricultural Purpose

To consider an income as agricultural income it is necessary that the land is used for agricultural purpose. The test to be applied for determining whether an income is agricultural or not, is performance of basic operations by the assessee. In agriculture the activities are classified into two:

(i) Basic Operations  (ii) Subsequent Operations

(i) Basic Operations: If an agricultural operation involves involvement of human skill and labour on the land prior to germination of plants, then these operations are known as Basic Operations. The examples for basic operations are cultivation, seeding, plantation, watering and sowing etc.

(ii) Subsequent Operations: Operations performed after the produce sprouts then these operations are known as subsequent operations. Weeding, cutting, harvesting, etc are examples for subsequent operations. If an assessee has performed basic operations and subsequent operations or only basic
operations then the income received is treated as agricultural income. If an assessee performs only subsequent operations then the income received by him is not considered as agricultural income. For Eg. Income derived from the forest trees, profit made by a trader on purchasing the standing crop.

3. Land Situated in India

The agricultural land must be situated in India i.e., income from agricultural lands which are situated in a foreign country is not considered as agricultural income, for taxation purpose in the case of "Resident" it is treated as income from other sources.

Kinds of Agriculture Income

(1) Rent from the agricultural land
(2) Revenue received from an agricultural land
(3) Income received by performance of some process to render the produce saleable e.g.: Tobacco leaves cannot be sold as it is. First they have to be dried up for marketing, similarly other agricultural commodities like Turmeric, Jowar etc.

Note: The process undertaken should be of normal one i.e., making the agricultural product to fit for sale in the market and should not lose the basic characteristic of an agricultural product.

(4) From the assessment year 2009-10 onwards any income derived from saplings or seedlings grown in nursery.

Special Note: (i) For nursery income whether the assessee has performed basic operations or not is not to be considered.

(ii) If a person acquires (purchases) nursery plants and sells, then it becomes business income.

(iii) Income derived from the sale of seeds by an agriculturist is agricultural income.

(iv) Income derived by growing special quality of grass like carpet grass or sports ground like golf etc.. is an agricultural income.

(5). Income from House used for Agricultural purpose: Income from house property used for agricultural purpose is an exempted income, if the following conditions are satisfied.

(i) The house is situated near to agricultural lands
ii) The house is under the control of agriculturist.

iii) The building is used for conducting agricultural activities i.e., the house is used as store room or for personal residence.

iv) The house is subject to land revenue tax.

v) The house is situated in a rural area.

**Note:** The land/house is not situated within 8 k.m. from the municipal area and population of that place is less than Rs. 10,000.

**The following incomes though connected with land are not considered as agricultural incomes.**

1. Income from land used for potteries or as brick fields.
2. Income from land used as stone quarries.
3. Income from fisheries.
4. Income from ferries.
5. Income from supply of water for irrigational purposes, even when it is by way of share of agricultural produce.
6. Income from land let for storing crops or timber.
7. Compensation for acquisition of land for nonagricultural purposes.
8. Income from mining royalties.
9. Income from dairy and poultry farming, cattle breeding, butter and cheese making.
10. Income of a money lender either received in cash or in kind on the loans given for agricultural purpose.
11. Commission received by a landlord on sale of agricultural produce of tenants.
12. Rent of the site of a flour mill.
13. Ground rent for permanent shops at bazars and stall fees from daily sellers.
14. Annuity received by a person in consideration of transfer of agricultural land.
15. Income derived from running of a dairy, which is not incidental to
agriculture.

**Note:** If animals use is incidental to perform the agricultural activities then income from the animals is considered as agricultural income.

**Tax Treatment of Agricultural Income**

According to Sec. 10 (1) agricultural income is exempted from Tax. But it is included in the total income of an 'Individual' to determine the tax liability on non-agricultural income. The process of adding the agricultural income in the total income is known as 'Integrating the income or clubbing the income'. The term non-agricultural income means taxable incomes, which are computed under different heads of income, but the following taxable incomes are not added.

(a) Long term capital gain

(b) Short term capital gain on equity shares or equity oriented mutual funds.

(c) Casual incomes.

The net effect of integration of income is the assessee has to pay more tax or indirectly Hidden tax is levied on agricultural income.

**For integration of income with agricultural income**

<table>
<thead>
<tr>
<th>To be included</th>
<th>Not to be included</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from salary</td>
<td>1. Long term capital gain.</td>
</tr>
<tr>
<td>2. Income from house property</td>
<td>2. Short term capital gain on shares and units of Mutual funds.</td>
</tr>
<tr>
<td>3. Income from business or profession</td>
<td>3. Casual Incomes.</td>
</tr>
<tr>
<td></td>
<td>4. Short term capital gain on other assets.</td>
</tr>
<tr>
<td></td>
<td>5. Income from other sources.</td>
</tr>
</tbody>
</table>

The integration of agricultural income in the total income is made only when the assessee is satisfying the following conditions.

(1) If the net income from the agriculture is more than Rs. 5,000.

(2) "For the assessment year 2012-13 if the non-agricultural taxable income is more than Rs. 1,80,000 for "Resident male person"; Rs. 1,90,000 for "Resident female person" Rs. 2,50,000 for "Resident Senior Citizen" and Rs. 5,00,000 for resident super senior citizen."
Tax Computation:

**Step: 1** Add the Agricultural income and Non-agricultural income and calculate **"Tax on the Total Income"**. (Tax on total income).

**Step: 2** Add the Agricultural income to exempted income limit or tax free income Rs. 1,80,000 for "Resident male person"; Rs. 1,90,000 for "Resident female person" Rs. 2,50,000 for "Resident Senior Citizen" and Rs. 5,00,000 for "Resident super senior citizen", calculate the tax on it **"Tax on exempted income"** i.e., Rebate on agricultural income.

**Step: 3** Use the following equation to calculate **"Actual income tax"**.

Income tax = Tax on total income (-) Tax on exempted income.

**Step: 4** Add Education Cess @ 2% on income tax.

**Step: 5** Add Secondary & Higher Education Cess @ 1% on income tax

**Illustration 2:** Calculate the tax liability of Mr. Anand Rao for the current assessment year (i) Agricultural income Rs. 4,550 (ii) Non-Agricultural income Rs. 87,000.

**Solution:** The tax liability of Mr. Anand Rao is **"Nil"** as both the incomes viz., Agricultural and Non-Agricultural incomes are below the exempted limit.

**Illustration 3:** The following are the income details of Mr. Bhimsen. Calculate the tax liability. (i) Agricultural income Rs.5,00,000 and (ii) Non-agricultural income Rs. 83,000.

**Solution:** The non-agricultural income is less than the tax free or exempted income limit viz Rs.1,80,000 (for the Assessment year 2012-13) so Mr. Bhimsen's tax liability is nil.

**Illustration 4:**

Mr. Vikram Singh has submitted the following particulars of his income. Calculate the tax liability for the current assessment year.

(i) Agricultural income Rs. 40,000.

(ii) Non-Agricultural income Rs. 2,25,000.

**Solution**

**Step: 1** Adding Agricultural and Non-agricultural income and calculating tax on total income.

\[ 40,000 + 2,25,000 = 2,65,000 \]
<table>
<thead>
<tr>
<th>Income Slab</th>
<th>Income</th>
<th>Tax Rate</th>
<th>Tax Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,80,000</td>
<td>@ 1,80,000</td>
<td>@ Nil</td>
<td>= Nil</td>
</tr>
<tr>
<td>1,80,001 to 5,00,000 Balance</td>
<td>@ 85,000</td>
<td>@ 10% of 85,000</td>
<td>= 8,500</td>
</tr>
</tbody>
</table>

**Step : 2 Adding the Agricultural income to Basic exempted income and calculating tax i.e., Calculating tax on exempted income.**

\[
\text{40,000} + \text{1,80,000} = 2,20,000
\]

<table>
<thead>
<tr>
<th>Income Slab</th>
<th>Income</th>
<th>Tax Rate</th>
<th>Tax Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,80,000</td>
<td>@ 1,80,000</td>
<td>@ Nil</td>
<td>= Nil</td>
</tr>
<tr>
<td>1,80,001 to 5,00,000 Balance</td>
<td>@ 40,000</td>
<td>@ 10% of 40,000</td>
<td>= 4,000</td>
</tr>
</tbody>
</table>

**Step : 3 Calculating tax payable:**

\[
\text{Income tax} = \text{Tax on total income} - \text{Tax on exempted income}
\]

\[
= \text{8,500} - \text{4,000} = 4,500
\]

Add: Education cess @ 2% = 90

Add: Secondary & Higher Education Cess @ 1% = 45

\[
\text{Tax liability} = 4,635 \\
\text{or 4,640}
\]

**Tax liability is Rs. 4,640.**

**Illustration 5 :** According to Income Tax Act, agricultural income and income from business is as under calculate tax liability for the assessment year.

Agricultural income 3,42,600

Business income 2,28,400

**Calculating tax liability**

**Step 1: Adding Agricultural and Non-agricultural income and calculating tax on the total income**

\[
\text{3,42,600} + \text{2,28,400} = 5,71,000
\]
<table>
<thead>
<tr>
<th>Income Slab</th>
<th>Income</th>
<th>Tax Rate</th>
<th>Tax Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,80,000</td>
<td>1,80,000</td>
<td>Nil</td>
<td>= Nil</td>
</tr>
<tr>
<td>1,80,001 to 5,00,000</td>
<td>3,20,000</td>
<td>10% of 3,20,000</td>
<td>= 32,000</td>
</tr>
<tr>
<td>5,00,001 and above Balance</td>
<td>71,000</td>
<td>20% of 71,000</td>
<td>14,200</td>
</tr>
</tbody>
</table>

5,71,000
46,200

Step 2: Adding the Agricultural income to Basic exempted income and calculating tax.

3,42,600 + 1,80,000 = 5,22,600

<table>
<thead>
<tr>
<th>Income Slab</th>
<th>Income</th>
<th>Tax Rate</th>
<th>Tax Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,80,000</td>
<td>1,80,000</td>
<td>Nil</td>
<td>= Nil</td>
</tr>
<tr>
<td>1,80,001 to 5,00,000</td>
<td>3,20,000</td>
<td>10% of 3,20,000</td>
<td>= 32,000</td>
</tr>
<tr>
<td>5,00,001 and above Balance</td>
<td>22,600</td>
<td>20% of 22,600</td>
<td>4,520</td>
</tr>
</tbody>
</table>

5,22,600
36,520

Step 3: Calculating Tax liability

Tax on total income
46,200
Less: Rebate on agricultural income
36,520
9,680
Add: Education cess @ 2%
193.6
Add: Secondary & Higher Education @ 1%
96.8

9,970.4 or 9,970

Tax liability is Rs. 9,970.

Short Answer Type Questions

1. What is Agricultural income and how it is treated for tax purpose.

2. What incomes connecting with agricultural but not considered as Agricultural income.
Sec.2 (24) deals with the term "INCOME". As the income of a person is taxable it is necessary to know the meaning of the term income. Unfortunately, under the Act, no where the term income is defined but what receipts will be treated as income is mentioned. If the assessee proves that a receipt during the previous year is not an income then he is not liable to pay tax on such a receipt. If Mr. X takes a loan of Rs. 10,000 then it is treated as a receipt but not an income. It can be concluded that every income is a receipt but all receipts are not incomes. **Sec.2(24) defines income to include the following items.**

(a) Profits and gains

(b) Dividends

(c) Voluntary contributions received by a charitable or religious trust or other institutions established wholly or partly for such purpose

(d) The value of any perquisite or profit in lieu of salary taxable under the head "Salaries."

(e) Any sum chargeable to income tax under profits and gains of business

(f) Any capital gains chargeable under Sec.45.

(g) Profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society computed in accordance with Sec.44 or any surplus taken to be such profits and gains by virtue of provisions contained in the first schedule.

(h) Any winnings from lotteries, crossword puzzles, races including horse
races, card games and other games of any sort, or from gambling and betting of any nature whatsoever etc.

**Gross Total Income (G.T.I)**

Gross Total Income is the aggregate of income computed under different heads of income of an assessee viz., Income from salary, income from house property, profits from business or profession, capital gains and income from other sources plus the income of spouse or minor child minus set off current year loss (negative income or a minus income under) minus carried forward losses (earlier years losses) and without any deductions which are allowed from gross total income under Sec. 80C to 80 U.

**Total Income**

Gross Total Income minus deductions which an assessee is entitled under Sec.80C to 80U is the total income for e.g. under Sec. 80D Medical Insurance premium under 80G donations given will be allowed as deduction similarly under Sec. 80C Qualified Savings is allowed as deductions.

**Hint:** G.T.I. (-) Deductions u/s 80 C to 80 U = Total income.

**Taxable Income**: Total income (-) exempted limit of income = Taxable income.

Note: For the assessment year 2012-13 the exempted limit of income for men Rs. 1,80,000; for women Rs. 1,90,000; for senior citizens Rs. 2,50,000 and for super senior citizens Rs. 5,00,000.

**Illustrations:**

Compute the taxable income for the Current Assessment year of Mr. Anand Swaroop from the following particulars of his income during the previous year.

- Income from salary: Rs. 3,70,000
- Capital gains (short term): Rs. 30,000
- Loss from house property(self occupied): Rs. 20,000
- Income from other sources: Rs. 10,000
- Medical Insurance Premium u/s 80D: Rs. 5,800
- Deduction allowed u/s 80E: Rs. 12,600
Solution:

Computation of Mr. Anand Swaroop’s Total Income

For the assessment year 2012-13

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amounts in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Salary</td>
<td>3,70,000</td>
</tr>
<tr>
<td>Add: Capital gain (Short term)</td>
<td>30,000</td>
</tr>
<tr>
<td>Income from other sources</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>4,10,000</td>
</tr>
<tr>
<td>Less: Loss from house property (self occupied)</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Gross Total Income (G.T.I)</strong></td>
<td>3,90,000</td>
</tr>
<tr>
<td>Less: Deductions from G.T.I.</td>
<td></td>
</tr>
<tr>
<td>Medical Insurance Premium u/s 80D</td>
<td>5,800</td>
</tr>
<tr>
<td>Interest paid on Higher Education loan u/s 80E</td>
<td>12,600</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>18,400</td>
</tr>
<tr>
<td>Less: Exempted Income</td>
<td>1,80,000</td>
</tr>
<tr>
<td><strong>Taxable Income</strong></td>
<td>1,91,600</td>
</tr>
</tbody>
</table>

Capital and Revenue Receipts

Receipts are of two types (1) Revenue Receipts and (2) Capital Receipts. If a receipt is regular or routine or recurring then it is known as Revenue receipt, which is to be considered as income and hence it is taxable. If the receipt is casual or non-recurring then it is capital receipt which may or may not be taxable for eg., the capital gain is taxable whereas other capital receipts are not taxable. In the I.T. Act these terms are neither defined nor any guidelines are available. After studying generally accepted commercial principles and judgements given by the courts in different cases, the following guidelines are suggested.

1. **Nature of the Asset**

   A receipt on account of a fixed asset is a capital receipt, while a receipt against a circulating asset is revenue.

   The assets are of two types (a) Fixed and (b) Circulating or Floating.

   (a) Fixed assets are that with the help of which the owner (assessee) earns profits by possessing them or by using them, and generally these are not offered for sale eg: Land and buildings, Plant and machinery etc.,
b) Circulating or floating asset is that with the help of which the owner (assessee) earns profit by exchanging it for a price e.g. sale of goods or stock in trade.

The nature of the business will decide whether a receipt is revenue or capital for e.g. sale of motor car in a general business is a capital receipt while the sale of a car by an automobile dealer is a revenue receipt.

2. On the Basis of Fact whether it is substitution of Income or source of Income

If a receipt is substitute for an income it is revenue income. If a receipt is substitute for source of income then it is capital receipt e.g. If a salesman is given a fixed allowance instead of a percentage of sales as commission then it is revenue income. If compensation is paid for termination of his employment then it is capital receipt. However pension and gratuity paid to an employee are revenue receipts because they are substituting the income viz. salary.

3. Surrender of Rights

When a sum is received for surrender of certain rights then it is a capital receipt. Any amount received by way of compensation for future profits is a revenue receipt e.g. if an author of a book gives up his right to publish a book then it is capital receipt. Whereas if he receives the royalty on the book for future sale it is a revenue receipt.

4. Object or Motive of the seller i.e. Intention of Recipient

If a person holds any asset as permanent or fixed asset then the profit upon its sale is a capital receipt. If the asset is a trading asset profit from sale of it is a revenue receipt.

Eg: Profit on sale of building is a capital receipt (for general business). But the same to a real estate dealer is revenue receipt.

5. Nature of Receipt in the Hands of Recipient

If a receipt is revenue in nature for the recipient, then what it is to the payer is immaterial. For e.g. interest received by a debenture holder from a company which is not having any profit it means the company has paid the interest out of capital but it is immaterial from the debenture holders point of view.

While deciding the nature of income the following are not to be considered.

(a) Lumpsum or Instalments

Whether the amount is received in instalment or lumpsum, it does not have
any affect in deciding the nature of income eg. rent received in lumpsum or periodically is always treated as revenue receipt .

(b) Magnitude of Amount received

The magnitude of receipt is immaterial for the purpose of determining the nature of receipt i.e., the quantum of amount i.e., big or small cannot decide the nature of receipt e.g. a receipt of Rs. 10,00,000 may be of revenue nature and a Rs.1/- (one only) may be capital receipt .

(c) Accounting Treatment

The accounting treatment done by the assessee shall not be considered in deciding the nature of receipt.

For e.g. If sale proceeds of machinery is credited to P&L A/c, even then it will be treated as capital income.

The following are the examples of Capital Receipts and Revenue Receipts

Capital Receipts

1. Lease rent received by the lessor (the lease rent is also known as salami or nazrana ).

2. Sale proceeds of capital assets e.g. land and buildings; plant and machinery etc.

3. Compensation received from one of the partners from other partner for relinquishing all his rights in the partnership

4. Compensation received for loss of right to future remuneration .

5. Amount received for sale of know-how.

6. Compensation received for suspension of export licence.

7. Insurance policy amount received relating to a capital asset .

8. Sale proceeds of trees with roots which were of spontaneous growth.

9. Compensation received from transport organisations like Railways etc., for permanent disablement.

Revenue Receipts

1. Hire charges of capital assets.

2. Interest received on trade and non-trade transactions.
3. Sale proceeds of trees, which are cut at the stem but not with roots i.e., there is a possibility of growth in future.

4. Consideration received in lumpsum for future reduction in remuneration.

5. Lumpsum received in lieu of royalty.

6. Compensation received for premature termination of contract.

7. Compensation received from transport organisations like R.T.C., Railways etc., for temporary disablement.

8. Pugree received by the owner of the house property from tenant.

**Types of Income** - Incomes are of two types.

1. Regular Income.

2. Casual Income.

**Regular Income**

The income may be regular or casual to an assessee. If the income is received as expected like interest received on the bank deposits or salary received by an employee then it is known as regular income i.e., the receiver is having certainty of receiving this income.

**Casual Income**

If the income received by an assessee is having a chance of element i.e., uncertainty, in its nature then it is known as casual income. The examples that can be cited are winning from lottery and cross word puzzles etc. Under the Income Tax Act, the following incomes are taxed though their nature is of casual

1. **Capital Gains**: If an assessee sold jewellery of Rs. 50,000 which was bought earlier for Rs. 20,000. In such a case Rs. 30,000 (selling price of Rs. 50,000 - book value Rs. 20,000) is capital gain.

2. **Amounts received by an employee from his employer for without consideration**: If under the terms of contract salary to be received by an employee is Rs. 18,000 but the employer has paid Rs. 21,000 in such a case the extra amount received Rs. 3,000 is casual in nature because it is not for the work done but is received out of the sweet will of the employer.

3. **Profit from the business and receipts from profession**: Generally it is said that profit is the reward for risk bearing, it means the income by way of profits is not certain as we find in other factors of production like rent to the landlord, wage to the labourer etc. The business profits are casual in nature but
they are taxable under the Income Tax Act of 1961.

**Revenue and Capital Expenses**

Expenses are of two types (a) Revenue expenditure (b) Capital expenditure. If the benefit of the payment expires within one accounting year then it is known as revenue expenditure e.g.: Rent, Salaries paid etc.

a) If the benefit of payment accrues for more than one accounting year then it is known as capital expenditure e.g., purchase of Machinery & Building etc.

b) While computing the income from profits from the business or profession only revenue expenses are allowed as deductions. The following are the differences between revenue and capital expenditure.

