

INCOME TAX AND TAX PLANNING

UNIT -I

Introduction to Income Tax Act – Definitions – Residential Status – Scope of Total Income – Exempted Incomes U/S 10.

UNIT –II

Computation of Salary Income – Salary items – Allowances – perquisites – Savings eligible for deduction -Calculation of house property income – Annual value – Deductions – Exempted house property incomes – Tax planning.

UNIT –III

Income from business – Expenses allowed – Expenses disallowed – Computation of professional income – Calculation of capital gain – meaning – types – Exempted capital gain – Tax planning.

UNIT –IV

Computation of income from other sources – incomes chargeable under other source – Deductions from other source income – set off and carry forward of losses
– Tax planning.

UNIT –V

Deductions from gross total income –Clubbing of income – Income Tax Authorities
- Assessment of individual – Rates of Income Tax.

Note: Question Paper shall cover 20% Theory and 80% Problems.

(1.0) INTRODUCTION

With reference to developing country like India, taxes are the most important way of collecting funds for Government activities. It brings large revenues into public treasury and influence the economic activity in a number of ways. The Government uses tax policy in pursuance of its several economic and social objectives. The chapter deals with the various basic concepts relating to tax system in India.

(1.1) MEANING OF TAX

The tax is a compulsory payment that has to be made by an individual or other persons to Central Government, State Government and Local Government. Tax is based on certain well established rules or criteria such as income earned, property owned or expenditure made. It may be defined as Legal Execution by the State for purposes of the State.

(1.2) FEATURES OF TAX

The following are the important features of Tax.

- (i) Tax is a **compulsory** payment by the tax payer to the Government.
- (ii) The tax can be levied and collected only by **Authority of Law**. In India the Central Government, State Governments and Local Governments are authorised to collect tax.
- (iii) The taxes are payable **usually in cash** but in sometimes it can be recovered in kind also.
- (iv) The tax is based upon **certain criteria** such as amount of Income, amount of Sales, amount of Profit etc.
- (v) The taxes are levied on the basis of **prescribed rates** which are subject to change from time to time.

(1.3) TYPES OF TAXES

Generally taxes are classified into two types as under: (1) Direct Taxes, (2) Indirect Taxes

Direct Taxes : Direct Tax is a payment directly made to the Government by the person who bears it. In other words, in the case of direct taxes tax burden is borne and paid by the same person. The important item of direct taxes is Income tax, because the person who earns Income is directly liable to pay Income Tax. The other items included in Direct Taxes are Security Transaction Tax, Dividend Distribution Tax, Property Tax etc. The Direct Taxes are administered by Central Board of Direct Taxes (CBDT).

Indirect Taxes : Indirect taxes, is a tax which is paid by one person and borne by another person. The important item of Indirect Taxes is Goods and Services Tax. Under GST system tax is paid by the seller of the goods and added with price of the goods thereby indirectly borne by the buyer or customer. In other words GST, is paid to the Government by the seller of the goods, but actually the burden is shifted to the buyer indirectly. The other items included in the Indirect Taxes are Excise Duty and Customs Duty. The Indirect Taxes are administered by Central Board of Excise and Customs (CBEC).

(1.4) MEANING OF INCOME TAX

Income Tax is one of the Direct Tax. It is levied on the Income of the General Public. For this purpose, income of the public is divided into five heads of Income. The rate of income tax is fixed on the basis of level of income of the public. In addition there are certain special rates of income tax for special types of incomes. Income tax is levied on the income earned during the particular previous year and collected in the following assessment year. Income tax is a tax on income. Income tax may be a real or nominal. It may be paid in cash or recovered in kind. It may be required to pay, in sometimes, on the income of other persons. As per Article 270 of the Constitution of India, the matter of income tax is concerned with the Central Government. However, the net tax proceeds are distributed between the Central and the States on the basis of recommendation of the Finance Commission.

(1.5) SOURCES OF INCOME TAX LAW

The following are the sources of Income Tax Law in India. (i) Income Tax Act, 1961. (ii) Income Tax Rules, 1962. (iii) Circulars issued by the Central Board of Direct Taxes (CBDT) and (iv) Judicial Decisions (v) Annual Finance Act

(1.5.1) Income Tax Act, 1961

The Income Tax Act, 1961 became effective from the 1st day of April, 1962. It contains 298 sections and XIV schedules for the determination of taxable income, determination of tax liability, procedure for assessments, appeals, penalties and prosecutions.

(1.5.2) Income Tax Rules, 1962

At the time of drafting of any Law many situations and circumstances remain unseen or at times the Legislators wants the administrators of the Act to make provisions to suit their requirements. The Legislators has left many things to be decided by the department, and a mention to this effects is made in the relevant sections of the Income Tax Act, 1961. The section 295 of the Income Tax Act has given powers to the Central Board of Direct Taxes (CBDT) to make any rules regarding income tax. These rules are known as Income Tax Rules, 1962 and these are also amended from time to time. The income tax rules under this Act must be placed before the Parliament within the stipulated period. The rules have to be in consistent with the Act and cannot limit any right conferred by the Act.

(1.5.3) Circulars by CBDT

To deal with certain specific problems, the Central Board of Direct Taxes issues circulars from time to time. These circulars do not take the place of law but for the guidance of the officers and public. The circulars of general directions issued by the Board are binding u/s 119 of the Income Tax Act 1961, on all officers and persons employed in the execution of the Act.

(1.5.4) Judicial Decisions

In the course of assessment proceedings sometimes there may arise a dispute between the department and the assessee over the interpretation of some of the provisions of the Act. The Department's interpretation of the law may be objected by the assessee as unreasonable and incorrect. To redress such grievances the assessee can go to Court of Law as is prescribed in the Act. In such

cases any decisions given by the Supreme Court become a law which will be binding on the income tax department as well as on the tax payers. Every decision given by a High Court and Income Tax Appellate Tribunal are also binding on the income tax department and tax payers.

(1.5.5) Annual Finance Act

Since the Income Tax Act, 1961 is the revenue law, these are bound to be amended from time to time. These amendments are generally brought in annually along with the Union Budget. Traditionally every year, budget is presented before the Parliament by the Finance Minister on the last day of February. However in recent years the date of budget is changed to first day of the February. It contains the Finance Bill which declares the financial prospects of the Central Government for the next financial year. The Finance Bill mentions the rates of income tax and other taxes, rebates and reliefs. (The Annual Finance Bill 2020 (2) was placed before the New Parliament by the Finance Minister Smt. Nirmala Seetharaman on 6th July 2019). As soon as the Bill is passed by both the houses of the Parliament and thereafter receives the assent of the President of India, it becomes the Finance Act. It is applicable for the Previous Year 2019-20 and Assessment Year 2020-21.

(1.6) BASIS OF CHARGE OF INCOME TAX (SEC. 4)

According to section 4 of the Income Tax Act 1961, following are the provisions regarding charge of income tax which may also be called as features of Income Tax.

- (i) Income tax is charged for **every assessment year**.
- (ii) It is charged on **every person** as specified under section 2(31) of the Act.
- (iii) It is charged on the **total income** earned by the person during the previous year.
- (iv) Total income is **computed in accordance** with the provisions of the Act.
- (v) The tax is levied at the **rates** prescribed by the Finance Act.
- (vi) Income tax shall be **deducted at source or paid in advance**, where it is so deductible or payable under any provision of the Act.
- (vii) Income Tax Act, as **amended on 1st April** of any financial year shall apply for assessment of the year.

(1.7) DEFINITION OF PERSON [2(31)]

According to Section 2(31) of the Income Tax Act, 1961, the term, person includes the following

(1) An Individual : It refers to natural human being and will include male or female, adult or minor. For example, Mr. A, who is working in a Government office, Mr. B who owns house property which is let out and Mr. C, who is practising accountant are individual persons.

(2) A Hindu Undivided Family : This is the creation of Hindu law and assumes that the members of the family live together. The head of the family is known, Karta and all those who have a right to claim partition are known as Coparcener. For example, A Hindu undivided family consisting of 3 persons, in which Mr. A is a father and Mr. B and Mr. C are his sons, here Mr. A is termed as, Karta and Mr. B and Mr. C are termed as Coparceners.

(3) Company : The term, Company includes the following :

- (i) Any Indian Company or
- (ii) Any Body Corporate Incorporated under the Laws of Foreign Country or
- (iii) Any institution, Association or a Body, whether Indian, or Non-Indian which is declared as Company by CBDT.

(4) Firm : A firm means a partnership firm as defined under the Indian Partnership Act 1932. For example, ABC & Co is a firm engaged in the business of Publications of Text Books in which A, B and C are partners. Here the firm is treated as person for income tax purposes.

(5) Association of Persons & Body of Individuals : Association of Persons (AOP) means two or more persons who join for a common purpose with a view to earn income. They must combine to engage in an activity with common purpose to produce income. It may consist individual or non-individual as its members. For example, where Mr. A, an individual, PQR & Co, a partnership firm and ABC Ltd, a company joins together for a particular venture.

The term, Body of Individual (BOI) means a group of individuals (natural persons) who carries on some activities with the objective of earning some income. It may or may not have a common purpose. It must include individual members only. For example, Mr. A and Mr. B are legal representatives of Mr. X, a deceased person, carrying on business without entering into partnership is called as Body of Individuals.

(6) Local Authority : The expression, 'Local Authority' means :

- (i) Panchayat as referred to in clause (d) of Article 243 of the Constitution or
- (ii) Municipality as referred to in Article 243(p) of the Constitution or
- (iii) Cantonment Board, as defined in sec.(3) of the Cantonment Acts, 1924.

For example, Walajapet Municipality or Corporation of Chennai and Edakkuppam Panchayat are taxed as local authorities.

(7) Artificial and Judicial Persons : It is a residual category which includes, units of taxation, not covered under any of the other categories of persons. These are not natural persons, but are treated as separate entities. For example, Thirumala Thirupati Devasthanam, University of Madras, Bar Council of Chennai, The Institute of Chartered Accountants of India are taxed as Artificial and Judicial Persons.

(1.8) ASSESSEE

(1.8.1) Definition

According to Section 2(7) of the Income Tax Act, 1961, the term, Assessee means any persons whose accounts are taken for assessment whether by voluntarily or compulsorily. He is a person by whom any tax or any other sum of money like interest, fine or penalty payable under the Income Tax Act,1961.

(1.8.2) Types of Assessee

The term assessee is divided into three categories as under: (1) Ordinary Assessee (2) Deemed Assessee (3) Assessee in Default.

(1.8.3) Ordinary Assessee : The term Ordinary Assessee includes

- (i) Any person against whom some **proceedings** under Income Tax Act are going on. For example, Mr.A carries on a small provision stores. His annual income does not exceed Rs.2,50,000. He does not have any idea about Income Tax. However the Income Tax Department issues notice to him to submit statement of Income. He has approached an Auditor and filed Return of Income showing taxable income as Rs.2,00,000. The Income Tax Department accepted the Return of Income. Here, issue of notice by the department is an act of proceedings under the Income Tax Act. So, he is considered as an Assessee even though he is not liable to pay any tax.
- (ii) Any person who has filed **Return of Loss** under sec. 139 (3). For example, Mr.A carries on small business enterprise. During the previous year he suffered a loss of Rs.50,000 from business due to loss by fire. He filed return with department showing the loss amount. Here, he does not liable to pay any amount of income tax, however he is treated as an assessee on the reason that he has filed return of loss.
- (ii) Any person, by whom any amount of **penalty or interest** is payable. For example, Mr. A business man was levied income tax during the preceding previous year Rs.1,00,000. However he fails to pay the income tax. During the previous year he paid that amount of income tax. The department issued notice to him to pay penalty for delayed payment amounting to Rs.10,000. Here, he is treated as an assessee even though he has no taxable income during the current previous year.
- (iv) Any person, who is eligible to get **refund** of tax. For example, Mr. A is working as a manager in a company. The company deducts Rs.2,000 monthly as income tax and deposited with the income tax department. However at the end of previous year the actual amount of income tax comes to Rs.20,000 as per return of income. Here, he is eligible for claiming refund of tax amounting to $(2,000 \times 12 = 24,000 - 20,000)$ Rs.4,000. Here, he is treated as an assessee on the basis of income tax refund.

(1.8.4) Deemed Assessee

The concept of deemed assessee arises in the case of following situations.

- (i) In case of a **deceased person**, the executor or legal representative will become deemed assessee. For example, Mr. A is a retired Government Officer having Rs.1,00,000 from income from house property. He is blessed with only one son. During the previous year he suddenly died. Here, the son of Mr. A is treated as an assessee in the capacity of legal representative.
- (ii) In case of a **Minor or Lunatic** or person of unsound mind, the guardian is considered as deemed assessee. For example, Mr. A retired person from Private Company does not have any taxable income. But his son carries on a business with taxable income of Rs.5,00,000. During the previous year his son met with an accident and became a person of unsound

mind. Here, Mr. A will be treated an assessee in respect of income from business in the capacity of guardian of unsound mind person.

- (iii) In case of a **Non-resident** having income in India, any person representing him is deemed as assessee. For example, Mr. A in retired Government Officer in India. His pension income is not taxable being less than the exempted limit. His son is working in America and settled there as American Citizen. His son bought house properties in India which fetch annual rental income of Rs.5,00,000. Here, Mr. A treated as an assessee in respect of income from house properties of his son in the capacity of legal representative of non resident.

(1.8.5) Assessee - in - Default

Any person who fails to perform any statutory obligations as per the Act is called as an assessee in default. For example, any employer who is liable to deduct tax before payment of salary to his employees, fails to do so, he will be assessed as assessee in default.

(1.9) DEFINITION OF ASSESSMENT (SEC. 2(8))

According to Section 2(8) of the Income Tax Act, 1961, The term assessment means the procedure by which the Income of an assessee is determined by the Assessing Officer of the Income Tax Deptment of Government of India. It may be by way of a normal assesement or by way of reassessment of an income previously assessed.

(1.10) DEFINITION OF ASSESSMENT YEAR(SEC. 2(9))

The financial year in which **tax is paid** is called Assessment Year. According to Section 2(9) of the Income Tax Act, 1961, Assessment Year means the period of twelve months commencing on the First day of April every year and ending on last day of March of next year. For example, the current Assessment Year started on 1st April 2020 and ending on 31st March 2021.

(1.11) PREVIOUS YEAR (SEC. 2(34))

(1.11.1) Definition

The year in respect of the income of which **tax is leived** is called Previous Year. According to Section 2(34) of the Income Tax Act, 1961, Previous year means the financial year immediately preceding the assessment year. For example, the current previous year is 2019-20 which commenced on 1st April 2019 and ended on 31st March 2020.

(1.11.2) Provisions Regarding Previous Year

The various provisions regarding the determination of previous year are as follows

(i) Uniform Previous Year : All assesses are required to follow a uniform previous year, that is financial year commencing from 1st April and ending on 31st March, as their previous year in respect of all sources of their income. In otherwords an assessee may maintain books of account on the basis of Calendar year (1st January to 31st December) or Academic year (1st June to 31st May) or

Diwali year (Diwali day of one year to diwali day of the next year) or Tamil new year (usually April 14th to next year April 13th) or any other year but for the purpose of income tax **Financial Year is taken as Previous Year.**

(ii) Previous Year May be Less than Twelve Months: Normally previous year consists twelve months. However, it may be less than twelve months in certain cases. They are as follows:

(a) Newly Set up Business : In case a business or profession is newly set up the period beginning from the date of setting up of the business and ending of the last day of that financial year i.e. 31st March shall be the first previous year for that business. For example, if a new business is setup on 01.10.2019 then the first previous year for that business will be the period of 6 months starting from 01.10.2019 to 31.03.2020.

(b) Discontinued Business : In case a business or profession discontinued during the previous year, the previous year will be only up to the date of discontinuation of business. For example, if a partnership firm dissolved on 1st May 2020 then the previous year consists only one month.

(1.11.3) When Previous Year and Assessment Year will be Same ?

The general rule for the chargeability of income is that the income earned during a previous year is taxed in the relevant assessment year. However, in certain exceptional circumstances the income is taxed in the same year in which it is earned. These are as follows :

(i) Income of the Non-resident Shipping Company [Sec.172] : The income earned by non-resident shipping company having any representative in India, is assessable during the previous year itself. Before the departure of ship from any part in India, the master of the ship is required to furnish to the Assessing Officer a return of income and to pay the amount of tax, payable if any.

(ii) Income of Persons Leaving India [Sec.174] : When it appears to the assessing officer that any individual may leave India during the current assessment year with no present intention of returning to India, the total income of such individual is chargeable to tax in the same year.

(iii) Association Formed for Particular Event or Purpose [Sec.174 A] : Some times, any Association of Person (or) Body of Individuals that is formed or established or incorporated for any particular event or purpose in any assessment year but is also dissolved in the same assessment year or soon thereafter. In such cases, the Assessing Officer may assess income of the relevant previous year plus income upto the date of dissolution, in the assessment year itself.

(iv) Income of Persons Trying to Transfer his Assets [Sec.175] : If any person trying to sell or transfer his assets with a view to avoiding any payment of his tax liability, then the income from such transfer is chargeable to tax in the year of transfer itself.

