Direct Taxes Revision cum Amendment Notes For CA Final May / Nov 2020 Exam – Part 1

Note

- These Notes are not a substitute for Regular Notes / ICAI Study Material and are useful only for the purpose of revising the subject.
- RTP, Suggested Answers have to be studied thoroughly.
- We have taken all care while drafting these notes. If you find any error in these notes, please send us an email to junnarkarkedar@gmail.com

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Phenomenal Results for November 2019 Exams - Students who have done our DT / IDT Classes

ALL INDIA RANK 1	ALL INDIA RANK 46
Mr. Gurram Naga Sri Krishna Praneeth (Vijaywada)	**Mr. Prasad Vangala (Vijaywada)**
DT – 69 Marks and IDT – 74 Marks	IDT – 66 Marks

More than 100 Students have scored exemption in DT / IDT.

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- An Associate Member of ICAI. Also passed Company Secretary Examination
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- A Rank Holder In All Five Examinations
  - AIR 5 in CA Professional Exam I
  - AIR 27 in CA Professional Exam II
  - AIR 47 in CA Final
  - AIR 13 in CS Executive
  - Rank 7 in HSC (Pune Division)
- All India Subject topper in:
  - Economics (91/100 in CA Professional Exam I)
  - Audit (83/100 in CA Professional Exam II)
- Second Highest in State in HSC in:
  - Accountancy (99/100)
  - French (98/100)

Face to Face Class Details

CA Final IDT Fast Track Batch	Tapasya Academy, Hyderabad from 19th Feb 2020 for 15 days 6 hours daily (Phone no. 8885556611 / 8885556622)
Face to Face Class Coming soon at Chennai in March 2020	

Chapter I : Basics of Income Tax

Rates of Tax for Previous Year 2019-20 Assessment Year 2020-21

	Individual			HUF / AOP / BOI / AJP/ Private trusts, political parties
	Resident below 60 years / Non Resident no age limit	**Senior Citizen (Resident 60 years or above)**	**Very / Super Senior Citizen (Resident 80 years or above)**	
NIL	Up to 2,50,000	Up to 3,00,000	Up to 5,00,000	Up to 2,50,000
5%	From 2,50,000 to 5,00,000	3,00,000 to 5,00,000	--	From 2,50,000 to 5,00,000
20%	From 5,00,000 to 10,00,000	5,00,000 to 10,00,000	5,00,000 to 10,00,000	From 5,00,000 to 10,00,000
30%	Above 10,00,000	Above 10,00,000	Above 10,00,000	Above 10,00,000

Section 87A: Rebate of income-tax in case of Resident Individuals

In case of individual resident in India, whose total **income does not exceed ₹5,00,000**/-, shall be entitled to a deduction, from income-tax of an amount equal to **100% of such income-tax or an amount of ₹12,500/-, whichever is less**. (**Limits changed w.e.f. AY 2020-21**)

Tax Rates

Partnership Firms / LLP : 30%	Local Authority: 30%	Foreign Company: 40%

Domestic Company

Total Turnover or Gross Receipt in the previous year 2017-18 does not exceed Rs. 400 crores	Total Turnover or Gross Receipt in the previous year 2017-18 exceeds Rs. 400 crores
25%	**30%**

Surcharge (on Basic Tax)

Net Taxable Income	Individual / HUF / AOP / BOI / AJP
Up to ₹ 50 Lacs	Nil
It exceeds ₹ 50 Lacs up to ₹ 1 crore	10% of Tax
It exceeds ₹ 1 Crore up to ₹ 2 Crores	15% of Tax
It exceeds ₹ 2 Crores up to ₹ 5 Crores	**25% of Tax (added w.e.f. AY 2020-21)**
It exceeds ₹5 Crores	**37% of Tax (added w.e.f. AY 2020-21)**

Net Taxable Income	Domestic Company	Foreign Company	Co-operative Society / Local Authority / Firm / LLP
Up to ₹ 1 crore	Nil	Nil	Nil
It exceeds ₹ 1 Crore up to ₹ 10 Crores	7%	2%	12%
It exceeds ₹10 Crores	12%	5%	

Note

- Marginal Relief will apply in certain cases.
- Surcharge on tax on Undisclosed Income (Sections 68/69/69A/69B/69C/69D) is 25%.
- Health and Education Cess of 4% is always payable.
- Section 115BA, 115BAA, 115BAB and Special Surcharge provisions are covered in ICAI Statutory Update.

Chapter 2 : Profits and Gains of Business and Profession

Section 28: Income chargeable to tax

1) Income arising to any person by way of profits and gains from the business, profession or vocation
2) Income derived by any trade, professional associations from specific services to their members
3) The value of any benefit or perquisite arising from business or the exercise of any profession.
4) Any interest, salary, bonus, commission or remuneration received by a partner of a firm from such firm
5) Export Incentives
6) Non-Compete Income
7) Proceeds of Keyman Insurance Policy
8) FMV of inventory as on the date on which it is converted into, or treated as, a capital asset

Allowable Deductions

Section 30: For Building	Section 31: For Plant / Machinery / Furniture
Rent, Rates, taxes, repairs and insurance	Repairs and Insurance Premium
No deduction shall be allowed for capital expenditure	

Section 32(1)(ii): Depreciation

Depreciation shall be allowed on WDV at prescribed rate on block of asset in respect of assets

a) which are owned wholly or partly by the assessee and
b) used for the purpose of business / profession

It is mandatory to claim Depreciation, it is allowed whether / not the assessee has claimed it in computing total income.

Half Depreciation

If asset **acquired** in previous year 'and' **put to use** for less than 180 days **in that previous year**, depreciation shall be RESTRICTED to 50% of depreciation. If asset is only acquired and not put to use, no depreciation can be claimed.

Depreciation Rates (Now Maximum rate of Depreciation is 40%)

Building	Land	Furniture	Plant / machinery	Motor Cars	Computers	Intangible assets
10%	**0%**	10%	15%	15%	40%	25%

Special Rates

Residential Building (Guest Houses, Houses allotted to employees)	5%
Buildings for installing plant forming part of water supply project or water treatment system	40%
Purely temporary erections such as wooden structures	40%
Motors buses, motor lorries, motor taxis used in a business of running them on hire	30%
Aero planes, aero engines	40%
Air, Water Pollution control equipment, Solid waste control equipment	40%
Energy Saving Devices / Windmills / electric generators and pumps running on wind energy	40%
Annual Publications owned by assessees carrying on a profession	40%
Books owned by assessees carrying on business in running lending libraries	40%
Books, other than annual publications, owned by assessees carrying on a profession	40%
Ships	20%

Notification no. 69/2019: New Depreciation rate (w.e.f. 23rd August 2019)

	Motor buses, motor lorries and motor taxis used in a business of running them on hire	**Motor cars, other than those used in a business of running them on hire**
acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020	**45%**	**30%**
Other cases	**30%**	**15%**

Section 50: Special provision for computation of capital gains in case of depreciable assets

Where capital asset is an asset forming part of a block of assets in respect of which depreciation has been allowed, capital gains arising from the transfer shall be **deemed to be arising out of short-term capital assets**.

1. Sale Consideration is more than Opening WDV + Additions + Transfer Expenses
2. Entire block ceases to exist i.e. all the assets in the block are sold / transferred

	Sec 32(1)(ii): Normal Depreciation	**Section 32(1)(iia): Additional Depreciation**	**Deduction under Sec 32AD**
Assessee	Any person	Any person	Any person
Area	Any area	Any area	Notified backward areas of Andhra Pradesh / Telangana / West Bengal / Bihar
Type of Business / Profession	Any business / Profession	a) manufacture or production of any article or thing or b) generation, transmission or distribution of power	Manufacturing / Production of any article or thing
Is it available every year?	Available every year	Available only in year put to use	Available only in year of purchase and installation
Assets	Depreciable assets	New Plant & Machinery	New Plant & Machinery
Rate of deduction	Specified Depreciation Rates	**20%** of the actual cost; If assessee sets up an undertaking for manufacture or production in notified backward area in **Andhra Pradesh or Bihar or Telangana or West Bengal,** then it shall be **35%**.	**15% of the actual cost of such new asset** for year in which such new asset **is installed**.
Put to use for less than 180 days	Half Depreciation	Half Depreciation; Balance 50% shall be allowed in subsequent year	Full Deduction (Provisions of Half Depreciation shall not apply)
Impact on WDV	It shall be reduced from WDV		It shall not be reduced from WDV
Asset purchased in	It is available for new as well as existing units on purchase of assets		Only to unit set up on or after 1st April 2015

Additional Depreciation / Deduction u/s 32AC is not allowed relating to following assets

Second hand Plant	Ships	Aircrafts	Installations in Office premises, Residential accommodation, guest house	Office Appliances	Vehicles	Plant whose actual cost is allowed as deduction (Normal depreciation also not allowed)

Special Provisions for Section 32AD

- If any new asset acquired and installed by the assessee is sold or otherwise transferred, except in connection with specified business restructuring within 5 years from the date of its installation, the deduction allowed shall be deemed to be the Business income of the previous year in which it is sold or otherwise transferred, in addition to taxability of capital gains.
- Where the new asset is sold or otherwise transferred in connection with specified business restructuring, Business Income will not arise in case of predecessor. However, the successor should continue to hold the asset for balance period. If transferred within such period, then Business Income will arise in the hands of successor in addition to Capital Gains.
- **Specified Business Restructurings**
  a) Amalgamation
  b) Demerger
  c) Conversion of Firm into Company
  d) Conversion of Sole Proprietory Concern into Company
  e) Conversion of Unlisted Company into Limited Liability Partnership

Section 43(1): Actual Cost to the assessee

Actual cost means the actual cost of the assets to the assessee, reduced by that portion of the cost thereof, if any, as has been met directly or indirectly by any other person or authority.