<table>
<thead>
<tr>
<th><strong>Revenue Expenses</strong></th>
<th><strong>Capital Expenses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Routine or regular or recurring expenditure e.g. salaries, rent etc</td>
<td>1. Casual, irregular and non-recurring expenditure e.g. purchase of machinery, furniture, etc</td>
</tr>
<tr>
<td>2. Revenue expenditure benefits for less than a year e.g. rent paid, telephone charges etc.</td>
<td>2. Capital expenditure benefits for more than a year. eg: payment for know-how etc.</td>
</tr>
<tr>
<td>3. If expenditure is incurred on assets to maintain the present efficiency then it is a revenue expenditure e.g. repair to machinery.</td>
<td>3. If the expenditure is incurred to improve the earning capacity then it is a capital expenditure eg. manual run machine is converted into power run machine.</td>
</tr>
<tr>
<td>4. If the purpose of purchase is to resell then the expenditure is revenue expenditure e.g. purchase of goods (trading assets)</td>
<td>4. If the purpose of purchase is not to resell but to use in the business then it is capital expenditure e.g. purchase of Plant and Machinery (non trading assets)</td>
</tr>
</tbody>
</table>

**Note:** The nature of the business will decide whether an article or asset is a trading or non-trading one.
5. A payment made to discharge revenue liability is a revenue expenditure. E.g. compensation paid for breach of business contract.

6. If payment is made to earn revenue expenditure e.g. wages, salaries, rent paid incurred to get sole distribution.

5. A payment made to discharge capital liability is a capital expenditure, e.g. compensation paid for breach of non-business contracts.

6. If payment is made to acquire the source of income it is a capital expenditure e.g. expenses of goods from a manufacturing company.

Nature of payment in the hands of payer alone is to be considered in deciding whether an expenditure is revenue or capital. Mode of payment like payment in lumpsum or instalments are not to be considered. Similarly the amount paid is not the criteria to decide whether it is revenue or capital expenditure for e.g. payment of Rs. 1/- for the purchase of newspaper is a revenue expenditure and 0.25 Ps for a book is a capital expenditure.

The following are some of the examples of revenue and capital expenditure.

**Revenue Expenses**

1. Salaries paid to staff.
2. Expenses incurred to preserve and protect assets.
3. Initial payment for securing a telephone connection.
4. Purchase of raw materials, and other consumable stores.
5. Expenses to oppose nationalisation of business or any Government policies.
6. Expenses incurred in sales promotion like advertisement.
7. Expenses incurred in renewing the licences, permits etc.

**Capital Expenses**

1. Cost of purchase of an asset like plant, buildings etc.
2. Expenses incurred on acquiring any capital asset and its erection or reconditioning charges.
3. Expenses on Research and Development.
4. Price paid for the right to use of know-how (Techniques of manufacturing process)

5. Acquiring types by a printing press.

6. Payment made for purchasing interest of another partner of the firm (payment of goodwill)

7. Payment made for acquiring the sole selling agency rights.

Short Answer Type Questions

I. Explain the concept of "INCOME"

II. Explain the concept of "Casual Income".

III. Write about Gross total income and total income?

IV. Why is it necessary to distinguish between capital receipt and revenue receipt?

V. Differentiate between revenue expenditure and capital expenditure

V. Which of the following are incomes, state-Yes or No.

(1) Rs. 2000 goodwill received by a retiring partner.

(2) Interest on debentures Rs. 3,000 received from a Joint Stock Company.

(3) Gift of a sum of Rs.51,000 made by husband to his wife on his 60th Birthday.

(4) Gift of Rs. 1,000 made by a student to his girl friend.

(5) Dividends of Rs. 210 received from a co-operative society.

(6) Profit on revaluation of assets Rs.15,200.

(7) Rs. 2,000 profit on sandal wood smuggling

(8) Rs.100 received by a waiter as tips in Eatwell and Paymore Hotel.

(9) A cash prize of Rs.2000 received by a student in a sports event.

10) A prize of Rs.10,000 received in Sikkim State Government Lottery.

Answers: Yes :- 1,2,4,5,7,8,10  No:- 3,6,9.

VI. State giving reasons whether the following are revenue or capital receipts.

(1) Compensation received from HUDA for compulsory vacation of a
place of business in a road widening programme.

(2) Consideration received by a scientist for sale of technical know-how regarding manufacturing of a life saving drug.

(3) Entertainment tax collected by a cinema hall.

(4) Premium received by a Joint Stock Company.

(5) Interest on debentures of "K" Limited Company.

(6) Bonus shares received by a dealer of shares.

(7) Compensation received for nationalisation of a business.

(8) Compensation received from housing board for shifting the place of business.

(9) Mr. Murthy received Rs.5,000 for digging and removing mud from his land for brick making.

(10) Income received from sale of cow-dung for gobar gas plant.

VII. State giving reasons whether the following are revenue or capital receipts.

(1) Compensation received by Mr. Surya Rao in a train accident for temporary disablement.

(2) Compensation received by Mr. Chandra Shekar from Indian Airlines in an accident for permanent disablement.

(3) Consideration received by Mr. Prakash, a General Manager of Pennar Steels Pvt. Ltd. for not joining the rival Nagarjuna Steels Pvt. Ltd.

(4) Pugree (good will) received by the landlord (non refundable) from a tenant in consideration of letting his house.

(5) Insurance claim received by Mr. Bhaskar for loss of his building in a fire accident.

(6) Insurance claim received by Mr. Hari for loss of profit for dislocation of business due to a fire accident.

(7) Rs.5,000 Hire charges of machine received by Mr. Narayan a dealer of machines.

(8) Mr. Prasad received Rs. 10,000 as consideration for not resigning his directorship.
(9) Consideration received for transfer of permit.

(10) Retrenchment compensation received by Mr. Satish, an employee of a company.

VIII. State giving reasons whether the following are revenue or capital receipts.

(1) Profit due to fluctuations in rate of foreign exchange, when the currency was sent for purchasing an asset.

(2) Profit due to fluctuation in rate of foreign exchange in trade transactions i.e., in exporting the goods.

(3) Sale proceeds of a building.

(4) Sale proceeds of goods.

(5) Sale of empty gunny bags and old newspapers.

(6) Lease money received by the lessor after signing the agreement from lessee.

(7) Rent received by Mr. Arjun for his house.

(8) Rent received by Mr. Arun due to subletting his house.

(9) Pension received by Mr. Sampath, an employee of Bharat Leather Industries.

(10) Bonus received by Mr. Gopal, a worker in Cigarette Factory.

(11) Premium on redemption of debentures received by Mr. Pratap holding 10,000 debentures in a Limited Company.

(12) Interest received by a debenture holder.

(13) Advance rent received by Mr. L, a landlord from his tenant Mr. T.

(14) Grants/subsidy received from the Government.

(15) Grants/subsidy received by a business to implement a capital project.

(16) Money received by the issue of shares.

(17) Cash received by the issue of debentures.

(18) Sale of Maruthi car by Mr. Satyam, a dealer of Mahalaxmi Motors.

(19) Salary received by Mr. Ramesh, paid out of the capital.
(20) Reward received by Mr. Rajesh, an employee of a Government company in appreciation of his services.

(21) 200 bonus shares of Rs. 10 each received by Kranthi Co., Ltd. from its subsidy Shanthi Co. Ltd.

(22) 200 Bonus shares of Rs. 10 each received by Mr. Kumar, an investor in a Limited Company.

VII. State giving reasons whether the following are capital or revenue expenses.

(1) Mr. Atmakarna purchased a Machinery for Rs. 10,000.

(2) Mr. Bhargava purchased machine costing Rs. 1,00,000. (a machine dealer).

(3) Mr. Chandram spent Rs. 4,000 erection charges for machinery.

(4) Mr. Doraswamy a dealer of automobiles spent Rs. 8,000 towards reconditioning of the purchased cars.

(5) A Ltd. Company paid Rs. .5,000 to acquire a licence from the Government to start the business.

(6) Mr. Farooq spent Rs. 30,000 for renovation of the buildings.

(7) X Co. Ltd., paid Rs. 1,000 to a Municipal corporation towards the taxes.

(8) Rs. 15,000 expenses incurred in fitting the doors and windows to the office building.

(9) Rs. 2,000 paid to acquire patent rights - the right is for 10 years.

(10) Rs. 4,000 commission paid to M/s Sell-Well an agent for the sale of goods.

(11) Rs. 2,000 commission paid to Mr. Venkanna an agent for the purchase of a machinery.

(12) M/s Print Craft (Printers) spent Rs. 10,000 to acquire new type for the business.

(13) R Co. Ltd, paid Rs. 50,000 to Mr. Innovator (a scientist) for knowing the techniques of production i.e., know-how.

(14) A sugar company spent Rs. 25,000 on the construction of "KATCHA" (temporary) road on the public land in order to expedite supply of
sugarcane from farms to the factory which will become unusable after the rains.

(15) 10,000 incurred in getting a telephone connection under O.Y.T. (Own Your Telephone) scheme.

(16) Mr. Natkat entered into an agreement with the convener of a committee set up by the Government for the approach of text books and accordingly his books were recommended in the state which was not earlier, the consideration paid is Rs. 23,000.

(17) Expenditure incurred on drafting a partnership deed.

(18) Bad debts Rs. 3,000.

(19) Brokerage paid for raising a loan.

(20) Brokerage paid for raising capital.
Residential Status & Incidence of Tax

Residential Status

Income Tax is chargeable in respect of total income of a person earned during the previous year. The scope of the total income depends upon the residential status of a person. What incomes are to be included and excluded in computing total taxable income i.e., the income earned and received in India only is to be taxed or the income earned and received outside India is also to be taxed depends upon the residential status of the assessee with reference to the relevant previous year. Relevant previous means the previous year for which the residential status is to be determined for our present study. Relevant previous year is 2010-11 and any preceding years are termed as earlier previous years.

If the residential status of a person is “Resident” then he has to pay tax on global income i.e. the income received in India and also on the income received outside India. On the other hand if the residential status of a person is “Non-Resident” then he has to pay tax on the income earned in India only. For example Ram and Shyam are having same income Rs. 5,00,000. Rs. 2,00,000 income earned and received in India, Rs. 3,00,000 income earned and received outside India). If the residential status of Mr. Ram is “Resident” then his total taxable income is Rs. 5,00,000 and if the residential status of Mr. Shyam is “Non-Resident” then his total taxable income is Rs. 2,00,000.

Citizenship of a person is nothing to do in determining the residential status i.e., the citizenship of a person is determined according to the provisions of the Constitution, while the residential status of a person is determined according to the provisions of the Income Tax Act 1961.
For every assessment year the residential status of an assessee for the relevant previous year is to be determined, for e.g., An assessee may be ordinary resident for the first assessment year, not ordinary resident in the second assessment year and non-resident in the subsequent years. In simple words the residential status of a person depends upon his movements, i.e., if he is leaving the country and comes back frequently then his residential status is bound to change. i.e. an assessee may have different residential status for different assessment years. If a person stays in India for a quite long period say 10 years or more, then he will be considered as ordinary resident.

Residential Status and the Previous Year Sec. 6

The income earned in the previous year is assessed in the assessment year therefore the residential status of the previous year is prime factor in levying tax. i.e., under any circumstances the residential status of a person during the assessment year is not to be considered. If an assessee has been treated as resident for one of the sources of income then he will be treated as resident for all the sources of income.

Sec. 6 contains the provision for determining the residential status of different types of persons. The conditions laid down in this Section are very strict and rigid i.e., no relief is granted even if the stay of an assessee falls short or exceeds by one day than the prescribed limits. Under the law every person will be deemed to be a resident and ordinary resident unless and until he proves his residential status to be otherwise.

When a person is earning income in different countries, for tax purpose he may be considered as resident in more than one country, but in India according Indian Income Tax Act the residential status of a person is more relevant point. For determining the residential status, the "PERSONS" have been classified as follows:

1. Individuals
2. Hindu Undivided Family.
3. Firms or Association of Persons
4. Companies
5. Every other person.

Note: To determine the residential status for each type of person a separate set of Rules are there.
Residential status in the case of an individual:

The residential status of a person whose status is an “Individual” can be of three types

1. Resident and ordinary Resident
2. Resident but not ordinary resident
3. Non resident.

**Resident Status of an “individual” & H.U.F.**

<table>
<thead>
<tr>
<th>Resident</th>
<th>Non-Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident and ordinarily resident</td>
<td>Resident but not ordinarily Resident</td>
</tr>
</tbody>
</table>

**Methodology to determine the residential status of an “Individual”**

For determining the residential status of an “Individual” there are two sets of conditions

I. Basic conditions   II. Additional conditions

**Hint:** Under Basic and Additional conditions two sets of rules are there.

**Steps**

1. First determine whether a person satisfies basic conditions or not.

   If he satisfies one or both of the two basic conditions then he will be considered as “Resident”.

   If a person fails to satisfy any one of the two basic conditions then he will be treated as “Non-Resident”.

2. If the status of a person is “Resident” then only apply the tests of Additional Conditions. If an assessee is a “Non-Resident” then the tests of additional conditions are not to be applied.

**Rules :-** If an individual satisfies both the additional conditions then he will be treated as “Resident & Ordinary Resident”.

If an individual satisfies any one of the two or none of the additional conditions then he will be considered as “Resident but not ordinary Resident”.
Residential status of an individual can be studied under two categories.

(1) Special (2) General

1. Special category: In the following three situations the provisions of special category are to be applied.

   (i) An Indian citizen left to the foreign country.

   (ii) An Indian citizen or a person of Indian origin came to India.

   (iii) Citizen of India who left as crew in the ship.

Note: Staff members who are travelling in an Aero-plane or ship are known as crew.

Special Note

(1) For general category persons test of Basic conditions and Additional conditions are to be applied.

(2) For the case of special category persons only the provisions of 1st basic condition is to be applied.

2. General Category: If a person is residing in India without any travel to foreign countries for the last 11 years then can be treated under general category. And in addition to this a person who cannot be treated as a special category shall be included in the general category.

I. Basic conditions: An individual will be considered as resident in the previous year if he satisfies one or both of the following conditions.

1. He is in India in the relevant previous year for a minimum period of 182 days.

   Explanation: The person should stay in the geographical limits of India for a minimum period of 182 days. His stay need not necessarily be at one place and period of 182 days is not at a stretch. He may stay in his own house, rented house or in a hotel or a choultry. When a person is in India for a part of the day then his stay in hours is counted. A total of 24 hours of such broken period is taken as equivalent to one day.

2. He is in India for a period of 60 days or more during the relevant previous year and 365 days or more during the four years preceding to the relevant previous year.
1. INDIA - SEC 2 (25A)

The term India includes

(i) The territory of India

(ii) Its territorial waters, seabed and subsoil underlying such water

(iii) Continental shelf

(iv) Including economic zone. (v) Any other specified maritime zone and the air space above its territory and territorial waters.

Note: If a person is present in any one of the above places during the relevant previous year then he will be treated as present in India.

Special category situations are known as exception to the general Rules.

For the following persons, the first condition mentioned above (i.e. first condition of the basic conditions) only has to be applied to determine the residential status.

1. An Indian citizen leaving the country during the previous year.

2. An Indian citizen or a person of an Indian origin visiting India during the previous year.

3. An Indian citizen who is a member of crew in the ship

1. An Indian citizen leaving the country during the previous year

Basic condition

In case of an individual who is a citizen of India and leaving the country during the relevant previous year for employment outside India will be considered as “Resident”, if he stays in India during the previous year relevant to the current assessment year for 182 days or more.

If the individual is not satisfying the above said condition then he will be considered as “Non-Resident”.

Note

i. The term employment includes salaried persons, and persons engaged in business and profession.

ii. A person merely undertaking tours abroad in connection with his employment in India does not come under this category.
2. An Indian citizen or a person of an Indian origin visiting India during the previous year

In the case of an individual who is a citizen of India or of an Indian origin, who has been outside India comes on a visit to India for a minimum period of 182 days during the relevant previous year then he will be treated as “Resident”.

If the individual is not satisfying the above said condition then he will be considered as “Non-Resident”.

Note: A person is said to be an Indian origin if he or either of his parents or any grand parents was born in undivided India.

3. An Indian citizen who is a member of crew in the ship

An individual being a citizen of India left India during the previous year as a member of crew (staff member on duty) stayed in India for a minimum period of 182 days will be treated as resident.

Example

(1) A person residing in India from his birth time never went/ visited to foreign country then his residential status will be “Resident and ordinary resident”.

(2) A person never visited to India/ Residing in foreign country during the relevant previous year period (i.e. from 1-4-2010 to 31-3-2011) then his residential status will be “NON-RESIDENT”.

(3) A person residing in India visited to a foreign country for less than 6 months period during the relevant previous year then his residential status is “Resident”.

Application of Rules

<table>
<thead>
<tr>
<th>Basic Conditions</th>
<th>The resultant is we can know whether an individual is resident or not.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic condition</td>
<td>Rule 1 → Stay in India for 182 days or more</td>
</tr>
<tr>
<td>Basic condition</td>
<td>Rule 2 → Stay in India for 60 days +365 days in the last 4 years.</td>
</tr>
</tbody>
</table>

Additional Conditions

Additional Condition → Rule 1 → Resident for 2 out of 10 years.
Additional Condition → Rule 2 → Stay in India for 730 days in the last 7 years.
Illustration 1: On 10th Oct, 2011 Mr. Kailash Bung a practicing Chartered Accountant left India for the first time to join Atlas Financial Service in New York city, America and returned to India on 18th March, 2012 on 15 days leave. Determine his residential status for the year 2011-2012 in terms of Resident or Non-Resident.

Solution

To determine the residential status as resident or non-resident basic condition is to be applied. During the previous year 2011-12 his stay in India is as under

<table>
<thead>
<tr>
<th>Month</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stay in India</td>
<td>30</td>
<td>31</td>
<td>30</td>
<td>31</td>
<td>30</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>207</td>
</tr>
</tbody>
</table>

Assessee is an Indian citizen and left to the foreign country for “Employment purpose”.

During the previous year 2010-11 he stayed in India for more than 182 days hence his residential status is “Resident”.

Illustration 2: Mr. Rajmohan an Indian citizen went to London for business purpose on 8th July, 2011 and came back to India on 25th March, 2012. He was never been out of Indian the past. Determine his residential status for the assessment year 2012-2013 as resident or non-resident.

Solution: To determine the residential status as resident or non-resident basic conditions is to be applied. Residential status is to be determined for the previous year but not for the assessment year. For the assessment year 2012-13 relevant previous year is 2011-12. During the previous year 2011-12 his stay in India is as under

<table>
<thead>
<tr>
<th>Month</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stay in India</td>
<td>30</td>
<td>31</td>
<td>30</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>106</td>
</tr>
</tbody>
</table>

Assessee is an Indian citizen and left to the foreign country for business purpose. During the previous year 2011-12 he stayed in India for less than 182 days, hence his residential status is “Non-resident”.
Illustration 3: Mr. Sanjay Singh is an American citizen. He came to India for the first time on 14th Nov, 2011 and left on 5th May 2012. His grand mother was born in Karachi city of undivided India. Find out his residential status for the previous year 2011-12.

Solution: Assessee is not an Indian citizen but his grand mother was born in undivided India. During the previous year 2011-12 his stay in India is as under:

<table>
<thead>
<tr>
<th>Month</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Apr</td>
<td>May</td>
</tr>
<tr>
<td>No. of days Stay in India</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Jun</td>
<td>Jul</td>
</tr>
<tr>
<td></td>
<td>Aug</td>
<td>Sep</td>
</tr>
<tr>
<td></td>
<td>Oct</td>
<td>Nov</td>
</tr>
<tr>
<td></td>
<td>Dec</td>
<td>Jan</td>
</tr>
<tr>
<td></td>
<td>Feb</td>
<td>Mar</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>139</td>
<td></td>
</tr>
</tbody>
</table>

Assessee is a person of Indian origin and his stay in India is less than 182 days so his residential status for the previous year 2011-12 is “Non-Resident”.

II. Additional Conditions

For all types of individuals the additional conditions are same. Additional conditions are to be applied if the residential status of an individual is “Resident”. i.e. If an assessee is a “Non-Resident” then the tests of additional conditions are not to be applied.

1. He has been resident in India for 2 out of 10 previous years preceding to the relevant previous year.
2. He has been in India for a period of 730 days or more during the 7 years preceding to the relevant previous year.