(v) Income from Discontinued Business [Sec.176] : Where any business or profession is discontinued in any assessment year, the income upto the period of discontinuation may be chargeable to tax during the particular year itself. For example, if a business is discontinued on 16th July 2020, the income for the period 1st April 2020 to 16th July 2020 will be taxable in the assessment year 2020-21 itself.

(1.11.4) Distinction between Previous Year and Assessment Year

- (i) The previous year is a period during which the **Income is earned** by the General Public, where as the assesment year is a period during which Tax on **Income is levied** and collected by the Government
- (ii) The previous year **may be 12 months** or sometimes less than 12 months, whereas the assesment year is **compulsorily** for 12 months.
- (iii) For the current period the previous year is from **01.04.2019 to 31.03.2020**, whereas the assesment year is from **01.04.2020 to 31.03.2021**.

(1.12) INCOME (SEC. 2(24))

(1.12.1) Definition of Income

According to section 2(24) of the Income Tax Act, 1961 the term income includes the following items :

- (i) Profits and Gains.
- (ii) Dividend.
- (iii) Voluntary contributions received by a trust.
- (iv) The value of perquisites or profits in lieu of salary.
- (v) Any special allowance granted to the assessee to meet personal expenses.
- (vi) Any allowance granted to meet personal expenses for the increased cost of living.
- (vii) The value of benefit obtained from a company by a director.
- (viii) The value of any benefit obtained by any representative assessee.
- (ix) Any income chargeable under the head business.
- (x) Any value of benefit from profession.
- (xi) Any capital gains.
- (xii) Insurance profit.
- (xiii) Casual incomes.
- (xiv) Any sum received under Keyman Insurance Policy. (Insurance Policy on employees)
- (xv) Advance Money Received for Capital Assets.
- (xvi)** Gift Income exeeding Rs. 50,000.
- (xvii) Issue of shares at premium.
- (xviii) Fair market value of inventory converted into Capital Assets.
- (xix) Any compensation for modification of terms of employment.

(1.12.2) Features of Income

The following are some important principles or features which explain the concept of "income":

- (i) Sources of Income :** The income connotes a periodic monetary return coming with some sort of regularity or expected regularity from definite source. The source, however, need not necessarily be one which is expected to be continuously productive.

Basic Concepts

(ii) Basis of Income : The income arises either on receipt basis or accrual basis. If the assessee has got a right to receive the income he is liable to be taxed on such income on accrual basis even if he may not have received the income.

(iii) Form of Income : Income may be realised in the form of money or money's worth. i.e., in cash or in kind. When income is realised in kind, its valuation is made according to the prescribed rules.

(iv) Nature of Income : The Income Tax law does not make any distinction between legal income and income tainted with illegality. So Illegal income is also taxable like any other income.

(v) Title of Income : Assessment of income cannot be held up because of any dispute regarding the title of the income. The recipient is taxable although there may be a rival claim to the source of income. Where money has been received, a rival claim or a threat of litigation cannot make the income contingent one.

(vi) Quantum of Income : A revenue receipt is always liable to tax whether it is received in lump-sum or in installments. For example, arrears of pay revision, received in lump - sum, is income.

(vii) Tax free Income : If some tax - free income is received by the assessee, it has to be grossed up for inclusion in his total income.

(viii) Real Income alone is Taxable : "Income" should refer to real income and not fictional or technical income. Transactions entered into by commercial men must be looked at for income - tax purposes from a commercial point of view and in trying to determine whether a certain transaction resulted in profits, we have to see whether the transaction resulted in real profits.

(ix) Negative Income : Losses are negative profits. Both positive and negative profits are of a revenue character and both must enter into computation of total income.

(x) Application of Income : Where an assessee applies an income to discharge an obligation after the income reaches his hands, it is called as application of income. For example, Payment of rent for residential house from salary income is an application income.

(xi) Diversion of Income : Where an assessee transfer or divert the income to other persons before it reaches him, it is called as diversion of income. For example, transfer of income without transferring the asset is a diversion income.

(1.13) DEFINITION OF GROSS TOTAL INCOME (SEC. 14)

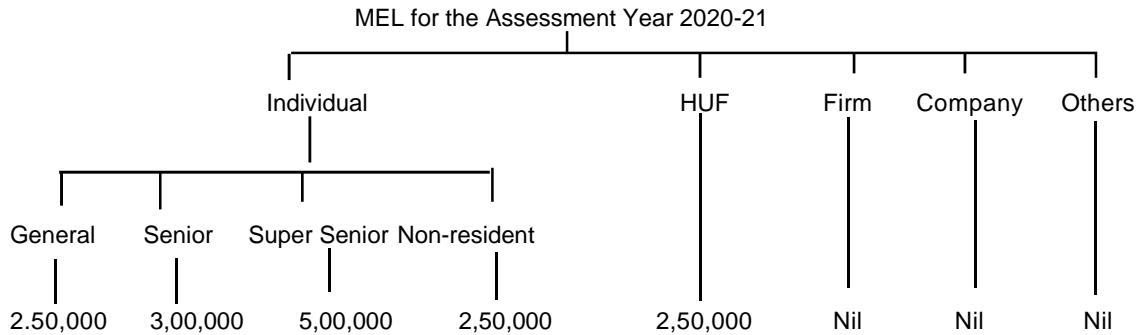
According to Section 14 of the Income Tax Act, 1961, for the purposes of income tax and computation of total income, all income shall be classified under the following heads of income :

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

The sum of income computed under the above five heads, after making adjustments for set off and carry forward of losses, is known as Gross Total Income.

(1.14) MAXIMUM EXEMPTION LIMIT FOR DIFFERENT PERSONS

In case of certain assesses there is no income tax on income earned during the previous year upto a certain limit, which is called as Maximum Exemption Limit (MEL).

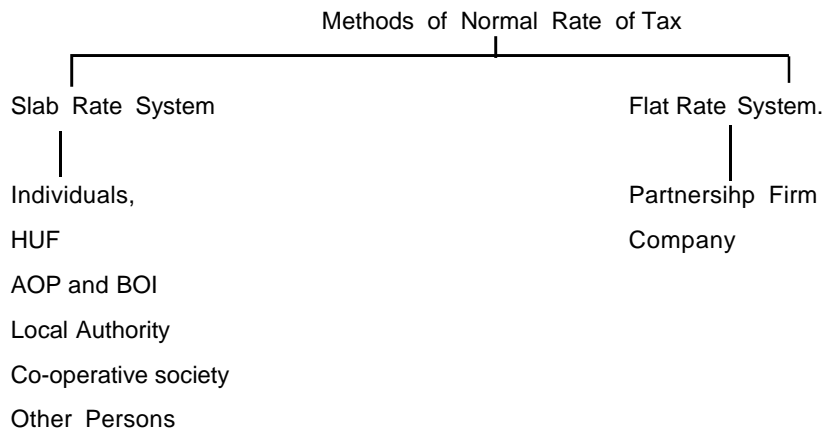


(1.15) COMPONENTS OF TAX LIABILITY

The amount of Tax Liability consist of the following components :

- (i) Normal Rate of Income Tax
- (ii) Special Rate of Income Tax
- (iii) Surcharge
- (iv) Marginal Relief
- (v) Health and Education Cess
- (vi) Tax Rebate
- (vii) Tax Deducted at Source
- (viii) Advance Tax paid
- (ix) Rounding of Income and Tax

(1.15.1) Normal Rates of Income Tax



(1.15.2) Special Rates of Income Tax

In the cases certain incomes the rate of Income Tax is provided under special rate. For Example, when the total Income of an assessee includes capital gain first of all such income is taxed at special rates and balance of income is taxable at normal slab rate.

(1.15.3) Surcharge

It is an additional amount calculated on the amount of Income Tax payable by the assessee. When the taxable income exceed a particular limit. For example, in the case of individuals sucharge is applicable when the taxable income exceed Rs. 50,00,000.

(1.15.4) Marginal Relief

The marginal relief provides relaxation from the burden of surcharge to the assessee. It is based on incremental Income over Rs. 50,00,000 or Rs. 1,00,00,000 as the case may be.

(1.15.5) Health and Education Cess

Normally the Cess is and additional amount calculated on the amount of Income Tax including surcharge for a specific purposes. Health and education cess is collected by the Government for providing funds for the Health and Educational Schemes to the general public. The amount of cess cannot be utilised by the Government for any other purpose other than Health and education purposes.

(1.15.6) Tax Rebate

The term Tax Rebate means an amount of concession allowed on the amount of tax liability in certain circumstances. For example an individual resident assessee is eligible for tax rebate of Rs. 12,500 if the Taxable Income does not exceed Rs. 5.00,000.

(1.15.7) Tax Deducted at Source

Deduction of tax by the person responsible for payment of income at the rates specified in part II of schedule I of Finance Act is called as Tax Deducted at Source. For example the employer is liable to make TDS from the Salary Income payable to the employees at average rate of Income Tax on the estimated annual salary income.

(1.15.8) Advance Tax paid

Payment of income tax in advance on the basis of estimated current income as per Part III of Schedule I Finance Act is called as Advance Tax Paid. For example, an assessee engaged in business having taxable income is liable to pay advance tax as per the applicable provisions.

(1.15.9) Rounding off of Income and Tax

The amount of taxable income [Sec. 288(A)] and the amount of income tax [Sec. 288(B)] shall be rounded off to the nearest multiple of ten rupees. If the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten.

(1.16) FORMAT FOR ASSESSMENT OF AN INDIVIDUAL

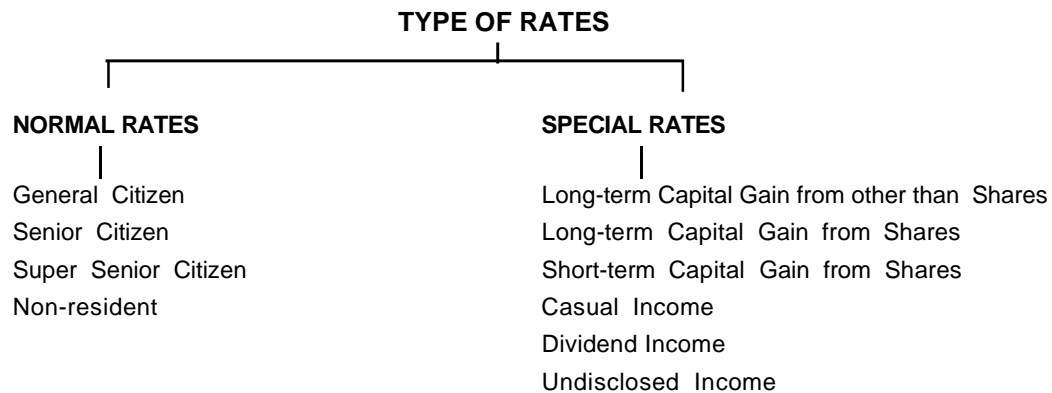
(i) Computation of Taxable Income or Net Income or Total Income :

Income from Salaries (Section 15-17)	xxxx
Income from House Property (Section 22-27)	xxxx
Profit and Gains of Business or Profession (Section 28 - 44DB)	xxxx
Income from Capital Gains (Section 45 - 55A)	xxxx
Income from Other Sources (Section 56 - 59)	xxxx
	xxxxx
Add : Clubbing of Income and Aggregation of Income (Section 60 - 69D)	xxxx
Less : Adjustment on account of Set Off or Carryforward of Losses (Section 70-80)	xxxx
Gross Total Income	xxxxx
Less : Deductions under Section 80C to 80U	xxxx
Total Income (Rounded off to Rs. 10 u/s. 288(A))	xxxxx

(ii) Computation of Tax Liability and Tax Payable :

Tax on Total Income (Normal and Special Rates)	xxxx
Less : Tax Rebate u/s 87A (if Applicable)	xxxx
Balance of Tax After Rebate	xxxx
Add : Surcharge	xxxx
Tax including Surcharge	xxxx
Add : Health and Education Cess (HEC) @ 4%	xxxx
Tax Including HEC	xxxx
Less : Relief under sections 86, 89, 90, 90A and 91	xxxx
Tax Liability	xxxxx
Less : Pre-paid Taxes	
Tax paid on self assessment	xxxx
Tax deducted or collection at source	xxxx
Tax paid in advance	xxxx
	xxxx
Add : Interest under sections 234A, 234B and 234C, if any	xxxx
Tax Payable (rounded off to nearest Rs. 10 u/s. 288(B))	xxxxx

(1.17) TAX RATES FOR INDIVIDUALS FOR ASSESSMENT YEAR 2020-21



(1.17.1) Income Tax for General Citizen (Age below 60 years)

First Rs. 2,50,000 (upto Rs. 2,50,000)	Nil
Next Rs. 2,50,000 (Rs. 2,50,001 to 5,00,000)	5 %
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(1.17.2) Income Tax for Senior Citizen (Age 60 years or More but below 80 Years)

First Rs. 3,00,000 (upto Rs. 3,00,000)	Nil
Next Rs. 2,00,000 (Rs. 3,00,001 to 5,00,000)	5 %
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(1.17.3) Income Tax for Super Senior Citizen (Age 80 years or More)

First Rs. 5,00,000 (upto Rs. 5,00,000)	Nil
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(1.17.4) Income Tax for Non Resident (Irrespective of Age)

First Rs. 2,50,000 (upto Rs. 2,50,000)	Nil
Next Rs. 2,50,000 (Rs. 2,50,001 to 5,00,000)	5 %
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(1.17.5) Income Tax for Special Incomes

Long-term Capital Gain from other than Shares	20%
Long-term Capital Gain from Shares	10%
Short-term Capital Gain from Shares	15%
Casual Income	30%
Dividend Income over Rs. 10,00,000	10%
Undisclosed Income	60%

Explanation : Clarification regarding attaining prescribed age of 60 years / 80 years in case of senior/ very senior citizen whose date of birth falls on 1st April.

The CBDT has, (Circular No. 28/2016, dated 27.07.2016) Clarified that a person born on 1st April would be considered to have attained a particular age on 31st march, the day preceding the anniversary of his birthday.

(1.17.6) Tax Rebate u/s 87A (w.e.f. Assessment Year 2020-21)

A resident individual is allowed a Tax Rebate at 100% of Income Tax or Rs. 12,500 which ever is less when his / her taxable income during the previous year does not exceed Rs. 5,00,000.

(1.17.7) Surcharge (w.e.f. Assessment Year 2020-21)

- (a) 10% of Income Tax in the case of person having a total income exceeding Rs. 50 lakhs but not exceeding Rs. 1 crore
- (b) 15% of income Tax in case of a person having a total income exceeding Rs. 1 crore but not exceeding Rs. 2 crores
- (c) 25% of income Tax in case of a person having a total income exceeding Rs. 2 crores but not exceeding Rs. 5 crores.
- (d) 37% of income Tax in case of a person having a total income exceeding Rs. 5 crores.

(1.17.8) Marginal Relief (w.e.f. Assessment Year 2020-21)

- (a) Marginal relief is available in case total income exceeds Rs. 50 lakhs. The additional amount of income-tax payable (together with surcharges) on the excess of income over Rs. 50 lakhs should not be more than the amount of income exceeding Rs. 50 lakhs.
- (b) Where total income exceeds Rs. 1 crore, the total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharges on a total income of Rs. 1 crore by more than the amount of income that exceeds Rs. 1 crore.
- (c) Where total income exceeds Rs. 2 crores, the total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharge on a total income of Rs. 2 crores by more than the amount of income that exceeds Rs. 2 crores.
- (d) Where total income exceeds Rs. 5 crore, the total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharge on a total income of Rs. 5 crores by more than the amount of income that exceeds Rs. 5 crores.