Where the assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or **through such other electronic mode as may be prescribed**, exceeds Rs. 10,000, such expenditure shall be ignored. (**w.e.f. AY 2020-21**)

Explanation 1 to Sec 32(1)	If tenant incurs any capital expenditure on the construction, renovation or extension of or improvement to the building, it shall be treated as building of the tenant assessee and depreciation shall be claimed on it by the tenant even if he is not the owner.
Explanation 6 to Sec 43(6)	If the assessee was not required to compute his total income and books of accounts are maintained in preceding years and depreciation was claimed earlier, then depreciation on such asset shall be deemed to be allowed. Revaluation has to be ignored.
Explanation 3 to Section 43(1)	Before the date of acquisition, the assets were at any time used by any other person for **business or profession** and AO is satisfied that main purpose of the transfer was the reduction of tax liability to income-tax, actual cost shall be determined by AO with approval of Joint Commissioner.
Explanation 4 to Section 43(1)	Actual cost to the assessee in case of Sale and Repurchase shall be lower of a) WDV at the time of first sale (For computing WDV, assume that the asset was only asset in the block) b) Actual price for which the asset is re-acquired
Expl 4A to Sec 43(1)	In case of Sale and Lease Back, the actual cost shall be WDV at the time of transfer.

Expl 8 to Sec 43(1)	Interest / Borrowing Cost upto the date such asset is first put to use shall be capitalised.
Expl 9 to Sec 43(1)	Cost of asset shall be reduced by excise duty or the additional duty u/s 3 of the Customs Tariff Act, 1975 for which credit is allowed.
Expl 10 to Sec 43(1)	Subsidy or grant or reimbursement relating to the asset shall be reduced in the actual cost. If it cannot be directly relatable to the asset, it shall be reduced proportionate to the cost of asset.

Particulars	**Building**		**Plant, Machinery, Furniture, Fixture**	
	Resident	**Non Resident**	**Resident**	**Non Resident**
Asset is gifted by some other person	Cost of addition = Actual cost to the previous owner (-) depreciation allowable to the previous owner **(Explanation 2 to Section 43(1))**			
Personal asset is brought into business	Actual cost (-) notional depreciation **(Explanation 5 to Section 43(1))**		Actual Cost	Actual cost (-) notional depreciation **(Explanation 11 to Section 43(1))**

<u>Proviso 5 to Section 32(1)</u>: Depreciation in case of Succession, Amalgamation and Demerger

Depreciation shall be calculated at the specified rates as if no business restructuring has taken place and then apportioned in the ratio of the number of days for which the assets were used by them:

a) to the amalgamating company and the amalgamated company in the case of Amalgamation
b) to the demerged company and the resulting company in the case of Demerger
c) to the Firm and Company in case of Conversion of Firm into Company
d) to Sole Proprietory Concern and Company in case of Conversion of Sole Proprietary Concern into Company
e) to Unlisted Company and LLP in case of Conversion of Unlisted Company into LLP
f) in case of Succession to business otherwise than on death (Section 170)

<u>Section 32(1)(i)</u>: Power Generation or Power Generation and Distribution Undertakings

There are 2 options available to claim depreciation: SLM on each asset or WDV on block of assets

If SLM is followed (No additional depreciation if SLM followed; Half depreciation provisions will apply)

<u>If Straight Line Method of Depreciation is followed</u>

Terminal Depreciation : If Money payable is less than WDV	**Balancing Charge:** If it exceeds WDV
= WDV as on 31st March of previous year (-) Sale value Only if the deficiency is actually written off in the books of accounts.	Least of following to be chargeable to tax: a) Actual cost – WDV b) (Money payable + Scrap value) – WDV
If asset is sold in the same previous year in which acquired, then Short Term Capital Gains shall arise.	

<u>Section 50A</u>: Adjusted WDV = WDV (Opening) (+) Balancing charge (-) Terminal depreciation

Section 35: Expenditure on Scientific Research

A. Expenditure on research carried on by the assessee

Section 35(1)(i)	Section 35(1)(iv)	Section 35(2AB)
100% of Revenue Expenditure **Pre-commencement Expense**: Salary (excluding Perquisites) to an employee engaged in such scientific research or on the purchase of materials for 3 years preceding the commencement of the business.	**100% of Capital Expenditure except on land.** **Pre-commencement Expense:** it shall be allowed for **3 years** immediately preceding commencement of the business (excluding on land). No depreciation to be allowed.	**Company** engaged in the business of **bio-technology** or **manufacture or production of any article or thing** (except in the list of the Eleventh Schedule) incurs any expenditure on scientific research (**except on land or building**) on **in-house research and development facility** as approved by the prescribed authority, then, **150%** of the expenditure so incurred.
Pre commencement expenditure will be allowed in the year of commencement of business.		

Sale of Asset

Section 41(3) Sold without using for business purpose	Explanation 1 to Section 43(1) Sold after using for business purpose
Taxable as Business Income of the previous year in which the sale took place: Least of a) Sale price b) Deduction u/s 35(1)(iv) Note: Capital Gains will arise **only if** sale price exceeds cost.	Actual cost to assessee = Actual cost (-) deduction u/s 35(1)(iv) i.e. Nil Section 50 shall apply on sale of asset.

Contribution to outsiders

Purpose	To Approved Research Association, University, College etc.	To Domestic Company approved by prescribed authority	To National Laboratory, IIT, University
For Scientific Research	**150% u/s 35(1)(ii)**	**100% u/s 35(1)(iia)**	**150% u/s 35(2AA)**
For Social Sciences or Statistical Research	**100% u/s 35(1)(iii)**	Not available	Not available

35CCA	100% of payment to associations and institutions for carrying out rural development programmes or Rural Development Fund or National Urban Poverty Eradication Fund
35CCC	**150%** of expenditure on agricultural extension project
35CCD	**150%** of expenditure on skill development project except on any land or building by Company

Expenditures which shall be amortised

Section	Expenditure	Amortisation Rate
35ABB	Expenditure for licence to operate telecommunication services	**From** PY in which business commences or previous year in which fees actually paid whichever later **to** PY in which license expires (Refer Note 1)
35ABA	Expenditure for obtaining right to use spectrum	
35D	Preliminary Expenses (Resident Assessee)	1/5th for 5 years (Refer Note 2)

35DD	Amalgamation / demerger expenses for Companies	1/5th for 5 years
35DDA	Expenditure under Voluntary Retirement Scheme	1/5th for 5 years from year of payment
35E	Expenditure on prospecting for certain minerals	1/10th for 10 years
36(1)(ix)	Expenses on promoting family planning amongst employees by Company	1/5th for 5 years (Revenue Expense = 100%)

Note 1

If the Licence / Spectrum is transferred	
Sale price is less than unamortized fee	**Sale price is more than unamortized fees**
a)**Full Transfer** : deduction allowable in the year of transfer = Unamortized fee Less: Sale price b) **Part**: (Unamortized Fees – Sale Price) / Residual Period	Least taxable as business income in the year of sale a) Sale price – Unamortized Fees b) Deduction allowed till date Capital Gains arise **only if** Sale price of License is more than cost of License.

Note 2

Step I: Total Preliminary Expenses

Step II: Cap Limit = Cap Limit for Indian Company = 5% of (Cost of project or Capital employed whichever higher)

For Other Resident Assessee = 5% of Cost of the project

Cost of Project = Actual cost of the fixed assets as per books as on 31st March of year of commencement

Capital Employed = Issued Share Capital + Debentures + Long-Term Borrowings on 31st March of commencement

Step III: Total Preliminary Expenses allowable = Lower of Step 1 and Step 2

Step IV: Deduction under Section 35D = 1/5th of Step III

Section 35AD: Expenditure in respect of specified business

Post commencement exp	**Pre commencement expenditure**
100% of Capital expenditure	**100% of Expenditure (Revenue as well as Capital)** if it is capitalised in the books of account on the date of commencement
No deduction for **Land / Goodwill / Financial Instrument**. Also, No deduction shall be allowed of capital expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or **through such other electronic mode as may be prescribed**, exceeds Rs. 10,000. (**w.e.f. AY 2020-21**)	

Specified Businesses

Warehouses	**Pipelines**	**Relating to Infrastructure**	**Others**
1. cold chain facility 2. warehouse for agricultur	4. cross-country natural gas or crude or petroleum oil pipeline network	6. hospital with at least 100 beds for patients 7. two star or above category hotel 8. housing project for slum redevelopment 9. housing project under affordable housing scheme	11. Bee-keeping and production of honey and beeswax 12. Production of Fertilizers 13. Setting up and operating an inland container depot

al produce 3. warehouse for sugar	5. slurry pipeline for the transportation of iron ore	10. Developing, operating, maintaining any Infrastructure Facility like road, highway etc.	or a container freight station 14. semi-conductor wafer fabrication manufacturing unit

Deduction u/s 35AD is claimed and Asset is sold	Deduction u/s 35AD is claimed and it is used for other non-specified business within 8 years (sec 35AD(7B))
Sum received shall be taxable as Business Profit.	Business Income of such year = total deduction (-) Notional Depreciation This provision shall not apply to a company which has become a sick industrial company during the period of 8 years.

Where any capital asset in respect of which deduction allowed u/s 35AD is deemed to be the income of the assessee as per section 35AD(7B), the actual cost of the asset to be added to WDV = Actual Cost (-) Notional Depreciation.

Allowable Deductions u/s 36

- Stock Insurance premium
- Premium paid by a Federal Milk Co-operative Society to effect insurance on the life of the cattle owned by a member of a co-operative society being a primary society engaged in supply of milk raised by its members to such Federal Milk Co-operative Society
- Health Insurance Premium by any mode of payment other than cash by employer on Employee's health (Keyman Insurance Policy of partner is allowable to Firm as per Circular)
- Actual cost of the animals - price realised on the sale of the animals themselves or their carcasses in respect of animals which have died or become permanently useless.
- Securities / Commodities Transaction Tax shall be allowed as deduction only if such income from such transactions is taxable as Business Income.
- Expenditure incurred by Co-operative Society for purchase of sugarcane at a price fixed by Government
- Pro rata amount of discount on a zero coupon bond having regard to the period of life of such bond
- The interest paid in respect of capital borrowed for the purposes of the business or profession (Interest upto date asset is first put to use shall be capitalised)
- Marked to market loss or other expected loss as computed in accordance with ICDS

Section 36(1)(vii): Bad debts (No deduction for provision for bad and doubtful debts)

- Bad debt **written off as irrecoverable** in the accounts shall be allowed as deduction subject to
  a) Debt has been shown as **income** in the same or earlier year OR
  b) It represents **money lent** in the ordinary course of the business of **banking or money-lending**
- If any debt is not recognized in the accounts as per Accounting Standard but is taxable as per Income Computation and Disclosure Standards and has become irrecoverable, it shall be allowed as deduction even if not written off in the books.
- Bad debts Recovery is taxable as Business Income. (Section 41(4))

Section 36(1)(viia): Provision for bad and doubtful debts in relation to Banks etc.