Note: If an assessee is a “Non-Resident” then the tests of additional conditions are not to be applied.

If an individual satisfies both the additional conditions then he will be treated as “Resident & Ordinary Resident”.

If an individual satisfies any one of the two or none of the additional conditions then he will be considered as “Resident but not ordinary Resident”.
Summary chart for “Other individuals”

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Basic Conditions (1)</th>
<th>Additional Conditions (1)</th>
<th>Additional Conditions (2)</th>
<th>Residential Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Resident &amp; Ordinary Resident</td>
</tr>
<tr>
<td>2.</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Resident &amp; Ordinary Resident</td>
</tr>
<tr>
<td>3.</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Resident &amp; Ordinary Resident</td>
</tr>
<tr>
<td>4.</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Resident but not Ordinary Resident</td>
</tr>
<tr>
<td>5.</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Resident but not Ordinary Resident</td>
</tr>
<tr>
<td>6.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Resident but not Ordinary Resident</td>
</tr>
<tr>
<td>7.</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Resident but not Ordinary Resident</td>
</tr>
<tr>
<td>8.</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Resident but not Ordinary Resident</td>
</tr>
<tr>
<td>9.</td>
<td>No</td>
<td>No</td>
<td>Don’t apply this test</td>
<td>Non Resident</td>
</tr>
</tbody>
</table>

**Illustration 4**

Mr. S.K. Patil a citizen of India, has left for Paris to see his grand parents on 15th April, 2011 and did not return to India during the previous year 2011-12. Determine his residential status for the assessment year 2012-13.

**Solution**

The residential status for the previous year 2011-12 relevant to the assessment year 2012-13 is to be determined.

First it is to be verified whether Mr. Patil satisfies the basic conditions or not.

**Basic Conditions: (1) Stay in India for a minimum period of 182 days in the relevant previous year.**

During the previous year 2011-12 he stayed for 15 days only i.e., from 1-4-2011 to 15-4-2011.

He is not satisfying this condition.

**(2) Stay in India for 60 days during the Previous year and present in India for 365 days in 4 preceding previous years to the relevant previous year.**

He is not satisfying this condition also.
Conclusion: When an individual is not satisfying any one of the basic conditions then he will be considered as "Non-Resident" for the previous year 2011-12.

Illustration 5

Dr. Mitra an Indian citizen left for England on 16-6-1983 and returned to India on 23-7-87. He left for Iran on 10th March, 2011 and came back on 10th Nov, 2011. Determine his residential status for the previous year 2011-12.

Solution : The relevant previous year is 2011-12, and for this previous year the residential status is to be determined.

To determine the residential status, first Basic Conditions are to be verified.

Basic Conditions: 1) Stay in India for a minimum period of 182 days.

During the previous year 2011-12 (1-4-2011 to 31-3-2012), he stayed in India for a period of 142 days. (Nov.21 + Dec.31 + Jan.31 + Feb.28 + March 31)

He is not satisfying this condition.

2) Staying in India for 60 days during the previous year and 365 days in 4 previous years.

(i) Staying in India for 60 days during relevant previous year.

Dr. Mitra stayed for 142 days.

(ii) Staying in India for 365 days in 4 previous years.

The 4 preceding previous years to the relevant previous year 2011-12 are as under.

<table>
<thead>
<tr>
<th>Year No.</th>
<th>Year</th>
<th>No. of Days Stayed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2010-2011</td>
<td>344</td>
</tr>
<tr>
<td>2</td>
<td>2009-2010</td>
<td>365</td>
</tr>
<tr>
<td>3</td>
<td>2008-2009</td>
<td>366</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>365</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,440 days</td>
</tr>
</tbody>
</table>
He is satisfying this condition.

Dr. Mitra is satisfying one of the basic conditions (second test), thus he is "Resident".

Now his residential status is to be further verified i.e., with regard to additional conditions.

**Additional Conditions:** (1) **Resident in 2 out of 10 previous years, immediately preceding to the relevant previous year.**

On observing the analytical information it can be said that he was resident for 2 years out of 10 preceding previous years. It means he is satisfying this condition.

(2) **Stay in India for 730 days in seven previous years.**

During the last 7 years he stayed for more than 730 days.

**Conclusion:** Dr. Mitra is satisfying one of the basic conditions and both the additional conditions so his residential status is "Resident and ordinary resident".

**Illustration 6**

Mrs. I.P. Nathan 53 years age an Indian citizen left to America on 1st July, 2006 and returned to India on 1st May, 2010 and again left to America on 1st Jan, 2012. Determine her residential status for the previous year 2011-12 relevant to the assessment year 2012-13.

**Solution**

To determine the residential status, first basic conditions are to be verified.

**Basic conditions (1) Stay in India for a minimum period of 182 days.**

During the previous year 2011-12 (1-4-2011 to 31-3-2012) she stayed in India for a period of 276 days. (Apr.30 + May.31 + June.30 + July.31 + Aug.31 + Sept.30 + Oct.31 + Nov.30 + Dec.31 + Jan.1)

She is satisfying this condition.

Mrs. I.P. Nathan is satisfying one of the basic conditions (First test), so she is "Resident".
Analytical Table

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Previous year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2010-11</td>
<td>Resident</td>
</tr>
<tr>
<td>2.</td>
<td>2009-10</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>3.</td>
<td>2008-08</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>4.</td>
<td>2007-08</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>5.</td>
<td>2006-07</td>
<td>Resident</td>
</tr>
<tr>
<td>6.</td>
<td>2005-06</td>
<td>Resident</td>
</tr>
<tr>
<td>7.</td>
<td>2004-05</td>
<td>Resident</td>
</tr>
</tbody>
</table>

**Note**: Before 2004-05 she was in India.

**Additional Conditions**: (1) Resident in 2 out of 10 previous years, immediately preceding to the relevant previous year.

On observing the analytical table and second basic condition it can be said that she was resident for 2 years out of 10 preceding previous years. It means she is satisfying this condition.

(2) **Stay in India for 730 days in 7 previous years.**

During the last 7 years she stayed for more than 730 days.

**Conclusion**: Mrs. I.P. Nathan is satisfying one of the basic conditions so she is resident and satisfying both the additional conditions, hence her residential status is "Resident, and ordinary resident".

**Illustration 7**

Mr. Chandram aged 41 years is employed in a Limited Co., at Kurnool, he has never gone out of India. Determine his residential status.

**Solution**:

Mr. Chandram is living in India for the last 41 years, it means he is fulfilling both the basic conditions and also two additional conditions so his residential status is "Resident and ordinary resident".

**Illustration 8**

Mr. Clinton an American citizen came to India for the first time on 17th May, 2011 and continues to stay in India. Determine his residential status.
Solution:

For the assessment year 2012-13 the relevant previous year is 2011-12 (1-4-2011 to 31-3-2012) during this period his stay in India was more than 182 days (fulfilling one of the basic conditions) hence his residential status will be resident. As he fails to fulfill any one or none of the additional conditions then his residential status will be considered as "Resident, but not ordinary resident".

Residential Status of Hindu Undivided Family Sec. 6(2)

The head of the Hindu Undivided Family is known as Karta. Karta is assessed for the family income and as such he is liable to pay tax on it. The other members of the family, who are known as coparcener are not liable to pay tax on the family income, however, they are liable to pay tax on their individual incomes only. If the karta for any reason relinquishes his responsibility, one of the other coparcener has to manage the affairs, then the member will be designated as the manager.

For determining the residential status of H.U.F. there are two sets of conditions.

I. Basic conditions

II. Additional conditions

I. Basic Conditions

For determining the residential status of H.U.F. first basic conditions is to be tested:

Basic Condition:

A Hindu Undivided Family is said to be “Resident” in India, if control and management of its affairs is wholly or partly situated in India.

If control and management of its affairs are wholly situated outside India then H.U.F. is treated as “Non-Resident”.

Special Note: To determine the residential status of H.U.F. first control and management of affairs is to be considered. The summary chart is as under:

<table>
<thead>
<tr>
<th>Place of Control</th>
<th>Residential Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wholly in India</td>
<td>Resident</td>
</tr>
<tr>
<td>2. Wholly outside India</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>3. Partly in India and partly out of India</td>
<td>Resident</td>
</tr>
</tbody>
</table>
II. Additional Conditions

(1) The Karta or the Manager of the H.U.F. has been resident in India for at least 2 out of 10 years preceding the relevant previous year.

(2) He has been present in India for a period of 730 days or more during 7 years preceding to the relevant previous year.

From the residential point of view H.U.F. may be (a) Ordinary resident (b) Not ordinary resident (c) Non-resident.

For determining the residential status the situation of the place of control and management of its affairs are deciding factors. A Hindu Undivided Family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. Control and Management means the decisions concerning the affairs of the family are taken. Eg: Business policy and appointment of staff etc. If the place of control and management is outside India then the H.U.F. will be considered as "Non-resident" though the property may be in India. If some of the members or Karta may reside in India but the place of control and management is out of India then also the H.U.F. is considered as “Non-Resident”. When the Karta does not control the affairs of the family then the manager’s residential status is to be considered.

If Karta or manager satisfies basic conditions and the two additional conditions then H.U.F. is considered as ordinary resident i.e., **RESIDENT AND ORDINARY RESIDENT**.

If Karta or Manager satisfies the basic conditions and one or none of the additional conditions then H.U.F. will be considered as not ordinary resident i.e., **RESIDENT BUT NOT ORDINARY RESIDENT**. If karta or manager does not satisfy the basic conditions then H.U.F. will be considered as **NON RESIDENT**.

**Illustration : 9**

Mr. Manoharan is the Karta of H.U.F. whose property is situated in Delhi. During the previous year 2011-12 he was in America. What is the residential status of H.U.F.

**Solution**

During the previous year 2011-12 the control and management of affairs is out of India i.e., The basic condition is not satisfied, hence the residential status of H.U.F. is "Non Resident".
Illustration : 10

Mr. Chal Mohan Ranga is the Karta of a H.U.F. and left for America on 15th March, 2008 after having stayed here for 30 years. He returned to India on 18th Sept, 2011. In his absence other coparcener Mr. Kondaveeti Ranga used to manage the affairs. Determine the residential status of H.U.F. for the Assessment year 2012-13.

Solution :

To determine the residential status of H.U.F. first the basic condition is to be considered i.e., place of control and management. It is karta who normally controls and manages the affairs of H.U.F. Yet another coparcener can control and manage the affairs, the mere fact of absence of karta from India does not make the family non-resident. In this case, place of control is in India and as such the H.U.F. will be considered as Resident.

In the absence of Karta if the manager satisfies the additional conditions then the residential status of H.U.F. for the Assessment year 2012-2013 is ordinary resident (resident and ordinary resident)

Residential status in the case of Firm, Company :

<table>
<thead>
<tr>
<th>Association of persons and every other person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident</td>
</tr>
<tr>
<td>Non-Resident</td>
</tr>
</tbody>
</table>

Ressidential Status of the Firm Sec. 6(2)

From the residential point of view the firm may be resident or non-resident. A partnership firm is said to be resident in India if control and management are partly or wholly situated within India during the relevant previous year. If control and management are situated out of India then the firm will be treated as non-resident.

Note: When the partners of a firm are residents in India then the firm is also considered as resident.

Illustration : 11

Mr. Bharat Prakash is a resident of India and Mr. Chanchal Ram a citizen of India working in England for the last 15 years are partners in a cloth business in Hyderabad. As per the partnership deed partners have to meet once in a month in Hong Kong to review the business position. Determine the residential status of the firm.
Solution:

To determine the residential status of the firm the place of control is considered. In this case the business meetings are held out of India, it means the control and management is not in India hence the firm will be considered as non-resident.

Residential Status of the Company Sec. 6 (3)

A company which is incorporated under the Companies Act, 1956 is known as Indian Company. From the residential point of view a company may be (a) Resident or (b) Non-Resident,

A company is considered as “Resident” if it is an Indian company i.e., incorporated or registered under Indian Companies Act or the control and management of its affairs is wholly situated in India.

A company whose control and management is situated wholly or partially outside India then it is considered as “Non-Resident” company, control and management means the place where the meeting of Board of Directors is held and not the place where paid employees, personal managers will carry on their jobs.

Residential Status of Association of Association of Persons (A.O.P.) Sec. 6 (4)

The example for an Association of Persons can be Co-operative Society, Club, Charitable Institutions, etc.

Like firm, the residential status of an association of persons may be (a) Resident (b) Non-Resident. To determine the residential status of an assessee the place of control and management are considered. If the place of control is partly or fully within India then it is considered as resident. In other words if the place of control and management is out of India then the association of persons will be considered as “Non-Resident”.

Residential Status of Every Other Person Sec. 6 (4)

Every other person includes a local authority and an artificial judicial person etc. The residential status of these persons is determined by applying the test of situation of place of control and management.

If the control and management is wholly or partially situated in India then it will be treated as resident.

If the place of control is wholly out of India then it is treated as non-resident.
Incidence of Tax

Incidence of tax means the burden of payment of tax. In simple it denotes tax liability of a person. According to Sec. 5 of the Indian Income Tax Act, the concept of "Income" and the place of earning income is in India or in a foreign country are deciding factors for determining the tax liability. Section 5 deals with scope of total income i.e. what incomes are to be included and excluded in computing the total income of an assessee. The tax liability of a person depends upon his/her residential status during the relevant previous year. The classification of incomes based upon its origin is of two fold:

I. Indian Income

II. Foreign Income

I. Indian Income: Income earned received and deemed to be received in India are treated as Indian income. An individual either Indian citizen or a foreign national received income from (i) Salary for the services rendered in India (ii) Rent received from a property situated in India (iii) Income from the business or profession which is established in India (iv) Income from any asset held in India (v) Capital gain on transfer of assets held in India (vi) Any other income for which the source of income is in India are treated as Indian income.

II. Foreign Income: If the source of income and receipt of income are in a foreign country then income received by a person shall be treated as foreign income.

Tax Liability of the Assessee upon Residential Status

1. Ordinarily Resident: An assessee whose residential status is "Resident and Ordinarily Resident" during the relevant previous year to the current assessment year has to pay tax on both the incomes i.e., Indian Income and Foreign Income.

2. Not Ordinarily Resident: An assessee whose residential status is "Resident but not ordinarily resident" during the relevant previous year to the current assessment year has to pay tax generally on the Indian Income only i.e., he need not pay tax on the foreign income. However one exception to this rule is, if not ordinarily resident has got a business outside India, and if such business is controlled from India then, the income generated from such business is to be included in the total income of an assessee though apparently it may look like a foreign income.

3. Non Resident: An assessee whose residential status is "non-resident" during the relevant previous year has to pay tax on "Indian Income" only. He
need not pay tax on foreign income even if he has got a business outside India which is controlled by him from India.

**Note:** If a foreign income is not taxed in the past for any reason the same cannot be included in the total income of an assessee during the current assessment year for all types of assessees i.e., ordinarily resident, not ordinarily resident and non-resident.

**I. Incomes deemed to accrue in India u/s 9:** In the following situation how the income of an individual is treated is explained.

1. **Salary income**

   Salary income shall be treated as income earned in India if the employee rendered services in India i.e., for employees working in foreign countries the treatment will be salary accrued outside India (Foreign income).

   **Exception to the above rule**

   (i) If a government employee (an Indian citizen) has rendered services outside India even then the income received shall be treated as income earned in India. In the case of private sector or any other organisation employees service rendered in foreign country the income will be treated as foreign income.

   (ii) If a Government or non-government employee has rendered his services in India but received either leave salary or pension in a foreign country then such income shall be treated as Indian income.

   **Note:** For Government employees working in the foreign country allowances received and the value of perquisites provided is tax free income.

2. **Income from House Property**

   If the house is situated in India then (i) Rent received and (ii) Capital gain on transfer of such house shall be treated as "Indian income".

3. **Income from Business/Profession**

   The income of a non-resident individual having business or profession connection in India will be treated as Indian income.

   **Exception to the above rule:** Income in the following situation shall be treated as "Foreign Income".

   1. If the business activities of a non-resident individual who is employed to purchase the goods in India to export the same to foreign countries.

   2. A non-resident person engaged in the business of running news agency
or publishing news papers, journals and magazines etc. in India.

3. A non-resident individual engaged in cinematography confining the activities for shooting only in India.

4. Income from other sources

"in the case of non-residents".

A. Interest income

(i) If interest is paid by the Indian Government (Central and State), to the receiver of interest it shall be treated as "Indian Income".

(ii) If the borrowed money is used for conducting business or professional activities in India then to receiver of the interest, it shall be treated as "Indian income".

Note: If the borrowed money is used for earning an income other than the business or profession then such income shall not be treated as Indian income.

B. Royalty income

In the following two situations it will be treated as "Indian income".

Situation 1: If the royalty is paid by Central/State Government, to the receiver it becomes Indian income.

Situation 2: If the right, property or information is utilised for a business/profession in India then to the receiver of the royalty, it becomes "Indian Income".

Exception: (i) If royalty is received by a non-resident person which is engaged in the manufacturing activity, it shall not be treated as Indian income.

(ii) Royalty received by a non-resident from resident person for transfer of right in respect of computer software or for the supply of computer equipment or for training computer based under the scheme framed by the Central Government.

Consultancy Fee for Technical services

Technical service means any consideration received for rendering any technical/managerial/consultancy services and not for undertaking any activity of construction or assembling or mining etc., and the income is not changeable under the head "Income from salary" and the treatment for tax purpose is as under.
Tax liability

(i) If the fee is paid by the Government of India/State Government to a non-resident then such income shall not be treated as "Indian income".

(ii) If the fee is paid by the resident individual to a non-resident person, for business/professional activities then to non-resident receiver it becomes "Indian income."

D. Dividend

Any dividend paid by an Indian Company, out of India, to the receiver becomes Indian income. However dividends received from Indian Company in India is an exempted income.

Illustration 1

Smt. Vimala Dixit submitted the following details of income for the previous year 2011-12. Compute total income for the assessment year 2012-13 in the following situations.

Her residential status is (1) Resident & ordinarily resident (2) Resident but not ordinarily resident (3) Non-resident.

1. Salary received in India from a former employer of Dubai Rs. 8,68,000.

2. Income from business in Hongkong but controlled from China Rs. 1,62,000.

3. Income from a property in India but received in U.K Rs. 2,79,000.

4. Income from a property in Bangladesh but received in Pakistan Rs. 15,50,000.

5. Income from a property in Bangladesh but received in India Rs. 9,30,000.

6. Income from business in Nepal but controlled from India Rs. 62,000.

7. Income received from company deposit in Sri Lanka (1/3 received in India) Rs. 1,86,000.

8. Income from business in Japan for the year 2005-06 remitted to India during 2011-12 Rs. 12,40,000.

9. Profit from business in Gujarat controlled from U.S.A Rs. 6,20,000.
Solution

Computation of Total Income of Smt. Vimala Dixit

For the Assessment Year 2012-13

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Details of Income</th>
<th>Residential status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Resident &amp; Ordinarily Resident</td>
</tr>
<tr>
<td>1.</td>
<td>Salary received in India from a former employer of Dubai.</td>
<td>8,68,000</td>
</tr>
<tr>
<td>2.</td>
<td>Income from business in Hongkong but controlled from China</td>
<td>1,62,000</td>
</tr>
<tr>
<td>3.</td>
<td>Income from a property in India but received in U.K.</td>
<td>2,79,000</td>
</tr>
<tr>
<td>4.</td>
<td>Income from a property in Bangladesh but received in Pakistan</td>
<td>15,50,000</td>
</tr>
<tr>
<td>5.</td>
<td>Income from a property in Bangladesh but received in India.</td>
<td>9,30,000</td>
</tr>
<tr>
<td>6.</td>
<td>Income from business in Nepal but controlled from India.</td>
<td>62,000</td>
</tr>
<tr>
<td>7.</td>
<td>Income received from company deposit in Srilanka</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/3 received in India</td>
<td>62,000</td>
</tr>
<tr>
<td></td>
<td>2/3 out of India</td>
<td>1,24,000</td>
</tr>
<tr>
<td>8.</td>
<td>Income from business in Japan for the year 2005-06 remitted to India in 2011-12.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nil</td>
</tr>
<tr>
<td>9.</td>
<td>Profit from business in Gujarat controlled from U.S.A.</td>
<td>6,20,000</td>
</tr>
<tr>
<td></td>
<td>Total income (Indian income liable to pay tax in India).</td>
<td>46,57,000</td>
</tr>
</tbody>
</table>

Questions

1. What do you mean by "Incidence of tax" and explain the provisions regarding including and excluding items of income in total income based upon residential status.