(1.17.9) Health and Education Cess For the Assessment Year 2020-21

4% on Income Tax - Tax Rebate + Surcharge

(1.17.10) PRACTICAL ILLUSTRATIONS ON TAX LIABILITY OF INDIVIDUALS

ILLUSTRATION (1) : (With Tax Rebate) The Taxable Income of Miss. Shivani for the Previous Year 2019-20 is Rs.3,45,000. Calculate the amount of tax payable for the Assessment Year 2020-21 assuming that he is the age of (i) 20 years (ii) 70 years (iii) 90 years

Solution: Computation of Tax Liability for the Assessment Year 2020-21 :

(i) 20 Years

On First Rs.2,50,000	Nil
On Balance of Income at 5% (3,45,000 - 2,50,000 = 95,000 x 5%)	4,750
	4,750
Less : Tax Rebate u/s 87A (Rs. 4,750 or Rs. 12,500 WEL)	4,750
	Nil
Add : Surcharge (Taxable Income below 50,00,000)	Nil
	Nil
Add : Health & Education Cess @ 4%	Nil
Tax Liability	Nil

(ii) 70 Years

On First Rs.3,00,000	Nil
On Balance of Income at 5% (3,45,000 - 3,00,000 = 45,000 x 5%)	2,250
	2,250
Less : Tax Rebate u/s 87A (Rs. 2,250 or Rs. 12,500 WEL)	2,250
Tax Liability	Nil

(ii) 90 Years

On First Rs.3,45,000	Nil
Tax Liability	Nil

ILLUSTRATION (2) : (Without Tax Rebate) The Taxable Income of Mr. Balaji for the Previous Year 2019-20 is Rs.10,94,000. Calculate the amount of tax payable for the Assessment Year 2020-21 assuming that he is the age of (i) 45 years (ii) 75 years (iii) 85 years

Solution: Computation of Tax Liability for the Assessment Year 2020-21 :

(i) 45 Years

On First Rs.2,50,000	Nil
On Next Rs. 2,50,000 @ 5% (2,50,000 x 5%)	12,500
On Next Rs. 5,00,000 @ 20% (5,00,000 x 20%)	1,00,000

Basic Concepts

On Balance of Income at 30% (10,94,000 - 10,00,000 = 94,000 x 30%)	28,200
	1,40,700
Less : Tax Rebate u/s 87A (Taxable Income exceed Rs. 5,00,000)	Nil
	1,40,700
Add : Surcharge (Taxable Income below 50,00,000)	Nil
	1,40,700
Add : Health & Education Cess @ 4% (1,40,700 x 4%)	5,628
Tax Liability	1,46,328

(ii) 75 Years

On First Rs.3,00,000	Nil
On Next Rs. 2,00,000 @ 5% (2,00,000 x 5%)	10,000
On Next Rs. 5,00,000 @ 20% (5,00,000 x 20%)	1,00,000
On Balance of Income at 30% (10,94,000 - 10,00,000 = 94,000 x 30%)	28,200
	1,38,200
Less : Tax Rebate u/s 87A (Taxable Income exceed Rs. 5,00,000)	Nil
	1,38,200
Add : Surcharge (Taxable Income below 50,00,000)	Nil
	1,38,200
Add : Health & Education Cess @ 4% (1,38,200 x 4%)	5,528
Tax Liability	1,43,728

(ii) 85 Years

On First Rs.5,00,000	Nil
On Next Rs. 5,00,000 @ 20% (5,00,000 x 20%)	1,00,000
On Balance of Income at 30% (10,94,000 - 10,00,000 = 94,000 x 30%)	28,200
	1,28,200
Less : Tax Rebate u/s 87A (Taxable Income exceed Rs. 5,00,000)	Nil
	1,28,200
Add : Surcharge (Taxable Income below 50,00,000)	Nil
	1,28,200
Add : Health & Education Cess @ 4% (1,28,200 x 4%)	5,128
Tax Liability	1,33,328

ILLUSTRATION (3) : (With Marginal Relief) The Taxable Income of Mr. Tamilvendan (age 20 years) for the Previous Year 2019-20 is Rs.51,00,000. Calculate the amount of tax payable for the Assessment Year 2020-21.

Basic Concepts

Solution:

(i) Computation of Tax Liability on Total Income (Rs. 51,00,000)

On First Rs.2,50,000	Nil
On Next Rs. 2,50,000 @ 5% (2,50,000 x 5%)	12,500
On Next Rs. 5,00,000 @ 20% (5,00,000 x 20%)	1,00,000
On Balance of Income at 30% (51,00,000 - 10,00,000 = 41,00,000 x 30%)	12,30,000
	13,42,500
Add : Surcharge at 10% (Taxable Income exceeded Rs. 50,00,000)	1,34,250
Tax Liability	14,76,750

(ii) Computation of Tax Liability on Maximum Limit for Surcharge (Rs. 50,00,000)

On First Rs.2,50,000	Nil
On Next Rs. 2,50,000 @ 5% (2,50,000 x 5%)	12,500
On Next Rs. 5,00,000 @ 20% (5,00,000 x 20%)	1,00,000
On Balance of Income at 30% (50,00,000 - 10,00,000 = 40,00,000 x 30%)	12,00,000
	13,12,500
Add : Surcharge at 10% (Taxable Income does not exceed Rs. 50,00,000)	Nil
Tax Liability	13,12,500

(iii) Computation of Marginal Relief

Tax on Rs. 51,00,000	14,76,750
Less : Tax on Rs. 50,00,000	13,12,500
	1,64,250
Less : Excess of Taxable Income over Rs. 50,00,000 (51,00,000 - 50,00,000)	1,00,000
	64,250

(iv) Computation of Tax Liability after Marginal Relief

Tax on Total Income	14,76,750
Less : Marginal Relief	64,250
	14,12,500
Add : HEC at 4%	56,500
	14,69,000

(1.17.11) PRACTICAL EXERCISES ON TAX LIABILITY OF INDIVIDUALS

Exercise (1) : (General Citizen) The Taxable Income of Miss. Atchaya Priya (Age 19 Years) for the Previous Year 2019-20 is Rs.2,85,100. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : First 2,50,000 at Nil Rate, Balance : 35,100 at 5%) = 1,755 - 1,755 = Nil)

Note : Taxable Income is less than Rs. 5,00,000, hence tax rebate is allowed.

Basic Concepts

Exercise (2) : (General Citizen) The Taxable Income of Miss.Bavadharani (Age 20 Years) for the Previous Year 2019-20 is Rs.3,45,000. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : First 2,50,000 at Nil rate Balance : 95,000 at 5%) = 4,750 - 4,750 = Nil)

Note : Taxable Income is less than Rs. 5,00,000, hence tax rebate is allowed.

Exercise (3) : (General Citizen) The Taxable Income of Mr. Subash (Age 40 Years) for the Previous Year 2019-20 is Rs.4,94,900. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 12,245 = 12,245 - 12,245 = Nil)

Note : Taxable Income is less than Rs. 5,00,000, hence tax rebate is allowed.

Exercise (4) : (General Citizen) The Taxable Income of Miss. Ramya (Age 21 Years) for the Previous Year 2019-20 is Rs.7,25,800. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 12,500 + 45,160 = 57,660 + 2,306 = 59,966)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (5) : (General Citizen) The Taxable Income of Miss. Pavithra (Age 22 Years) for the Previous Year 2019-20 is Rs.17,38,500. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 12,500 + 1,00,000 + 2,21,550 = 3,34,050 + 13,362 = 3,47,412)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (6) : (General Citizen) The Taxable Income of Mr. Arun (Age 21 Years) for the Previous Year 2019-20 is Rs.15,10,000. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 12,500 + 1,00,000 + 1,53,000 = 2,65,500 + 10,620 = 2,76,120)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (7) : (Senior Citizen) The Taxable Income of Mr. Aravind (Age 62 Years) for the Previous Year 2019-20 is Rs.9,46,300. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 10,000 + 89,260 = 99,260 + 3,970 = 1,03,230)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (8) : (Supper Senior Citizen) The Taxable Income of Mr. Bharath (Age 81 Years) for the Previous Year 2019-20 is Rs.18,00,000. Calculate the amount of tax payable for the Assessment Year 2020-21.

(Ans : Nil + 1,00,000 + 2,40,000 = 3,40,000 + 13,600 = 3,53,600)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (9) : (Comprehensive) The Taxable Income of Mr. Kamesh for the Previous Year 2019-20 is Rs.32,35,000. Calculate the amount of tax payable for the Assessment Year 2020-21 assuming that his age is (i) 46 years (ii) 62 Years (iii) 83 Years

(Ans : (i) Nil + 12,500 + 1,00,000 + 6,70,500 = 7,83,000 + 31,320 = 8,14,320

(ii) Nil + 10,000 + 1,00,000 + 6,70,500 = 7,80,500 + 31,220 = 8,11,720

(iii) Nil + 1,00,000 + 6,70,500 = 7,70,500 + 30,820 = 8,01,320)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

Exercise (10) : (Comprehensive) The Taxable Income of Mr. Paranthaman for the Previous Year 2019-20 is Rs.18,18,800. Calculate the amount of tax payable for the Assessment Year 2020-21 assuming that his age is (i) 25 years (ii) 65 Years (iii) 95 Years

(Ans : (i) Nil + 12,500 + 1,00,000 + 2,45,640 = 3,58,140 + 14,326 = 3,72,466

(ii) Nil + 10,000 + 1,00,000 + 2,45,640 = 3,55,640 + 14,226 = 3,69,866

(iii) Nil + 1,00,000 + 2,45,640 = 3,45,640 + 13,826 = 3,59,466)

Note : Taxable Income is more than Rs. 5,00,000, hence tax rebate is not allowed.

(1.18) TAX LIABILITY OF OTHER PERSONS FOR THE ASSESSMENT YEAR 2020-21

(1.18.1) Hindu Undivided Family

(i) Income Tax

First Rs. 2,50,000 (upto Rs. 2,50,000)	Nil
Next Rs. 2,50,000 (Rs. 2,50,001 to 5,00,000)	5 %
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(ii) Surcharge

- (a) 10% of Income Tax in the case of person having a total income exceeding Rs. 50 lakhs but not exceeding Rs. 1 crore
- (b) 15% of income Tax in case of a person having a total income exceeding Rs. 1 crore.

(iii) Health and Education Cess

4% on Income Tax - Tax Rebate + Surcharge

(1.18.2) Association Persons, Body of individuals and Artificial and Judicial Persons

(i) Income Tax

First Rs. 2,50,000 (upto Rs. 2,50,000)	Nil
Next Rs. 2,50,000 (Rs. 2,50,001 to 5,00,000)	5 %
Next Rs. 5,00,000 (Rs. 5,00,001 to 10,00,000)	20 %
Balance of Net Income (Rs. 10,00,001 and above)	30 %

(ii) Surcharge

- (a) 10% of Income Tax in the case of person having a total income exceeding Rs. 50 lakhs but not exceeding Rs. 1 crore
- (b) 15% of income Tax in case of a person having a total income exceeding Rs. 1 crore.

(iii) Health and Education Cess

4% on Income Tax - Tax Rebate + Surcharge

(1.18.3) Partnership Firms (Including LLP)

(i) Income Tax

Flat Rate of 30% on total Income

(ii) Surcharge

12% of Income Tax in the case of Firm having a total income exceeding Rs. 1 crore

(iii) Health and Education Cess

4% on Income Tax - Tax Rebate + Surcharge

(1.18.4) Company

(i) In the case of Domestic Company :

- (a) Income Tax is charged at a Flat Rate of 30% **(25% where total turnover does not exceed 400 Crores) (w.e.f. 2020-21)**
- (b) Surcharge is charged at 7% if taxable income between Rs. 1 Crore and Rs. 10 Crores and 12% if taxable income exceed Rs. 10 Crores
- (c) Health and Education Cess is charged at 4%

(ii) In the case of Foreign Company :

- ((a) Income Tax is charged at a Flat Rate of 40%,
- (b) Surcharge is charged at 2% if taxable income between Rs. 1 Crore and Rs. 10 Crores and 5% if taxable income exceed Rs. 10 Crores
- (c) Health and Education Cess is charged at 4%

(1.19) CAPITAL AND REVENUE ITEMS

(1.19.1) Meaning of Capital Receipt

A receipt relating to fixed assets or fixed capital is called as capital receipt.

(1.19.2) Examples of Capital Receipts

Following are the important items of receipts which comes under the meaning of capital receipts:

Basic Concepts

- (i) Sale of fixed assets.
- (ii) Sale of non trade investments.
- (iii) Sale of technical know how.
- (iv) Issue of shares and debentures.
- (v) Loan borrowed from banks and other institutions.
- (vi) Receipts of proceeds of LIC policy on maturity, except if it is in respect of keyman insurance policy.
- (vii) Discount on issue of debentures or premium on redemption of debentures in the hands of debenture holders.
- (viii) Compensation received for acquisition of land by Government.
- (ix) Compensation for cancellation of a license for the business by the Government.

(1.19.3) Meaning of Revenue Receipt

A receipt relating to any assets other than fixed assets or working capital is called as Revenue Receipt.

(1.19.4) Examples of Revenue Receipts

Following are the important items of receipts which comes under the meaning of revenue receipt:

- (i) Pension whether commuted or uncommuted.
- (ii) Compensation received by the managing director on termination of his service due to nationalisation of the company.
- (iii) Profit on sale of shares from any company held as stock in trade.
- (iv) Compensation received for loss of profits.
- (v) Compensation received in respect of loss of stock in trade.
- (vi) Interest on refund of income tax.
- (vii) Lumpsum royalty received in advance.
- (viii) Damages received for the breach of contract.
- (ix) Royalties received by the authors of the books
- (x) Subsidy or grant received from the Government for business.

(1.19.5) Distinction between Capital and Revenue Receipts

Generally capital receipts are exempt from tax (except in the case of capital gains) whereas, generally revenue receipts are taxable (except in the case of exemption u/s 10).

(1.19.6) Meaning of Capital Expenditure

An expenditure incurred to acquire the fixed assets or non trade investments or to discharge capital liability or long term debts is called capital expenditure.

(1.19.7) Examples of Capital Expenditure

Following are the important items of expenditure which comes under the meaning of capital expenditure:

- (i) Registration of business.
- (ii) Expenditure on issue of shares of a company.
- (iii) Cost of acquisition of plant, machinery, or land and building.
- (iv) Cost of extension of business and fitting new machinery.
- (v) Expenditure incurred on the maintenance of business reputation.
- (vi) Compensation paid for cancellation of contract for the acquisition of fixed assets.
- (vii) Remuneration to promoters of a company.
- (viii) Amount of price paid to acquire a partnership business.
- (ix) Advertisement expenditure at the flotation of a company.
- (x) Expenditure incurred on completing imperfect title to an asset.

(1.19.8) Meaning of Revenue Expenditure

An expenditure incurred to purchase the stock in trade or trade investment or to discharge current liabilities is called as revenue expenditure.

(1.19.9) Examples of Revenue Expenditure

Following are the important items of expenditure which comes under the meaning of revenue expenditure:

- (i) Salary and perquisite to employees.
- (ii) Rent of business premises.
- (iii) Discount on issue of debentures.
- (iv) Entertainment expenses incurred on opening of new branches at different places.
- (v) Expenditure on management of temple in business premises for recreation of employees.
- (vi) Cost of training provided to employees.
- (vii) Insurance premium on stock and on profit.
- (viii) Professional tax paid by a person carrying on a business or profession.
- (ix) Litigation expenses for the purpose of protecting capital assets of a business and to maintain an existing title to the business asset.
- (x) Legal charges for obtaining a loan from a financial institution.

(1.19.10) Distinction between Capital Expenditure and Revenue Expenditure

Generally while computing Income from Business or Profession, capital expenditure is not allowed as deduction (but depreciation or amortisation is allowed) whereas, revenue expenditure is allowed as deduction.

(1.19.11) Meaning of Capital Loss

The Loss arising out of transfer of capital asset is called as capital loss.

(1.19.12) Examples of Capital Loss

- (i) Loss on Sale of Fixed Assets
- (ii) Loss on Sale of Investment
- (iii) Loss of Fixed Asset by Fire.
- (iv) Loss of cash by theft after business hours

(1.19.13) Meaning of Revenue Loss

The Loss arising out of sale of current asset is called as revenue loss.

(1.19.14) Examples of Revenue Loss

- (i) Loss on Sale of Goods
- (ii) Loss on Sale of Trade Investment
- (iii) Loss of Stock by Fire.
- (iv) Loss of cash by theft during business hours

(1.19.15) Distinction between Capital Loss and Revenue Loss

The capital loss is considered under the head capital Gains, whereas revenue loss is considered under the head business or profession.

(1.20) OTHER IMPORTANT TERMS

(1.20.1) Residential Status : A basic criteria to determine the scope of total income consisting Resident, Resident but not Ordinary Resident and Non-Resident.

(1.20.2) Tax Incidence : Scope of income of a person on the basis of residential status.

(1.20.3) Agricultural Income : A totally exempted income consisting rent from land, income from agricultural operations and income from farm house.

(1.20.4) Casual Income : Income received by chance and without any stipulation which is non-recurring and uncertain in nature.

(1.20.5) Tax Holiday : The period during which certain incomes have been exempted from tax subject to certain conditions.

(1.20.6) Business : The real, systematic and organised activity with the aim of earning profit, including trade, commerce, vocation, manufacture and adventure in the nature of trade.

(1.20.7) Profession : An occupation requiring intellectual skill or manual skill controlled by intellectual skill like Legal, Medical, Engineering, Architectural, Accountancy, Technical consultancy, Interior decoration and Film artist.

(1.20.8) Clubbing of Income : Inclusion of income of a person with income of another person in certain cases subject to certain conditions.

(1.20.9) Set off : Adjustment of any loss against any income within a previous year.

(1.20.10) Carry Forward : Transfer of unadjusted loss of any previous year to succeeding years to set off against income if any.

(1.20.11) Capital Gain : Amount of gain arising from the transfer of capital asset.

(1.20.12) Speculation Business : A business which carrying on transactions for the purchase or sale of any commodity including stock and shares, otherwise than by actual delivery.

(1.20.13) Tax Deducted at Source : Deduction of tax by the person responsible for payment of income at the rates specified in part II of schedule I of Finance Act.

(1.20.14) Advance Tax : Payment of income tax in advance on the basis of estimated current income as per Part III of schedule I of Finance Act.

(1.20.15) Return of Income : Accounting statement showing taxable income of an assessee during the previous year in the prescribed form.

(1.20.16) PAN : Permanent Account Number allotted by income tax department on all India basis to an assessee for identification.