- Indian Bank = 8.5% of Total Income computed under this section and before Chapter VI-A + 10% of Average Aggregate Advances made by Rural Branches
- Foreign Banks, Public Financial Institution, a State Financial Corporation and a State Industrial Investment Corporation and Non-banking financial company = 5% of the total income computed before making any deduction under this clause and Chapter VI-A

- No deduction u/s 36(1)(vii). Actual bad debts should be debited to provision for bad and doubtful debts made. Where the actual bad debts exceeds the credits balance in the provision for bad and doubtful debt account, then deduction under section 36(1)(vii) shall be allowed for such excess.

Section 41(1): Remission or Cessation of Trading Liability (Refund of Expense / Write off of creditors)

- If the assessee has obtained any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof
- the amount obtained shall be deemed to be business income of that previous year
- It will be taxable even if business or profession is in existence in that year or not.
- It will be taxable even if such amount was received by successor of business.

Section 37(1): General Deduction allowable if

a) It is not expenditure of the nature described in sections 30 to 36
b) It is not in the nature of capital expenditure
c) It is not in the nature of personal expenses of the assessee
d) It is laid out or expended wholly and exclusively for the purposes of the business or profession

Expenses disallowed

a) Any expenditure for any purpose which is an offence or which is prohibited by law
b) Any expenditure on corporate social responsibility activities as per sec 135 of the Companies Act, 2013
c) Expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party

Expenditure in relation to Companies

Allowable (No Increase in Capital)	Not Allowable (As it leads to Increase in Capital
• Legal fees paid for drafting of new MoA / AoA to bring it in conformity with new Company Law • Expenditure on issue of bonus shares • Expenditure on issue of bonds or debentures • Discount on debentures • Expenditure for issue of convertible debentures • Expenditure on raising loans	• Fees paid for increase in Authorized Share Capital • Legal fees paid for drafting of new MoA / AoA for increase in Authorized Share Capital • Expenditure on issue of shares / public issue of shares • Expenditure on issue of right shares • Expenditure on issue of new shares which could not be materialized due to non-clearance by SEBI

Section 40: Specific Disallowances

a) Income Tax, Income Tax Relief (Section 90/90A), TDS, Distribution Taxes, Interest, Penalty on it
b) Wealth Tax, Interest, Penalty on it
c) Tax on non-monetary perquisites paid by an employer
d) Any amount paid by way of royalty, licence fee, service fee, privilege fee, service charge or any other fee or charge, by whatever name called, which is levied exclusively on or which is appropriated, directly or indirectly, from a State Government undertaking by the State Government.

Disallowance of expense on non-deduction or non-payment of Tax

Tax is deductible at source **and**

1. Tax has not been deducted **or**
2. after deduction, has not been paid on or before the due date as per section 139(1), then

Sec 40(a)(i)	Sec 40(a)(ia)
100% of sum payable to **Non Resident** shall be disallowed.	**30%** of sum payable to **Resident** shall be disallowed.

If tax has been deducted in subsequent year or has been deducted in previous year but paid in any subsequent year after due date u/s 139(1), then 100%/30% shall be allowable in the year of payment of TDS.

Section 40(a)(iii)

Any payment which is chargeable under the head "Salaries" shall be disallowed if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted therefrom. (For Residents, section 40(a)(ia) will apply in case of Salary)

Disallowance of 100% expense on non-deduction or non-payment of Equalisation Levy (Sec 40(a)(ib))

Equalisation levy is deductible at source **and**

1. Such levy has not been deducted **or**
2. after deduction, has not been paid on or before the due date as per section 139(1)

However in above case, 100% expenditure will be allowed in the year of payment of such levy.

Section 40A(2)

If assessee incurs any expenditure for which payment has been or is to be made to any specified person , so much of the excess expenditure shall not be allowed as a deduction if AO is of opinion that **it is excessive or unreasonable** having regard to FMV or legitimate needs of the business or benefit derived.

Section 40A(3)

Where the assessee incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or **through such other electronic mode as may be prescribed**, **exceeds ₹ 10,000**, no deduction shall be allowed in respect of such expenditure. (**w.e.f. AY 2020-21**) In the case of payment made for plying, hiring or leasing goods carriages, the cash payment limit is ₹ **35,000/-**

Section 40A(3A)

Where an allowance has been made and during any subsequent year, the assessee makes payment in respect thereof, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or **through such other electronic mode as may be prescribed**, the payment made shall be deemed to be Business Income of the subsequent year if the payment or aggregate of payments made to a person in a day, exceeds ₹ 10,000. (Limit of ₹ 10,000 / 35,000 shall apply) (**w.e.f. AY 2020-21**)

Rule 6DD: No disallowance even if paid otherwise than by Account payee cheque / draft

Where the payment is made to	Where the payment is made by
a) the RBI or any banking company b) the State Bank of India or any subsidiary bank c) any co-operative bank or land mortgage bank d) any primary agricultural credit society or any primary credit society e) the Life Insurance Corporation of India	a) any letter of credit arrangements through a bank b) a mail or telegraphic transfer through a bank c) a book adjustment from any account in a bank to any other account in that or any other bank d) a bill of exchange made payable only to a bank e) use of ECS through a bank account f) a credit / debit card

Where the payment is made to the Government and, under the rules framed by it, such payment is required to be made in legal tender	Where the payment is made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered to such payee
Where the payment is made for the purchase of the products manufactured or processed without the aid of power in a cottage industry, to the producer of such products	Where the payment is made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides, or is carrying on any business, profession or vocation, in any village or town
Where the payment is made for the purchase of a) agricultural or forest produce or b) the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming or c) fish or fish products or d) the products of horticulture or apiculture, to the cultivator, grower or producer of such articles, produce or products	Where the payment is made by an assessee by way of salary to his employee after deducting the income-tax from salary in accordance with the provisions of section 192 of the Act, and when such employee – a) is temporarily posted for a continuous period of fifteen days or more in a place other than his normal place of duty or on a ship and b) does not maintain any account in any bank at such place or ship
Where any payment is made to an employee of the assessee or the heir of any such employee, on or in connection with the retirement, retrenchment, resignation, discharge or death of such employee, on account of gratuity, retrenchment compensation or similar terminal benefit and the aggregate of such sums payable to the employee or his heir does not exceed ₹50,000/-.	Where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike
	Where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person
	Payment made by authorized dealer / money changer against purchase of foreign currency or travelers' cheques in the normal course of his business.

<u>Section 40A(4)</u>

Notwithstanding anything contained in any other law for the time being in force or in any contract, where any payment in respect of any expenditure has to be made by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account in order that such expenditure may not be disallowed as a deduction under section 40A(3), then the payment may be made by such cheque or draft or electronic clearing system and where the payment is so made or tendered, no person shall be allowed to raise, in any suit or other proceeding, a plea based on the ground that the payment was not made or tendered in cash or in any other manner.

<u>Section 23 of Micro, Small and Medium Enterprises Development Act, 2006</u>

Interest payable or paid by any buyer as per the provisions of this Act, shall not be allowed as deduction.

<u>Section 43B</u>: Certain deductions to be only on actual payment

Following sums shall be allowed as deduction if it is actually **<u>PAID on or before the due date u/s 139(1)</u>** of the year in which the liability to pay such sum was incurred. If not paid, then it is allowed in the **<u>year in which it is actually paid by him</u>**.

a) Tax, duty, Cess or fee under any law for the time being in force
b) Employer's contribution to any provident or superannuation fund or gratuity fund or any other fund for the welfare of employees

c) Bonus or commission payable to employees
d) Interest on loan from public financial institution or a State financial corporation or a State industrial investment corporation or scheduled bank or a Co-operative Bank other than a Primary Agricultural Credit Society or a Primary Co-operative Agricultural and Rural Development Bank in accordance with the terms and conditions of the agreement governing such loan
e) Interest on any loan or borrowing from a deposit taking non-banking financial company or systemically important non-deposit taking non-banking financial company, in accordance with the terms and conditions of the agreement governing such loan or borrowing– If deduction is already allowed for earlier year on accrual basis, it will not be allowed on payment basis (w.e.f. AY 2020-21)
f) Leave Encashment
g) any sum payable to the Indian Railways for the use of railway assets

Systemically important non-deposit taking non-banking financial company means a non-banking financial company which is not accepting or holding public deposits and having total assets of not less than Rs. 500 crores as per the last audited balance sheet and is registered with RBI.

Contributions to Provident Fund, Superannuation Fund or other Fund for the welfare of Employees

Employer's Contribution	Employee's Contribution
Allowed only if paid on or before ROI Due date as per section 43B (ROI – Return of Income)	Employee's Contribution shall be added to employer's income when deducted from employees' Salary. Deduction will be allowed only if it is credited in the relevant fund on or before the due date as per respective Act. (**Gujarat State Road Transport Corporation case) As per Kichha Sugar Co. Ltd. case, allowed as deduction if paid on or before ROI due date.**

Due dates under various Acts

a) **Provident Fund**: 15th of next month (No grace days now)
b) **ESI**: 21st of next month

Section 40A(7): Gratuity

Provision for gratuity to employees on retirement / termination of employment	Disallowed
Gratuity actually paid during the year	Allowed as deduction

Section 40A(9)

No deduction shall be allowed in respect of any sum paid by the assessee as an employer towards the setting up or formation of or as contribution to any fund, trust, company, association of persons, body of individuals, society if not required under any law.