2. Explain the term "Accrual of income and explain the provisions relating to scope of the "Income from salary" and income from business for determining total income.

3. Write short notes on (a) Indian income (b) Foreign income
Problems

1. Mr. Anand Kishore had the following incomes during the previous year ended 31st March, 2011 you are required to compute his total income if his residential status is
   (a) Ordinarily resident    (b) Not ordinarily resident and
   (c) Non-resident.

   1. Salary received in India Rs. 3,20,000 (for 10 months)
   2. Rs. 1,50,000 is the profit of a business in Burma, the business is controlled from India.
   3. Income accrued in South Africa but received in India Rs. 1,80,000
   4. Interest on savings in Save More Bank Ltd., Rs. 40,000
   5. Rs. 1,00,000 earned in India but received in London.
   6. Income from House property in India Rs. 1,00,000.
   7. Income from House property in Bangladesh Rs. 60,000.

2. Mr. Bharat Ratnam furnished the following particulars of his income for the previous year 31st March, 2012. You are required to calculate his total income. If he is ordinarily resident, not ordinarily resident and non-resident.

   (a) Salary received from the Government of India Rs. 5,40,000.
   (b) Salary received in Paris for the services rendered in Indian Embassy Rs. 2,00,000.
   (c) Income from property situated in Srikakulam Rs. 1,40,000.
   (d) Income from cultivation of land situated in Sri Lanka Rs. 3,00,000.
   (e) Dividends received on the shares of a Limited Company Incorporated in New York and having the branches in India Rs. 1,60,000.
   (f) Interest received Rs. 50,000 on the debentures of V.S.T. Co. Ltd., Hyd.
   (g) Salary received in India for the services rendered in Iran Rs. 1,00,000.
   (h) Rs. 80,000 Dividends received on the shares of a foreign company, which is controlled from India.
Section 10 of the Indian Income Tax Act, 1961 deals with the exempted incomes. These incomes are not to be included in the total income of an assessee i.e., these incomes are totally tax free. The exempted incomes can be studied under the following heads.

(a) To Individuals  (b) To certain institutions and authorities.  (c) To non citizens.

A. Exempted Incomes to Individuals

The following are the important items of income exempted to individuals.

1. Receipt by a member of an Hindu Undivided Family: Any amount received by a coparcener from the Hindu Undivided Family's income or from the estate of H.U.F. is fully exempt from tax.

2. Casual and non-recurring receipts: An unforeseen income when it is received is known as casual income in other words a receipt which is in the nature of windfall or because of a chance element.

Example: Gifts received on the occasion of marriage day or Birthday etc.

Note: Tax for Casual Incomes: Income from horse races, winning from lotteries, crossword puzzles, card games or gambling or betting, winning from T.V programmes or lucky dips conducted by business establishments are few examples of casual incomes. These incomes are taxed at a flat rate of 30.9% including Education Cess [(30% Income Tax (+) 2% Education Cess (+) 1% Secondary & Higher Education Cess = 30.9%)].
3. Travel concession to employees who are having the Indian citizenship.

4. Allowances given and perquisites provided to government employees (Indian citizens) who are posted abroad.

5. Remuneration and foreign income of an individual working under Cooperative Technical Assistance Programme.

**Example:** If a person is serving in India under the Technical collaboration programmes in accordance with an agreement entered into by the Central Government and Foreign Government. If the remuneration is paid by the foreign government and is liable to pay the tax to foreign government, his income in India is exempted from Tax.

6. Payment received by an employee of State Government / Central Government and organised sector on voluntary retirement is exempt upto Rs. 5,00,000.

7. Payment from statutory provident fund;

8. Payments from recognised provident fund.

9. Payments from super annuation fund.

10. Scholarships received by the students.

11. Allowances received by MP/MLA/MLC.

   (i) Daily allowance received by MP/MLA/MLC or member of any committee constituted either by the Parliament or state legislature is fully exempted.

   (ii) Constituency allowance received by MP/MLA/MLC is fully exempted.

   (iii) Any other allowance received by a member of state legislature or of any committee constituted either by the Assembly / Council is exempted upto Rs.2,000 p.m.

   (iv) Any other allowance received by MP/MLA/MLC is fully taxable.

12. Awards received from literary, scientific work, or proficiency in games and sports. If the awards are instituted by the Central Government or by State Government or by institutions approved for exemption by the Central Government. Any payment made by the government in pursuance of gallantry awards instituted or approved by the Central Government.
13. Any income received by a person from the following funds:
   i. The PM's national relief fund
   ii. The PM's fund (promotion of folk art )
   iii. The PM's aid to students fund
   iv. Any other fund established for charitable purposes which are notified by the central government.
   v. Any trust or institution set up wholly for religious purposes for the purpose which may be notified by the central government.

14. Annual value of one palace for the former rulers/princes.

15. Interest received on securities which are exempt from tax.


17. Compensation received by victims of Bhopal Gas leak disaster.

18. **Income of a Minor**: Incase the income of an individual includes the income of a minor child, such individual shall be allowed exemption upto Rs. 1,500/- in respect of each minor child.

   **Note**: If a minor earns income by undertaking manual work or activity involving application of his skill or talent or specialised knowledge, then such income is not to be included in the total income of other individual.

19. Compensation on retrenchment received by a private sector employee.

20. Life policy amount received (including bonus) from LIC or any other private insurance companies.

21. Life Policy amount received (including Bonus) from L.I.C or any other insurance company including any receipt of commuted value of pension under "Pension Fund Scheme".

   **Note**: Life policy amounts (including bonus) received from L.I.C. or any other insurance company is an exempted income. However the following sums are taxable

   a. Amount received from policy under section 80DD
   b. Amount received from policy under section 80DDA
   c. Amount received from life policy issued on or after 1-4-2003 (where premium paid is more than 20% of policy amount ).
If the policy is matured on account of death, then it becomes exempted income.

**Note:** Receipt under Keyman insurance policy of L.I.C. is taxable income. Keyman insurance policy is a policy taken by a business or professional organisation on the life of an employee protecting the business against the financial loss which may occur from the employees premature death.

**Receipt from Keyman Policy - Its treatment in I.T. Act.**

(i) If the assessee is an employee then it will be treated as profits in lieu of salary under the head "Income from Salary".

(ii) If it is received by an employer then it is treated as "Income from the Business".

(iii) If it is received by a director of the company then it will be treated as "Income from other sources".

22. Interest and dividends received by a member of Schedule Tribe residing in the states of Nagaland & Manipur or Tripura or Arunachal Pradesh.

23. Gratuity received by a Government employee is fully exempted.

24. Gratuity received by other employees the exemption is limited to Rs. 10,00,000.

25. Money received on account of commutation of pension by Government Employees (Central/State/Statutory Corporations/Local bodies/ Corporations set up by the government) is fully exempted.

In the case of Non-Government Employees if they are receiving Gratuity 1/3 of the commuted value of pension is exempted. Otherwise 1/2 of the commuted value is exempted.

26. Encashment of leave on the eve of retirement for Central and State Government Employees is fully exempted. In the case of other employees upto Rs. 3,00,000 is exempted.

27. Payments received on the eve of voluntary retirement by an employee of

(a) Public sector Company or

(b) any other company or

(c) an authority established under a Central / State / Provincial Act or
(d) a local authority.

(e) Co-operative societies

(f) Universities

(g) Indian Institutes of Technology

(h) and such other institutes of management as may be specified by the Central Government.

(i) State Government employees

(j) Central Government employees.

28. Any subsidy received from the Tea Board / Central Government for growing and manufacturing tea in India.

29. If an individual is engaged in the manufacturing business and derives a profit from 100% export oriented business is fully exempted for 5 years.

30. If an individual derives a profit from the business established in the "Free Trade Zones" or in "Electronic Hardware Technological Park" or "Similar Park" is fully exempted.

31. Leave Travel concession generally is an exempted income.

32. Dividends received from an Indian Company and income from Mutual Benefit Funds is an exempted income.


34. Income of Scheduled Tribes residing in the states of Arunachal Pradesh, Manipur, Mizoram, Nagaland, Tripura and areas to be covered by the notification of C.B.D.T.

35. Share of profit received by a partner from the firm, where the firm has been assessed under I.T. Act as a 'Firm'. Interest on capital and salary etc., received by a partner will be treated as business income.

36. Any income from interest on securities/bonds specified by central Government to Non - Residents.

37. Interest on Non - Resident external account.

38. Interest on specified saving certificates of the central Government received by a Non - Resident Indian if the assessee has subscribed before 1-6-2002 in convertible foreign exchange remitted from outside.
India through official channels.

39. Income received from U.T.I. and other mutual funds.

40. Interest on gold deposit bonds of 1999 issued under Gold Deposit Scheme of 1999.

41. Any income by way of pension or family pension received by an individual or his family member if such individual has been in the service of Central or State Government and has been awarded Param Vir Chakra or Maha Vir Chakra or any other gallantry award as may be notified.

42. Tax on perquisites paid by the employer.

43. Capital gain on transfer of units of U.T.I (US 1964 scheme), if transfer has taken place on or after 1-4-2002.

44. Income from export of artistic hand made wooden articles or things on satisfying the necessary conditions

45. Capital gain on compulsory acquisition of urban agricultural land, on or after 1-4-2004.

46. Long term capital gains on transfer of equity shares or units of equity oriented mutual funds through recognised stock exchange, on or after 1-10-2004.

47. Gift received either in cash or kind on or after 1-10-2009 in excess of the exempted limit u/s 56 (2) (vii) from any person is exempted upto Rs. 50,000.

48. Loan amount or periodical instalments received by a senior citizen from the Banks/Housing Societies Corporations under Reverse Mortgage Scheme.

49. Perquisites/Allowances to chairman and members of Union Public Service Commission.

50. Perquisites/Allowances to retired chairman and retired members of Union Public Service Commission with some limits.

51. Allowances received by Judges of Supreme Court and High Court.

B. Exempted Income to certain Institutions and Authorities.

Income received by the following institutions and authorities is exempted from tax.
1. Income received by local authorities e.g., Municipalities etc.

2. Income of a University or an educational institution if they are wholly or substantially financed by the Government.

3. Income of Scientific research associations.

4. Income of Hostels which are run on charitable basis.

5. Income of Trade Unions and Association of Trade associations from the incomes of House property and other sources.

6. Income of professional associations on satisfying the necessary conditions.

7. Income of provident funds.

8. Incomes of National funds like PM's relief fund etc.,

9. Incomes of regimental funds of armed forces.

10. Income of institution established for the development of Khadi and village industries.

11. Income of public or religious or charitable trusts.

12. Income of Hospitals run on charitable basis.

13. Income of Mutual funds set up by a public sector Bank or Public financial institution or authorised by Securities & Exchange Board of India or R.B.I.


15. Income of notified Exchange Risk Administration Funds e.g., Funds setup by I.D.B.I., I.C.I.C.I etc.

16. Income of a body for promoting interest of Schedule caste/Tribes/Backward classes (including Govt. agencies and Co-operative sector bodies).


18. Income of SAARC Fund - South Asian Association co-operation Fund for Regional Projects.

19. Income of a corporation for promoting the interest of Minority Community.

20. Income of news agencies notified by the government.
21. Income of Commodity Boards and Authorities e.g. Coffee Board, Tobacco Board, Marine Products Export Development Authority etc.

22. Income of Infrastructure Capital Fund or Infrastructure Capital Company

23. Income of Investor Protection Fund setup by the recognised stock exchange in India.

24. Income arising from the business of
   (a) Developing or
   (b) Maintaining and operating or
   (c) Developing, maintaining and operating any infrastructure facility.


26. Income of Trustees of Provident Fund, Gratuity Fund etc.

27. Income of venture capital fund or company from investment in a venture capital undertaking (sec. 10 (23FA) & 10 (23 FB)

C. Exempted income to Non-Citizens

The following incomes of foreign citizens are fully exempted from tax on satisfying certain conditions.

i. Salary of the foreign national who is posted in India as an Ambassador or High Commissioner.

ii. Salary of staff of foreign enterprise not engaged in any business or employed in India other than as the staff member in the missionary.

iii. Where a person is employed in foreign-ship and his stay is less than 90 days in India.

iv. Remuneration received from foreign Government as an employee with his training in specified establishments during his stay in India.

Incomes which are to be Included in the Total - Income to Determine the Rate of Tax.

The following incomes received by an assessee during the current previous year are included in the total income for limited purpose i.e., for determining the rate of tax.

1. Share of members income from an association of persons or body
of individuals.

1. If the association of persons had paid tax at the normal rates applicable to individuals, the share of the member is included in his total income for determining the tax rate. However rebate on tax is allowed.

2. Interest received from Tax-free securities issued by Government is to be included in the total income of an assessee.

3. Agricultural Income.

Questions

1. Explain any ten items which are fully exempted from Income-Tax.

2. List out the exempted incomes to a non-resident.

3. Give ten examples of incomes which are totally exempted from income-tax and also enumerate the incomes which are included in the total income and which are exempted from tax.

4. Discuss the provisions relating to the following incomes.
   a. Winning from lotteries.
   b. Receipts by members of an H.U.F.
   c. Ex-gratia payment received from Prime Ministers relief fund.
   d. Salary received by an Ambassador of a foreign national in India.
Remuneration received from the employer is known as salary. According to Section 15 of Income Tax Act, 1961 the following incomes are chargeable under the head “salaries”.

A. Salary due from present or former employer or a prospective (future) employer

B. Advance salary (does not include loans taken).

C. Arrears of salary. (If not taxed earlier).


1. Salary

The following are the items to be included under the subhead salary.

A. Basic pay Fully taxable.
B. Wages Fully taxable.
C. Bonus Fully taxable.
D. Pension Fully taxable.
E. Commission Fully taxable.
G. Advance salary Fully taxable.
H. Arrears of salary (If not taxed earlier) Fully taxable.
I. Surrender of leave or leave encashment: Fully taxable.

J. Remuneration of teachers and lecturers is taxable under the head income from other sources.
   from university or from Intermediate Board etc. for setting up the question papers or valuing the answer scripts etc.

K. Personal gifts [excluding Bonus] received from the employer. Fully exempted.

L. Remuneration for extra duties [over - time working allowance] Fully taxable.

### Computation of Salary Income

<table>
<thead>
<tr>
<th>I. Salary</th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Bonus</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Commission</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Fees</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Overtime remuneration</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Leave encashment</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Employer’s contribution to RPF in excess of prescribed limit</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Interest credited to RPF in excess of prescribed limit</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. Allowances</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Fully taxable allowances</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>B. Partly taxable allowances</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Less: Deductible/exempt</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>C. Allowances not taxable</td>
<td></td>
<td>N.T</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III. Perquisites</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Taxable in all cases of employees</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>B. Taxable in specified cases of employees</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>C. Perquisites not taxable</td>
<td></td>
<td>N.T</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV. Profits-in-Lieu of Salary</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Less: Deduction u/s 16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deduction u/s 16 (ii):</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>employment tax/ professional tax</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Income from Salary</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>
Basic Pay

Basic pay is the prime salary. This salary may change every year on account of increments. e.g. If the basic salary of an employee is Rs.5,000 and increment is Rs. 200 it means after completing one year of service the basic pay will be Rs.5,200 for the second year and Rs.5,400 for the third year.

In some of the organisations the basic pay may be in the graded form. e.g. Scale of pay Rs.11,000-400-13,000-500-15,000-800-17,400.

In the first year of service the basic pay starts with Rs.11,000 and for every one year of completed service it increases by Rs. 400 till it reaches Rs. 13,000 and thereafter it increases every year by Rs. 500 till it reaches Rs. 15,000 and then the increase will be Rs. 800 for one year of service. When the basic pay becomes Rs.17,400 thereafter it will not increase year after year.

**Bonus**: In principle bonus received by an employee is taxable as salary income. It is taxable on receipt basis.

2. Allowances

Allowance is a fixed monetary benefit given by the employer to an employee for a specific purpose e.g. House Rent Allowance, Children Education Allowance etc. From the Income tax point of view the allowances are classified into three types.

I. Fully Taxable Allowance.

II. Fully Tax Free Allowance.

III. Partly Taxable Allowance i.e. un-exempted amount is taxable.

I. Fully Taxable Allowances

Following are the different allowances, which are fully taxable: -

(a) Dearness allowance (D.A.) or High cost of living allowance.

(b) Additional D.A.

(c) City Compensatory Allowance (C.C.A.)

(d) Marriage Allowance

(e) Family Allowance

(f) Meals Allowance

(g) Servant Allowance
(h) Medical Allowance
(i) Lunch Allowance
(j) Over time Allowance

II. Fully Tax Free Allowances

1. Foreign allowance to government employees.

   **Note:** Any allowance paid by government to an employee working in a foreign country who is a citizen of India is fully tax free.

2. Any allowance paid to High Court and Supreme Court Judges.

3. Allowances received by an employee of U.N.O / Diplomatic and Consulate staff of Foreign Government working in India from his employer.

III. Partly Taxable Allowances

The following allowances are partly exempted from tax i.e., un-exempted amount of allowance is taxable.

1. Entertainment Allowance
2. House Rent Allowance
3. Children Education Allowance:
4. Children Hostel Allowance:
5. Transport Allowance:
6. Uniform Allowance:
7. Helper Allowance

1. Entertainment Allowance

   Entertainment allowance is one of the items of deductions allowed u/s 16 (ii) from the salary income, i.e., it is not an item of exempted allowance. Entertainment allowance given by the employer for official purpose is not to be treated as income. If the actual amount spent is less than the received amount then the difference amount is treated as taxable income under the head “Allowances”. Entertainment allowance given by the employer for personal purpose may be allowed as deduction.

   **Note:** If nothing is mentioned in the problem then the entertainment allowance received is to be treated for personal purpose only.
Entertainment allowance is allowed as deduction only for Government employees. The term Government employee includes Central Government or State Government employee but does not include the employees of statutory corporation and local authorities, and for non-government employees also it is not allowed as a deduction.

Employees

- Central & State Government Employees
- Employees of statutory corporations and local authorities and non-government employees
- No deduction is allowed

The deduction is least of the following three amounts.

(a) 20% of salary

(b) Actual amount of allowance received.

(c) Rs. 5,000

**Note:** Actual amount spent is not to be considered.

**Note:** Salary means Basic Pay only

**Illustration 1:** Determine the amount of Entertainment allowance to be allowed as deduction.

Mr. Krishna Prasad is employed in the Ministry of Home of Government of Madhya Pradesh. His salary particulars are: Basic pay Rs. 3,000 p.m., D.A. Rs. 600 p.m., C.C.A. Rs. 250 p.m., and Entertainment allowance Rs. 200 p.m.

**Solution:** - The assessee is a government employee so the least of the following three amounts is allowed as deduction.

a) 20% of salary  
   (a) 20% of (3,000X12) = 7,200

b) Actual allowance received  
   (b) 200 X 12 = 2,400

c) Rs 5,000  
   (c) Rs. 5,000 = 5,000

∴ Rs. 2,400 will be allowed as deduction.
Illustration 2: Mr. Adarsh is working in Hindustan Lever Ltd. His salary particulars are basic pay Rs. 3,000 p.m. D.A. Rs. 500 p.m.; C.A. Rs. 600 p.m.; Entertainment allowance Rs. 400 p.m. Calculate the amount of Entertainment allowance to be allowed as deduction.

Solution: The assessee is a Non-Government employee so entertainment allowance is not allowed as deduction.

Short Problems

1. Smt. Shyamala is working as an officer in Andhra Pradesh Government. Her Salary Particulars are Basic pay Rs. 8,000 p.m.; C.C.A. Rs. 500 p.m.; Entertainment allowance Rs. 450 p.m.. Compute the amount of entertainment allowance to be allowed as deduction.

2. Mr. Kapil Dev is employed in Human Resources Development of Government of Uttar Pradesh as Inspector of Schools. His salary particulars per month are as under: Basic Pay Rs. 6,000; D.A. Rs. 500; C.C.A. Rs. 450; Entertainment Allowance Rs. 400; Compute the amount of entertainment allowance to be allowed as deduction.