(1.20.17) Exemption : The term exemption means exclusion from total income. If an income is exempt from tax, it is not included in the computation of taxable income. For example, agricultural Income is exemption from tax u/s 10(1).

(1.20.18) Deduction : The term deduction means reduction in the taxable amount. If a deduction is allowed from income, such income is included in the computation of total income and thereafter deduction is allowed. For example, standard deduction is allowed from Salary Income u/s 16 i (a)

(1.21) THEORY QUESTIONS

Part - A

1. What is mean by Tax?
2. What are the features of Tax?
3. What are the Two Types of Taxes?
4. What is Direct Tax?
5. What is Indirect Tax?
6. What is the Sources of Income Tax Law ?
7. What is Assessment ?
8. Who is an Assessee?
9. Who is Ordinary Assessee?
10. Who is Deemed Assessee?
11. Who is Assessee in Default?
12. Define the term Previous Year ?
13. Define the term Assessment Year ?
14. List out any Two items of Examples for Capital Receipts
15. List out any Two items of Examples for Revenue Receipts.
16. List out any Two Examples for Capital Expenditure.
17. List out any Two Examples for Revenue Expenditure.

Basic Concepts

18. Define Gross Total Income ?
19. Define Person.
20. What is Surcharge?
21. What is Health and Education Cess?
22. What is PAN?
23. What is Return of Income?
24. Distinguish between Capital Receipt and Revenue Receipt.
25. Distinguish between Capital Expenditure and Revenue Expenditure.
26. What is Income Tax.

Part - B

27. Distinguish between Previous Year and Assessment Year?
28. Explain the term Assessee.

Part - C

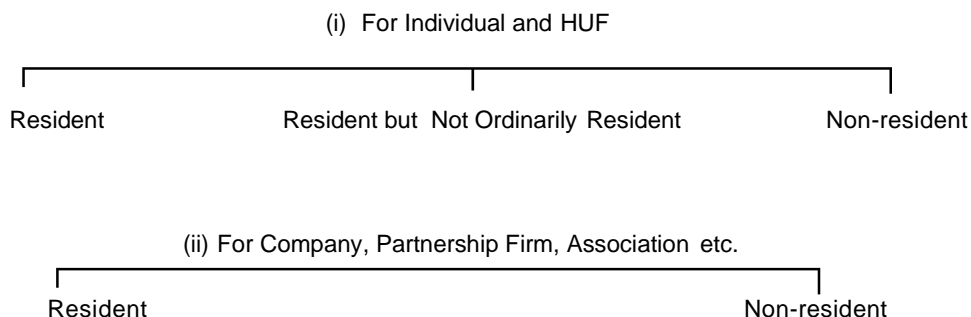
29. Define Income
30. Explain the Various Features of Income.
31. 'Income of the Previous Year is Taxable in the following Assessment Year' - What are the Exceptions to this Rule ?

(2.0) INTRODUCTION

Generally, for the purpose of education, employment and other Government schemes a person is classified as Citizen and Non-citizen. But it is not applicable to the implementation of Income Tax Act. Because the Act has its own criteria for classifying a person in order to arrive at his total income. It is called as "Residential Status". Therefore the taxability of a particular income of a person is very much depend upon his residential status. We would discuss about this in the following paragraphs.

(2.1) CLASSIFICATION OF RESIDENTIAL STATUS

The residential status of a person can be classified into three types, subject to certain exceptions. The following chart indicate this.



(2.2) PROVISIONS FOR RESIDENTIAL STATUS OF AN INDIVIDUAL (Sec. 6)

For the purpose of determining the residential status of an individual the Act lay down two types of conditions namely, Basic Conditions and Additional Conditions. These are discussed as follows:

(2.2.1) BASIC CONDITIONS [SEC.6(1)]

- (a) He is in India in the Previous Year for a period of 182 days or more. [Sec 6(1)(a)] (or)
- (b) He is in India for a period of 60 days or more during the Previous Year and 365 days or more during four years immediately preceding the previous year. [Sec 6(1)(b)]

(2.2.2) EXCEPTIONS TO BASIC CONDITIONS :

However, conditions as per Section 6 (1)(a) is alone applicable and condition as per Section 6 (1)(b) is not applicable in the following cases:

- (i) In the case of an Indian Citizen who is going outside India for a job and his contract for such **employment** outside India has been approved by the Central Government.
- (ii) In the case of an Indian Citizen who is going outside India as a member of the **Crew of an Indian Ship**.
- (iii) In the case of persons who are Indian Citizens or **Persons of Indian Origin** living outside India when they come to visit India.

(2.2.3) ADDITIONAL CONDITIONS [Sec.6(6)]

- (i) He has been Resident in India in at least 2 out of 10 previous years (according to basic conditions noted above) immediately preceding the relevant previous year.
- (ii) He has been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year.

(2.2.4) PROVISIONS FOR COMPUTATION OF DAYS OF STAY IN INDIA

- (i) The day on which assessee enters India as well as on the day on which assessee leaves India shall be included in the number of days of stay.
- (ii) It is not essential that the stay should be at the same place.
- (iii) It is not necessary that the stay in India should be for a continuous period.
- (iv) The presence in territorial waters in India would also be regarded as place in India.

(2.2.5) WHEN AN INDIVIDUAL IS RESIDENT?

If an individual satisfies any one of the basic conditions of (a) or (b) of section 6(1) and also satisfies both of the additional conditions of (i) and (ii) of section 6(6), then he will be said to be a Resident.

(2.2.6) WHEN AN INDIVIDUAL IS RESIDENT BUT NOT ORDINARILY RESIDENT?

If an individual satisfies any one of the basic conditions of (a) or (b) of section 6(1) and does not satisfy the both of the additional conditions of (i) and (ii) of section 6(6), then he will be said to be a Resident but Not Ordinarily Resident.

(2.2.7) WHEN AN INDIVIDUAL IS NON RESIDENT?

If an individual does not satisfy any one of the basic conditions of (a) or (b) of section 6(1), then he will be said to be a Non-resident.

EXPLANATION (1) : What are the financial years to be considered for the purpose of applying the test of basic condition number two [Sec 6(1)(b)] ?

Ans : The current Assessment Year is 2020-21, The current Previous Year is 2019-20. So, The Four Previous Years preceding the current Previous Year are 2018-19, 2017-18, 2016-17 and 2015-16.

EXPLANATION (2) : What are the financial years to be considered for the purpose of applying the test of additional condition number one [Sec 6(6)(i)] ?

Ans : The Current Assessment Year is 2020-21, The Current Previous Year is 2019-20. The Ten Previous Years preceding the current Previous Year are 2018-19, 2017-18, 2016-17, 2015-16, 2014-15, 2013-14, 2012-13, 2011-12, 2010-11, 2009-10.

EXPLANATION (3) : What is mean by seven years immediately preceding to the relevant previous year in respect of additional condition number two. Sec 6(6)(ii) What are the financial years to be considered?

Ans : The Current Assessment Year is 2020-21, The Current Previous Year is 2019-20 , The Seven Previous Years preceding the current Previous Year are 2018-19, 2017-18, 2016-17, 2015-16, 2014-15, 2013-14, 2012-13.

(2.3) PRACTICAL ILLUSTRATIONS ON RESIDENTIAL STATUS

ILLUSTRATION (1) : (No. of Days) Mr. Arun of Singapore **comes to India** on 15.12.2019 and remain in India till today. Calculate Number of Days of Stay in India during the Previous Year 2019-20.

Solution : Calculation of Number of days of stay in India during the Previous Year 2019-20.

The current Previous Year commenced on 1.4.2019 and ended on 31.3.2020. The Assessee comes to India in the month of December 2019. It means he was present in India during the months of December 2019 to March 2020. Therefore, the number of days of stay is calculated as below :

April	2019	-
May	2019	-
June	2019	-
July	2019	-
August	2019	-
September	2019	-
October	2019	-
November	2019	-
December	2019 (15 to 31)	17 Days
January	2020	31 Days
February	2020	29 Days
March	2020	31 Days
		108 Days

Note : While calculating the no.of days, the day on which the assessee comes to India is to be considered as stay in India.

ILLUSTRATION (2) : (No. of Days) Mr. Arjun **left India** on 16.7.2019 to visit various foreign countries. Calculate Number of Days of Stay in India during the Previous Year 2019-20.

Solution : Calculation of Number of days of stay in India during the Previous Year 2019-20.

The Current Previous Year commenced on 1.4.2019 and ended on 31.3.2020. The Assessee left India in the month of July 2019. It means he was present in India during the months of April, May, June and July. Therefore, the number of days of stay is calculated as below :

April	2019	30
May	2019	31
June	2019	30
July	2019 (1 to 16)	16
August	2019	-
September	2019	-

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October	2019	-
November	2019	-
December	2019	-
January	2020	-
February	2020	-
March	2020	-

108 Days

Note : While calculating the no. of days, the day on which the assessee leaves India is to be considered as stay in India.

ILLUSTRATION (3) : (Satisfying Basic Condition Number One - Resident) Mr. Anand leaves India on 16.07.2019 for the **first time** on a visit to USA and returns on 04.01.2020. Determine his Residential Status for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of days of Stay in India during the Previous Year 2019-20

April	2019	30 days
May	2019	31 days
June	2019	30 days
July	2019 (1 to 16)	16 days
August	2019	-
September	2019	-
October	2019	-
November	2019	-
December	2019	-
January	2020	28 days
February	2020	28 days
March	2020	31 days

194 days

He is in India for the more than 182 days (actual : 194 days) during the Previous Year 2019-20, Hence the Basic Condition Number One is Satisfied. Therefore we need not Examine the Second Condition.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) **Fact :** The assessee leaves India for the first time on 16.07.2019.

(ii) **Interpretation :**

- (a) He has been staying in India for a long period.
- (b) It implies that he has been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]

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(c) It also implies that he has been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]

(d) Hence, both additional conditions are satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Conditions and Both the Additional Conditions, therefore he is **Resident** in India.

ILLUSTRATION (4) : (Satisfying Basic Condition Number One - Resident) Mr. Elavarasan an Indian Citizen, **leaves India for the first time** on September 20, 2017. He comes to India for a Visit of 146 days on April 10, 2018. He comes back on May 16, 2019. Find out the Residential Status for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

Calculation of No of days of Stay in India during the Previous Year 2019-20.

April	2019	-
May	2019 (16 to 31)	16 days
June	2019	30 days
July	2019	31 days
August	2019	31 days
September	2019	30 days
October	2019	31 days
November	2019	30 days
December	2019	31 days
January	2020	31 days
February	2020	28 days
March	2020	31 days

320 days

It is more than 182 days (actual : 320 days), hence Basic Condition number ONE is Satisfied. Therefore we need not Examine the Second Condition.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) Fact : The assessee leaves India for the first time on 16.05.2019.

(ii) Interpretation :

- (a) He has been staying in India for a long period.
- (b) It implies that he has been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]

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(d) Hence, both additional conditions are satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Conditions and Both the Additional Conditions, therefore he is **Resident** in India.

ILLUSTRATION (5) : (Satisfying Basic Condition Number One - Resident) Mr. Chowthri a Citizen of India, **left India** on 21-10-2017. Earlier to this date, he was always in India. During 2018-19 and 2019-20, he came to India for 168 days and 185 days respectively. Determine his Residential Status for Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of days of Stay in India during the Previous Year 2019-20

185 days (given in the question)

It is more than 182 days (actual : 185 days), hence basic Condition number ONE is Satisfied. Therefore we need not Examine the Second Condition.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) **Fact :** The assessee leaves India for the first time on 21.10.2017.

(ii) Interpretation :

(a) He has been staying in India for a long period.

(b) It implies that he has been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]

(c) It also implies that he has been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]

(d) Hence, both additional conditions are satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Conditions and Both the Additional Conditions, therefore he is **Resident** in India.

ILLUSTRATION (6) : (Satisfying Basic Condition Number Two - Resident) Mr. Fazhil migrated to England on 15.03.2017 and took the Citizenship of that Country on 15.3.2019. He Visits India during 2019-2020 for 90 days. Determine the Residential Status for Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of days of Stay in India during the Previous Year 2019-20

90 days (given in the question)

It is less than 182 days (actual : 90 days), hence basic Condition number ONE is not Satisfied. Therefore we need to Examine the Second Condition.

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(ii) Calculation of No of days of stay in India during 4 Years Prior to Relevant Previous Year

Previous Year	Number of Days of Stay in India
2015-16	365
2016-17	350 (366 - 16)
2017-18	Nil
2018-19	Nil
	715

It is more than 365 days (actual : 715 days), hence basic Condition number TWO is Satisfied.
Now, we Proceed to Examine Additional Conditions.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) **Fact** : The assessee leaves India for the first time on 15.03.2017.

(ii) **Interpretation** :

- (a) He has been staying in India for a long period.
- (b) It implies that he has been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are satisfied.

(3) **Conclusion** : The assessee satisfy the Number Two of the Basic Conditions and Both the Additional Conditions, therefore he is **Resident** in India.

ILLUSTRATION (7) : (Satisfying Basic Condition Number Two - Resident) Mr. Bhatt, a foreign Citizen leaves India for the first time in the Last 20 Years on November 20,2017. During the Calendar Year 2018, he Comes to India on September 1 for a Period of 30 days. During the Calendar Year 2019, he does not Visit India at all but Comes to India on January 16, 2020. Determine the Residential Status of Mr. Bhatt for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of Days of Stay in India During the Previous Year 2019-20

April	2019	-
May	2019	-
June	2019	-
July	2019	-
August	2019	-
September	2019	-
October	2019	-
November	2019	-

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December	2019	-
January	2020 (16 to 31)	16 days
February	2020	29 days
March	2020	31 days

76 days

It is less than 182 days (actual : 76 days), hence Basic Condition Number ONE is not Satisfied.
Now, we Proceed to Examine Condition Number TWO.

(ii) Calculation of No of days of Stay in India During 4 Years Prior to 2019-20

Previous Year	Number of Days of Stay in India
2015-16	365
2016-17	366
2017-18	234 (Apr.30 + May 31 + June 30 + July 31 + Aug 31 + Sep 30 + Oct 31 + Nov 20)
2018-19	30
	995

It is more than 365 days (actual : 995 days), hence Basic Condition Number TWO is Satisfied.
Now, we Proceed to Examine Additional Conditions.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) **Fact** : The assessee leaves India for the first time on 20.11.2017.

(ii) **Interpretation** :

- (a) He has been staying in India for a long period.
- (b) It implies that he has been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are satisfied.

(3) Conclusion : The assessee satisfy the Number Two of the Basic Conditions and Both the Additional Conditions, therefore he is **Resident** in India.

ILLUSTRATION (8) : (Satisfying Basic Condition Number One - ROR) Mr. George comes to India, for the first time, on April 16, 2017. During his Stay in India visited various places in India and returned to his home country on 05.10.2019. Determine his Residential status for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

Calculation of No of days of Stay in India during the Previous Year 2019-20

April	2019	30 days
May	2019	31 days

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June	2019	30 days
July	2019	31 days
August	2019	31 days
September	2019	30 days
October	2019 (1 to 5)	5 days
November	2019	-
December	2019	-
January	2020	-
February	2020	-
March	2020	-

188 days

It is more than 182 days (actual : 188 days), hence basic Condition number ONE is Satisfied.
We need not Proceed to Examine basic Condition number TWO.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) Fact : The assessee comes to India for the first time on 16.04.2017.

(ii) Interpretation :

- (a) He has been staying in India for a short period only.
- (b) It implies that he has not been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has not been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are not satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Conditions and doesn't satisfy Both the Additional Conditions, therefore he is **Resident but Not Ordinarily Resident** in India.

ILLUSTRATION (9) : (Satisfying Basic Condition Number One - ROR) Mr. Jasper of France comes to India, for the first time in the last 30 Years on March 20, 2019. On September 1, 2019 he leaves India for Nepal on a Business trip. He comes back on February 26, 2020. Determine the Residential Status of Mr.Jasper for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

Calculation of No of days of Stay in India during the Previous Year 2019-20

April	2019	30 days
May	2019	31 days
June	2019	30 days
July	2019	31 days
August	2019	31 days

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September	2019	1 day
October	2019	-
November	2019	-
December	2019	-
January	2020	-
February	2020 (26 to 29)	4 days
March	2020	31 days

189 days

It is more than 182 days (actual : 188 days), hence basic condition number ONE is Satisfied.
We need not Proceed to Examine basic Condition Number TWO.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) Fact : The assessee comes to India for the first time on 20.03.2019.

(ii) Interpretation :

- (a) He has been staying in India for a short period only.
- (b) It implies that he has not been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has not been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are not satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Condition and does not satisfy both the Additional Conditions, therefore he is **Resident but not Ordinarily Resident** in India.

ILLUSTRATION (10) : (Satisfying Basic Condition Number Two - ROR) Mr. Isaac, a foreign National (not being a person of India origin), **comes to India for the first time** on April 15, 2015. During the Financial Years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20, he is in India for 130 days, 80 days, 13 days, 210 days and 75 days respectively. Determine the Residential Status of Mr. Isaac for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of days of Stay in India during the Previous Year 2019-20

75 days (given in the question)

It is less than 182 days hence basic Condition number ONE is not Satisfied. Now, we Proceed to Examine Condition number TWO.