Section 36(1)(iva)

Employer's contribution towards a pension scheme (section 80CCD) upto 10% of the salary of the employee in the previous year shall be allowed as deduction. (Salary includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites). Balance contribution shall be disallowed u/s 40A(9)

Section 44C: Deduction for Branches of Foreign Companies in relation to Head Office Expenditure

Head office expenditure shall be allowed to the **least of**

a) 5% of Adjusted Total Income (Total Income after all adjustments but before reducing brought forward losses / unabsorbed depreciation)
b) Head Office Expenditure attributable to business in India

Section 14A read with Rule 8D: Disallowance of Expenditure in relation to Exempt income

- The disallowance shall be the aggregate of:
  a) expenditure directly relating to income which does not form part of total income
  b) one per cent of the annual average of the monthly average of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income

  The total amount (a + b) shall not exceed the total expenditure claimed by the assessee
- These provisions shall also apply to a case where an assessee claims that no such expenditure has been incurred.
- Section 14A will apply even where taxpayer in a particular year **has not earned any exempt income**.

Section 44AA: Maintenance of Accounts by certain persons carrying on Profession / Business

Specified Professionals	Other persons carrying on business / engaged in non-specified professions
If the Gross Receipts exceed ₹1,50,000 in all the 3 years immediately preceding the previous year	a) In case of Individual and HUF, if income exceeds ₹ 2,50,000 or the total sales turnover or gross receipts exceed ₹ 25,00,000 in any 1 of 3 years immediately preceding the year b) In case of other persons, income exceeds ₹1,20,000 or the total sales turnover or gross receipts exceed ₹10,00,000 in any 1 of 3 years immediately preceding the year c) if profits are calculated on a presumptive basis u/s 44AE/44BB/44BBB and the assessee has claimed income is lower than presumptive rate d) where the provisions of section 44AD(4) are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year

Time Limit to maintain Books: The books of account shall be kept and maintained for a period of **6 years** from the end of the relevant assessment year.

Section 271A: Penalty for failure to keep, maintain or retain books of account: upto a sum of ₹25,000/-

Section 44AB: Audit of accounts of certain persons carrying on business or profession

For business: total sales, turnover or gross receipts in business exceed or exceeds ₹ 1 crores (**if the person, who declares profits as per section 44AD and his total sales, turnover or gross receipts, in business exceeds two crore rupees)**	Profession: gross receipts exceed ₹ 50 Lakhs	If lower profits are declared u/s 4AE / 44BB / 44BBB	If lower profits are declared u/s 44ADA and income exceeds the basic exemption limit	Sec 44AD(4) applies and income exceeds the basic exemption limit
Section 271B: Penalty for failure to get accounts audited **0.5% of the total sales, turnover or gross receipts** in such previous year/s o**r ₹1,50,000/-** whichever is less.				

Section	Presumptive Taxation: Income and Type of Assessee	Rate at which Income will be calculated
44ADA	• Any assessee resident in India, who is engaged in specified professions as per section 44AA • total gross receipts do not exceed **₹ 50 lakhs** in a previous year,	50% of the total gross receipts or sum higher claimed to have been earned
44AD	• An individual or HUF or a partnership firm, who is a **resident**, but not a LLP • who has not claimed deduction u/s 10AA or deduction under **Chapter VIA relating to incomes** • carrying on any business except the business of plying, hiring or leasing goods carriages referred to in section 44AE • whose total turnover or gross receipts in the previous year does not exceed ₹ **2 crores** The provisions of this section shall not apply to a) a person carrying on profession as per section 44AA b) a person earning commission or brokerage c) a person carrying on any agency business.	**8%** of the total turnover or gross receipts or a sum higher amount **6%** of total turnover or gross receipts received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account **or through such other electronic mode as may be prescribed** during the previous year or before the due date specified in section 139(1) in respect of that previous year. All deductions including Interest on Capital / Salary to Partners is deemed to have been allowed
44AE	Any assessee in the business of plying, hiring, leasing goods carriages owning not more than 10 goods vehicles any time during the year (Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12000 kilograms Gross vehicle weight means in respect of any vehicle the total weight of the vehicle and load certified and registered by the registering authority as permissible for that vehicle)	A. For heavy goods vehicle – Rs. 1,000 per ton of gross vehicle weight or unladen weight p.m. or part or an amount claimed to have been actually earned whichever is higher B. Other than heavy goods vehicle – Rs. 7,500 p.m. or part or an amount claimed to have been actually earned whichever is higher
44B	Shipping business of non-resident	7.5% of (Freight (+) demurrage (+) handling charges)
44BB	Income of non-resident in the business of providing services and facilities for or supplying plant and machinery on hire, used or to be used in the **exploration and exploitation of mineral oils, petroleum and natural gas**	10% of the Service Charges received
44BBA	Income of Non Resident engaged in operation of aircraft in India	5% of Total Freight
44BBB	Income of Foreign Company engaged in the business of civil construction or the business of erection of plant or machinery or testing or commissioning thereof, in connection with a turnkey power project approved by the Central Government	10% of sum received

Section 44AD(4)

- Where an eligible assessee declares profit for any previous year as per this section and he declares profit for any of the five years succeeding such previous year not as per with this section, he shall not be eligible to claim the benefit of this section for five years subsequent to the previous year in which the profit has not been declared as per this section.
- Ins such case, if the total income exceeds the maximum amount which is not chargeable to income-tax, he shall be required to keep and maintain such books of account and other documents as required under section 44AA and get them audited and furnish a report of such audit as required under section 44AB.

Chapter 3 : Income Computation and Disclosure Standards

If there is conflict between provisions of ICDS and Income Tax Act, then provisions of the Act shall prevail. If there is conflict between provisions of ICDS and Case Law, then provisions of the ICDS shall prevail.

ICDS I – Accounting Policies

Fundamental Accounting Assumptions

Going concern	Consistency	Accrual

Accounting Policies

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by a person.

Considerations in the Selection and Change of Accounting Policies

Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation. For this purpose

a) the treatment and presentation of transactions and events shall be governed by their **substance and not merely by the legal form**; and
b) marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

An accounting policy shall not be changed without **reasonable cause**.

Note: Marked to Market Gain or expected gain will not be taxable.

ICDS II – Valuation of Inventories

Measurement: Inventories shall be valued at cost, or net realisable value, whichever is lower.

Cost of Inventories: It shall comprise of all

a) costs of purchase
b) costs of services
c) costs of conversion
   i. Fixed production overheads
   ii. Variable production overheads
d) other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost Formulae

A. Specific identification of individual costs (specific costs are attributed to identified items of inventory)
B. First-in First out and Weighted Average Cost Formula

Techniques for the Measurement of Cost

a) Standard Cost
b) Retail Method

Note: Valuation of inventory on the date of dissolution where the business is continued by a partner(s)
In case of dissolution of a partnership firm or association of persons or body of individuals, ICDS II requires the inventory on the date of dissolution to be valued at the net realisable value**, notwithstanding whether business is discontinued or not**.

ICDS VIII – Securities

This ICDS deals with securities held as stock-in-trade.

Recognition and Initial Measurement of Securities

- A security on acquisition shall be recognised at actual cost which shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.
- Where a security is acquired in exchange for other securities, the fair value of the security **so acquired** shall be its actual cost.
- Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.
- Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

Subsequent Measurement of Securities

- At the end of any previous year, securities held as stock-in-trade shall be valued at **actual cost** initially recognised or **net realisable value** at the end of that previous year, **whichever is lower**.
- Comparison of actual cost initially recognised and net realisable value shall be done **category wise** and not for each individual security.
- For this purpose, securities shall be classified into the following categories
  (a) shares
  (b) debt securities
  (c) convertible securities
  (d) any other securities not covered above.
- At the end of any previous year, securities **not listed** on a recognised stock exchange or listed but not quoted on a recognised stock exchange with regularity from shall be valued at **actual cost initially recognised**.
- Where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method or weighted average cost formula.

Part B: ICDS relating to Securities held by a Scheduled Bank or Public Financial Institutions

Securities shall be classified, recognised and measured in accordance with the **guidelines issued by the Reserve Bank of India** in this regard and any claim for deduction in excess of the said guidelines shall not be taken into account.

ICDS III – Construction Contracts

This ICDS should be applied in determination of income for a construction contract of a contractor.

Types of Construction Contracts

a) It may be negotiated for the construction of a **single asset** or construction of a **number of assets** which are closely interrelated or interdependent in terms of their design, technology and function or purpose or use.
b) They are formulated in a number of ways which are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both fixed price contract and a cost plus contract, for example, in the case of a cost plus contract with an agreed maximum price.

Contract Revenue	Contract Costs
It shall be recognised when there is reasonable certainty of its ultimate collection. Contract revenue shall comprise of: a) the initial amount of revenue agreed in the contract, **including retentions**; and b) variations in contract work, claims and incentive payments: • to the extent that it is probable that they will result in revenue and • they are capable of being reliably measured. Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.	Contract costs shall comprise of : a) costs that relate directly to the specific contract b) costs that are attributable to contract activity in general and can be allocated to the contract c) such other costs as are specifically chargeable to the customer under the terms of the contract and d) allocated borrowing costs in accordance with the ICDS on Borrowing Costs.

Recognition of Contract Revenue and Expenses

- Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the **stage of completion** of the contract activity at the reporting date. It is referred to as the **percentage of completion method**.
- The stage of completion of a contract shall be determined with reference to:
  a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs
  b) surveys of work performed
  c) completion of a physical proportion of the contract work.
- Progress payments and advances received from customers are not determinative of the stage of completion
- When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date.

- Contract costs which are excluded are:
  a) contract costs that relate to future activity on the contract
  b) payments made to sub-contractors in advance of work performed under the subcontract.
- During the early stages of a contract, where the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25% of the stage of completion.

ICDS IV- Revenue recognition

Sale of Goods

Revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. Revenue shall be recognised when there is reasonable certainty of its ultimate collection

Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

Rendering of Services

Revenue from service transactions shall be recognized by the percentage completion method. Revenue from service transactions is matched with the service transactions costs incurred.