3. From the following particulars calculate the deduction to be allowed u/s 16 (ii) of Mr. Santosh who is working in the Ministry of Home, Government of India. Basic Pay Rs. 3,000 p.m.; D.A. Rs. 1,000 p.m. (50% enters for retirement benefit.) Bonus Rs. 4,000 p.a.; Entertainment allowance Rs. 400 p.m.

4. Sri Varun is working in a Limited Company at Delhi. His salary particulars are as under: Basic Pay Rs. 7,500 p.m.; D.A. Rs. 3,200 p.m.; Lunch allowance Rs. 500 p.m.; Entertainment Allowance Rs. 1,500 p.m. Calculate the amount of deduction available u/s 16 (ii).

5. The following are the income particulars of Mr. Jeevan Sai for the previous year relevant to the current assessment year. Basic Pay Rs. 14,000 p.m; D.A. Rs. 1,800 p.m; Entertainment Allowance Rs. 1,800 p.m. Calculate the amount of deduction allowed in the following cases u/s 16(ii).

(a) If he is a Government employee.

(b) If he is a Non-Govt. employee.

(c) If he is a local authority/municipal employee and the actual amount spent towards entertainment expenses Rs. 2,000 p.m.

(d) If the entertainment allowance was granted for official purpose.
Answers

(1) Rs. 5,000  (2) Rs. 4,800  (3) Rs. 4,800  (4) Nil  (5) (A) Rs. 5,000; (B) Nil (C) NIL (D) If the allowance is given for official purpose then it is not taxable.

2. House Rent Allowance[Sec.10 (13A) and Rule 2A]

This is one of the allowances given by the employer to employee towards rent of the house.

Note: This allowance is allowed as exemption only when the assessee is paying rent of the house where he is presently staying.

<table>
<thead>
<tr>
<th>Employees</th>
<th>Employees living in other places.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employees living in (Mumbai, Delhi, Kolkata, Chennai)</td>
</tr>
<tr>
<td></td>
<td>The least of the following three amounts is allowed as exemption.</td>
</tr>
<tr>
<td>A. Actual House Rent</td>
<td>A. Actual House Rent Allowance received.</td>
</tr>
<tr>
<td>B. Rent Paid (-)10% of salary</td>
<td>B. Rent Paid (-)10% of salary</td>
</tr>
<tr>
<td>C. 50% of salary.</td>
<td>C. 40% of salary.</td>
</tr>
</tbody>
</table>

Note 1: Salary means Basic Pay only. D.A. is included if it enters for retirement benefit plus Commission (if the Commission is based on a fixed percentage of turnover achieved by the employee as per the service contract.)

Special Points

1. In the H.R.A. exemption calculation, if one of the amounts is zero (0) or in negative no deduction is allowed i.e., Actual Allowance received is fully taxable.

2. If the rent is paid to near relatives like father or mother -If the payment is a genuine one exemption can be given.

Illustration 3: Mr. Fakir Chand is working in State Electricity Board, Hyderabad. His salary particulars are as under: Basic Pay Rs. 1,800 p.m.; D.A. Rs. 750 p.m.; C.C.A. Rs. 180 p.m.; H.R.A. Rs. 600 p.m.; (Rent paid Rs. 750 p.m.) Calculate exempted amount of H.R.A.
Solution

The assessee is paying rent of the house hence exemption can be given.

As the assessee is living in Hyderabad (Other towns) the exemption is least of the following three amounts.

a)实际允许扣除非税 600 × 12 = 7,200

b) 租金支付 (–) 10% of 薪水

(750 × 12) (–) 10% of (1,800 × 12) = [9,000 (–) 2,160] = 6,840

c) 40% of 薪水 40% of (1,800 × 12) = 8,640

实际允许扣除非税 = 7,200

差额: 免税 = 6,840

未免税 = 360

因此，6,840 作为免税收用。

Illustration 4: Mr. Gopinath 是一名销售代表在一家有限公司在班加罗尔工作。他的薪金详情如下：薪金 30,000 一年，奖金 3,000；地区津贴 18,000，根据服务条件享受退休福利。H.R.A. 5,000 和租金支付为 8,000。计算应征税的 H.R.A.

Solution

The assessee is paying the rent of the house hence exemption can be given. As the assessee is living in Bangalore (other towns) the exemption is least of the following three amounts.

(a) 实际允许扣除非税 = 5,000

(b) 租金支付 (–) 10% of 薪水:

8,000 (–) 10% of [Basic Pay + D.A.] 8,000 (–) 10% of [30,000 + 18,000] = 3,200

(c) 40% of 薪水

40% of [Basic + D.A.

40% of [30,000 + 18,000] = 19,200
Actual Allowance received = 5,000
Less: Exempted = 3,200
Un-exempted = 1,800
\[ \therefore 1,800 \text{ is taxable.} \]

**Short Problems**

1. Mrs. Swarnalata is working as a lecturer in a Government College, Delhi. Her Salary Particulars per annum are as under: Basic Pay Rs. 45,000; D.A. Rs. 21,000; C.C.A. Rs. 10,000 and H.R.A. Rs. 12,000 (Rent paid by her is Rs. 10,200) Calculate the exempted amount of H.R.A.

2. Mr. Sai Kiran is in receipt of Rs. 1,25,000 as basic salary Rs. 32,000 as House Rent Allowance and Rs. 15,000 as Dearness Allowance. If the rent paid is Rs. 30,000. Determine the taxable amount of house rent allowance in the following situations.
   (i) If he is residing in Hyderabad city.
   (ii) If he is residing in Madurai and staying in father-in-law’s house without paying any rent.

3. Sri Sachin Kapoor is an employee of a limited company at Jamshedpur, is in receipt of Rs. 44,000 as basic pay, Rs. 18,000 as Dearness Allowance forming part of salary for retirement benefit Rs. 18,000 City Compensatory allowance, Rs. 8,800 as Accommodation allowance Rs. 11,000 Entertainment allowance. He is paying a monthly rent of Rs. 1,000 and electricity bill of the house at a flat rate of Rs. 300 p.m. Determine the amount of House Rent allowance exemption u/s 10(13A).

4. Sri Yousuf Khan is an employee of a public sector unit in Hyderabad. He draws a monthly salary of Rs. 4,800, House rent allowance Rs. 2,000 Dearness Allowance is Rs. 1,000 He is entitled to 2% commission on the sales. The sales target achieved by him is Rs. 5,00,000. The house rent paid by him is Rs. 1,000 p.m. Dearness Allowance and Commission enters for retirement benefit. Compute the amount of H.R.A to be included in salary income.

**Answers**

(1) Rs. 5,700 (2) (i) Rs. 14,500 (ii) Rs. 14,500 (iv) Rs. 32,000 **Hint:** He is not paying rent of the house so exemption cannot be given i.e., Actual Allowance received is fully taxable (3) Rs. 5,800; **Hint:** Accommodation Allowance means House Rent Allowance; payment of electricity
bill is not to be considered. (4) Rs. 19,960; Gross Salary Rs. 99,560

3. Children Education Allowance

Exemption is given for two children only, which is least of the following two amounts.

(a) Actual allowance received. (b) Rs. 100 p.m. or Rs. 1,200 p.a. per child.

4. Hostel Allowance

It is given by the employer for employee’s children. Exemption is given for two children only, which is least of the following two amounts.

(a) Actual allowance received. (b) Rs. 300 p.m. or Rs. 3,600 p.a. per child.

5. Transport Allowance

Transport allowance is given by the employer for going to the place of work and back home, the exemption is least of the following two amounts.

(a) Actual amount received. (b) Rs. 800 p.m or Rs. 9,600 p.a

Note: If the assessee is blind or orthopaedically handicapped then the exemption is limited to Rs. 1,600 p.m.

6. Uniform Allowance

If the amount is spent for purchasing or maintaining for official duties then exemption is given. The exemption is given to the extent of actual amount spent i.e., unspent amount is taxable.

3. Perquisites

Perquisite means any kind of benefit provided by the employer to an employee or his family members either in cash or in kind. A family member includes (a) spouse (b) children and their spouses (c) parents (d) dependents. (e) Servants.

Note: Friends and guests cannot be treated as members of family.

Perquisites are included in salary income only when they are received by an employee from his present / former / prospective employer. Perquisites received from a person other than employer are taxable under the head, “Income from other sources”.

Perquisites are of three types:
I. Perquisites taxable to all employees

II. Perquisites taxable to specified employees; and

III. Tax-free perquisites to all employees

I. Perquisites taxable to all employees.

The following are the perquisites which are taxable to all employees.

1. Rent free accommodation.
2. Concession in rent of the accommodation.
3. Insurance premium paid by the employer on the life of the employee.
4. Personal monetary obligations of the employee met by the employer.
5. Interest free loans or concession interest on loan.
6. Medical facilities.
7. Credit card.

1. Rent-free Accommodation

If the employer provides a house or a flat to an employee for his residential purpose, without charging or collecting any rent then it is a perquisite taxable to all employees. The term accommodation includes a house, flat, farmhouse or accommodation in a hotel etc.

For valuation of perquisites the accommodation is of two types.

(i) Unfurnished accommodation (i.e. without providing any furniture)

(ii) Furnished accommodation (Providing furniture)

The term furniture includes furniture, television sets, refrigerator, air conditioner plant and equipment and any other house hold appliances.

Note: Any accommodation, first it is to be valued as unfurnished then the value of the furniture is to be added. Valuation of furniture is explained as under.

(i) When the furniture is owned by the employer ➔ 10% of the original cost p.a

Note: Furniture value is to be taken proportionately for the period of use i.e if the furniture is provided for 3 months in the year the value shall be calculated for 3 months.

(ii) When the furniture is hired by the employer ➔ the actual hire charges
paid by the employer is the value of furniture.

For valuation of rent-free accommodation perquisite the employees are divided into two categories.

1. Government employees.
2. Non-Government employees or other employees

**1. For Government employees**

Employees of Central and State Government and employees on deputation in Government controlled undertakings are considered as Government employees. The value of perquisites is determined as under.

<table>
<thead>
<tr>
<th>Accommodation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfurnished accommodation</td>
</tr>
</tbody>
</table>

Rent fixed by the Government. Rent fixed by the Government + 10% cost of the furniture provided or hire charges of the furniture.

**2. For other employees:** Semi-Government employees, employees working in local authorities, private sector or public sector are considered as other employees.

The value of the perquisite is as under:

**Value of the unfurnished accommodation:** The accommodation provided by the employer may be (A) Own accommodation or (b) Rented/hired accommodation

**(A) When the accommodation is owned by the employer**

Population as per 2001 census of a city where the accommodation is provided

<table>
<thead>
<tr>
<th>Perquisite value</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% of salary</td>
</tr>
<tr>
<td>10% of salary</td>
</tr>
<tr>
<td>7.5% of salary</td>
</tr>
</tbody>
</table>

(i) Exceeding 25 lakhs
(ii) Exceeding 10 lakhs but not exceeding 25 lakhs
(iii) Not exceeding 10 lakhs

**Note:** If name of the city/town is not mentioned then make an appropriate assumption for population of the city and write a note to that extent.
(B) When the accommodation is hired by the employer

In all cities the perquisite value is least of the following two amounts

a) Rent paid by the employer

b) 15% of salary.

Salary: Calculating Salary

Salary = Basic pay + Bonus + Fees + Commission + All taxable allowances (Dearness Allowance (D.A) will be included only when it enters for the retirement benefit)

Furnished accommodation

Any accommodation, first it has to be valued as unfurnished and then add 10% p.a of the cost of furniture or actual hire charges paid in the case of furnished house. Furniture includes Television sets, refrigerators and other household appliances.

Illustration 5: Mr. Hari Nivas is working in Commercial Tax Department of Government of Andhra Pradesh. His salary income particulars per month are as follows: Basic pay Rs. 8,000; Dearness Allowance Rs. 2,000; Medical allowance Rs. 2,000; City compensatory allowance Rs. 1,500. He is provided with a rent-free accommodation in Kurnool town. Rent of the accommodation as per Government rules is Rs. 1,500 p.m. but rent of similar accommodation is Rs. 2,000 p.m. The cost of furniture provided is Rs. 60,000. Compute the value of rent-free accommodation.

Solution: Rent-free accommodation is the perquisite taxable to all employees. The assessee is a Government employee so the value of unfurnished accommodation is rent fixed by the Government.

Value of the unfurnished accommodation (1,500 X 12) = 18,000

Add: 10% of cost of the furniture (10% of 60,000) = 6,000

Value of the rent free furnished accommodation = 24,000

:. The value of the rent-free furnished accommodation is Rs. 24,000.

Illustration 6: Sri Mohan Reddy’s monthly emoluments are (in Rs.) Basic pay 7,500; D.A. 3,000; C.C.A. 1,000; Entertainment Allowance: 2,000. He is provided with rent-free accommodation and the original cost of the furniture provided is Rs. 1,00,000. In the summer two hired air coolers were provided for 3 months, which were hired for an amount of Rs. 150 per cooler per month.
Municipal rental value is Rs. 2,000 per month; Government rental value is Rs. 1,500 per month; Actual rental value is Rs. 3,000 per month; and Fair rental value is Rs. 2,500 per month. Compute the value of rent-free accommodation in the following situations:

1. If he is working in a Government department and the accommodation is provided in a city, where the population is 15 lakhs.

2. If he is a Non-Government employee and the accommodation is provided in a city where the population is less than 10,00,000.

3. If he is a Non-Government employee and the accommodation is provided in a city, where the population is more than 10 but less than 25 lakhs.

Solution

Situation 1: If he is working in a Government department and the accommodation is provided in a city, where the population is 15 lakhs.

Rent-free accommodation is the perquisite taxable to all employees. The assessee is Government employee so the rent fixed by the Government is the value of the perquisite.

While valuing the perquisite, municipal rental value and fair rental values are not to be taken into account. For Government employees, the place where the accommodation is provided will not make any difference. i.e. population of the city is not to be considered.

Value of un-furnished accommodation (1,500 X 12) = 18,000

Add: Furnished value:

1. 10% of original cost of the furniture (10% of 1,00,000) = 10,000
2. Hire charges of furniture (air coolers) = (2 X 150 X 3) = 900

The value of the furnished accommodation = 28,900

.: The value of perquisite – rent free furnished accommodation is Rs. 28,900

Situation 2: If he is a Non-Government employee and the accommodation is provided in a city where the population is less than 10,00,000.

Rent-free accommodation is the perquisite taxable to all employees.

The assessee is non-Government employee. The accommodation is hired
by the employer (monthly rent paid is `.3,000).

**Step 1: Calculating Salary:**

Salary = Basic pay + Bonus (D.A) + Fees + Commission + All taxable allowances (Dearness Allowance will be included only when it enters for the retirement benefit)

- Basic pay = (7,500 X 12) = 90,000
- C.C.A. = (1,000 X 12) = 12,000
- Entertainment allowance = (2,000 X 12) = 24,000

**Total salary** = 1,26,000

**Step 2: Calculating the unfurnished accommodation value**

The accommodation is hired by the employer, so the perquisite value is least of the following two amounts

a. Actual Rent paid by the employer = (3,000 X 12) = 36,000

b. 15% of the salary = (15% of 1,26,000) = 18,900

**Step 3: Calculating the value of the Furnished Accommodation**

Value of the unfurnished accommodation = 18,900

Add: Furnished value

1. 10% of original cost of the furniture = (10% of 1,00,000) = 10,000
2. Hire charges of furniture (air coolers) = (2 X 150 X 3) = 900

Value of the furnished accommodation = 29,800

\[ \therefore \text{The value of perquisite – rent free furnished accommodation is Rs. 29,800} \]

**Situation 3: If he is a Non-government employee and the accommodation is provided in a city, where the population is more than 10 but less than 25 lakhs.**

The assessee is non-Government employee. The accommodation is hired by the employer (monthly rent paid is Rs. 3,000).

**Step 1: Calculating Salary**

Salary = Basic pay + Bonus (D.A) + Fees + Commission + All taxable allowances (Dearness Allowance will be included only when it enters for the
retirement benefit)

\[
\begin{align*}
\text{Basic} &= (7,500 \times 12) = 90,000 \\
\text{C.C.A.} &= (1,000 \times 12) = 12,000 \\
\text{Entertainment allowance} &= (2,000 \times 12) = 24,000 \\
\text{Salary} &= 1,26,000
\end{align*}
\]

**Step 2: Calculating the unfurnished accommodation value**

The accommodation is hired by the employer, so the perquisite value is least of the following two amounts

a) Actual Rent paid by the employer \((3,000 \times 12) = 36,000\)

b) \(15\% \) of the salary \((15\% \text{ of } 1,26,000) = 18,900\)

**Step 3: Calculating the value of the furnished accommodation**

Value of the unfurnished accommodation = 18,900

Add: Furnished value:

1. \(10\% \) of original cost of the furniture \((10\% \text{ of } 1,00,000) = 10,000\)

2. Hire charges of furniture (air coolers) \(= (2 \times 150 \times 3) = 900\)

\[
\text{Value of the furnished accommodation} = 29,800
\]

\[
\therefore \text{The value of the perquisite – rent-free furnished accommodation is Rs. 29,800.}
\]

**2. Concession in rent of the accommodation**

The value of the Perquisite is the amount of concession given to an employee, which can be calculated as follows:

\[
\text{Concession in rent} = \left\{ \begin{array}{c}
\text{The value of rent free accommodation} \\
\text{Actual rent paid by the assessee}
\end{array} \right\}
\]

**Short Problems**

1. Mr. Prakash Pillai is working in Accountant’s General office in Chennai. His salary particulars are as follows: Basic pay Rs. 17,500 p.m.; D.A. Rs.2,800 p.m.; Servant allowance: Rs. 300 p.m.; he is provided with rent-free accommodation in Chennai. The rent of the accommodation as per Government
rules is Rs. 3,500 p.m. He is also provided with a television set and a refrigerator that is hired for Rs. 400 p.m. Compute the value of rent-free accommodation.

2. Mr. Yousuf is working in Income Tax department and his salary particulars are as follows: Basic pay Rs. 10,000 p.m.; D.A. Rs. 2,500 p.m.; C.C.A. Rs. 3,500 p.m. Children education allowance for his two children: Rs. 3,000 p.a.; he is provided rent-free accommodation in a apartment which is hired by the department for Rs. 3,000 p.m. while the rent fixed by the Government is Rs. 2,000 p.m.; the furniture was provided to him which is valued Rs. 50,000 and a air-conditioner was provided for three months which is valued at Rs. 60,000 during the previous year. Compute the value of rent-free accommodation.

3. Smt. Vasundara is working in a Ltd. Co. in a town of Kerala State as Asst. Manager. Her salary particulars are as follows: Basic pay: Rs. 8,000 p.m.; D.A. 25% which enters into retirement benefit Bonus Rs. 21,000; she is provided with rent-free accommodation which is owned by the employer (the population of the town is 12 lakhs) with the fair rental value of Rs. 3,000 p.m.; For the first three months only she was provided with a television set a refrigerator and a geyser which were hired for Rs. 500 p.m. and later she was provided with the furniture at a cost of Rs. 1,20,000. Compute the value of rent-free accommodation.

4. Mr. Rajan is working with a private company in a small town in Krishna Dist of A.P. His salary particulars are as follows: Basic pay: Rs. 5,000 p.m.; D.A.: Rs. 3,200 p.m.; Project allowance: Rs. 400 p.m.; Medical allowance: Rs. 500 p.m.; uniform allowance: Rs. 300 p.m. and he spent Rs. 2,000 for his uniform in the year; he is provided with rent-free accommodation owned by the employer and the rental value for the similar accommodation is Rs. 600 p.m. The furniture costing Rs. 8,000 is provided by the company. Compute the value of rent-free accommodation.

5. Mr. Kanaka Rao is working with Amar Raja Batteries Ltd. He is posted in Rajahmundry (population is 3.75 lakhs) and his salary particulars are as follows: basic pay: Rs. 72,000 p.a.; D.A.: Rs. 36,000 p.a.; bonus: 1 month salary (basic); C.C.A.: Rs. 24,000 p.a.; Lunch allowance: Rs. 450p.m.; He is provided with rent-free accommodation which is hired by the company on a monthly rent of Rs. 2,200 p.m.; Fair rental value is Rs. 2,500 p.m. The total cost of the furniture provided is Rs. 35,000. Compute the rent-free accommodation value.

Answers

(1) Rs. 46,800; (2) Rs. 30,500; (3) Rs. 24,600; (4) Rs. 6,230 (Hint: small town means population is less than 10 lakhs); (5) Rs. 19,610.
3. **Insurance premium paid by the employer**

The value of the perquisite is the actual premium paid (+) Premium due but not yet paid.