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(ii) Calculation of No of days of stay in India during 4 Years Prior to Relevant Previous Year

Previous Year	Number of Days of Stay in India
2015-16	130
2016-17	80
2017-18	13
2018-19	210
	433

It is more than 365 days hence basic Condition number TWO is Satisfied. Now, we proceed to Examine Additional Conditions.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) **Fact** : The assessee comes to India for the first time on 15.04.2015.

(ii) **Interpretation** :

- (a) He has been staying in India for a short period only.
- (b) It implies that he has not been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has not been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are not satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Condition and does not satisfy both the Additional Conditions, therefore he is **Resident but not Ordinarily Resident** in India.

ILLUSTRATION (11) : (Satisfying Basic Condition Number Two - ROR) Mr. David Warner an Australian Cricketer has been **coming to India** for 100 days Every Year since 2008-09. Determine his Residential Status for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(1) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(i) Calculation of No of days of Stay in India during the Previous Year 2019-20

100 days (given in the question)

It is less than 182 days hence basic Condition number ONE is not Satisfied. Now, we Proceed to Examine Condition number TWO.

(ii) Calculation of No of days of Stay in India during 4 years Prior to Relevant Previous Year

$100 \times 4 = \mathbf{400 \text{ days}}$

It is more than 365 days (actual : 400 days), hence basic Condition number TWO is Satisfied. Now, we Proceed to Examine Additional Conditions.

(2) Examining the Fulfillment of Additional Conditions u/s 6 (6)

(i) Fact : The assessee comes to India every year for 100 days since 2008-09.

(ii) Interpretation :

- (a) He has been staying in India for a short period only.
- (b) It implies that he has not been present in India for a period of more than 730 days during seven previous years preceding to 2019-20 as required by additional condition number Two u/s [6(6)(ii)]
- (c) It also implies that he has not been resident in India for more than two years out of Ten previous years preceding to 2019-20 as required by additional condition number One u/s [6(6)(i)]
- (d) Hence, both additional conditions are not satisfied.

(3) Conclusion : The assessee satisfy the Number One of the Basic Condition and does not satisfy both the Additional Conditions, therefore he is **Resident but not Ordinarily Resident** in India.

ILLUSTRATION (12) : (Not Satisfying Basic Conditions - NR) Mr. Fazhil **came to India** from Japan **for the first time** on 2.10.2018. He Returns to his home Country after Staying in India upto 28.9.2019. Determine the Residential Status of Mr. Isaac for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(i) Examining the Fulfillment of Basic Conditions u/s 6 (1)

April	2019	30 days
May	2019	31 days
June	2019	30 days
July	2019	31 days
August	2019	31 days
September	2019 (1 to 28)	28 days
October	2019	-
November	2019	-
December	2019	-
January	2020	-
February	2020	-
March	2020	-

181 days

Conclusion :

The assessee does not satisfy any of the Basic Conditions, hence, he is **Non Resident** in India.

ILLUSTRATION (13) : (Not Satisfying Basic Conditions - NR) Mr. Clinton, a German National, **came to India for the first time** on 1.7.2013. During the Period from 1.7.2013 to 31.3.2020, he Stayed in India as follows - from 1.7.2013 to 31.10.2013; from 1.5.2014 to 31.10.2014; from 1.11.2015 to 31.12.2015 and from 1.7.2018 to 31.1.2019. Determine his Residential Status for the Assessment Year 2020-21.

Solution : Determination of Residential Status for the Assessment Year 2020-21.

(i) Examining the Fulfillment of Basic Conditions u/s 6 (1)

(a) Calculation of No of days of Stay in India during the Previous Year 2019-20

April	2019	30 days
May	2019	31 days
June	2019	30 days
July	2019	31 days
August	2019	31 days
September	2019	-
October	2019	-
November	2019	-
December	2019	-
January	2020	-
February	2020	-
March	2020	-

153 days

It is less than 182 days hence Basic Condition Number ONE is not Satisfied. Now, we proceed to Examine Condition number TWO.

(b) Calculation of No of days of stay in India during the 4 Years Preceding to Previous Year 2019-20

2015-16 : 61 days, 2016-17 : Nil, 2017-18 : Nil, 2018-19 : 274 days (31 + 31 + 30 + 31 + 30 + 31 + 31 + 28 + 31) = **335 days**

He also does not Satisfy the basic Condition Number Two as he is not in India for more than 365 days in the 4 Years Prior to Relevant Previous Year.

Conclusion : The assessee does not satisfy any of the Basic Conditions, hence, he is **Non Resident** in India.

(2.4) PRACTICAL EXERCISES ON RESIDENTIAL STATUS

EXERCISE (1) : Mr. A an Indian citizen left India on 21.9.2019. Calculate Number of Days of Stay in India during the Previous Year 2019-20.

Ans : Apr (30) + May (31) + June (30) + July (31) + Aug (31) + Sep (21) = **174 Days**

EXERCISE (2) : Mr. C left India on 16.7.2019 and returned to India on 4.1.2020. Calculate Number of Days of Stay in India during the Previous Year 2019-20.

Ans : Apr (30) + May (31) + June (30) + July (16) + Jan (27) + Feb (29) + Mar (31) = **194 Days**

EXERCISE (3) : Mr. B of England comes to India on 15.1.2019 and return back to his home country on 15.1.2020. Calculate Number of Days of Stay in India during the Previous Year 2020-21.

Ans : Apr (30) + May (31) + June (30) + July (31) + Aug (31) + Sep (30) + Oct (31) + Nov (30) + Dec (31) + Jan (15) = **290 Days**

EXERCISE (4) : Miss.Hemalatha left for Singapore on 15th March 2016 after Staying in India for 15 Years. He came back on 31st October 2019. Determine her Residential status for the Assessment Year 2020-21. **(Madras, B.Com., Nov.2005)**

No. of Days : Aug (1) + Sep (30) + Oct (31) + Nov (30) + Dec (31) + Jan (31) + Feb (29) + Mar (31) = **214 Days**

Type : Leaves India for the first time

Conclusion : Resident)

EXERCISE (5) : Mr. X, after 30 Years of stay in India, went to America on January 29, 2017. He return to India on 1st July 2019 and joined with an American Company as its Overseas branch Manager. Determine his Residential Status for the Assessment Year 2020-21.

Ans : **(Madras, B.C.S., Nov. 2006)**

No. of Days : July (31) + Aug (31) + Sep (30) + Oct (31) + Nov (30) + Dec (31) + Jan (31) + + Feb (29) + Mar (31) = **275 Days**

Type : Leaves India for the first time

Conclusion : Resident)

EXERCISE (6) : Mr. Balu a married citizen of India left for Japan for the First time on 15.9.2018 on a Business trip. He returned to India on 5.6.2019. Determine her Residential Status for the Assessment Year 2020-21. **(Pondicherry, B.Com., Nov. 2008)**

No. of Days : June (27) + July (31) + Aug (31) + Sep (30) + Oct (31) + Nov (30) + Dec (31) + Jan (31) + Feb (29) + Mar (31) = **302 Days**

Type : Leaves India for the first time

Conclusion : Resident

EXERCISE (7) : Mr. Venkatasubramaniam went to Singapore for Engineering course on 5th August 2019 and came back to India on 25th February 2020. His family remaind in India. He had never been out of India before. What is the Residential Status for the Assessment Year 2020-21.

Ans : **(Madras, B.C.S., Apr. 2006)**

No. of Days : Apr (30) + May (31) + June (30) + July (31) + Aug (5) + Feb (5) + Mar (31) = **163 Days**

No. of days of stay in Four PY : **More than 365 days**

Type : Leaves India for the first time

Conclusion : Resident

EXERCISE (8) : Mr. Gating a foreign Citizen leaves India for the First time in the Last 20 Years on November 25, 2017. During the Calander Year 2018 he comes to India on 1 September and stays for the Period of 20 days. During the Calander Year 2019 he does not Visit India at all but comes to India on January 15, 2020. Determine his Residential Status for the Assessment Year 2020-21.

Ans : **(Madras, B.C.S., Nov. 2007)**

No. of Days : Jan (17) + Feb (29) + Mar (31) = **77 Days**

No. of days of stay in Four PY : **More than 365 days**

Type : Leaves India for the first time

Conclusion : Resident)

EXERCISE (9) : Mr. Abbas left India for the first time on 15th Dec. 2019 and returned back to India on 2nd February 2020. Determine his Residential Status for the Assessment Year 2020-21.

Ans :

(Madras B.Com.,(CS), Nov. 2011)

No. of Days : Feb (28) + Mar (31) = **59 Days**

No. of days of stay in Four PY : More than 365 days

Type : Leaves India for the first time

Conclusion : Resident

EXERCISE (10) : Mr. Villiam, a foreign national came to India for the first time on 13th September 2019. He leaves India on 27th April 2020. Determine his Residential Status for the Assessment Year 2020-21.

(Madras B.Com.,(CS), Nov. 2010)

No. of Days : Sep (18) + Oct (31) + Nov (30) + Dec (31) + Jan (31) + Feb (29) + Mar (31)
= **201 Days**

Type : Foreign National comes to India for the first time

Conclusion : Resident but Not Ordinarily Resident)

EXERCISE (11) : Mr. Vinoth, an Indian national came to India during May 2019 to settle here permanently. During April 1994 and April 2019, he was in Australia and never came to India. Determine his Residential Status for the Assessment Year 2020-21.

No. of Days : June (30) + July (31) + Aug (31) + Sep (30) + Oct (31) + Nov (30) + Dec (31) + Jan (31) + Feb (29) + Mar (31) = **305 Days**

Type : Foreign National comes to India for the first time

Conclusion : Resident but Not Ordinarily Resident

EXERCISE (12) : Mr. Roshan came to India for the first time in 2016-17 and was in India as follows. Previous Years 2017-18 : 26 Days, 2018-19 : 15 Days, 2019-20 : 185 Days. Determine his Residential Status for the Assessment Year 2020-21.

(Madras B.Com.,(CS), Nov. 2009)

No. of days of stay in PY : 185 days (given)

Type : Foreign National comes to India for the first time

Conclusion : Resident but Not Ordinarily Resident

EXERCISE (13) : Mrs. Kamala gives the following information regarding her stay in India. Previous Years 2014-15 : 150 Days, 2015-16 : 125 Days, 2016-17 : 50 Days, 2017-18 : 200 Days, 2018-19 : 145 Days, 2019-20 : 132 Days. Determine his Residential Status for the Assessment Year 2020-21.

(Madras B.Com.,(CS), Nov. 2010)

No. of days of stay in PY : 132 days (given)

No. of days of stay in Four PY : More than 365 days

Type : Foreign National comes to India for the first time

Conclusion : Resident but Not Ordinarily Resident

EXERCISE (14) : Mr. Hari got a job in Malaysia and left for Malaysia on 30-9-2017. He never left India earlier. Determine his Residential Status for the Assessment Year 2020-21.

Ans :

(Bharathidasan, B.Com., Nov. 2006)

No. of days of stay in PY : Nil

Conclusion : Non Resident

EXERCISE (15) : Mr. Kim Jong-un, a Foreign national came to India for the first time for a visit of 250 days on October 10, 2019. Determine his Residential Status for the Assessment Year 2020-21.

Ans :

No. of days of stay in PY : 22+30+31+31+29+31 = 174 days

Type : Foreign National comes to India for the first time

Conclusion : Non Resident

(2.5) DETERMINATION OF RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY [Sec. 6(2)]

The residential status of a Hindu Undivided Family is determined on the basis of two factors, the control and management of the family and the residential status of the karta of such family these provisions may be summarised as follows :

(2.5.1) WHEN AN HINDU UNDIVIDED FAMILY IS CONSIDERED AS RESIDENT?

A Hindu Undivided Family will be called as a resident if the following two conditions are satisfied:

(i) The Place of Control and Management : This condition focus on the place where control and management of affairs of Hindu undivided family is situated. Control and management means defacto control and management. The defacto control and management is situated at a place where the head, the seat and directing power are situated. Normally karta of the family is vested with the right of control and management. If every decision concerning family affairs has been taken by karta in India, the family will be resident. If every decision taken by karta in outside India, then the family will be non-resident. It is to be noted here that it is for the family or karta to prove that control and management is wholly outside India.

(ii) The Residential Status of the Karta : This condition focus on the two additional conditions prescribed in case of an individual as per section 6(6) (Refer paragraph no. 3.3.2.). A Hindu undivided family is treated as resident in India if karta or manager of the family (including successive kartas) satisfies two additional conditions as laid down by section 6 (6) To conclude a Hindu undivided family will be treated as resident in India if : (a) The defacto control and management is wholly or partly in India. (b) The karta or manager of the family satisfies the two additional conditions as per section 6 (6).

(2.5.2) WHEN A HINDU UNDIVIDED FAMILY WILL BE TREATED AS RESIDENT BUT NOT ORDINARILY RESIDENT ?

If the control and management of the family is wholly or partly is situated in India, but the karta or manager of the family does not satisfy the two additional conditions as per sec 6 (6) (b), then the family will be treated as resident but not ordinarily resident in India.

(2.5.3) WHEN A HINDU UNDIVIDED FAMILY WILL BE TREATED AS NON-RESIDENT?

A Hindu undivided family is treated as non-resident in India if control and management of it's affairs is wholly situated outside India. Here the factor that the fulfillment of the two additional conditions as per section 6 (6) is not to be considered.

(2.6) DETERMINATION OF RESIDENTIAL STATUS OF A FIRM [Sec. 6(2)]

A partnership firm may be classified into only two types as resident in India and non-resident in India. A firm is resident in India in any year if control and management of its affairs is wholly or partially situated in India during that year. It will be a non-resident, if the control and management of its affairs is situated wholly outside India during that year. In the case of a firm control and management is vested in partners and especially in the hands of managing partner.

(2.7) DETERMINATION OF RESIDENTIAL STATUS OF A COMPANY [Sec. 6(3)]

For this purpose company is divided into two types, namely Indian company and Foreign company. Indian company is always treated as "resident", whether its control and management of the affairs of the company is situated in India or outside India. Foreign Company is said to be "resident", If its control and management is wholly situated in India and it is said to be "non-resident", if its control and management is situated wholly or partially outside India. The term control and management refers to head and brain which directs the affairs of the company. Normally control and management of a company's affairs is situated at the place where meetings of board of directors are held. It is to be noted here that if the board of directors of a foreign company hold all their meetings in India, the company will be resident in India, even though, the company has business operations only outside India. It is also to be noted here a non Indian company will be resident in India only if its control and management is situated wholly in India.

(2.8) DETERMINATION OF RESIDENTIAL STATUS OF ANY OTHER PERSONS [Sec. 6(4)]

In this category all other persons like Association of Persons, Local Authorities and Artificial and Judicial Persons are covered. In the case of all these entities the residential status is determined on the basis of situation of control and management. As in the case of earlier persons if the control and management is wholly or partly situated in India than these persons will be residents in India and if the control and management is wholly situated outside India than these persons will be non residents.

(2.9) SCOPE OF TOTAL INCOME OR TAX INCIDENCE (Sec. 5)

As stated earlier in this chapter, the purpose of determination of the residential status of different entities is to decide about the taxability of income. Therefore, after determining the residential status, the next step is to analyse its effect on total income. The scope of the total income is the matching of residential status and type of income. After studying the various types of residential status now we proceed to study the various types of income. The income may be classified, for this purpose, as follows:

- (i) Income received in India.
- (ii) Income deemed to be received in India.

Residential Status and Scope of Total Income

- (iii) Income earned or accrued in India.
- (iv) Income deemed to be earned or accrued in India.
- (v) Income received and earned or accrued outside India from business controlled from India or profession set up in India.
- (vi) Any other incomes received and earned or accrued outside India.

(2.9.1) INCOME RECEIVED IN INDIA

The receipt of income refers to the first occasion when the money comes under the control of recipient. It means all incomes primarily received by the assessee during the previous year. Following are the some of the examples :

- (a) Income from a Business in Bangalore Controlled from USA
- (b) Profits from Business in Iran Received in India.
- (c) Income from house Property in Iran Received in India
- (d) Salary earned and received in India
- (e) Dividend declared in Japan, received in India
- (f) Interest on Savings bank Deposit in SBI
- (g) Taxable Income from house Property in India
- (h) Income from Salary Received in India for Services Rendered in Germany
- (i) Income from business carried from Hyderabad
- (j) Share of Income from a Business in Mumbai
- (k) Share of Income from Joint Venture India
- (l) Salary Received in India but services Rendered in Pakistan
- (m) Profit from business in Canada but received in India
- (n) Income from House property in Karachi received in Bombay
- (o) Income accrued in Canada but received in India

(2.9.2) INCOME DEEMED TO BE RECEIVED IN INDIA

The following incomes shall be deemed to be received in India in the previous year even though it is not actually received.

- (i) The annual accretion to a Recognised Provident Fund account of employee.
- (ii) Transferred balance of Unrecognised Provident Fund to recognised provident fund.
- (iii) Tax Deducted at Source.
- (iv) Pension Fund.
- (v) Deemed Profits.