Exception to the rule that percentage completion method has to be followed:

a) When services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.
b) Revenue from service contracts with duration of not more than ninety days may be recognised when the rendering of services under that contract is completed or substantially completed.

The Use of Resources by Others Yielding Interest, Royalties or Dividends

Interest	Discount	Royalty	Dividend
Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Interest on refund of any tax, duty or cess shall be deemed to be the income of the previous year in which such interest is received.	Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.	Royalties shall accrue as per terms of the relevant agreement and shall be recognised on that basis unless it is more appropriate to recognise revenue on some other systematic and rational basis.	Dividends are recognised in accordance with the provisions of the Act.

ICDS-V: Tangible fixed assets

Identification of Tangible Fixed Assets

- Tangible fixed asset is an asset - land, building, machinery, plant or furniture held with the intention of being used for producing or providing goods or services and is not held for sale in the normal course of business.
- Stand-by equipment and servicing equipment are to be capitalised.
- Machinery spares shall be charged to the revenue as and when consumed.
- When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.

Components of Actual Cost

- Actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.
- Cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction due to
  a) Price adjustment, changes in duties or similar factors or
  b) exchange fluctuation as specified in ICDS VI
- Administration and other general overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset.
- Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset
- The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised.
- The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure

Self constructed Tangible Fixed Assets

Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.

Non-Monetary Consideration

- When a tangible fixed asset is acquired in exchange for another asset, the **fair value** of the tangible fixed asset **so acquired** shall be its actual cost.
- When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.

Improvements and Repairs

- An expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.
- The cost of an addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost.
- Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

Valuation of Tangible Fixed Assets in Special Cases

- Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. (No need to disclose such assets separately)
- Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

ICDS-VI: Effects of changes in foreign exchange rates

Part A	Part B	Part C
Treatment of transactions in foreign currencies	Translating the financial statements of foreign operations	Treatment of foreign currency transactions in the nature of forward exchange contracts

Part A: Treatment of transactions in foreign currencies

Foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person

a) buys or sells goods or services whose price is denominated in a foreign currency
b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency
c) becomes a party to an unperformed forward exchange contract
d) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency

Initial Recognition

- A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency **at the date of the transaction**.
- An **average rate for a week** or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

Conversion at Last Date of Previous Year

Foreign Currency Monetary Items	Non-monetary items
Eg. Cash, receivables, and payables	Eg. inventories, Equity Investments, Fixed Assets
They shall be converted into reporting currency by applying the **closing rate.** If closing rate does not reflect with reasonable accuracy, then it shall be reported in the reporting currency at the **amount which is likely to be realised** from or required to disburse such item at the last date of the previous year;	They shall be converted into reporting currency by using the exchange rate at the **date of the transaction** Inventory which is carried at net realisable value denominated in a foreign currency shall be reported using the **exchange rate that existed when such value was determined**

Recognition of Exchange Differences on the settlement or on conversion at last day of the previous year (Subject to Section 43A / Rule 115)

Monetary Items	Non-Monetary Items
Shall be recognised as income or as expense in that previous year.	**Shall not be** recognised as income or as expense in that previous year

Part B: Translating the financial statements of foreign operations

Financial Statements of Foreign Operations

The financial statements of a foreign operation shall be translated using the principles and procedures specified above. These provisions shall apply for integral as well as non-integral foreign operations.

Part C: Treatment of foreign currency transactions in the nature of forward exchange contracts

Forward Exchange Contracts

Following provisions shall apply provided that the contract

a) is not intended for trading or speculation purposes
b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.

A. Any premium or discount arising at the inception of a forward exchange contract = Difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract - It shall be amortised as expense or income **over the life of the contract**.

B. **Exchange differences on such a contract** = difference between:

a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year
b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.

It shall be recognised as income or as expense in the previous year in which the **exchange rates change**.

C. Any profit or loss arising on cancellation or renewal - It shall be recognized as income or as expense **for the previous year**.

These provisions shall not apply

a) The provisions shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Firm commitment, shall not include assets and liabilities existing at the end of the previous year
c) If Contract is intended for trading or speculation purposes - Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised **at the time of settlement**.

Section 43A: Special provisions consequential to changes in rate of exchange of currency

If asset is purchased from outside India for business or profession, then foreign exchange fluctuation during following events shall be adjusted against cost of acquisition or WDV

a) On Payment of the cost of the asset (Direct payment to supplier)
b) On Repayment of Principal / Interest relating to Loan taken in foreign currency

Gain / Loss on actual payment basis has to be considered; Reinstatement Gain / Loss **should not be considered**.

ICDS-VII: Government Grants

Government grants are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.

Recognition of Government Grants

- Government grants should not be recognised until there is reasonable assurance that
  (i) the person shall comply with the conditions attached to them, and
  (ii) the grants shall be received.
- Recognition of Government grant shall not be postponed beyond the date of actual receipt.

Treatment of Government Grants

<table>
<tr><th>Government grant relates to</th><th>Treatment</th><th>If such Government grant is refunded</th></tr>
<tr><td>relates to a depreciable fixed asset or assets of a person</td><td>Grant shall be deducted from the actual cost of asset/s or from WDV</td><td rowspan="3">• The amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable.
• Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.</td></tr>
<tr><td>In the form of non-monetary assets given at a concessional rate</td><td>It shall be accounted for on the basis of their acquisition cost.</td></tr>
<tr><td>Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired</td><td>So much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which Government grant is so received, shall be deducted from the actual cost or written down value of block of assets</td></tr>
<tr><td>relates to a non-depreciable asset/s of a person requiring fulfillment of certain obligations</td><td>Grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income</td><td rowspan="3">The amount refundable in respect of a Government grant shall be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.</td></tr>
<tr><td>If receivable as compensation for expenses or losses or for giving immediate financial support to the person with no further related costs</td><td>Such grant shall be recognised as income of the period in which it is receivable.</td></tr>
<tr><td>The Government grants other than above</td><td>Recognised as income over periods necessary to match them with related costs which they are intended to compensate</td></tr>
</table>

ICDS-IX - Borrowing Costs

Borrowing costs	Qualifying asset
They are **interest, other costs** incurred by a person in connection with the borrowing of funds and include: a) commitment charges on borrowings b) amortised amount of discounts or premiums relating to borrowings c) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings d) finance charges in respect of assets acquired under finance leases or under other similar arrangements	Qualifying asset means a) land, building, machinery, plant or furniture, being tangible assets b) know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets c) inventories that require **12 months** or more to bring them to a saleable condition

Recognition

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.
- The amount of borrowing costs eligible for capitalisation shall be determined as per this ICDS.
- Other borrowing costs shall be recognised in accordance with the provisions of the Act.
- Capitalisation means addition of borrowing cost to the cost of inventory.

Borrowing Costs eligible for Capitalisation

a) To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

b) To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula: A x B/C

A = Borrowing costs incurred during PY except on borrowings directly relatable to specific purposes;	B= (i) The average of costs of qualifying asset as appearing in the balance sheet of a person on the first and the last day of the PY (ii) In case the qualifying asset does not appear in the balance sheet of a person on the first day, half of the cost of the qualifying asset; (iii) In case the qualifying asset does not appear in the balance sheet of a person on the last day of PY, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, other than those qualifying assets which are directly funded out of specific borrowings	C= the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings

For the purpose of this calculation in relation to General Borrowing, a qualifying asset shall be such asset that necessarily requires a period of twelve months or more for its acquisition, construction or production.

Commencement of Capitalisation

The capitalisation of borrowing costs shall commence:

Specific Borrowing: from the date on which funds were borrowed	General Borrowings from : the date on which funds were utilised

Cessation of Capitalisation

Capitalisation of borrowing costs shall cease:

a) in case of a qualifying asset being fixed asset (tangible / Intangible) when such asset is first put to use
b) in case of inventory (require 12 months or more to bring them to a saleable condition) when substantially all the activities necessary to prepare such inventory for its intended sale are complete.

When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part shall cease same as above

ICDS X - Provisions, contingent liabilities and contingent assets

Provision is a liability which can be measured only by using a substantial degree of estimation.

Liability is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.

Contingent liability is-

a) a possible obligation that arises from past events and the existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the person
b) a present obligation that arises from past events but is not recognised because
   - it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or
   - a reliable estimate of the amount of the obligation cannot be made.

Contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

Present obligation is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

Recognition

A. Provisions

- A provision shall be recognised when
  a) a person has a present obligation as a result of a past event
  b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation
  c) a reliable estimate can be made of the amount of the obligation.
- If these conditions are not met, no provision shall be recognized.
- No provision shall be recognised for costs that need to be incurred to operate in the future.
- It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions
- If details of proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.

B. **Contingent Liabilities:** A person shall not recognise a contingent liability

C. **Contingent Assets:** A person shall not recognise a contingent asset. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs₹

Measurement: Best Estimate

- Amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of previous year. The amount of provision shall not be discounted to its present value.
- The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

Reimbursements

- Where some or all of the expenditure is required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.
- Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.
- An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Review

- Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.
- An asset and related income recognised relating to contingent asset shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.

Use of Provisions: Provision shall be used only for expenditures for which provision was originally recognised.

Chapter 4 : Income from Capital Gains

Section 2(14): Capital Asset means

a) property of any kind held by an assessee, whether or not connected with his business or profession,
b) any securities held by FII which has invested as per SEBI regulations (even if held as Stock in trade)

But **does not include**

1. Any stock-in-trade
2. Personal effects i.e. movable property (including wearing apparel and furniture) held for personal use (jewellery, archaeological collections, drawings, paintings, sculptures or any work of art is capital asset)
3. Rural agricultural land in India i.e. agricultural land in India situated beyond

Population of Municipality or Cantonment Board	Distance from Local Limits
10,000 to 1,00,000	2 kms
1,00,000 to 10,00,000	6 kms
More than 10,00,000	8 kms

4. Deposit certificates issued under the Gold Monetisation Scheme, 2015

Section 2(47): Transfer

a) the sale, exchange or relinquishment of the asset
b) the extinguishment of any rights therein
c) the compulsory acquisition thereof under any law
d) the maturity or redemption of a Zero Coupon Bond
e) Conversion of Capital Asset into stock-in-trade
f) any transaction which has the effect of transferring, or enabling the enjoyment of, any immovable property
g) any transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature.