If the employer pays premium on life policies of the employees to meet his own liability in the event of any accidents or death is not a perquisite. Similarly if the employer pays premium/contribution to state employers scheme (E.S.I.) it is not taxable income.

4. **Any Personal monetary obligations of the employee met by the employer.**

Any monetary obligation of the employee is discharged by the employer. The value of the perquisite is the actual amount paid by the employer. The following are few examples.

i. If the employer pays club fees, personal expenses or personal obligations of the employee.

ii. If the employer pays or reimburses the school or college fees of the children then it is a perquisite taxable in all cases.

iii. Income tax or professional tax paid by the employer.

iv. Electricity, water, gas bill of the domestic connections are in the name of the employee but the bill is paid by the employer.

**Note:** In all the above mentioned examples actual amount paid by the employer is the value of perquisite.

5. **Interest-free loans or concession in Interest on Loans**

If the employer grants loans to employees for personal purpose as interest free loan or gives it on a concessional rate of interest then it is taxable in all cases. The loan may be given to the employee or his family members viz., spouse, children and their spouses, parents and dependents are considered as members of the family.

The value of the perquisite is equal to interest charged by State Bank of India to its customers on its lending. The rate of interest to be taken, is the prevailing rate on the first day of the relevant previous year to the current assessment year. For the assessment year 2012-13 the interest rate on 1-4-2011 shall be taken.

**Loans at concessional rate:** If the employer grants / provides loans at concessional rate then the value of the perquisite is valued as under:
Perquisite value for interest free loan (-) Actual interest paid by the employee

**Illustration 7**: Compute the value of the perquisite, for each of the interest free loan / loan at concessional rate of interest taken by the employee from the employer. Interest charged by S.B.I 8.75% on housing loan; 11.25% on car loans and 16.75% for personal loans.

(i) Mr. A availed a housing loan of Rs. 6,00,000. The entire loan is outstanding.

(ii) Mr. B availed a housing loan of Rs. 5,00,000 @ 6%. The outstanding loan amount is Rs. 4,20,000.

(iii) Mr. C availed a medical loan, for the prescribed ailment in an approved hospital for the treatment of his wife, Rs. 1,00,000.

(iv) Mr. D availed a car loan of Rs. 2,00,000.

(v) Mr. E availed a festival loan of Rs. 8,000 and educational loan for his son Rs. 10,000.

(vi) Mr. F availed a loan of Rs. 4,00,000 for daughter’s marriage.

(vii) Mr. G. availed a loan of Rs. 3,00,000 for housing repairs @ 8%.

(viii) Mr. H. availed a loan of Rs. 1,00,000 for car repairs @ 10.75%.

**Solution**: Generally interest free loan given by the employer and loans at concessional rate is taxable perquisite to all employees. Perquisite value in each case is valued as under:

(i) Mr. A availed loan for housing so the perquisite value is equal to Interest charged by S.B.I = 8.75%.

$$\text{Perquisite value} = \frac{8.75\% \times 6,00,000}{100} = Rs. 52,500$$

(ii) Mr. B availed a loan for housing so the perquisite value is equal to Interest charged by S.B.I = 8.75%.

Interest charged = 8.75%

Less: Interest paid = 6.00%

Perquisite value = 2.75% \Rightarrow 2.75\% \times 4,20,000 = 11,550

(iii) Mr. C availed a loan for the treatment of his wife for the prescribed ailment in an approved hospital; hence it becomes a tax-free perquisite.

(iv) Mr. D availed a car loan so the perquisite value is equal to Interest
charged by S.B.I = 11.25%.

11.25% of 2,00,000 = Rs. 22,500

(v) The aggregate amount of loan availed by Mr. E is less than Rs. 20,000. hence it becomes tax-free perquisite.

(vi) Mr. F availed the loan for daughter’s marriage, [Personal loan] so the perquisite value is equal to Interest charged by S.B.I = 16.75%.

= 16.75% of 4,00,000 = 67,000.

(vii) Mr. G availed a loan of Rs. 3,00,000 for housing repairs @ 8%.

Loan availed for housing repairs shall be treated as personal loan. Interest charged by S.B.I = 16.75%.

Interest charged = 16.75%

Less : Interest paid = 8.00%

Perquisite value = 8.75%

⇒ 8.75% of 3,00,000 = 26,250

viii) Mr. H. availed a loan of Rs. 1,00,000 for car repairs @ 10.75%.

Loan availed for car repairs shall be treated as personal loan : Interest charged by S.B.I = 16.75%.

Interest charged = 16.75%

Less : Interest paid = 10.75%

Perquisite value = 6.00%

⇒ 6% of 1,00,000 = 6,000

Illustration 8: Determine the taxable value of the perquisite in the following situations if the loan of Rs. 6,00,000 @ 3% taken for educational purpose from the employer on 1-4-2011 and no repayment is made so far S.B.I rate is 13.5%

Situation : (A) If the assessee is a male person.

Solution: The perquisite value is equal to interest charged by S.B.I (-) Interest paid by the assessee.

(A) If the assessee is a male person.

= 13.5% (-) 3% = 10.5% of 6,00,000 = 63,000.
(B) If the assessee is a female person.

**Note:** For girl students 0.5% concession is given in interest rate by S.B.I.

\[
13.5 \times 0.5 \times 3\% \times 6,00,000 = 60,000.
\]

**Short Problems**

1. Compute the value of perquisite, for the interest free loans taken by the employee from the employer (i) He availed housing loan of Rs. 10,00,000. The outstanding amount is Rs. 6,80,000. (ii) He availed a medical loan for the prescribed ailment in an approved hospital for the treatment of his wife Rs. 7,00,000. (iii) He availed a car loan of Rs. 3,00,000 (iv) He availed cloth loan of Rs. 10,000 and educational loan of Rs. 4,000. Interest rates charged by S.B.I. Housing loan 8.75%; educational loan 12%; Personal loan 16.75%; Car loan 9.25%.

2. Mr. Hari Shankar is working in a limited company. During the previous year relevant to the current assessment year he took a housing loan of Rs. 5,00,000 @ 6%. The entire amount is still outstanding. Interest charged by S.B.I. 8.75%.

3. Mr. Bola Shankar is working in Andhra Bank and he availed a housing loan of Rs. 37,50,000 @ 6.5% the outstanding amount in 3rd year. 13,50,000. (Interest charged by S.B.I. 9.5%).

4. Calculate the perquisite value in the following situations if the loan amount is given by the employer. (i) Rs. 1,50,000 for purchasing gold ornaments (ii) Rs. 2,00,000 @ 8% for purchasing furniture. (iii) Rs. 3,50,000 for purchasing the car (iv) Rs. 1,00,000 @ 10% for medical treatment of an approved disease. (v) Rs. 2,50,000 interest free loan for daughter’s marriage. (vi) Repairs to house Rs. 3,60,000. (Interest charged by S.B.I for personal loan @ 16.75% car loan @ 9.25%)

**Answers**

1. (i) Rs. 59,500; (ii) Nil; (iii) Rs. 27,750; (iv) Nil 2. Rs. 13,750; 3. Rs. 40,500; 4. (i) Rs. 25,125; (ii) Rs. 17,500; (iii) Rs. 32,375; (iv) Nil; (v) Rs. 41,875; (vi) Rs. 60,300.

6. **Medical Facilities**

   (i) Treatment in hospital maintained by the employer to the employee or any other family member is tax-free perquisite.

   (ii) The employer pays for the treatment of the employee or his family
members in hospitals maintained by the Government or hospitals approved by the Government is tax-free perquisite.

(iii) Reimbursement of medical expenses incurred by the employee in a "recognised hospital" in India is tax free perk.

(iv) Reimbursement of medical expenses incurred by the employee in an "Unrecognised Hospital" in India is exempted up to Rs. 15,000 and the excess amount is taxable.

(v) For reimbursement of medical expenses incurred by the employee in a foreign country, the provisions are as under.

<table>
<thead>
<tr>
<th>(a)</th>
<th>For treatment of employee or his family member of amount permitted by Reserve Bank of India.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>For Stay abroad of the Patient and one attendant -do-</td>
</tr>
<tr>
<td>(c)</td>
<td>For expenses incurred on travel of the patient and one attendant if the gross total income of the assessee is less than `2,00,000 - Tax free perquisite.</td>
</tr>
<tr>
<td>(d)</td>
<td>For expenses incurred on travel of the patient and one attendant if the Taxable perquisite (Actual amount gross total income of the assessee reimbursed value of perquisite) is more than `2,00,000.</td>
</tr>
</tbody>
</table>

**Note: Fixed Medical Allowance:**

If the assessee receives a fixed amount as medical allowance then it is fully taxable.
Illustration 9: Calculate perquisite value for the following giving a brief note.

(1) Mr. Ramana Reddy received Rs. 600 p.m. as medical allowance from the employer and spent 75% for his treatment and the balance for his son.

(2) Medical facilities availed by Mr. Suresh an employee of a limited company for the treatment of his wife in a hospital owned by the company Rs. 60,000.

(3) Mr. Dinesh an employee of a Ltd. Company. The employer reimbursed his mother’s treatment expenses in a recognised hospital in India Rs. 60,000.

(4) Mr. Nagesh is working in Ltd Company, expenses reimbursed by the employer for the treatment of his father in a private hospital Rs. 40,000.

Solution

(1) Medical allowance actually received is fully taxable. Actual amount spent is not to be considered.

(2) Medical treatment of family member (wife) in a hospital owned/run by the employer is tax free perquisite.

(3) Expenditure on the treatment of mother (dependent) in a recognised hospital in India is tax free perquisite.

(4) Reimbursement of medical expenses on the treatment of either assessee or family member in a private hospital is exempt up to Rs. 15,000. so the taxable value of the perquisite is Rs.25,000 [40,000 (-) 15,000].

7. Expenses paid by the Employer on Credit Cards Rule 3(7) (v)

If an employer provides a credit card to an employee or his family members and pays all expenses or reimburses such expenses, then it is a perquisite taxable to all employees. The value of the perquisite is the aggregate of all the expenses paid / reimbursed by the employer.

Use of credit card: Credit card may be used in the following three ways:
(1) For official purpose (2) For personal purpose (3) partly for personal and partly for official purpose.

1. Employer providing credit card for official purpose: If the credit card is used for official purpose, then the perquisite value is nil.

2. Employer providing credit card for personal purpose: All the bills and expenses including membership fee and annual fee paid by the employer to
the banker is the value of perquisite.

3. **Employer providing credit card for official and personal purpose:**

If the employee is using the credit card facility for both official and personal purpose then the expenses for personal use are to be apportioned proportionately.

**Illustration 10:** Sri Hanuman Chand is a business man. He took a credit card from Local Trust Bank. During the previous year he paid Rs. 10,000 as deposit, Rs. 500 for annual membership fee and Rs. 20 as annual service charges. Sri Hanuman Chand permitted Mr. Das Munshi an employee to use his credit card for official and personal purpose.

As per the service contract the employer pays all the bills on credit card. The following are the purchases and the services availed by Mr. Das Munshi on credit card.

1) Purchase of air tickets for his family members Rs. 10,000
2) Purchase of train tickets for business tour Rs. 2,000
3) Purchase of provisions for domestic use Rs. 60,000
4) Purchase of stationery for discharging official duties Rs. 800

Calculate the value of the perquisite for using the credit card during the previous year relevant to the current assessment year.

<table>
<thead>
<tr>
<th>Use of credit card for personal use</th>
<th>Amount in Rs.</th>
<th>Use of Credit card for official use</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air tickets for family members</td>
<td>10,000</td>
<td>Air tickets for official tour</td>
<td>2,000</td>
</tr>
<tr>
<td>Purchase of provisions</td>
<td>60,000</td>
<td>Stationery purchase</td>
<td>800</td>
</tr>
<tr>
<td>Total</td>
<td>70,000</td>
<td>Total</td>
<td>2,800</td>
</tr>
</tbody>
</table>

**Benefit ratio** → Official: Personal = 2,800 : 70,000 = 1 : 25

**Common Expenses**

- Annual Membership fee = 500
- Service charges = 20
- Total = 520
**Note:** Deposit paid by the employer is not to be considered.

Apportionment of common expenses:

- For official = $520 \times \frac{1}{26} = 20$
- For personal = $520 \times \frac{25}{26} = 500$

**Value of the Perquisite**

- Personal bills paid by the employer = 70,000
- Common expenses = 500
- Total = 70,500

\[\therefore \text{The value of the credit card facility is Rs. 70,500}\]

**II Perquisites taxable to Specified Employees**

The value of the following perquisites/Fringe benefit becomes taxable income only when the employee is satisfying one of the following conditions:

1. Employee- director
2. Employee-shareholder
3. Income from salary is more than Rs. 50,000 p.a.
1. Provision of Motor car or other conveyance

If a motor car or other conveyance for personal use of the employee or his family members is provided by the employer then the perquisite is taxable for specified employees. The valuation of perquisite in different situations is explained as under.

**Summary chart for valuation of Motor Car (per month)**

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Situation</th>
<th>Expenses Paid by</th>
<th>Use of Car for</th>
<th>Perquisite Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Car owned or hired by the employer</td>
<td>Employer</td>
<td>Official</td>
<td>NIL (It is not a perquisite) aggregate amount of the following: (a) fuel and maintenance (b) Driver’s salary (c) Depreciation @ 10% on cost of the car. (i) <strong>Small car</strong> Rs. 1,800 p.m. + Driver’s Salary Rs. 900 p.m. (ii) <strong>Big car</strong> Rs. 2,400 p.m. + Driver’s Salary Rs. 900 p.m.</td>
</tr>
<tr>
<td>2.</td>
<td>Car owned by the employer expenses.</td>
<td>Employer</td>
<td>Personal</td>
<td>Aggregate amount of the following: (a) fuel and maintenance (b) Driver’s salary (c) Depreciation @ 10% on cost of the car. (i) <strong>Small car</strong> Rs. 600 p.m. + Driver’s Salary Rs. 900 p.m. (ii) <strong>Big car</strong> Rs. 900 p.m. + Driver’s Salary Rs. 900 p.m.</td>
</tr>
<tr>
<td>3.</td>
<td>Car owned or hired by the employer</td>
<td>Employer</td>
<td>Partly official &amp; partly personal</td>
<td>NIL</td>
</tr>
<tr>
<td>4.</td>
<td>Car owned or hired by the employer</td>
<td>Employer</td>
<td>Partly official &amp; partly personal</td>
<td>NIL</td>
</tr>
<tr>
<td>5.</td>
<td>Car is owned by the employee</td>
<td>Employer</td>
<td>Official</td>
<td>NIL</td>
</tr>
<tr>
<td>6.</td>
<td>Car is owned by the employee</td>
<td>Employer</td>
<td>Personal</td>
<td>NIL</td>
</tr>
<tr>
<td>7.</td>
<td>Car is owned by the employee</td>
<td>Employer</td>
<td>Partly official &amp; partly personal</td>
<td>NIL</td>
</tr>
</tbody>
</table>

**Note:** If driver’s Salary is paid by the employer in each situation deduct extra Rs. 900 p.m.
Illustration 11: Sri Ravichandra is having income from salary. During the previous year relevant to the current assessment year he is provided with a car by the employer, he is satisfying one of the three conditions for specified employees. The engine capacity of the car is 1.5 litres. The cost of the car is Rs. 5,00,000 and the book value is Rs. 3,60,000. The running and maintenance expenses are Rs. 40,000 p.a. and the driver’s salary is Rs. 2,000 p.m. Calculate the perquisite value in the following situations:

1. The car is used exclusively for official purpose and the employer pays all the expenses.
2. The car is used for personal purpose.
3. If the car is used both for personal and official purpose and all the expenses are paid by the employer.
4. If the car is used both for personal and official purpose and expenses for private use are paid by the employee.

Solution

Situation 1 the car is used exclusively for official purpose and the employer pays all the expenses.

The assessee is satisfying one of the three conditions, hence motorcar becomes taxable perquisite. The employer owns the car and it is used by the assessee for official purpose, so it becomes tax free perquisite.

Situation 2: The car is used for personal purpose.

The assessee is satisfying one of the three conditions, hence motorcar becomes taxable perquisite. The employer owns the car and it is used by the employee for his personal purpose. The value of the perquisite is

Actual amount paid by the employer towards:

Running and maintenance = 40,000
Driver’s salary = 24,000
Depreciation of the car (10% of 5,00,000) = 50,000

1,14,000

Motorcar value is Rs. 1,14,000

Note: Depreciation at 10% is to be calculated on the original cost and not on the book value.
Situation 3: If the car is used for personal and official purpose and all the expenses are paid by the employer

The assessee is satisfying one of the three conditions, hence motorcar becomes taxable perquisite. Car is owned by the employer and it is used both for official as well as personal purpose. Car is a small one (less than 1.6 litres) and the expenses for the personal use are paid by the employer so the perquisite value is

\[
\begin{align*}
\text{Car value (1,800 x 12)} & = 21,600 \\
\text{Add: Driver’s salary (900 x 12)} & = 10,800 \\
\text{Motorcar value} & = 32,400
\end{align*}
\]

\[ \therefore \text{Motorcar value is Rs. 32,400.} \]

Note: When the employer pays driver’s salary Rs. 900 p.m. is added to car value. Actual salary paid to the driver is not to be considered.

Situation 4: If the car is used both for personal and official purpose and all the expenses are paid by the employee

The assessee is satisfying one of the three conditions hence motorcar becomes taxable perquisite. The employer owns a car and it is used for both official as well as personal purpose. Car is a small one (less than 1.6 litres) and the expenses for personal use are paid by the employee so the perquisite value is:

\[
\begin{align*}
\text{Car value (600 x 12)} & = 7,200 \\
\text{Add: Driver’s salary (900 x 12)} & = 10,800 \\
\text{Motorcar value} & = 18,000
\end{align*}
\]

\[ \therefore \text{Motorcar value is Rs. 18,000} \]

Note: When the employer pays driver’s salary Rs. 900 p.m. is added to car value. Actual salary paid to the driver is not to be considered.

III Tax-free perquisites to all employees

The following is the list of important perquisites, which are tax-free to all employees:

Expenditure on Food

1. Free refreshments/snacks /tea/soft drinks supplied to the employee by the employer during office hours in the office /business premises.
2. Free meals (including lunch and dinner) provided by the employer during the office hours in the office / business premises

3. Free meals provided by the employer when the employee is on official tour.

**Educational**

4. If the employer pays or reimburses fee for the studies of employee then it becomes tax-free perquisite.

5. Amount spent by the employer for training employees.

6. When employer provides free education to the children of employee in an educational institution run by the employer is tax-free perquisite if the cost of per student in this institution is less than Rs. 1,000 p.m.

7. When employer provides free education to the children of employee in an educational institution patronised by the employer is tax-free perquisite if the cost per student in this institution is less than Rs. 1,000 p.m.

8. Scholarships given to the children / members of the employees on merit basis / economic criteria is tax-free perquisite.

**Rent-free accommodation**

9. Rent-free accommodation provided to an employee in a remote area.

10. Rent-free accommodation provided for less than 15 days in a hotel if the employee has been transferred from one place to another.

11. Rent-free official residence provided to the judges of High Court and Supreme Court.

**Medical Facilities**

12. Reimbursement of medical expenses incurred by the employee in a “recognised hospital” in India is tax free perk.

**Others**

13. Free recreational facilities provided to employees by the employer.

14. Payment of residential telephone or cell phone or W.L.L. phone bills of the employee by the employer.

15. Interest free loans or loans at concessional rate given by the employer during the previous year if the loan amount does not exceed Rs. 20,000.
16. Free gifts given by the employer to an employee or his family members on ceremonial occasions.

17. Employer providing laptops / computers for official or personal purpose to an employee

18. Goods, which are manufactured by the employer and sold to an employee at concessional rate.

Special

19. Free ration to the staff of armed forces (defence)

20. Perquisites to Government employees working in foreign countries.

IV. Profits in Lieu of Salary

If the employer pays any amount instead of salary it is known as “Profits in lieu of Salary”. Generally, these amounts are paid where the salary ceases to be a regular payment.

The following are not to be included under the head “Profits in lieu of Salary.” The excess amount over the exempted limit is taxable as salary income.

(1) Death cum Retirement Gratuity.

(2) Commuted value of Pension.