(2.9.3) INCOME EARNED OR ACCRUED OR ARISED IN INDIA

The term earned or accrued or arised means " The occasion when the assessee obtains a right to receive an income". Following are the some of the examples :

Residential Status and Scope of Total Income

- (a) Interest from an Indian Company Received in London.
- (b) Pension from former Employer in India Received in USA.
- (c) Rent from a Property in Delhi Received in USA
- (d) Interest from Deposits with an Indian Company Received in USA
- (e) Pension for service rendered in India, received in France
- (f) Profit on sale of building in India but received in Sri Lanka
- (g) Income Accrued in India but Received in U.S.A.
- (h) Income accrued in India but received in Japan
- (i) Income earned in India but received in Canada.

(2.9.4) INCOME DEEMED TO BE EARNED OR ACCRUED OR ARISED IN INDIA

The following incomes are deemed to be accrued or arised in India :

- (ii) Income from any Property, Asset or Source of Income Situated in India.
- (iii) Income from the transfer of any Capital Asset Situated in India.
- (iv) Any Income which Falls under the Head 'Salaries' if it is Earned in India.
- (v) Salary Payable by the Government of an Indian Citizen / National for Services Rendered Outside India.
- (vi) Dividend paid by an Indian Company Outside India.
- (vii) Interest paid by Government Outside India.
- (viii) Royalty paid by Government Outside India.
- (ix) Fees for Technical Services paid by Government Outside India.

(2.9.5) INCOME RECEIVED OR EARNED OUTSIDE INDIA FROM BUSINESS CONTROLLED FROM INDIA OR PROFESSION SET UP IN INDIA.

Following are the some of the examples :

- (a) Profit from Business in Sri Lanka controlled from India
- (b) Profit from Business in England controlled from India
- (c) Gain from Profession in Sri Lanka setup in India
- (d) Gain from Profession in England setup in India

(2.9.6) ANY OTHER INCOME RECEIVED OR EARNED OR ACCRUED OUTSIDE INDIA

Following are the some of the examples :

- (a) Interest from an Indian Company Received in London.
- (b) Pension from former Employer in India Received in USA.
- (c) Rent from a Property in Delhi Received in USA.
- (d) Interest from Deposits with an Indian Company Received in USA.
- (e) Income from house Property in Pakistan Deposited in a Bank there.

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- (f) Income from agriculture in Nepal.
- (g) Income earned and received in Pakistan and deposited in a bank there.
- (h) Dividend Received in Germany from a British company.
- (i) Income from house Property Situated in London.
- (j) Income from agriculture in London.
- (k) Income from Agriculture in Australia.
- (l) Income from agriculture in Pakistan
- (m) Income earned on Received in Pakistan from Bank Deposit
- (n) Income from house property in America and deposited there.
- (o) Income were earned in Africa on received there but brought to India.

(2.9.7) TABLE SHOWING TAX INCIDENCE

S.No.	Different types of Incomes	Res	ROR	NR
(i)	Income received in India	Taxable	Taxable	Taxable
(ii)	Income deemed to be received in India	Taxable	Taxable	Taxable
(iii)	Income earned or accrued in India	Taxable	Taxable	Taxable
(iv)	Income deemed to be earned or accrued in India	Taxable	Taxable	Taxable
(v)	Income from business outside India controlled from India	Taxable	Taxable	No Tax
(vi)	Any other income earned or received outside India	Taxable	No Tax	No Tax

Note :

1. Past untaxed income or previous period income earned and received outside India and remitted thereafter to India is not Taxable all the three cases.
2. Income from business from outside India controlled from India is Taxable only in the hands of Resident and Resident But Not Ordinarily Resident.
3. Income from business from outside India controlled from outside India is Taxable only in the hands of Resident under the heading income deemed to be earned or accrued in India.

(2.10) PRACTICAL ILLUSTRATIONS ON SCOPE OF TOTAL INCOME :

ILLUSTRATION (1) : Mr. Laxmanan earns the following Income during the Financial Year 2019-20:

	Rs.
(a) Interest from an Indian Company Received in London.	1,000
(b) Pension from former Employer in India Received in USA.	4,000
(c) Income from agriculture in Bhutan and Remitted to India	5,000
(d) Income from Property in England Received there.	4,000
(e) Past foreign Untaxed Income brought to India.	10,000

Compute his Income for the Assessment Year 2020-21 if he is: (i) Resident and Ordinarily Resident in India. (ii) Not Ordinarily Resident in India. (iii) Non-resident in India.

Residential Status and Scope of Total Income

Solution : Determination of Taxable Income with Reference to Residential Status.

Item	Classification	Res Rs.	ROR Rs.	NR Rs.
(a) Interest from an Indian Company	Earned in India	1,000	1,000	1,000
(b) Pension from former Employer	Earned in India	4,000	4,000	4,000
(c) Income from agriculture in Bhutan	Other Income	5,000	-	-
(d) Income from Property in England	Other Income	4,000	-	-
(e) Past foreign Untaxed Income	-	-	-	-
	Total	14,000	5,000	5,000

ILLUSTRATION (2) : The following are the Particulars of Income of Mr. Karthik for the Previous Year 2019-20:

	Rs.
(a) Rent from a Property in Delhi Received in USA	80,000
(b) Income from a Business in USA controlled from Delhi	1,20,000
(c) Income from a Business in Bangalore Controlled from USA	1,80,000
(d) Rent from a Property in USA received there but Subsequently Remitted to India	60,000
(e) Interest from Deposits with an Indian Company Received in USA	20,000
(f) Profits for the Year 2018-19 of a Business in USA remitted to India during the Previous Year 2019-20 (Not taxed earlier)	75,000

Compute his Income for the Assessment Year 2020-21 if he is (i) Resident and Ordinarily Resident in India. (ii) Not Ordinarily Resident in India. (iii) Non-resident in India.

Solution : Determination of Taxable Income with Reference to Residential Status.

Item	Classification	Res Rs.	ROR Rs.	NR Rs.
(a) Rent from a Property in Delhi	Earned in India	80,000	80,000	80,000
(b) Income from a Business in USA	Business outside	1,20,000	1,20,000	1,20,000
(c) Income from Business in Bangalore	Earned in India	1,80,000	1,80,000	1,80,000
(d) Rent from a Property in USA	Other Income	60,000	-	-
(e) Interest from Indian Company	Earned in India	20,000	20,000	20,000
(f) Past profit outside India	-	-	-	-
	Total	4,60,000	4,00,000	2,80,000

ILLUSTRATION (3) : The following is the Income of Mr. Mani for the Previous Year 2019-20:

	Rs.
(a) Profits from Business in Iran Received in India.	5,000
(b) Income from house Property in Iran Received in India	500
(c) Income from house Property in Pakistan Deposited in a Bank there.	1,000
(d) Profits of Business in Pakistan Controlled in India	20,000
(e) Income from Profession in India but Received in England.	2,000
(f) Profits Earned from Business in Kanpur.	6,000
(g) Income from agriculture in England	5,000
(h) Past untaxed foreign Income brought into India during the Previous Year.	10,000

Residential Status and Scope of Total Income

Compute his Taxable Income for the Assessment Year 2020-21 if he is (i) Resident and Ordinarily Resident in India. (ii) Not Ordinarily Resident in India. (iii) Non-resident in India.

(Thiruvalluvar, M.Com., Apr. 2007)

Solution : Determination of Taxable Income with Reference to Residential Status.

Item	Classification	Res Rs.	ROR Rs.	NR Rs.
(a) Profits from Business in Iran	Received in India	5,000	5,000	5,000
(b) Income from house Property in Iran	Received in India	500	500	500
(c) Income from Property in Pakistan	Other income	1,000	-	-
(d) Profits of Business in Pakistan	Business outside	20,000	20,000	-
(e) Income from Profession in India	Earned in India	2,000	2,000	2,000
(f) Profits from Business in Kanpur	Earned in India	6,000	6,000	6,000
(g) Income from agriculture in England	Other income	5,000	-	-
(h) Past untaxed foreign Income	-	-	-	-
Total		39,500	33,500	13,500

Note : Past untaxed foreign income brought to India is not taxable.

(2.11) PRACTICAL EXERCISES ON SCOPE OF TOTAL INCOME

EXERCISE (1) : The following are the details of income of Mr. Jagan :

	Rs.
(a) Salary earned and received in India	25,000
(b) Profit from hotel business in Japan	50,000
(c) Dividend declared in Japan, received in India	10,000

Compute Mr. Jagan Taxable Income if he is a resident.

(Madras, B.Com., Nov. 2006)

(Ans : Rs. 25,000 + 50,000 + 10,000 = 85,000)

EXERCISE (2) : The following are the details of income of Mr. Raj :

	Rs.
(a) Income from agriculture in Nepal	20,000
(b) Income earned and received in Pakistan and deposited in a bank there	5,000
(c) Dividend	1,000

Compute Mr. Raj Total Income if he is a not ordinarily resident.

(Madras, B.Com., (CS) April 2009)

(Ans : Nil)

Note : Other Incomes earned outside India are Not Taxable in the hands of NOR.

EXERCISE (3) : Compute the total Income of a Non-resident from the following Information :

	Rs.
Salary for 3 months Received in India (computed)	9,000
Dividend Received in Germany from a British company	22,000
Interest on Savings bank Deposit in SBI	1,000
Taxable Income from house Property in India	3,400

(Ans : NR : Rs. 9,000 + 1,000 + 3,400 = 13,400)

(Periyar, B.Com., Apr. 2006)

Note : Other Incomes earned outside India are Not Taxable in the hands of NR.

Residential Status and Scope of Total Income

EXERCISE (4) : Mr. Y has following Incomes for the Assessment Year 2020-21.	Rs.
(a) Income from house Property Situated in London	40,000
(b) Income from Salary Received in India for Services Rendered in Germany	28,000
(c) Profit from Business in Pakistan controlled from India	1,20,000
(d) Profit from Business in Madurai	1,10,000
(e) Agricultural Income in India	50,000

Compute the Gross Total Income of Mr. Y for the Assessment Year 2020-21 if he is

(i) Resident in India. (ii) Non-Resident in India. **(Madras, B.Com., Nov. 2008)**

Ans : Res : Rs. 40,000 + 28,000 + 1,20,000 + 1,10,000 = 2,98,000,

NR : Rs. 1,10,000 + 28,000 = 1,38,000

Note : Other Incomes earned outside India are Not Taxable in the hands of NR.

EXERCISE (5) : The following are the details of income of Mr. Kumar :	Rs.
(a) Income from business carried from Hyderabad	50,000
(b) Income accrued in India but received in Dubai	75,000
(c) Income from agriculture in London	1,00,000

Compute Mr. Kumar Taxable Income if he is (i) Resident, (ii) Resident but not Ordinarily resident, (iii) Non-resident. **(Periyar, B.Com., Nov. 2006)**

(Ans : Res : Rs. 50,000 + 75,000 + 1,00,000 = 2,25,000,

NOR : Rs. 50,000 + 75,000 = 1,25,000,

NR : Rs. 50,000 + 75,000 = 1,25,000)

Note : Other Incomes earned outside India are Not Taxable in the hands of NR.

EXERCISE (6) : The following are the details of income of Mr. Sankar :	Rs.
(a) Income from business in Chennai, managed in France	50,000
(b) Pension for service rendered in India, received in France	30,000
(c) Profit from Business in Sri Lanka, deposited in a bank there	24,000
(d) Profit on sale of building in India but received in Sri Lanka	36,000

Compute Mr. Kumar Taxable Income if he is (i) Resident, (ii) Resident but not Ordinarily resident, (iii) Non-resident. **(Thiruvalluvar, M.Com., May. 2019)**

(Ans : Res : Rs. 50,000 + 30,000 + 24,000 + 36,000 = 1,40,000,

NOR : Rs. 50,000 + 30,000 + 36,000 = 1,16,000,

NR : Rs. 50,000 + 30,000 + 36,000 = 1,16,000)

Note : Other Incomes earned outside India are Not Taxable in the hands of NOR and NR.

EXERCISE (7) : The following are the details of income of Mr. John :	Rs.
(a) Dividend	50,000
(b) Income from Agriculture in Australia	1,00,000
(c) Share of Income from a Business in Mumbai	60,000
(d) Income Accrued in India but Received in U.S.A.	50,000

Compute Mr. John's Taxable Income if he is (i) A resident, (ii) A not Ordinarily Resident and (iii) A Non-resident. **(Madras, B.Com., Apr. 2008)**

(Ans : Res : Rs. 50,000 + 1,00,000 + 60,000 = 2,10,000,

Residential Status and Scope of Total Income

NOR : Rs. 50,000 + 60,000 = 1,10,000,

NR : Rs. 50,000 + 60,000 = 1,10,000)

Note : Other Incomes earned outside India are Not Taxable in the hands of NOR and NR.

EXERCISE (8) : Which of the following incomes are taxable when the residential status of Mr. David is (i) Resident, (ii) Resident but not Ordinarily resident, (iii) Non-resident.

(a) Share of Income from Joint Venture India Rs.10,000

(b) Income from agriculture in Pakistan Rs.20,000

(c) Income from Business (controlled from India) in Pakistan Rs.10,000 and remitted to India

(d) Salary Received in India Rs.9,800 but services Rendered in Pakistan

(e) Income earned on Received in Pakistan from Bank Deposit Rs.5,000. **(Periyar, B.Com, Apr. 2007)**

(Ans : Res : Rs. 10,000 + 20,000 + 10,000 + 9,800 + 5,000 = 54,800,

NOR : Rs. 10,000 + 10,000 + 9,800 = 29,800,

NR : Rs. 10,000 + 9,800 = 19,800)

Note : (1) Other Incomes earned outside India are not Taxable in the hands of NOR and NR.

(2) Income from business outside India controlled from India is Taxable in the hands of NOR.

EXERCISE (9) : Following are the incomes of Rathman for the Previous year 2019-20 :

	Rs.
(i) Profit from the business in Bangalore	10,000
(ii) Income accrued in India but received in Japan	4,000
(iii) Profit from business in Canada but received in India	5,000
(iv) Income from House property in Karachi received in Bombay	4,000
(v) Profit from business established in England and deposited there, the business being controlled from India	20,000
(vi) Income from house property in America and deposited there.	2,000
(vii) Past untaxed income brought into India during the Previous year.	10,000

Compute the total income of Rathnam for the Assessment year 2020-21 if he is :

(a) Resident (b) Not ordinarily resident (c) Non Resident **(Periyar, B.com. May 2006)**

(Ans : Res : Rs. 10,000 + 4,000 + 5,000 + 4,000 + 20,000 + 12,000 = 45,000,

NOR : Rs. 10,000 + 4,000 + 5,000 + 4,000 + 20,000 = 43,000,

NR : Rs. 10,000 + 4,000 + 5,000 + 4,000 = 23,000)

Note : (1) Other Incomes earned outside India are not Taxable in the hands of NOR and NR.

(2) Past untaxed income is not Taxable in the hands of all the three persons.

(3) Income from business outside India controlled from India is Taxable in the hands of NOR.

EXERCISE (10) : Which of the following income are taxable when the residential status of Mr. Anil is (i) Resident, (ii) Resident but not ordinarily resident, (iii) Non-resident.

Income accrued in Canada but received in India Rs.2,000

Rs. 5,000 were earned in Africa on received there but brought to India.

Rs. 5,000 earned in India but received in Canada.

Rs. 10,000 earned and received in Sri Lanka from a business controlled from India.

House property income from Sri Lanka Rs. 2,000.

Residential Status and Scope of Total Income

Rs. 4,000 untaxed past year income brought to India.

Profit earned from business in Kanpur Rs. 10,000.

(Periyar, B.com., Nov. 2006)

(Ans : Res : Rs. 2,000 + 5,000 + 5,000 + 10,000 + 2,000 + 10,000 = 34,000,

NOR : Rs. 2,000 + 5,000 + 10,000 + 10,000 = 27,000,

NR : Rs. 2,000 + 5,000 + 10,000 = 17,000)

Note : (1) Other Incomes earned outside India are not Taxable in the hands of NOR and NR.

(2) Past untaxed income is not Taxable in the hands of all the three persons.

(3) Income from business outside India controlled from India is Taxable in the hands of NOR.

(2.12) THEORY QUESTIONS

Part - A

1. What are the different types of Residential Status ?
2. What are the Basic Conditions ?
3. What are the Additional Conditions ?
4. Who is a Resident Individual ?
5. When an Individual is called as Resident but not Ordinarily Resident ?
6. What are the Incomes deemed to be received in India ?
7. What are the Incomes taxable in the hands of Resident ?
8. What are the Incomes taxable in the hands of a Non-resident ?

Part - B

9. How the Residential Status of Hindu Undivided Family is determined ?
10. How the Residential Status of a Company is determined ?
11. What are the Incomes Deemed to be Accrued in India ?
12. Explain the Basis of Charge of Income.

Part - C

13. What are the different Categories of Assessors according to the Residential Status. How is this status determined ?
14. How will you ascertain Residential Status of an Individual Assessee ?

(3.0) INTRODUCTION

The Chapter deals with various Incomes that are not included in the total income.