Section 2(42A): Short-term capital asset

Period of holding upto 12 months	Period of holding upto 24 months	Period of holding upto 36 months
• Listed Security (except unit) • Unit of UTI • Unit of an Equity Oriented Fund • Zero Coupon Bond	Unlisted Shares (Equity / Preference) Immovable Property, being land or building or both	• Other Unlisted Securities like Bonds, Debentures • Units of Debt oriented Fund • Other Capital Assets

Cost	Incurred before 1.4.2001 (by assessee or previous owner)
Cost of Acquisition	Cost or FMV as on 1.4.2001 whichever higher (Base year – 2001-02)
Cost of improvement	Cost incurred prior to 1.4.2001 shall not be allowed.

The benefit of Indexation **shall not apply** to LTCG from **bond or debenture**. However, it shall apply to

a) Capital Indexed Bonds issued by the Government or
b) Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015

Sale Consideration is not ascertainable (Section 50D)	Cost of Acquisition is not ascertainable (Supreme Court Ruling in the case of Mr. B C Srinivasa Setty)
Fair market value of the said asset on the date of transfer shall be deemed to be Sale Consideration.	If it is not possible to ascertain cost, then transfer of such asset is not taxable.

Section 55	
Cost of Acquisition means • If it is purchased from a previous owner – Purchase Price • in any other case except as per section 49(1) - nil **Option of taking Fair Market Value as on 1.4.01 is not available (even if assets are self- generated or purchased from third party)**	**Cost of Improvement = Nil**
• Goodwill of a business • Trade Mark or Brand Name associated with a business • Right to manufacture, produce or process any article or thing • Right to carry on any business or profession • Tenancy Rights • Stage Carriage / Route Permits • Loom Hours	• Goodwill of Business • right to manufacture, produce or process any article or thing • right to carry on any business • right to carry on any profession

Advance money received forfeited

Section 51: If forfeited upto 31st March 2014	**Sec 56(2)(ix) : If forfeited from 1st April 2014**
It shall be deducted from the cost or the WDV or FMV as on 1st April 2001. Amount forfeited by the previous owner shall not be reduced.	It shall be taxable under the head "Income from Other Sources". It shall not be reduced from cost.

	Period of Holding	Sale Consideration	Cost of Acquisition	Year of Taxability	Special Points, if any
Insurance Compensation received on destruction of asset	Date of Purchase to Date of Destruction of Asset	Amount of Cash received or FMV of the asset received as on the date of receipt	Purchase Price	Year of Receipt of Compensation	• If no Compensation is received, then Capital Gains **shall not** arise. • No Capital Gains will arise even if compensation is received due to destruction of asset on theft / accident.
Conversion of Capital Asset into Stock in trade	Date of Purchase to Date of Conversion	Fair Market Value as on the date of conversion	Purchase Price	Year of Sale of Stock-in-trade	Business Income = Sale Price of Stock (-) FMV on the date of conversion
Introduction of Capital Asset in Firm / AOP	Date of Purchase to Date of Transfer	Amount recorded in the books	Purchase Price	Year of Transfer to Firm / AOP	Capital Gains will arise in the hands of Partner / Member

Distribution on dissolution of firm, retirement / death of partner	Date of purchase to date of transfer to partner or member	Fair Market Value as on the date of transfer	Purchase Price	Year of Transfer to Member / Partner	Capital Gains will arise in the hands of Firm / AOP
Original Compensation in compulsory acquisition	Date of purchase to date of compulsory acquisition	Compensation received	Purchase Price	Year of First Receipt	Interest on Compensation is taxable as Income from Other Sources in the year of receipt. 50% Interest is deductible irrespective of actual expense.
Enhanced Compensation		Compensation received	Nil as it was considered for original compensation	Year of each receipt	Interim Compensation shall be taxable in the year of final order.
Reduced Compensation		AO shall re-compute the Capital Gains for the original year and pass order within 4 years from the end of previous year in which the Court Order was passed			Legal expenses are allowed as Transfer expenses

Circular No.36/2016

Compensation received in respect of award or agreement which has been exempted from levy of income-tax vide section 96 of the RFCTLARR Act shall also not be taxable.

	Period of Holding	**Sale Consideration**	**Cost of Acquisition**	**Year of Taxability**	**Special Points, if any**
Conversion of Stock in trade into Capital Asset	Date of Conversion to Date of Transfer	Actual Sale Price	Fair Market Value as on the date of conversion **(Sec 49(9))**	Year of Sale or Transfer	Business Income = FMV on the date of conversion (Section 28(via)) (-) Expenses relating to it

Explanation 1A to section 43(1)

Where a capital asset referred to in section 28(via) is used for the purposes of business or profession, the actual cost of such asset to the assessee shall be the fair market value which has been taken into account for the purposes of the said section.

Section 45(5A)

a) The assessee is an individual or an HUF
b) Capital gains arise to the assessee from transfer of a capital asset being land or building or both
c) The transfer is made under a specified agreement (Joint Development Agreement)
d) The consideration for the assessee includes or consists of a share in the land or building or both in the project
e) The assessee has not transferred his share in the project on or before the date of issue of the certificate of completion for the whole or part of the project as issued by the competent authority.

- Sale Consideration = the stamp duty value (SDV) of share in land or building or both on the date of issue of the completion certificate + consideration received in cash, if any
- Capital gains taxable in the previous year in which the above referred certificate of completion is issued

If the assessee has transferred his share on or before the date of issue of the aforesaid certificate of completion then, capital gains shall be taxable in the previous year in which such transfer takes place

Common Points for Section 50C and 43CA

- It is applicable in case of sale / transfer of immovable property i.e. land , building
- Sale Consideration = Sale Price or SDV whichever higher. However, if SDV does not exceed 105% of Actual Sale Price, then Actual Sale Price shall be considered as Sale Consideration.
- SDV shall be taken on the date of the agreement if
  a) Consideration fully or in part has been paid
  b) by way of an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed. (**w.e.f. AY 2020-21**)
  c) on or before the date of the agreement for the transfer of such immovable property.
- In other cases, SDV shall be taken on the **date of Registration.**
- If the assessee claims that SDV exceeds the fair market value as on the date of transfer, then he has two options
- **Option 1**: File for appeal or revision or reference before any other authority, court or the High Court. AO shall pass the order revising the Capital Gains within **4 years** from the end of the previous year in which the order revising the value was passed in that appeal or revision or reference.
  Option 2: Make an application to AO. AO may refer the valuation of the capital asset to a valuation officer to calculate Fair Market Value (FMV). Sale Consideration shall be **SDV or FMV as per Valuation Officer whichever lower subject to minimum of Actual Sale Price**.

Section 50C	Section 43CA
It will apply if the immovable property is held as **Capital Asset**.	It will apply if the immovable property is held as **Stock-in-trade**.

Section 50CA: Sale consideration for transfer of unquoted share

- Where the consideration received as a result of the transfer of **share of a company other than a quoted share**, is less than the fair market value shall be deemed to be the full value of consideration received or accruing as a result of such transfer. (**Sale Price or FMV whichever is higher**)
- **These provisions shall not apply to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed (w.e.f. AY 2020-21)**

Proviso 1 to Section 48 read with Rule 115A (for Short Term as well as Long Term Capital Gains)

- It shall apply in the case of a non-resident assessee.
- It shall apply only for Capital gains arising from the transfer of a capital asset being shares in or debentures of an Indian company purchased in foreign currency or if it is a case of Reinvestment.
- It shall be computed by converting the cost of acquisition, transfer expenses and the Sale consideration into the same foreign currency as was initially utilised in the purchase of the shares or debentures, the rate shall be the Average rate of Telegraphic Transfer Buying Rate and Telegraphic Transfer Selling Rate.
- Capital gains in such foreign currency shall be reconverted into Indian currency. The rate shall be TTBR.

Proviso 4 to Section 48

In case of an assessee being a non-resident, any gains arising on account of appreciation of rupee against a foreign currency at the time of redemption of rupee denominated bond of an Indian company subscribed by him, shall be ignored for the purposes of computation of full value of consideration.

Transactions not regarded as Transfer (Section 47)

1. Any distribution of capital assets on the total or partial partition of a HUF

2. Any transfer of a capital asset under a gift or will or an irrevocable trust

3. Any transfer of any of work of art, archaeological, scientific or art collection, book, manuscript, drawings, paintings, photographs, printings to the Government or to the University or the National Museum, National Art Gallery, National Archives or any other public museum or institution notified

4. Any transfer of Foreign Currency Convertible Bonds or Global Depository Receipts referred to in section 115AC, made outside India by a non-resident to another non-resident

5. Any transfer of a Government Security carrying a periodic payment of interest, made outside India through an intermediary dealing in settlement of securities, by a non-resident to another non-resident

6. Any transfer, made outside India, of a capital asset being rupee denominated bond of an Indian company issued outside India, by a non-resident to another non-resident

7. Any transfer of a capital asset
   a) bond or Global Depository Receipt referred to in section 115AC or
   b) rupee denominated bond of an Indian company or c) derivative
   d) **such other securities as may be notified by the Central Government in this behalf**
   made by a non-resident or a **specified fund** on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency shall not be taxable
   Specified fund means a fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate
   a. **which has been granted a certificate of registration as a Category III Alternative Investment Fund and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012, made under the Securities and Exchange Board of India Act, 1992**
   b. **which is located in any International Financial Services Centre**
   c. **which is deriving income solely in convertible foreign exchange**
   d. **of which all the units are held by non-residents (w.e.f. AY 2020-21)**

8. Any transfer by way of conversion of bonds or debentures, debenture-stock or deposit certificates in any form, of a company into shares or debentures of that company

9. Any transfer by way of conversion of Foreign Currency Convertible Bonds into shares or debentures of any company
10. Any transfer by way of conversion of preference shares of a company into equity shares of that company