(3) Leave encashment on the eve of retirement.

Death Cum Retirement Gratuity

Gratuity means gracious payment made by the employer to his employee services rendered. In other words it is paid in recognition of the services of an employee. All Government employees are entitled to receive gratuity on their retirement. In the case of other employees the provisions of Payment of Gratuity Act are applicable. In simple most of employees are receiving gratuity on the date of retirement.

(i) If the gratuity is received by the legal heirs on the death of a government or non-government employee is an exempted income.

(ii) Gratuity paid while in service from the present employer is not allowed as exemption and it will be treated as salary income under the head “salary”.

Special note: Gratuity received during the service period is fully taxable as salary income for all categories of employees.
Gratuity Received

- By the employee
  - During the service period
    - Fully taxable
      - Government employees
      - Non-government employees
    - Upto 10,00,000 is exempted
  - On the eve of Retirement or Retrenchment
    - By the legal heirs
      - Fully exempted

Exemption

**In the case of Government Employees (Central, State & Semi)**
Gratuity received is fully exempted.

**In the Case of Non Government Employees:**
The classification of non-government employees is as under.

- Non-Government Employees - Governed by Gratuity Act
  - The least of the following three amounts is exempted.
    - (a) Actual amount received
    - (b) 15 days salary \( \times \) No. of years of service completed or part there of in excess of six months.
    - (c) Rs. 10,00,000

**Note:**

(i) Salary means Basic + D.A. only (of the retiring month)

(ii) 15 days salary is calculated as under

\[
15 \text{ days salary} = \text{Salary last drawn} \times \frac{15}{26}
\]

(iii) While calculating completed years, if the fraction is six or more than 6 months then it is rounded off to the next year. If the fraction period is less than six months, then the fraction period will be ignored.
Illustration 12: Sri Hanuman Das, an employee of a limited company received Rs. 6,60,000 as gratuity. He retired after serving 33 years. On 15-4-2011. At the time of retirement his monthly salary was Rs. 16,850. If he is covered under the Gratuity Act calculate the un-exempted amount of Gratuity.

Solution: The assessee is Non Government employee and covered by Gratuity Act.

Step 1: Calculating salary = 16,850.

Step 2: Calculating 15 days salary = 15/26 x 16,850 = 9,721.15

Step 3: Calculating the exemption amount which is least of the following three amounts.

(a) Actual amount received = 6,60,000

(b) 15 days of salary x No. of years of service = 9,721.15 x 33 = 3,20,798

(c) Rs. 10,00,000

Actual amount received = 6,60,000

Less: Exempted = 3,20,798

Un-exempted = 3,39,202

:. Unexempted amount of gratuity is `. 3,39,202.

Illustration 13: Sri Chinnaji after working for 25 years 8 months in a Ltd. Company (Covered under Payment of Gratuity Act) retired from the service on 30th November 2011 and he has drawn Rs. 40,000 basic, D.A Rs. 17,000, H.R.A Rs. 5,000 and C.C.A Rs. 3,000 pay in the month of retirement. The company paid him Rs. 12,50,000 as gratuity. Calculate the taxable amount of gratuity.

Solution: Step 1: Calculating salary = Salary = Basic + D.A. = 40,000 + 17,000 = 57,000.

Step 2: Calculating 15 days salary = 15/26 x 57,000 = 32,884.6

Step 3: No. of years of service completed = 25.8 years, but for calculation it will be taken as 26 years.

Assessee is non- Government employee and is governed by Payment of Gratuity Act. Exemption is least of the following three amounts.
(a) Actual amount received (a) 12,50,000

(b) 15 days of salary × No. of years of service (b) (32,884.6 × 26 ) = 8,54,999.6

(b) 8,55,000

(c) Rs. 10,00,000 (c) Rs. 10,00,000

Actual amount received = 12,50,000

Less: Exempted = 8,55,000

Taxable = 3,95,000

:: Taxable amount of gratuity is ` 3,95,000

Non-Government Employees - who are not governed by the Payment of Gratuity Act.

The exemption is least of the following three amounts:

(a) Actual amount received.

(b) 1/2 month average salary × No. of years of service completed.

(c) Rs. 10,00,000.

Note: (i) Average monthly salary is calculated on the basis of average salary of 10 months immediately preceding the month in which an employee retired.

(ii) Salary means Basic Pay only and D.A. will be included only when it enters for retirement benefits. If Commission is payable with fixed rate on turnover, such commission is also to be included in the salary.

(iii) While calculating completed years any fraction of the year will be ignored.

Illustration 14: Mr. Madhan retired on 15th March, 2012 after completion of service for 20 years 11 months 16 days. His salary details are as under.

1-4-2011 to 30-11-2011 Rs. 48,500 p.m.

1-12-2011 onwards Rs. 56,100 p.m.

He gets D.A. Rs. 15,000/-p.m. and also received commission of 5% on sales. The sales made between May to February Rs. 90,00,000/-. He received gratuity of Rs. 11,05,000/-. Show the unexempted amount of gratuity.

Solution: Assessee is non-Government employee and not governed by Payment of Gratuity Act. Assessee retired in the month of March 2012 preceding 10 months are: February, January of 2012, December, November, October,
Accounting & Taxation

September, August, July, June and May of 2011. The exempted amount is least of the following three amounts.

(a) Actual amount received  
   a) 11,05,000

b) 1/2 month average salary × No. of years service completed 1/2 × 95,780 × 20  
   (b) 9,57,800

c) 10,00,000  
   (c) 10,00,000

Gratuity received = 11,05,000
Exempted = 9,57,800
Un-exempted = 1,47,200

.: Unexempted amount of gratuity is Rs. 1,47,200.

Working Notes

Salary = (48,500 × 7) + (56,100 × 3) = 5,07,800
Average Salary = 9,57,800 = 95,780

Add: Commission 90,00,000 × 5 % = 4,50,000
     = 9,57,800

Note : It is observed that D.A is not considered for retirement benefits.

Short Problems

1. Sri Raghavan, Senior Accounts Officer in Indian Railways retired from the service after serving for 28 years. He received Rs. 8,89,500 as gratuity, on the date of his retirement his monthly salary was basic Rs. 42,000; D.A. Rs. 5,040 and H.R.A. Rs. 1,000. Calculate the taxable amount of gratuity.

2. Smt. Sharada Devi a lecturer in Government Degree College, Hyderabad retired from the service during the previous year relevant to the current assessment year. She completed 32 years of service and received the gratuity of Rs. 7,80,000. Her basic salary on the date of retirement was Rs. 56,850 p.m. and D.A. Rs. 24,200 p.m. Calculate the exempted amount of gratuity.

3. Sri Gulab Singh an employee of a limited company received on 1st July, 2011 Rs. 12,30,000 as gratuity. He retired after serving for 35 years. At the time of retirement his monthly salary was Rs. 55,320. If he is covered under the Gratuity Act calculate the un-exempted amount of gratuity.
4. Sri Gopi Chand retired from the service of Save More Company Limited during the previous year relevant to the current assessment year. He served the company for 24 years 7 months. The company paid him Rs. 12,25,000 as gratuity his last salary drawn was basic Rs. 34,000; D.A. Rs. 17,000 C.C.A. Rs. 2,000 and H.R.A. Rs. 2,800 per month. Calculate the taxable amount of gratuity.

(i) If he is governed by the Gratuity Act.
(ii) If he is not governed by the Gratuity Act

5. Sri Ravinder Reddy is a Marketing Manager with Wonder World Company. He retired during the previous year after serving for 18 years and got Rs. 8,20,000 as gratuity. His basic pay during the previous year was Rs. 38,500 for the first 5 months and Rs. 39,500 for the last 7 months. Dearness Allowance Rs. 3,000 for 5 months Rs. 4,050 for 7 months (50% of D.A. enters for super annuation benefits). Calculate the taxable amount of gratuity in the following cases.

i) If he is not governed by the Payment of Gratuity Act.

ii) If he is governed by the Payment of Gratuity Act.

Hints and Answers

(1) Taxable amount of gratuity is NIL. The assessee is Government Employee so gratuity received is fully exempted.) (2) Rs. 7,80,000 (3) Rs. 2,30,000 (4) (i) Rs. 4,89,423 (ii) Rs. 8,17,000 (5) (i) Rs. 4,50,392 (ii) Rs. 3,72,942.

Deductions from Salary Income

While computing the income from salary the following two deductions are allowed:

1. Entertainment Allowance under Sec. 16 (ii)

2. Professional tax or employment Tax under Sec. 16 (iii)

1. Entertainment Allowance Sec. 16 (ii)

Entertainment allowance is allowed as deduction only to Government employees. The term Government employee includes employees of Central Government or state Government but does not include the employees of statutory corporation and local authorities and for the non-government employees it is not allowed as deduction. The deduction is least of the following three amounts.
a) 20% of salary. (b) Actual amount of allowance received and receivable.  
(c) Rs. 5,000.  

**Note:** Actual amount spent is not to be considered.  
**Note:** Salary means Basic Pay only  

2. **Profession Tax or Employment Tax Sec. 16(iii)**  

Actual amount paid will be allowed as deduction i.e., if the tax is due but payment is not yet made then it shall not be allowed as deduction.  

**Computation of Mr.……….. Income from Salary**  
for the Assessment Year ……  

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary</strong></td>
<td></td>
</tr>
<tr>
<td>Basic Pay</td>
<td>XX</td>
</tr>
<tr>
<td>Bonus</td>
<td>XX</td>
</tr>
<tr>
<td>Fees</td>
<td>XX</td>
</tr>
<tr>
<td>Commission</td>
<td>XX</td>
</tr>
<tr>
<td>Employer’s contribution to R.P.F. in excess of 12% of basic salary</td>
<td>XX</td>
</tr>
<tr>
<td>Excess of interest on R.P.F. over 9.5% rate</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
<td></td>
</tr>
<tr>
<td>D.P</td>
<td>XX</td>
</tr>
<tr>
<td>C.C.A.</td>
<td>XX</td>
</tr>
<tr>
<td>Un-exempted H.R.A.</td>
<td>XX</td>
</tr>
<tr>
<td>Entertainment allowance</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Perquisites</strong></td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation</td>
<td>XX</td>
</tr>
<tr>
<td>Insurance premium paid by the employer</td>
<td>XX</td>
</tr>
<tr>
<td>Provision of domestic servant</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Profits in lieu of salary</strong></td>
<td></td>
</tr>
</tbody>
</table>
Compensation received on termination | X X
---|---
Gross Income from salary  | 12X

**Deductions u/s 16**
- Entertainment allowance u/s 16(ii) | X X
- Professional Tax u/s 16 (iii) | X X 2 X

**Income from Salary** 10X

**Note:** the above format is an illustrative but not an exhaustive one.

**Illustration 15:** Smt Pramila is working as a lecturer, her salary details are as follows: Basic pay: Rs. 18,000 p.m.; D.A.: Rs. 5,000; HRA: Rs. 3,500 p.m. (she is living in her own house); Entertainment allowance: Rs. 1,000 p.m.; C.C.A. Rs. 1,500 p.m.; Professional tax paid by her Rs. 175 p.m. Compute income from salary

She is working in a Government college.

**Solution**

**Computation of Smt. Pramila’s income from salary**

**for the assessment year 2012-13**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary</strong></td>
<td></td>
</tr>
<tr>
<td>Basic Pay @ Rs. 18,000 p.m.</td>
<td>2,16,000</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
<td></td>
</tr>
<tr>
<td>D.A @ Rs. 5,000 p.m.</td>
<td>60,000</td>
</tr>
<tr>
<td>House Rent Allowance</td>
<td>42,000</td>
</tr>
<tr>
<td>C.C.A. @ Rs. 1,500 p.m.</td>
<td>18,000</td>
</tr>
<tr>
<td>Entertainment allowance @ 1,000 p.m</td>
<td>12,000 <strong>Perquisites</strong></td>
</tr>
</tbody>
</table>
| NIL | **Profits in lieu of salary**
| NIL | **Gross Income from salary** 3,48,000 |

**Deductions**
- Entertainment allowance u/s 16(ii) | 5,000 |
- Professional Tax u/s 16 (iii) | 2,100 | 7,100

**Income from Salary** 3,40,900
Working Notes

1. **House Rent Allowance**: Assessee is not paying rent of the house so exemption cannot be given

   Actual allowance received \((3,500 \times 12) = 42,000\)

   Less: exemption

   \[\text{Un-exempted} = 42,000\]

2. **Entertainment Allowance**

   The Assessee is Government employee:

   The deduction is the least of the following three amounts

   (a) 20\% of salary \((20\% \times 2,16,000) = 43,200\)

   (b) Actual amount of allowance received \(= 12,000\)

   (c) Rs. 5,000 \(= 5,000\)

3. **Professional tax**

   Actual amount paid will be allowed as deduction = 175 \times 12 = 2,100

   \[\therefore \text{Income From Salary is} \ 3,40,900.\]

**Deductions**

- Entertainment allowance u/s 16(ii) \(\text{Nil}\)
- Professional Tax u/s 16 (iii) \(2,100\)

**Income from Salary** \(3,45,900\)

**Illustration 16**: Mr. Vijay Kumar is working in a Limited Company in Mysore city. His salary particulars are: Basic Pay Rs.12,000 p.m.; D.A. Rs.2,000 p.m.; Bonus 2 months salary. The employer gave interest free loan of Rs.16,000. Profession tax paid is Rs.1,200. During the previous year the company presented a gold ring worth Rs.13,000 and paid residence telephone bill Rs.8,000 and electricity bill Rs.11,000. Compute Income from Salary.

**Solution**

**Computation of Mr. Vijay Kumar’s Income from Salary**

for the Assessment Year 2012-13
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary</strong></td>
<td></td>
</tr>
<tr>
<td>Basic Pay @ `.12,000 p.m</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Bonus Pay 2 months salary (12,000 X 2)</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
<td></td>
</tr>
<tr>
<td>D.A @ `. 2,000 p.m.</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Perquisites</strong></td>
<td></td>
</tr>
<tr>
<td>Electricity bill of the residence</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Profits in lieu of salary</strong></td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Gross Income from salary</strong></td>
<td>2,03,000</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td></td>
</tr>
<tr>
<td>Professional Tax u/s 16 (iii)</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Income from Salary</strong></td>
<td>2,01,800</td>
</tr>
</tbody>
</table>

**Working Notes**

*Special Note:* The status of the employer is “Company” as such Fringe Benefit Tax is paid by the company hence some of the fringe benefits becomes tax free to the employee.

1. **Telephone bill of the residence:** Telephone bill of the residence paid by the employer is tax-free perquisite.

2. **Electricity bill of the residence:** Electricity bill of the residence paid by the employer is taxable perquisite. The value of the perquisite is actual amount paid by the employer = 11,000.

3. **Gift from the employer:** It is tax free fringe benefit/perquisite to the employee, however the employer has to pay tax on the value as Fringe Benefit Tax.

4. **Interest free loan:** The loan amount is less than Rs. 20,000 so it becomes tax free perquisite.

5. **Professional Tax:** Actual amount paid will be allowed as deduction i.e., Rs. 1,200.
Problems

1. From the following particulars compute the salary income of Mr. X for the current assessment year.

   (i) Basic pay Rs. 5,000 per month
   (ii) Dearness allowance Rs. 2,000 per month
   (iii) Bonus Rs. 4,000 per year
   (iv) City compensatory allowance Rs. 200 per month
   (v) House rent allowance Rs. 1,500 per month

   During the year he paid professional tax Rs. 2,000 and a monthly rent of Rs.1,000 for a house in which he is living.

2. Maheswar is working as an accountant in a private organization at Bangalore. His pay details are given per month as follows:

   Basic pay Rs.10,000 per month
   D.A Rs. 4,000 per month
   Bonus Rs. 8,000 per month
   HRA Rs. 3,000 per month

   ( rent paid by him Rs. 2,200 per month)

   During the year he paid professional tax of Rs.200 per month

   Calculate his income from salary.

3. From the following particulars calculate income from salary of Mr. Ramesh for the current assessment year.

   Basic pay Rs. 4,000 per month
   Bonus Rs. 4,000 per annum
   Dearness allowance Rs. 1,500 per month
   HRA Rs. 1,250 per month
   CCA Rs. 150 per month
   Professional tax paid Rs. 2,000 per year
   Rent paid Rs. 2,500 per month
4. From the following particulars calculate Income from salary of Mr. Ravi for the current assessment year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>Rs. 18,000 per month</td>
</tr>
<tr>
<td>Entertainment allowance</td>
<td>Rs. 400 per month</td>
</tr>
<tr>
<td>D.A</td>
<td>Rs. 9,000 per month</td>
</tr>
<tr>
<td>Bonus</td>
<td>Rs. 18,000 per annum</td>
</tr>
<tr>
<td>HRA</td>
<td>Rs. 1,400 per month</td>
</tr>
<tr>
<td>Rent paid</td>
<td>Rs. 2,400 per month</td>
</tr>
<tr>
<td>Professional tax paid</td>
<td>Rs. 1,250 per annum</td>
</tr>
</tbody>
</table>

5. Mr. Sreenivas is working in a limited company at Tirupati. His salary details are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly basic pay</td>
<td>Rs. 6,000</td>
</tr>
<tr>
<td>DA</td>
<td>Rs. 800</td>
</tr>
<tr>
<td>Bonus</td>
<td>Two months salary</td>
</tr>
<tr>
<td>Commission</td>
<td>Rs. 12,000</td>
</tr>
<tr>
<td>Rent free accommodation provided by the company</td>
<td></td>
</tr>
<tr>
<td>Paid professional tax</td>
<td>Rs. 900</td>
</tr>
</tbody>
</table>

Compute Income from salary

6. Compute the salary income of Mr. Sateesh from the following particulars:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>Rs. 10,000 per month</td>
</tr>
<tr>
<td>D.A</td>
<td>Rs. 5,000 per month</td>
</tr>
<tr>
<td>Bonus</td>
<td>Rs. 15,000 per annum</td>
</tr>
<tr>
<td>HRA</td>
<td>Rs. 2,000 per month</td>
</tr>
<tr>
<td>He paid monthly rent of</td>
<td>Rs. 2,400</td>
</tr>
<tr>
<td>Profession tax paid</td>
<td>Rs. 2,000</td>
</tr>
</tbody>
</table>
7. Compute Income from salary of Mr. Rajasekhar (Government employee)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>Rs. 18,500 per month</td>
</tr>
<tr>
<td>DA</td>
<td>Rs. 9,000 per month</td>
</tr>
<tr>
<td>Bonus</td>
<td>Rs. 25,000 per annum</td>
</tr>
<tr>
<td>CCA</td>
<td>Rs. 2,500 per month</td>
</tr>
<tr>
<td>HRA</td>
<td>Rs. 8,000 per month</td>
</tr>
<tr>
<td>Rent paid</td>
<td>Rs. 9,500 per month</td>
</tr>
<tr>
<td>Professional tax paid</td>
<td>Rs. 5,000 per annum</td>
</tr>
<tr>
<td>Entertainment Allowance</td>
<td>Rs. 1,000 per month</td>
</tr>
</tbody>
</table>

8. Compute Income from salary of Mr. Ramakrishna (Government employee)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>Rs. 6,000 per month</td>
</tr>
<tr>
<td>DA</td>
<td>Rs. 1,500 per month</td>
</tr>
<tr>
<td>Bonus</td>
<td>Rs. 12,000 per annum</td>
</tr>
<tr>
<td>HRA</td>
<td>Rs. 1,250 per month</td>
</tr>
<tr>
<td>Rent paid</td>
<td>Rs. 2,000 per month</td>
</tr>
<tr>
<td>Professional tax paid</td>
<td>Rs. 2,400 per annum</td>
</tr>
<tr>
<td>Entertainment allowance</td>
<td>Rs. 1,500 per month</td>
</tr>
</tbody>
</table>
The income from a house or a building is taxed under the head “Income from House Property”. The income under this head is taxed on the basis of notional income (rental value of the house) but not on the basis of actual rent received. To compute the income under this head the following points are to be considered.

1. The legal owner is liable to pay the tax under this head.

2. Deemed ownership: The following persons, though not owners of property in the legal sense are liable to pay tax as deemed owners.

3. Where the ownership is in dispute, the I.T.O. will decide on some reasonable basis and the rent receiver will be assessed (subject to the Court’s judgment).

4. In the case of leased lands, if any buildings are constructed, the lessee will be treated as the owner for tax purposes.