(3.1) MEANING

The Income Tax Act grants absolute exemption in respect of certain categories of incomes and these incomes are not to be included in the total income. Such incomes which are absolutely exempt are enumerated in section 10 of the Income Tax Act. In addition sections 10A, 10AA, 10B, 11, 12, 13 and 13A provides for exemption in respect of certain specific incomes. Such incomes which do not form part of total income may also be called incomes exempt from tax.

(3.2) ANALYSIS OF EXEMPTIONS

The various incomes that are exempted from tax are classified as follows :

1. Classification on the basis of Taxability
2. Classification on the basis of Heads of Income

(3.3) CLASSIFICATION ON THE BASIS OF TAXABILITY

(1) FULLY EXEMPTED INCOMES

1. Agricultural income [sec 10(1)]
2. Income from HUF [sec 10(2)]
3. Income from Firm [sec 10(2A)]
4. Interest by Non-residents [sec 10(4)]
5. Remuneration by Non-citizens [sec 10(6)]
6. Compensation Received any Disaster [sec 10(10BC)]
7. Amount under LIC policy [sec 10(10D)]
8. Payment from Sukanya Samridhi Account [sec 10(11)]
9. Interest on Investments [sec 10(15)]
10. Educational Scholarships [sec 10(16)]
11. Allowances by MP's and MLA's [sec 10(17)]
12. Awards [sec 10(17A)]
13. Income Local Authority [sec (20)]
14. Income of News Agencies [sec 10(22B)]
15. Income of professional institutions [sec 10(23A)]
16. Income of a Member of Scheduled Tribe [sec 10(26)]
17. Income from Transfer of Unit of US64 [sec.10(33)]
18. Capital Gain from Urban Agricultural Land [sec.10(37)]
19. Capital Gain Arising from Shares [sec 10(38)]

20. Income from Sporting event [sec.10(39)]
21. Income Under Reverse Mortgage Scheme [Sec10 (43)]
22. Income of New Pension Scheme [Sec.10(44)]
23. Income of Political Parties [sec. (13A)]
24. Income of Electoral Trust [sec. 13B]

(2) PARTLY EXEMPTED INCOMES

1. Gratuity [sec 10(10)]
2. Pension [sec 10(10A)]
3. Leave Salary [sec 10(10AA)]
4. Retrenchment Compensation [sec 10(10B)]
5. Compensation on VRS [sec 10(10C)]
6. House Rent Allowance [sec 10(13A)]
7. Special Allowances [sec 10(14)]
8. Family Pension [sec 10(19)]
9. Income of Minor [sec.10(32)]
10. Dividend from Indian Companies [sec 10(34)]
11. Units from UTI [sec 10(35)]

(3.4) CLASSIFICATION ON THE BASIS OF HEADINGS

(1) AGRICULTURAL INCOME

(2) INCOMES RELATING TO SALARY

- (i) Leave Travel Concession [Sec.10(5)]
- (ii) Gratuity : [Sec.10(10)]
- (iii) Commuted Pension [Sec.10(10A)]
- (iv) Leave Salary [Sec.10(10AA)]
- (v) Retrenchment Compensation [Sec.10(10B)]
- (vi) Amount Received under Voluntary Retirement Scheme [Sec.10(10C)]
- (vii) House Rent Allowance [Sec.10(13A)]
- (viii) Notified Special Allowances [Sec.10(14)]

(3) INCOMES RELATING TO BUSINESS OR PROFESSION

- (i) Share of Income from Hindu Undivided Family [Sec.10(2)]
- (ii) Share of Income from Partnership Firm [Sec.10(2A)]

(4) INCOMES RELATING TO CAPITAL GAINS

- (i) Income from Transfer of Units of US 64 [Sec.10(33)]
- (ii) Income from Buyback of Shares [Sec.10(34A)]
- (iii) Capital Gain from Urban Agricultural Land [Sec.10(37)]
- (iv) Income under Reverse Mortgage Scheme [Sec.10(43)]

(5) INCOMES RELATING TO OTHER SOURCES

- (i) Interest on Certain Securities [Sec.10(15)]
- (ii) Family Pension of Armed Forces Killed in Action [Sec.10(19)]
- (iii) Dividend from Indian Company [Sec.10(34)]

(6) INCOMES RELATING TO CLUBBING OF INCOME

- (i) Income of Minor [Sec.10(32)]

(7) INCOMES RELATING TO DEDUCTIONS u/s 80

- (i) Amount received under a Life Insurance Policy [Sec.10(10D)]
- (ii) Income of New Pension Scheme [Sec.10(44)]

(8) INCOMES RELATING TO CERTAIN FUNDS

- (i) Income of Mutual Fund [Sec.10(23D)]
- (ii) Income of SAARC Fund [Sec.10(23BBC)]

(9) INCOMES RELATING TO CERTAIN INDIVIDUALS

- (i) Daily Allowances of MP's and MLA's [Sec.10(17)]
- (ii) Income of a Scheduled Tribe Individual [Sec.10(26)]
- (iii) Income of a Scheduled Tribe Individual [Sec.10(26)]
- (iv) Income of Individuals of Sikkim State [Sec.10(26 AAA)]

(10) INCOMES RELATING TO CERTAIN INSTITUTIONS

- (i) Income of Local Authority [Sec.10(20)]
- (ii) Income of News Agencies [Sec.10(22B)]
- (iii) Income of Professional Institutions [Sec.10(23A)]
- (iv) Income of European Economic Community (EEC) [Sec.10(23BBB)]

(11) INCOMES RELATING TO NON-RESIDENTS

- (i) Interest Income by Non - Resident [Sec.10(4)]
- (ii) Remuneration to Non Citizens of India : [Sec.10(6)]

(12) OTHER INCOMES

- (i) Educational Scholarship [Sec.10(16)]
- (ii) Awards [Sec.10(17)]

The following perquisites are taxable to all employees both specified and Non-specified employees. (1) Domestic Servants engaged by employer; (2) Gas, Electricity and Water in the name of employer; (3) Educational Facility; (4) Motor car Facility; (5) Other automotive Facility.

Explanation : Meaning of Specified Employee : The following are specified employees for the purpose of section 17 (2) (iii); **(i) A director** employee of employer company (or) (ii) An employee who has **substantial interest** in the employer company (or) (iii) An employee(not covered by above) whose income under the head 'Salaries' excluding the value of all non-monetary benefits and amenities, **exceeds Rs.50,000**. While computing the limit of Rs.50,000, the following are deducted or excluded:

(a) All non monetary benefits; (b) Monetary benefits which are exempt under Sec 10; (c) Deduction u/s 16.

(4.6) TAXABILITY OF ACCOMMODATION FACILITY (Rule 3(1))

The term accommodation includes a house, flat, form house, accommodation in a hotel, motel, service apartment ,guest house, caravan, mobile home, ship or other floating structure.

(4.6.1) PROVISIONS

(A) Government Employee : This category includes Central and State Government Employees but does not includes employees of a Local Authority or a Foreign Government. The basis of valuation of accommodation is a sum equal to the "Licence Fee" in accordance with rules framed by the Government.

(B) Non-Government Employee : For the purpose of valuation of perquisites under this category, the factors such as ownership of the accommodation, the population of the place in which the accommodation is located, amount of salary of the empolyee, rent of the accommodation if it is not owned by employer, cost of furniture provided (or), hire charges for furniture in the case of furnished accommodation , the amount of rent recovered from the empolyee in the case of concessional rent accommodation etc., The valuation rules are as follows:

(i) Accommodation Owned by Employer :

(a) If the population of the town is Below 10 Lakhs.

7.5 % of Salary p.a.

(b) If the population of the town is Above 10 Lakhs but Below 25 Lakhs.

10% of salary p.a

(c) If the population of the town is Above 25 Lakhs.

15% of salary p.a

(ii) Accommodation Not Owned by Employer or Hired by Employer: Rent paid by Employer (or) 15% of Salary whichever is less.

(iii) Concessional Rent Accommodation : Actual valuation as per any of the above Situations Minus Rent recovered from the Employee.

(iv) Furnished Accommodation : The term Furniture includes Television sets, Radio, Refrigerator, Air Conditioner and other household appliances. Amount at 10 % of cost of Furniture provided or Actual Hire Charges for Furniture as the case may be shall be added with the Actual valuation as per anyone of the above situations.

(v) Accommodation at Hotel : An Amount at 24% of salary per annum or actual hire charges to

such hotel whichever is less is taxable value of perquisite. However, it is fully exempt if (i) Such accommodation is provided for a period not exceeding 15 days. (ii) It has been provided on the transfer of the employee from one place to another.

(vi) Accommodation in case of Employee on Transfer : Where on account of his transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value (as determined according to the above provisions) for a period not exceeding 90 days and thereafter the value of perquisite shall be charged for both such accommodations.

Explanation:

For the purpose of valuation of perquisite in respect of accommodation facility, Salary includes. Basic salary, dearness allowance or pay, (if terms of employment so provide), bonus, commission, fees, all other taxable allowances, any monetary obligations met by the employer and does not include, dearness allowance if it is not forming part of salary, employer's contribution to provident fund account of an employee, all allowances which are exempt from tax and value of perquisites However the salary does not include advance salary and arrear salary.

(4.6.2) PRACTICAL ILLUSTRATIONS :

ILLUSTRATION (1) : (Government Employee) Mr. Agalin an officer of the Government of Tamil Nadu, draws Rs.25,000 p.m as basic salary. He is provided with a rent free unfurnished house at Chennai whose market rent is Rs.7,800 p.m, however the licence fee as per Government rules is Rs.1,250 p.m.

Solution : Computation of Taxable Value of Rent Free House.

Licence fees (1,250 x 12)	Rs. 15,000
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ILLUSTRATION (2) : (Non-Government Employee - Population Below 10 lakhs) Mr. Madhavan, an employee of ABC (P) Ltd., posted at Ranipet in which population is not exceeding 10,00,000 draws Rs. 3,00,000 as Basic Salary, Rs. 40,000 as Dearness Allowance (forming part of salary) and Rs. 50,000 as Commission. Besides, the Company Provides Rent free unfurnished accommodation. The house is owned by the Company. Fair rent of the accommodation is Rs. 66,000 per annum. Determine the Taxable Value of Perquisite.

Solution : Computation of Taxable Value of Rent Free House :

Accommodation	:	Owned by the Employer	
Population	:	Less than 10,00,000	
Taxable Value	:	7.5% of Salary	Rs.
		Salary :	
		Basic Salary	3,00,000
		DA	40,000
		Commission	50,000
			3,90,000
Taxable Value (3,90,000 X 7.5%)			29,250

Note : Salary for this purpose Basic Salary + DA (if it is forming part of salary) + Commission and All Other Taxable Allowances.

ILLUSTRATION (3) : (Non-Government Employee - Population Above 10 lakhs) Mr. Murugan is working in a Public Company in Coimbatore (Population 18 lakhs). He gets a salary at the rate of Rs.20,000 p.m. Dearness allowance Rs.500 p.m. (50% of salary in terms of employment so provide) and City Compensatory allowance Rs.300 p.m. He has been provided a rent free house by the company, fair rental value of which is Rs.1,200 p.m. Compute Taxable Value of Perquisite.

(Madras ,

B.Com., Apr. 2007)

Solution : Computation of Taxable Value of Rent Free House :

Accommodation	:	Owned by the Employer	
Population	:	Less than 25,00,000	
Taxable Value	:	10% of Salary	Rs.
		Salary :	
		Basic Salary	2,40,000
		DA	3,000
		C.C.A	3,600
			2,46,600
Taxable Value (2,46,600 X 10%)			24,660

Note : Salary for this purpose basic salary + DA (if it is forming part of salary) + commission and all other taxable allowances.

ILLUSTRATION (4) : (Non-Government Employee - Population above 25 lakhs) Mr. Raghul is working in a Private Company at Chennai (Population 80 lakhs). From the following Information, you are asked to Compute the Value of Rent-free unfurnished House. (The house is owned and Provided to Mr. Raghul by the Company). (a) Basic Salary Rs. 3,00,000; (b) Dearness Allowance (Forming part of salary) Rs. 1,00,000; (c) Fees Rs. 50,000; (d) Entertainment Allowance Rs. 10,000

(Madras,

B.Com., Nov. 2007)

Solution : Computation of Taxable Value of Rent Free House :

Accommodation	:	Owned by the Employer	
Population	:	More than 25,00,000	
Taxable Value	:	15% of Salary	Rs.
		Salary :	
		Basic Salary	3,00,000
		D.A	1,00,000
		Fees	50,000
		E.A.	10,000
			4,60,000
Taxable Value (4,60,000 X 15%)			69,000

Note : Salary for this purpose basic salary + DA (if it is forming part of salary) + commission and all other taxable allowances.

ILLUSTRATION (5) : (Non-Government Employee - Hired by Employer) Mr. Rajiv, an employee of ABC Ltd., posted at Chennai, draws Rs.3,00,000 as Basic Salary, Rs.10,000 as dearness allowance (forming part of salary) and Rs.5,000 as commission. Besides, the Company Provides a Rent free

unfurnished accommodation in Chennai. The house is not owned by the Company. Rent paid by the Employer for the Accommodation is Rs.50,000 per Annum. Determine the Taxable Value of the Perquisite.

Solution : Computation of Taxable Value of Rent Free House :

Accommodation	: Not Owned by the Employer		
Taxable Value	: 15% of Salary or Actual Rent (WEL)	Rs.	Rs.
	Salary :		
	Basic Salary	3,00,000	
	D.A	10,000	
	Commission	5,000	
			3,15,000
	15% of Salary (3,15,000 x 15%)		47,250
	Actual Rent		50,000
Taxable Value (47,250 or Rs.50,000 WEL)			47,250

Note : Salary for this purpose basic salary + DA (if it is forming part of salary) + commission (always) and all other taxable allowances.

ILLUSTRATION (6) : (Non-Government Employee - Furnished House) Mr. Krishnan is a Non Government employee Provided with a Rent free house whose Taxable Value is Rs.30,000. In addition, some of the household appliances is Provided in the house Costing Rs.40,000 (WDV Rs.5,000). The Employer pays Rs.20,000 as hire Charges for two Air conditioners during the Previous Year. Determine the Taxable Value of Furnished Rent Free House.

Solution : Computation of Taxable Value of Furnished Rent Free House :	Rs.	Rs.
Value of Unfurnished House		30,000
Add : 10% of Cost of Furniture (40,000 x 10%)	4,000	
Actual hire Charges	20,000	
		24,000
		54,000

ILLUSTRATION (7) : (Non-Government Employee - Concessional Rent House) Mr. Uma Maheswaran provided with a house hired by his employer company and received during the current previous year, emoluments consisting of Basic Pay : Rs.1,62,000; Special allowance : Rs.17,000 and Reimbursement of Medical Expenditure: Rs.3,800. Rent Recovered from the Employee is Rs. 16,000 Compute the Value of the Perquisite. Actual rent paid by the employer Rs. 50,000 p.a.

Solution : Computation of Taxable Value of Concessional Rent House

Accommodation	: Not Owned by the Employer		
Taxable Value	: 15% of Salary or Rent Paid (WEL)		
	Salary :	Rs.	Rs.
	Basic	1,62,000	
	Special Allowance	17,000	
		1,79,000	
	15% of Salary (1,79,000 X 15/100)	26,850	
	Actual Rent	50,000	
	(WEL)		26,850

Less: Rent Recovered from the Employee	16,000
	10,850

ILLUSTRATION (8) : (Non-Government Employee - Accommodation at Hotel) Mr. Vanjinathan of Bangalore is appointed at Chennai. He stayed in a hotel for a short period and thereafter shifted in a house provided by the Employer. The room rent in Hotel is Rs. 1,000 per day. The Salary for Valuation of Accommodation is Rs. 4,00,000. Compute the Taxable Value of Perquisite of Accommodation at hotel if the Number of days of stay in hotel is **(i) 12 days, (ii) 25 days.**

Solution : Computation of Taxable Value of Perquisite of Accommodation at Hotel.

(i) Stay Period : 12 days	Rs.	Rs.
The Stay Period is Less than 15 days, therefore, Taxable Value		Nil
(ii) Stay Period : 25 Days		
Salary	4,00,000	
No of Days Stayed	25 days	
No of Days in the Year	365 days	
Actual Rent (1,000 X 25)		25,000
24% of Salary (4,00,000 X 24 / 100 X 25 / 365)		6,575
Taxable Value (25,000 or 6,575 WEL = 6,575)		6,575

(4.6.3) PRACTICAL EXERCISES :

EXERCISE (1) : Mr. Subramani is a Central Government Employee in Chennai. He is Living in a furnished house provided by the Government at free rent. His salary is Rs.10,000 p.m. License fee fixed for the house is Rs.600 p.m. Determine the Value of Perquisite for the Purpose of Income Tax.

Ans : Taxable Value : $600 \times 12 = 7,200$ **(Madras, B.Com., Apr. 2007)**

EXERCISE (2) : Mr. Sridhar provides the following particulars : Salary Rs.1,16,500. The employer provides a rent free house at Cuddalore (Population 8 Lakhs) on 1 October 2019. The Municipal Value is Rs.34,000 and fair market value is Rs.37,000. Determine the Taxable Value of perquisite in respect of rent free House for the Assessment Year 2020-21.