11. Any transfer of a capital asset in a scheme of reverse mortgage under a scheme made and notified by the Central Government

12. Any transfer by a unit holder of unit/s, held by him in the **consolidating scheme of a mutual fund**, made in consideration of the allotment of unit/s in the consolidated scheme of the mutual fund

13. Any transfer by a unit holder of unit or units, held by him in the **consolidating plan of a mutual fund scheme**, made in consideration of the allotment to him of a capital asset, being a unit or units, in the consolidated plan of that scheme of the mutual fund

14. Any transfer of Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, by way of redemption, by an assessee being an individual

15. Transfer of land under a scheme prepared and sanctioned under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985, by a sick industrial company which is managed by its workers' co-operative is not a transfer if such transfer is made in the period commencing from the previous year in which the said company has become a sick industrial company and ending with the previous year during which the entire net worth of such company becomes equal to or exceeds accumulated losses

16. Any transfer in a scheme for lending of any securities under an agreement or arrangement which the assessee has entered into with the borrower of such securities and which is subject to the guidelines issued by SEBI or the RBI

Particulars	**Amalgamation**	**Demerger** (Transfer should be on going concern basis)	**Conversion of sole proprietory concern to company**	**Conversion of Firm to company**	**Conversion of Unlisted company to LLP**
Predecessor	Company	Company	Sole proprietory concern	Firm	Unlisted Company
Successor	Indian Company	Indian Company	Company **in business**	Company **in business**	LLP
No Capital Gains on Transfer of Capital Assets	Section 47(vi)	Section 47(vib)	Section 47(xiv)	Section 47(xiii)	Section 47(xiiib)
Assets / Liabilities	All Assets (Fixed as well as Current) and Liabilities should be transferred to Successor Entity				
At what value?	At any value	**Book Value (Check Note)**	At any value	At any value	At any value
Discharge of consideration (No other consideration allowed)	Shares of Amalgamated Company (Indian Company)	Shares of Resulting Company (Indian Company)	Shares (Equity / Preference)	Shares (Equity / Preference) to all the Partners	Profit Sharing Ratio / Capital Contribution to all shareholders

Particulars	Amalgamation	Demerger	Conversion of sole proprietory concern to company	Conversion of Firm to company	Conversion of Unlisted company to LLP
In what Proportion	In proportion to shares in old company	In proportion to shares in old company	No proportion as only 1 person	In the ratio of Capital Balance Ratio	In the ratio of Shareholding in Company
Shareholding in new company	Atleast 75% shareholders of old company become shareholders of new company (excluding the shares already held by new company in old company)		Atleast 50% of Equity shares should be allotted to Sole Proprietor	Atleast 50% of Equity shares should be allotted to Partners	Atleast 50% of Profit Sharing Ratio should be held by the Shareholders
Time limit to maintain shareholding / Profit sharing ratio	No time limit	No time limit	5 years from the date of conversion		
What if time limit condition is not followed	N.A.	N.A.	Capital Gains which were not taxed due to section 47, will now be taxable in the year of non-compliance in the hands of successor entity.		

Note

This provision shall not apply where the resulting company records the value of the property and the liabilities of the undertaking or undertakings at a value different from the value appearing in the books of account of the demerged company, immediately before the demerger, in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015 (w.e.f. AY 2020-21)

Additional Conditions for Conversion of Unlisted Company to LLP

a) the total sales, turnover or gross receipts in the business of the company in any of the 3 years preceding the year of conversion does not exceed ₹60 Lakhs.
b) total value of the assets as appearing in the books of account of company in any of the three previous years preceding the year of conversion takes place does not exceed Rs. 5 crores.
c) No amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of 3 years from the date of conversion.

Section 47(iv)/(v): Transfer by Holding to Subsidiary Company or vice versa: No Capital Gains will arise if

a) the parent company or its nominees hold the whole of the share capital of the subsidiary company (100%)
b) the recipient company is an Indian company
c) the capital asset is received as capital asset and not as stock-in-trade

The **cost of acquisition** of the asset: **cost for which the previous owner** of the property acquired it.
The period for which the asset was held by the previous owner shall be included in period of holding.

Section 47A(1)

Capital Gains which were not taxed as per section 47 would be taxable for previous year in which such transfer took if within **8 years** from the date of the transfer

a) Such capital asset is converted into stock-in-trade of business by the transferee company

b) Holding company ceases to hold the whole of the share capital of the subsidiary company,

Cost of acquisition to the transferee-company shall be the cost for which such asset was acquired by it. AO shall pass the order within 4 years from the end of the previous year of the non-compliance.

Section 50B	**Period of Holding**	**Sale Consideration**	**Cost of Acquisition**	**Year of Taxability**	**Special Points, if any**
Sale of assets in **Slump Sale**	Date of setting up of undertaking to date of slump sale	Lumpsum Consideration	Net Worth of the undertaking transferred = Assets (-) Liabilities	Year of Slump Sale	• No Indexation benefit • For depreciable assets: take WDV • For other assets/ liabilities take book value • Revaluation shall not be considered

Sec	**Assessee**	**Type of CG**	**Old Asset**	**New Asset**	**Condition for New Asset**	**Exemption**
54	Individual or HUF	Long Term	Residential House Property	Only 1 Residential House Property in India	• Purchase 1 year before or within 2 years after the date of transfer OR • Construct within 3 years	Capital Gains or Amount invested whichever lower
54F	Individual or HUF	Long Term	Any Capital Asset other than Residential House Property	Only 1 Residential House Property in India	• Same as above • He/She should not own more than one residential house on the date of transfer. • He/She should not purchase any other residential house within a period of one year or construct any other residential house within a period of 3 years from the date of transfer of the original asset.	Capital Gains * Amount invested in HP / Net Sale Consideration
54EC	Any assessee	Long Term	**Land or building or both**	**Long Term Specified Asset / Bonds (See note)**	Bonds / Units should be purchased within 6 months from the date of transfer. The maximum investment in any financial year is ₹50 lakh. Investment made out of capital gains arising from the transfer of one or more capital assets, cannot exceed ₹ 50 lakh, whether the investment is made in the same financial year or subsequent financial year or partly in the same	Capital Gains or Amount invested whichever lower

54EE	Any assessee	Long Term	Any Capital Asset	Units of fund which will invest in start-ups.	financial year and partly in the subsequent financial year.	

Note

Long-term specified asset for making any investment under section 54EC - Any bond issued

a) by National Highways Authority of India or
b) by the Rural Electrification Corporation Limited or
c) any other bond notified in the Official Gazette by the Central Government i.e. **Power Finance Corporation Limited / Indian Railway Finance Corporation Limited**

Amendment in section 54 (w.e.f. AY 2020-21)

Where the amount of the capital gain does not exceed Rs. 2 crores, the assessee may, at his option, purchase or construct two residential houses in India, and where such option has been exercised

a) all provisions shall have effect as if for two residential houses in India.
b) any reference to "new asset" shall be construed as a reference to the two residential houses in India.

Where during any assessment year, the assessee has exercised the option referred to above, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.

Section 54GB: Exemption of capital gains on transfer of residential property upto 31.3.2.2021 (applicable for Individual/ HUF)

Old Asset	Incorporate a Company and invest net sale consideration in shares within ROI Due date	Company to purchase New Plant
There must be transfer of a long-term capital asset, being a residential property	**Eligible company** a) It is a **company** incorporated in India during the period from 1st April of the previous year of transfer to the due date of furnishing of return of income under section 139(1). b) It is engaged in the **eligible business** (business which involves innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property) c) assessee has more than **25%** share capital or more than **25%** voting rights (**w.e.f. AY 2020-21**) d) It qualifies to be an eligible start-up • the total turnover of its business does not exceed Rs. 25 crores • it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government.	The company should within one year from the date of subscription in equity shares by the assessee, utilise this amount for purchase of new asset.
Exemption = LTCG× Amount invested in new asset / Net sale consideration		
Equity shares or new asset shall not be sold within 5 years from the date of purchase by shareholder-assessee or company. **Computer or computer software, acquired by an eligible start-up shall not be sold within 3 years. (w.e.f. AY 2020-21)**		

Computers or computer software purchased are eligible for exemption.

New asset means new plant and machinery but does not include

a) Second hand machinery or plant
b) plant installed in office premises / residential accommodation / guest-house
c) office appliances
d) vehicle
e) machinery or plant, the whole of the actual cost of which is allowed as a deduction

	Section 54B: Capital Gains on transfer of Urban agricultural land	**Section 54D: Capital Gains on transfer by way of compulsory acquisition of land and building**	**Section 54G: Capital gains for shifting of industrial undertaking from urban areas to rural area** **Section 54GA: shifting from urban area to SEZ**
Eligible assessee	Individual or Hindu undivided family	Any assessee	Any assessee
Conditions to be fulfilled	a) Urban Agricultural land must have been used for agricultural purposes either by the assessee himself or his parents or **Hindu undivided family** in the **2 immediately preceding** years b) He should **purchase agricultural land** (urban or rural) **within 2 years** from the date of transfer.	a) The land and building should have been used by the assessee for purposes of the business of the industrial undertaking in the **2 years immediately preceding** the date of transfer. b) The assessee must **purchase any other land or building** or construct any building (for shifting or re-establishing the existing undertaking or setting up a new industrial undertaking) **within 3 years** from the date of transfer.	a) There should be a transfer of **machinery, plant, building or land** or any right in building or land used for the business b) The capital gain should be utilized for any of the following purposes within **1 year before** or **3 years after** the date of transfer • purchase of **new plant** and machinery • acquisition of **building or land** / construction of building • **expenses on shifting** of the industrial undertaking from the urban area to the other area • such other expenditure as the Central Government may specify
Type of CG	Short as well as Long Term Capital Gains		
Exemption	Capital Gains or Amount invested whichever lower		

Exemptions under Section 10

Section 10(37) - Exemption	• The assessee should an individual or a Hindu undivided family • Such **Urban land** should be used during the period of two years immediately preceding the date of transfer for **agricultural purposes** by such HUF or individual or a parent • Such transfer should be by way of **compulsory acquisition** under any law, or a transfer the consideration for which is determined or approved by the Central Government or RBI
	"Capital gains on transfer of a specified capital asset arising to an **individual or a Hindu undivided family**, who was the owner of such specified capital asset as on the 2nd day of June, 2014 and transfers that specified capital asset under the **Land Pooling Scheme** covered under the Andhra Pradesh Capital City Land Pooling Scheme (Formulation and Implementation) Rules,

Section 10(37A)	2015 made under the provisions of the Andhra Pradesh Capital Region Development Authority Act, 2014 and the rules, regulations and Schemes made under the said Act shall be exempt. Specified capital asset means a) the land or building or both owned by the assessee as on the 2nd day of June, 2014 and which has been transferred under the scheme or b) the land pooling ownership certificate issued under the scheme to the assessee in respect of land or building or both referred to in clause (a) or c) the reconstituted plot or land received by the assessee in lieu of land or building or both referred to in clause (a) in accordance with the scheme, if such plot or land so received is transferred within two years from the end of the financial year in which the possession of such plot or land was handed over to him. Where the capital gain arises from the transfer of a specified capital asset referred to in clause (c) of the Explanation to section 10(37A), which has been transferred after the expiry of two years from the end of the financial year in which the possession of such asset was handed over to the assessee, the cost of acquisition of such specified capital asset shall be deemed to be its stamp duty value as on the last day of the second financial year after the end of the financial year in which the possession of the said specified capital asset was handed over to the assessee.