5. If the building is let out to the employees whose stay is incidental to the business, rent received will be treated as Business Income and expenditure incurred on such house will be considered as Business Expenditure.

6. Where the tenant has sublet the house, the rent received by him will not be considered as Income from house property. It is taxable under the head income from other sources.

7. Rent of the land and rent from huts or from tents will not come under
this head. They will be considered as “Income from other sources”.

8. Composite Rent (Rent of the house + Rent of the Furniture + Service charges etc.): The rent received is split into two parts.
   (a) Rent of the house (income from house property)
   (b) Other rents (income from other sources)

9. The incomes of the following will be taken under the head “Income from house property” (only rent is to be considered).
   (a) Buildings, let out for office or for residential or for any other purposes.
   (b) Storage or warehousing (c) Factory
   (d) Stalls (e) Bazar
   (f) Shop (g) Lecture hall
   (h) Cinema hall (i) Dance hall
   (j) Platforms (k) Public Auditorium
   (l) Dock (m) Bridge

**Note:** The above structures will be considered as buildings or house property.

**Annual value:** Income from house property is computed based upon the annual value. According to sec 23 (1) (a) the annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year to year. In determining the “Annual value” the following factors are to be considered.

I Municipal Rental Value
II. Actual Rental Value
III.Fair Rental Value

1. **Municipal Rental Value:** Municipal Rental Value means the rental value of the house according to a local authority.

2. **Actual Rental Value:** Actual Rental Value means rent received and receivable from the tenant for one year period.

3. **Fair Rental Value:** Fair Rental Value means rent of similar accommodation in the same street or similar street.
**Note:** - Rent for vacancy period and unrealised rent of the relevant previous year are to be adjusted to the Actual rental value.

**Special note:** - If the tenant pays municipal taxes and expenses for repairs then the same should not be added to the actual rent received/receivable.

**Procedure to compute income from House Property**

**Step 1**: - Calculating Expected Rental Value (E.R.V)

**Step 2**: - Calculating Gross Annual Value (G.A.V)

**Step 3**: - Deduct Municipal Taxes or Local Taxes paid by the owner.

**Hint**: - G.A.V (-) Municipal taxes = Net Annual Value (N.A.V)

**Step 4**: - Allowing deductions u/s 24.

**Computation of ............. ’s Income From House Property**

For the assessment year ........

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (G.A.V)</td>
<td></td>
<td>10 x</td>
</tr>
<tr>
<td>Less: Municipal/local taxes</td>
<td></td>
<td>2 x</td>
</tr>
<tr>
<td>Net Annual Value (N.A.V)</td>
<td></td>
<td>8 x</td>
</tr>
</tbody>
</table>

**Deductions u/s 24**

| Standard deduction or statutory deduction u/s 24 (a) | 2 x |
| Interest on loan u/s 24 (b)                        | 1 x |

| Income from house property                       | 3 x |

| Deductions u/s 24:                               |     |

1. **Standard deduction or Statutory deduction u/s 24 (a)**

This is a compulsory deduction to every assessee who is having income from house letout. Actual expenditure incurred will not be considered. The deduction is given at a flat rate of 30% on net annual value.

**Note**:

When the net annual value is nil or in negative standard deduction is not allowed as deduction.
2. Interest on loan u/s 24 (b)

(i) Interest on loan taken to purchase or construction, repairs or renovation, reconstruction of the house is allowed as deduction.

(ii) If the interest is paid in India actual interest amount is allowed as deduction. And if the interest is paid outside India, tax is to be deducted at source, then only it can be allowed as deduction.

(iii) Interest on loan is allowed as deduction on due basis also i.e., even if interest is not paid during the previous year interest for the previous year period can be claimed as deduction.

(iv) Interest on loan taken to purchase or to acquire the property or to construct the house, interest paid for period prior to purchase/completion of construction will be allowed as deduction in five equal annual instalments commencing from previous year in which the house construction is completed.

(v) Interest relating to the year of completion of construction can be fully claimed as deduction in that year irrespective of the date of completion.

(vi) Interest on interest i.e. penal interest is not allowed as deduction.

(vii) If a new loan is taken to repay the original loan, interest paid on the new loan will be allowed as deduction (Assessee has to satisfy in this regard to assessing officer with the facts.)

(viii) Brokerage or commission paid or expenses incurred to raise the loan are not allowed as deduction.

Situation 1: When the house is letout throughout the previous year

Step 1 Calculating Expected Rental Value, which is higher of the following two amounts.

(A) Municipal Rental Value
(B) Fair Rental Value

Step 2 Calculating Gross Annual Value, which is higher of the following two amounts.

(A) Expected Rental Value
(B) Actual Rental Value (Monthly Rent X 12) (Rent received + outstanding rent)

Step 3: Deducting municipal taxes/local taxes from gross annual value
**Municipal taxes:** Actual amount paid by the assessee is to be deducted from gross annual value.

(i) If Municipal taxes are due but not paid is not to be deducted from gross annual value.

(ii) Arrears of Municipal taxes paid in the relevant previous year to the current assessment year is to be deducted from gross annual value.

(iii) Municipal taxes paid by the tenant is not to be deducted from gross annual value.

**Step 4** Allowing the deductions u/s 24.

**Illustration 1**

Sri. Sai Prasad is the owner of a house, which is let out on a monthly rent of Rs. 7,500. The municipal valuation is Rs. 80,000 p.a. Sri. Sai Prasad incurs the following expenses. Municipal taxes Rs. 9,300, Repairs Rs. 5,000, interest paid on the loan taken to purchase the house Rs. 14,300. Compute income from house property.

**Solution**

**Computation of Sri. Sai Prasad’s income from house property**

**For the assessment year 2012-13**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross annual value (G.A.V)</td>
<td></td>
<td>90,000</td>
</tr>
<tr>
<td>Less: Municipal taxes</td>
<td></td>
<td>9,300</td>
</tr>
<tr>
<td><strong>Net annual value (N.A.V)</strong></td>
<td></td>
<td>80,700</td>
</tr>
<tr>
<td><strong>Deduction u/s 24</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard deduction u/s 24 (a)</td>
<td>24,210</td>
<td></td>
</tr>
<tr>
<td>Interest on loan u/s 24 (b)</td>
<td>14,300</td>
<td>38,510</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td></td>
<td>42,190</td>
</tr>
</tbody>
</table>

**Working Notes**

1. **Gross Annual value**

   **Step 1** Calculating Expected Rental Value, which is higher of the following two amounts.
Step 2 Calculating gross annual value, which is higher of the following two amounts
(a) Expected Rental Value (a) 80,000 (a) 80,000
(b) Actual Rental Value (b) 7,500 X 12 (b) 90,000

2. Municipal taxes: Actual amount paid by the assessee is to be deducted from the Gross Annual Value.

3. Standard deduction: 30% of N.A.V \(= \frac{30}{100} \times 80,700 = 24,210\)

4. Interest on loan: The loan is taken for purchasing the house so it is allowed as deduction. Actual interest for the previous year paid + payable will be allowed as deduction Rs. 14,300.

Unrealised Rent: - The amount of rent that the owner (assessee) is unable to recover is known as unrealised rent. The treatment for unrealised rent is explained as under. Unrealised rent of the relevant previous year to the current assessment year.

The unrealised rent is to be deducted from the Actual Rental Value on satisfying the following conditions

(i) Tenancy is bonafide and the tenant is not in occupation of any other property of the assessee.

(ii) The defaulting tenant has vacated or steps have been taken to vacate the tenant.

(iii) It is proved that the legal proceedings are useless or legal proceedings are taken to recover the rent.

$\text{Hint:} - \text{A.R.V} = \text{Rent per month} \times 12 (-) \text{Unrealised rent}$

Situation 2: Letout house - Unrealised rent of the current previous year

Step 1: Calculating Expected Rental Value (E.R.V.), which is higher of the following two amounts.
(A) Municipal Rental Value (M.R.V.)
(B) Fair Rental Value (F.R.V.)
Step 2: Calculating Actual Rental Value (A.R.V.)

A.R.V. = Rent for 12 months period (-) Unrealised rent

Step 3: Calculating Gross Annual Value (G.A.V.), which is higher of the following two amounts.

(A) Expected Rental Value (E.R.V.)

(B) Actual Rental Value (A.R.V.)

Step 4: Deduct Municipal Taxes or Local Taxes paid by the owner.

Step 5: Allowing deductions u/s 24.

Illustration 2

Smt. Veena Maduri is the owner of a house property, which is let out for residential purpose on a monthly rent of Rs. 7,200 Municipal rental value is Rs. 5,000 per month and Fair rental value is Rs. 6,500 per month. During the previous year the tenant has not paid one-month rent and proved to be irrecoverable. For construction the house she borrowed Rs. 1,80,000 from HDFC on 1-4-2006 @ 12%. The interest due up to the date is paid and no amount of principal is repaid. His other expenses are insurance premium Rs. 1,500; Municipal tax Rs. 4,000 and ground rent Rs. 1,000. Compute the income from house property for the current assessment year.

Solution

Computation of Smt. Veena Maduri’s Income from House property
For the assessment year 2012-2013

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>79,200</td>
<td></td>
</tr>
<tr>
<td>Less: municipal taxes</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Net Annual Value (N.A.V)</strong></td>
<td></td>
<td>75,200</td>
</tr>
<tr>
<td><strong>Deductions u/s 24</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Statutory deduction</td>
<td>22,560</td>
<td></td>
</tr>
<tr>
<td>(2) Interest on loan</td>
<td>21,600</td>
<td>44,160</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td>31,040</td>
<td></td>
</tr>
</tbody>
</table>
Working Notes

(1) Calculating Expected Rental Value (E.R.V.), which is higher of the following two amounts.
   
   (A) Municipal Rental Value  A) 5,000 X 12 = 60,000
   
   (B) Fair Rental Value  B) 6,500 X 12 = 78,000

(2) Calculating Actual rental value (A.R.V.)

A.R.V. = Rent for 12 months period (-) Unrealised rent
= 7,200 X 12  (-)  7,200 X 1 = 79,200

(3) Calculating Gross Annual Value (G.A.V.), which is higher of the following two amounts.

   (A) Expected Rental Value A) 78,000
   
   (B) Actual Rental Value  B) 79,200

(4) Municipal taxes: Municipal taxes paid in advance Rs 2,000 is not allowed as deduction in the current assessment year i.e., only Rs 4,000 is allowed as deduction for the assessment year 2009-10

(5) Statutory Deduction: 30% of N.A.V

   30%  X  75,200 = 22,560

(6) Interest on loan: - 12% of 1,80,000 = 21,600.

(7) Insurance premium and ground rent etc.: These expenses are not allowed as deduction.

Situation 3: Let out house - house is vacant for some period during the previous year. (There is no unrealised rent and letting the house for lower rent)

Step 1: Calculating Expected Rental Value (E.R.V.), which is higher of the following two amounts.

   (A) Municipal Rental Value (M.R.V.)
   
   (B) Fair Rental Value (F.R.V.)

Step 2: Calculating Actual Rental Value (A.R.V.)

A.R.V. = Rent for 12 months period (-) Rent for vacant period

Step 3: Calculating Gross Annual Value (G.A.V.), Which is higher of the following two amounts.
a) E.R.V  (b) A.R.V

Rule : If A.R.V. is less than E.R.V due to vacancy then G.A.R = A.R.V

Summary points
1. If A.R.V is less than E.R.V due to vacancy then G.A.V = A.R.V
2. If A.R.V is more than E.R.V in spite of vacancy then G.A.V = A.R.V

Step 4: Deduct Municipal Taxes or Local Taxes paid by the owner.

Step 5: Allowing deductions u/s 24.

Illustration 3: Sri S. Raman purchased a house from Sri Murali Krishna. the house is let out on a monthly rent of Rs. 6,000 for residential purpose. Municipal rental value is Rs. 20,000 p.a and rent of the similar building is Rs. 5,000 p.m. During the previous year the house was vacant for three months. Under the agreement the tenant paid municipal taxes Rs. 4,000; interest paid by the owner on loan taken to repair the house is Rs. 2,800. Calculate income from house property

Solution

Computation of Sri S. Raman’s income from house property

For the assessment year

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in Rs.</td>
<td>in Rs.</td>
</tr>
<tr>
<td>Gross Annual Value (G.A.V)</td>
<td></td>
<td>54,000</td>
</tr>
<tr>
<td>Less: Municipal taxes</td>
<td></td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Net annual value (N.A.V)</strong></td>
<td></td>
<td>54,000</td>
</tr>
<tr>
<td>Standard deduction u/s 24 (a)</td>
<td>16,200</td>
<td></td>
</tr>
<tr>
<td>Interest on loan u/s 24 (b)</td>
<td>2,800</td>
<td>19,000</td>
</tr>
<tr>
<td><strong>Income from house property</strong></td>
<td></td>
<td>35,000</td>
</tr>
</tbody>
</table>
**Working Notes**

1. Calculating Expected Rental Value (E.R.V.), which is higher of the following two amounts.

   (A) Municipal Rental Value  
   A) 20,000

   (B) Fair Rental Value  
   B) 5,000 X 12 = **60,000**

2. Calculating Actual Rental Value (A.R.V.)

   A.R.V. = Rent for 12 months period (-) Rent for vacant period
   \[ = (6,000 \times 12) (-) (6,000 \times 3) = 54,000 \]

3. Calculating Gross Annual Value (G.A.V.)

   **Comment:** A.R.V is less than E.R.V due to vacancy hence Gross Annual Value = Actual Rental Value = **54,000**

4. Municipal taxes: Assessee has not paid the taxes, hence it can not be deducted from gross annual value.

5. **Standard deduction:** 30% of N.A.V.

   \[ = \frac{30}{100} \times 54,000 = 16,200 \]

6. **Interest on loan:** Interest paid on loan taken for repairs is allowed as deduction. = 2,800

**Annual Value for Self occupied House**

If the owner occupies the house for his residential purpose then annual value of such house shall be taken as NIL, i.e., the income from such house is fully exempted. This exemption will be given if the following conditions are satisfied.

(i) The house is not let out during the previous year and

(ii) No other benefit is derived from there on.

**Special Note:** When the owner of a house property uses the house for his residential purpose then it is popularly known as “self occupied property”. On the other hand, if the owner uses the house for running his own business or to carry his profession technically it is a self occupied house but for income tax purpose it is not treated as self occupied house i.e. when the owner of the house is using the house for residential purpose then only it is treated as self occupied house.
Deductions for self occupied house

No deductions are allowed u/s 24 except interest paid on money borrowed for the purpose of purchase or construction or for repairs or reconstruction of the house.

Model 1: If the house is purchased /constructed and loan is taken before 1-4-99.

The deduction is least of the following two amounts
(a) Actual interest paid or payable
(b) Rs. 30,000.

Model 2: If the house is purchased or constructed and the loan is taken after 1-4-99

If the assessee satisfies the following three conditions then the deduction shall be given upto Rs. 1,50,000.

(i) The loan is taken on or after 1-4-99 either for construction or for purchasing the house.
(ii) The construction or purchase process should be completed within 3 years from the end of the financial year in which the loan is taken.
(iii) The lending person/institution has to give a certificate giving the following details.
   (a) Loan sanctioned amount to purchase/construct the house.
   (b) Amount of interest payable for the relevant previous year to the current assessment year.
   (c) Amount of principal amount repaid during the previous year relevant to the current assessment year.
   (d) outstanding principal amount.

Note: If the assessee is unable to satisfy the above three conditions then the maximum deduction amount will be limited to Rs. 30,000.

Special Note

If the assessee takes a new loan to repay the first borrowed amount then also interest payable on the new loan qualifies for deduction.
**Deduction:** The deduction is least of the following two amounts.

a) Actual interest paid or payable.

b) Rs. 1,50,000.

**Model 3:** If the loan is taken for repairs/renovation/reconstruction either before 1-4-99 or after 1-4-99.

The deduction is least of the following two amounts.

a) Actual amount of interest paid or payable.

b) Rs. 30,000

**Illustration 4**

Sri Arvind constructed a house in Mysore in the year 1998 and is using for his residential purpose. During the previous year relevant to the current assessment year, the following particulars are furnished. Compute the income from house property. Municipal rental value Rs. 25,000; Rent of similar building Rs. 30,000, the expenses paid are Municipal taxes Rs. 2,500; Non-Agricultural land tax Rs. 1,000, Repairs Rs. 2,800, Insurance Rs. 500 and interest paid on loan taken to construct the house Rs. 18,000.

**Solution**

**Computation of Mr. Arvind’s Income from House property**

**For the assessment year.....................**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Value</td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Deductions u/s 24</strong></td>
<td></td>
</tr>
<tr>
<td>Interest on loan</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Loss from House property</strong></td>
<td>(-)18,000</td>
</tr>
</tbody>
</table>

**Working Notes**

(1) **Annual Value:** For the self occupied house annual value is to be taken as NIL i.e., Municipal Rental Value and Fair Rental Value are not to be considered.

(2) **Deductions:** For self-occupied house no deductions are allowed except interest on loan taken to purchase/construct or repairs/renovation etc.
(3) **Interest on loan:** Interest paid on loan taken to construct the house will be allowed as deduction. The loan is taken before 1-4-99 so the deduction is least of the following two amounts.

(a) Actual interest paid \(18,000\)

(b) Rs. 30,000 \(30,000\)

**Building consists of Independent living units/floors/Flats during the previous year. If part of the house is self occupied and remaining part is let out**

If a Building consists of more than one independent units/floors/flats, during the previous year, if part of the house is self occupied for residence and remaining part is let out then the benefit of self occupancy can be given.

In such a situation two income statements are to be prepared.

1. For self occupied part.
2. For let out part.

Joint expenses are to be apportioned as per instructions given in the problem. If there are no instructions, then these expenses are to be apportioned in the ratio of area occupied for self occupied part and let out part.

**Problems**

1. Mr. Santosh owns a house. He has let out the house Rs. 5,000 p.m. The municipal valuation of the house Rs. 48,000. Expenses paid: Municipal Taxes Rs. 8,500. Repairs Rs. 4,000. Interest paid on the loan taken to purchase the house Rs.15,000.

   Compute Income from House property

2. From the following particulars. Calculate Income from House property of Muthayam Reddy.

   Municipal Rental value \(Rs. 40,000 \text{ p.a.}\)
   Fair Rental value \(Rs. 60,000 \text{ p.a.}\)
   Actual Rental value \(Rs. 75,000 \text{ p.a.}\)

   Interest paid on loan taken for the purpose of house construction \(Rs. 15,000 \text{ p.a.}\)

   Municipal taxes paid Rs. 5,000 p.a.
3. Sri Raghu Ram is an owner of a house which is let out on a monthly rent of Rs.8,000. The fair rental value is Rs.1,50,000 and the municipal rental value is Rs.1,10,000. The following are the expenses incurred by Raghu Ram:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs</td>
<td>Rs. 6500</td>
</tr>
<tr>
<td>Interest on loan taken</td>
<td>Rs. 4000 p.a</td>
</tr>
<tr>
<td>Fire insurance</td>
<td>Rs. 800</td>
</tr>
<tr>
<td>Municipal taxes paid</td>
<td>Rs. 8,000</td>
</tr>
<tr>
<td>Collection charges</td>
<td>Rs. 1,100</td>
</tr>
</tbody>
</table>

Compute the income from house property for the assessment year 2011-12.

4. Mr. X let out a house for a monthly rent of Rs. 8000, Fair rental value Rs.1,50,000, Municipal rental value 12,000. The following are expenses:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire insurance</td>
<td>Rs. 800</td>
</tr>
<tr>
<td>Municipal taxes paid</td>
<td>Rs. 9000</td>
</tr>
<tr>
<td>Interest on loan taken for construction of house</td>
<td>Rs. 6,000 p.a</td>
</tr>
</tbody>
</table>

Calculate Income from House Property

5. Actual Rental value Rs.8,000 p.m, Municipal Rental value Rs.9,000 p.m.

Fair rental value Rs.7,500 p.m

Municipal Taxes 10%

House repairs and collection charges Rs.15,000

Loan taken for construction of house Rs.5,00,000 @ 8% interest

Calculate Income from House property.

6. Municipal Rental value Rs. 3,000 per month

Fair rental value Rs.2,500 per month

Actual rental value Rs.3,500 per month

Interest paid on loan taken for the purpose of house construction Rs.2,000 p.a. Municipal taxes paid Rs. 5,000 p.a. Calculate Income from House Property