Ans : Taxable Value : $1,16,500 \times 7.5\% = 8,738$

EXERCISE (3) : Mr. Arumugam is working in a Public Ltd. Company in Vellore (Population 12 Lakhs). He gets salary at the rate of Rs. 10,000 p.m. dearness allowance Rs. 500 p.m (50% of salary in terms of employment so provide) and city compensatory allowance Rs. 300 p.m. He has been provided a rent free house by the company, fair rental value of which is Rs. 1,200 p.m. Compute taxable value of perquisite.

Ans :

Salary : $1,20,000 + 3,000 + 3,600 = 1,26,600$

Taxable Value : $1,26,600 \times 10\% = 12,660$

EXERCISE (4) : Mr. Elango is an employee of XYZ Ltd. He gets basic salary of Rs. 3,200 p.m. D.A (50 % enter for retirement benefits) Rs. 1,600 p.m. Medical allowance Rs. 400 p.m. Profession Tax paid by employee Rs. 3,200 p.a. He has been provided with a rent free accommodation in Chennai (Population 30 Lakhs). Calculate taxable amount of rent free accommodation.

Ans :

Salary : $38,400 + 9,600 + 4,800 = 52,800$

Taxable Value : $52,800 \times 15\% = 7,920$

EXERCISE (5) : Mr. Kishore is an employee of Zigma Ltd. He gets basic salary of Rs. 6,400 p.m. D.A (50 % enter for retirement benefits) Rs. 3,200 p.m. Medical allowance Rs. 800 p.m. Profession tax paid Rs. 6,400 p.a. He has been provided with a rent free accommodation in Mumbai. Calculate taxable amount of rent free accommodation.

Ans :

Salary : $76,800 + 19,200 + 9,600 = 1,05,600$

Taxable Value : $1,05,600 \times 15\% = 15,840$

EXERCISE (6) : Sundhar submits following information regarding his salary Income.

- | | |
|----------------------------------|---------------------------------------|
| 1. Basic Salary | Rs. 15,000 p.m |
| 2. D.A. (forming part of salary) | 40 % of basic salary |
| 3. CCA | Rs. 300 p.m |
| 4. Children Education Allowance | Rs. 200 p.m. per child for 2 children |
| 5. Transport allowance | Rs. 1,000 p.m |

He is provided with a rent free unfurnished accommodation which is hired by the employer. Rent Rs. 24,000. Calculate taxable amount of rent free accommodation.

Ans :

Salary : $1,80,000 + 72,000 + 3,600 + 2,400 + 12,000 = 2,70,000$

15% Salary : 40,500

Actual Rent : 24,000

Taxable Value : 40,500 (or) 24,000 (WEL) **24,000**

EXERCISE (7) : Mr. Raj is provided with a Rent free house whose taxable value is Rs. 20,000 in addition he is provided with facility of furniture as under :

- (i) Television owned by employer costing Rs. 20,000 (WDV Rs. 10,000)
- (ii) Air conditioner hired by employer (hire charges Rs. 500 p.m)

Compute the taxable value of furnished rent free house.

Ans : Taxable Value : $20,000 + 2,000 + 6,000 = 28,000$

EXERCISE (8) : M/s. Victor company took a house on rent and allotted it to its employees. From the following information find out the value of perquisite of accommodation. Rs.

- | | |
|---|----------|
| (i) Rent paid for the year | 48,000 |
| (ii) Salary | 5,00,000 |
| (iii) Cost of Furniture Provided in the House | 60,000 |
| (iv) Rent charged from employee per month | 1,000 |

Ans :

Salary : 5,00,000

15% Salary : 75,000

Actual Rent : 48,000

Taxable Value : $75,000$ (or) $48,000$ (WEL) 48,000

Furniture Value : $60,000 \times 10\%$ 6,000

Rent Recovered : $1,000 \times 12$ 12,000

Net Taxable Value : $48,000 + 6,000 - 12,000$ **42,000**

EXERCISE (9) : Calculate the value of perquisite, if any chargeable to tax in respect of free

accommodation provided by the employer in a hotel to an employee, of Mr. Yahoo for the current previous year. Salary and taxable allowances is Rs. 5,00,000.

(a) For 10 days when he was transferred from Delhi to Mumbai

(b) Throughout the Year as per Contract of Employment.

(C.A. Inter. May 2003)

Ans :

a) The stay period is less than 15 days, Taxable value is Nil

b) Taxable value 24% of Rs.5,00,000 = **1,20,000**

EXERCISE (10) : Mr. Nataraj is employed in Delhi and gets the following emoluments. (Assume population is 26 lakhs). Basic Salary Rs. 8,000 p.m.; DA Rs. 6,000 (Forming part) p.m.; Bonus Rs. 10,000; CCA Rs. 2,000 p.m.; Conveyance allowance Rs. 500 p.m. (actual amount spent Rs. 4,000) He is provided with a rent free house. Calculate taxable value of perquisite. (Madras B.Com., Nov. 2013)

Ans : Rs. 96,000 + 72,000 + 10,000 + 24,000 + 2,000 = 2,04,000 x 15% = **30,600**

EXERCISE (11) : Mr. Arun gets Salary of Rs. 12,000 p.m. and is provided with rent free unfurnished accommodation at Ludhiana (population 20 lakhs as per 2001 census) whose fair rental value is Rs. 1,300 p.m. He gets leave encashment for the current previous year Rs. 6,000 during the year. House was provided to him with effect from 01.07.2015 His salary is the on 1st day of every month calculate the value of rent free accommodation. (Madras B.Com., (CS) Nov. 2013)

Ans : Rs. 12,000 x 9 = Rs. 1,08,000 x 10% = **Rs. 10,800**

EXERCISE (12) : Mr. Ravinder is in receipt of annual salary of Rs. 2,00,000. He is provided with a furnished accommodation at Gurgaon (Population is 11 lakhs) for which is employer pays a rent of Rs. 4,000 p.m. and deducts Rs. 1,000 p.m. from employee's salary. The cost of furnishing of the residence amount to Rs. 30,000. Calculate the value of perquisite if house is occupied for 9 months only.

Ans : Rs. 17,000

(Madras B.Com., (CS) April 2014)

EXERCISE (13) : Mr. Vasan a Manager in a company was transferred to Delhi where he stayed in a hotel for 25 days and actual bill is Rs. 40,000. His salary details are : (i) Basic pay Rs. 60,000 p.m.; (ii) Project allowance Rs. 4,000 p.m.; (iii) Bonus (including gratuitous bonus of Rs. 10,000) : 1,60,000; (iv) Commission on Sales Rs. 49,000; Find the value of rent free accommodation.

Ans : Rs. 9,67,000 x 25 / 365 x 24% = 15,896 or 40,000 WEL = **Rs. 15,896**

EXERCISE (14) : Askok is in receipt of the following amount from his employer during the previous year. Basic pay Rs. 1,80,000; Dearness allowance 25% of basic pay; Commission 5% of basic pay; and Bonus Rs. 8,000.

His employer has paid income tax of Rs. 5,000 and professional tax of Rs. 1,500 on his behalf. Besides, his employer provided refrigerator and television costing Rs. 24,000 and paid Rs. 500 per month towards rent of other furniture provided.

Compute the value of perquisite in respect of rent free furnished house, if Ashok stays in a city with a population of (i) Not exceeding 10 lakh; (ii) Exceeding 10 lakh but not exceeding 25 lakh; and (iii) Exceeding 25 lakh. (CS Dec. 2006)

Ans :

(i) Rs. 1,80,000 + 42,000 + 9,000 + 8,000 = 2,42,000 x 7.5% = **Rs. 26,550;**

(ii) Rs. 2,42,000 x 10% = **Rs. 32,600;**

(iii) Rs. 2,42,000 x 15% = **Rs. 44,700**

(7.0) INTRODUCTION

The present chapter deals with the various provisions regarding taxability of self-occupied house property under different circumstances.

(7.1) CLASSIFICATION OF SELF-OCCUPIED HOUSES

For the purpose of better presentation of the subject, the self-occupied houses are classified into five types as under :

- (i) One or Two House(s) under Self Occupation
- (ii) More than Two Houses under Self Occupation
- (iii) Part of The House Property Self Occupied
- (iv) Part of The Year Self Occupied
- (v) Both Part of the House and Part of the Year Self Occupied

(7.2) ONE OR TWO HOUSE(S) UNDER SELF OCCUPATION

(7.2.1) PROVISIONS

- (i) According to Section 23(2), where the property consists of a house which is in the occupation of the owner for the purposes of his own residence or remain unoccupied due to his employment, business or profession at any other place, it is called as self occupied house.
- (ii) The annual value of such house shall be taken to be Nil.
- (iii) W.e.f. Assessment Year 2020-21, the benefit of Nil annual value is available for two house properties.
- (iv) The standard deduction u/s 24(a) is not applicable to such self occupied house properties.
- (v) The deduction for interest on loan is allowed subject to the certain conditions :
 - (a) Where the loan is borrowed for the purpose of construction or acquisition of the house property before 1-4-1999, the deduction is allowed upto Rs.30,000 per annum.
 - (b) Where the loan is borrowed for the purpose of construction or acquisition of the house property after 1-4-1999, the deduction is allowed upto Rs.2,00,000 per annum.
 - (c) Where the loan is borrowed for the purpose of repairs and renewal or reconstruction of house property, the deduction is allowed is upto Rs.30,000 whether the date of borrowing of loan is before 1-4-1999 or after 1-4-1999.
 - (d) The above mentioned limit of Rs. 2,00,000 or 30,000 as the case may be is allowed at aggregate for the both house properties.
 - (e) The maximum deduction for interest on loan includes interest paid during the pre-construction period.

(7.2.2) PRACTICAL ILLUSTRATION

ILLUSTRATION (1) : Miss. Nishitha has two houses, both of which are self occupied. The particulars of these are given below.

	I house	II house
	Rs.	Rs.
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard Rent per annum	1,00,000	1,65,000

Date of Completion of Construction	31-03-2017	31-3-2018
Municipal Taxes payable during the year	12%	8%
Interest on money borrowed for acquisition of house properties 1,80,000	80,000	
Compute Income from House Property for the Assessment Year 2020-21.		

Solution : Computation of Income from House Property for the Assessment Year 2020-21.

Annual value (since both the houses are self occupied)	Nil
Less : Interest on loan (1,80,000 + 80,000 = 2,60,000 Restricted to 2,00,000)	2,00,000
Income from House property	(-) 2,00,000

(7.2.3) PRACTICAL EXERCISE

EXERCISE (1) : Mr. Adhaam owns two houses and both are used by him for his own residence.

Compute income from house property from the following particulars for the Assessment Year 2020-21.	House - I	House - II
	Rs.	Rs.
Fair Rent	2,72,000	3,68,000
Municipal Valuation	2,84,000	3,52,000
Standard Rent	2,90,000	3,60,000
Municipal Taxes Levied	20,000	14,000
Municipal Taxes Paid	10,000	7,000
Repairs	14,000	12,000
Insurance Premium	3,000	2,200
Interest on loan (borrowed during August, 2008)	90,000	1,20,000

Ans : Nil - 2,00,000 (90,000 + 1,20,000 = 2,10,000 restricted to) = **(-) 2,00,000 (C.S., Inter Dec. 2004)**

(7.3) MORE THAN TWO HOUSES UNDER SELF OCCUPATION

(7.3.1) PROVISIONS

- (i) When more than two houses are self occupied by the assessee for residential purposes, only two houses is treated as self-occupied and all other houses will be deemed to be let out.
- (ii) The house property actually self occupied by the assessee but as per the provisions of the Act, it is treated as let out house is called as deemed to be let out.
- (iii) The income from house property deemed to be let out is computed as per the provisions applicable to let out house property. However, the details regarding actual rate shall not be available.
- (iv) The option to select a house property as deemed to be let out is to be made on the basis of favourable to the assessee. It means the option which gives minimum income from house property shall be treated as deemed to be let out and the options which gives more income from house property shall be treated as self occupied as it.
- (v) For this purpose, taxable income from house property shall be computed on the assumption that all the houses are deemed to be let out and thereafter, selection of option shall be made.

(7.3.2) PRACTICAL ILLUSTRATIONS :

ILLUSTRATION (1) : Mr. Santhanam has three houses A, B and C, all of which are self occupied.

The particulars of these are given below.

	A	B	C
	Rs.	Rs.	Rs.
Municipal Valuation per annum	2,30,000	1,70,000	2,10,000
Fair Rent per annum	2,90,000	2,00,000	2,20,000
Standard Rent per annum	2,42,000	2,30,000	2,10,000
Date of Completion of Construction	31-03-2017	31-3-2018	31.03.2018
Municipal Taxes payable during the year	15%	15%	15%
Interest on money borrowed for acquisition of house properties	80,000	50,000	70,000

Compute Income from House Property for the Assessment Year 2020-21.

Solution :

(i) Computation of Income from Houses when they are deemed to be let out.

	A	B	C
	Rs.	Rs.	Rs.
Municipal value	2,30,000	1,70,000	2,10,000
Fair rent	2,90,000	2,00,000	2,20,000
Expected rent (WEH)	2,90,000	2,00,000	2,20,000
Standard rent	2,42,000	2,30,000	2,10,000
Gross annual value (WEL)	2,42,000	2,00,000	2,10,000
Less : Municipal taxes (15% of municipal value)	34,500	25,500	31,500
Net annual value	2,07,500	1,74,500	1,78,500
Less : Standard deduction (30% of net annual value)	62,250	52,350	53,550
	1,45,250	1,22,150	1,24,950
Less : Interest on loan	90,000	80,000	70,000
Income from house property	55,250	42,150	54,950

(ii) Selection of option : The income from house B is minimum, hence it shall be taken as deemed to be let out and house A, house C shall be taken as self occupied as it.

(iii) Calculation of taxable income from house property :

	Rs.
Deemed to be let out (House B)	42,150
Self occupied house (House A) (Nil - 90,000)	(-) 90,000
Self occupied house (House C) (Nil - 70,000)	(-) 70,000
Total	(-) 1,17,850

ILLUSTRATION (2) : Mr. Nethaji has three houses, all of which are self occupied. The particulars

of these are given below.

	A	B	C
	Rs.	Rs.	Rs.
Municipal Valuation per annum	1,20,000	1,15,000	3,00,000
Fair Rent per annum	1,50,000	1,75,000	3,50,000
Standard Rent per annum	1,00,000	1,65,000	3,40,000
Date of Completion of Construction	31-03-2017	31-3-2018	31.03.2018
Municipal Taxes payable during the year (paid for House II) Only	8%	8%	8%
Interest on money borrowed for acquisition of house properties	20,000	30,000	50,000

Compute Income from House Property for the Assessment Year 2020-21.

Solution :**(i) Computation of Income from Houses when they are deemed to be let out.**

	A	B	C
	Rs.	Rs.	Rs.
Municipal value	1,20,000	1,15,000	3,00,000
Fair rent	1,50,000	1,75,000	3,50,000
Expected rent (WEH)	1,50,000	1,75,000	3,50,000
Standard rent	1,00,000	1,65,000	3,40,000
Gross annual value (WEL)	1,00,000	1,65,000	3,40,000
Less : Municipal taxes (15% of municipal value)	9,600	9,200	24,000
Net annual value	90,400	1,55,800	3,16,000
Less : Standard deduction (30% of net annual value)	27,120	46,740	94,800
	63,280	1,09,060	2,21,200
Less : Interest on loan	20,000	30,000	50,000
Income from house property	43,280	79,060	1,71,200

(ii) Selection of option : The income from house A is minimum, hence it shall be taken as deemed to be let out and house B, house C shall be taken as self occupied as it.

(iii) Calculation of taxable income from house property :

	Rs.
Deemed to be let out (House A)	43,280
Self occupied house (House B) (Nil - 30,000)	(-) 30,000
Self occupied house (House C) (Nil - 50,000)	(-) 50,000
Total	(-) 36,720

(7.3.3) PRACTICAL EXERCISE

EXERCISE (1) : Mr. Swamy has Three Houses all of which are self-occupied. The particulars of the houses for the previous year 2019-20 are as under.

	A	B	C
	Rs.	Rs.	Rs.
Municipal Valuation per annum	3,00,000	3,60,000	3,30,000
Fair Rent per annum	3,75,000	2,75,000	3,80,000
Standard Rent per annum	3,50,000	3,70,000	3,00,000
Date of Completion of Construction	31-03-2005	31-3-2010	01.04.2014
Municipal Taxes payable during the year	12%	8%	6%
Interest on Loan for construction	20,000	25,000	15,000

Compute Income from House Property for the Assessment Year 2020-21.

Ans :

(i) Deemed to be let out : House A : 1,99,800, House B : 2,06,840, House C : 1,81,140

(ii) Selection : House C is deemed to be let out.

(iii) IHP : House A : 1,81,140, House B : - 20,000, House C : - 25,000, Total : **1,36,140**

Professional Expenses : $1,200 + 6,000 + 10,000 + 3,000 + 3,000 + 6,000 + 2,000 = 31,200$
Income from Profession : $51,000 - 31,200 = \mathbf{19,800}$