Tax Rates

A. **Short Term Capital Gains taxable at 15% under section 111A if STT is paid relating to**
- Equity share in a company
- Unit of an equity oriented fund
- Unit of a business trust

Condition relating to STT shall not apply to a transaction undertaken on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency.
Chapter VI-A Deductions not allowed from such income.

B. Long Term Capital Gains (section 112)
- On Securities for Non Resident / Foreign Company: Taxable at 10% without indexation
- For Resident: Listed Securities or Zero Coupon Bonds: There are 2 options
  a) 20% on LTCG with indexation
  b) 10% on LTCG without indexation
- All other cases: Taxable at 20% with indexation
- Chapter VI-A Deductions not allowed from such income.

Note: Benefit of unexhausted limit for tax under section 111A and 112 will be allowed to Resident Individual and HUF.

Section 112A
- This section overrides section 112
- It will apply if the total income includes Capital gains from transfer of **long-term capital asset-**

Asset	Requirement of payment of Securities Transaction Tax
a) an equity share in a company	STT has been paid on acquisition and transfer
b) a unit of an equity oriented fund	STT has been paid on transfer
c) a unit of a business trust	STT has been paid on transfer

- The tax shall be payable on such long-term capital gains **exceeding Rs. 1 Lakhs** at the rate of **10%**
- Following provisios **will not apply** for calculation of Long Term Capital Gains under this section-
  a) Proviso 1 to Section 48 – Calculation of Capital Gains in Foreign Currency
  b) Proviso 2 to Section 48 – Benefit of Indexation
- In the case of resident individual or a Hindu undivided family, benefit of unexhausted limit shall apply.
- The condition relating to payment of STT shall not apply to a
  a) transfer undertaken on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transfer is received or receivable in foreign currency
  b) Transactions of acquisition notified by Central Government by notification in the Official Gazette
- Deduction under Chapter VI-A shall not be allowed from such Income.
- Rebate under section 87A shall not be allowed from the income-tax payable on such capital gains.
- Equity oriented fund means a fund set up under a scheme of a mutual fund specified under section 10(23D) and

Fund of Fund	Other Funds
If the fund invests in the units of another fund which is traded on a recognised stock exchange (A) a minimum of **90%** of the total proceeds of such fund is invested in the units of such other fund; and (B) such other fund also invests a minimum of **90%** of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange; and	Minimum of **65%** of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange.
Percentage of equity shareholding or unit held in respect the fund shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.	

Note: Exemption as per section 10(38) for Long Term Capital Gains on transfer of equity share in a company or a unit of an equity oriented fund or a unit of a business trust will not apply from 1.4.2018.

Section 55(2)(ac) – Cost of Acquisition if asset (covered u/s 112A) acquired before 1.2.2018

The cost shall be higher of

a) the cost of acquisition of such asset (If asset is purchased prior to 1.4.2001, option of taking FMV as on 1.4.2001 is available)
b) lower of
   A. the fair market value of such asset and
   B. the full value of consideration received or accruing as a result of the transfer of the capital asset.

Fair Market Value means

A. The capital asset is listed on any recognised stock exchange as on the 31st day of January, 2018 - the highest price of the capital asset quoted on such exchange on the said date
   Where there is no trading in such asset on such exchange on the 31st day of January, 2018, the highest price of such asset on such exchange on a date immediately preceding the 31st day of January, 2018 when such asset was traded on such exchange shall be the fair market value.

B. The capital asset is a **unit** which is not listed on a recognised stock exchange as on the 31st day of January, 2018, the net asset value of such unit as on the said date

C. In a case where the capital asset is an equity share in a company which is

a) not listed on a recognised stock exchange as on the 31st day of January, 2018 but listed on such exchange on the date of transfer;
b) listed on a recognised stock exchange on the date of transfer and which became the property of the assessee in consideration of share which is not listed on such exchange as on the 31st day of January, 2018 by way of transaction not regarded as transfer under section 47 - an amount which bears to the cost of acquisition the same proportion as Cost Inflation Index for the financial year 2017-2018 bears to the Cost Inflation Index for the first year in which the asset was held by the assessee or for the year beginning on the first day of April, 2001, whichever is later;

Particulars	**Period of Holding**	**Sale Consideration**	**Cost of Acquisition**	**Special Points, if any**
Bonus Shares / Units	Date of allotment to date of transfer	Sale Price	Nil	If Bonus Shares or Units are allotted prior to 1.4.2001, Cost = FMV as on 1.4.2001
Sweat Equity Shares	Date of allotment to date of transfer	Sale Price	FMV on date of exercise of option	Perquisite in the year of allotment = FMV on date of exercise of option – amount paid to company
Right Entitlements renounced	Date of offer to date of renouncement	Sale Price	Nil	Gains will be normally short term.
Such other person sold those shares	Date of allotment to date of transfer	Sale price	COA = Cost paid for right entitlement (+) cost paid to company to purchase shares	
Sale of Demat Shares through RSE	Date of purchase to date of brokers' note	Sale Price	Purchase Price	Securities Transaction Tax paid is not allowed as deduction while calculating Capital Gains (Allowed if the income is taxable as Business Income) FIFO Method has to be applied Accountwise on the basis of date of entry into the Demat Account
Sale of Demat Shares otherwise than through RSE	Date of purchase to date of Contract	Sale Price	Purchase Price	

Chapter 5 : Income from Other Sources

Taxability of Dividend

- Any income by way of dividends from domestic companies is exempt (Section 10(34)). Exemption shall not apply to any income by way of dividend under section 115BBDA**.**
- Any Income from UTI or Mutual Fund is exempt u/s 10(35).
- Dividends received from Foreign Company, Co-operative Society shall be taxable.

Section 115BBDA: Tax on certain dividends received from domestic companies

- If a specified assessee, resident in India receives dividends from a domestic company or companies exceeding ₹10 Lakhs, such dividend exceeding ₹10 Lakhs shall be taxable at 10%.
- No deduction in respect of any expenditure or allowance or set off of loss shall be allowed.
- Dividend shall include "dividend" in section 2(22)(a) to (d) but shall not include section 2(22)(e)
- Specified assessee means a person other than
  a) a domestic company or
  b) a fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in section 10(23C)
  c) a trust or institution registered under section 12A or section 12AA.

Section 115BBD: Tax on certain **Dividends** received from **specified foreign companies**

- **Indian company** earning any income by way of dividends declared, distributed or paid by a specified foreign company
- Dividend from specified foreign companies shall be taxed at 15%
- No deduction of any expenditure or allowance shall be.
- **Specified foreign company** means a foreign company in which the Indian company holds twenty-six per cent or more in nominal value of the equity share capital of the company.

Deemed Dividend

	Sec 2(22)(a)	2(22)(b)	2(22)(c)	2(22)(d)	Section 2(22)(e)
Type of deemed dividend	Any distribution of all or any part of the assets by the company to its shareholders	a) Distribution of debentures, debenture-stock, or deposit certificates to shareholders (equity/ preference) b) Distribution of Bonus Shares to its preference shareholders is deemed dividend. Bonus share to equity shareholders is not dividend.	Any distribution on its liquidation	Any distribution to its shareholder by company on the reduction of its capital	A. Advance or loan to any shareholder who is the beneficial owner of 10% or more of the equity capital of the company B. Any Advance or Loan to any concern (i.e. HUF / Firm / AOP / BOI / Company) in which a shareholder, having the **beneficial ownership** of atleast 10% of the equity shares is a member or a partner and in which he has a substantial interest (i.e. atleast 20% share of

					the income of the concern). C. Payment by company on behalf, or for the individual benefit, of such shareholder
Cap Limit	It shall be restricted to Accumulated profits whether capitalized or not (Capitalised Accumulated profits imply Bonus shares)				It shall be restricted to Accumulated profits only.
Company	Applicable for all types of Companies				Only for closely held companies
Tax u/s 115-O	Company shall pay Dividend Distribution Tax on such deemed dividend. (Rate is 15%)				**Company shall pay DDT (at 30%)**
Grossing up	While calculating tax under section 115-O, the dividend has to be grossed up (i.e. it is to be divided by (100-15)%)				**No Grossing up**
Share-holders	Deemed dividend would be exempt in the hands of Shareholders u/s 10(34) subject to section 115BBDA				Deemed dividend would be exempt in the hands of shareholder (A) / Concern (B); Sec 115BBDA will not apply.

Note

In the case of an amalgamated company, the accumulated profits, whether capitalised or not, or loss shall be increased by the accumulated profits, whether capitalised or not, of the amalgamating company on the date of amalgamation.

Exceptions i.e. No deemed dividend shall be taxed in following cases

1. a distribution made as per Section 2(22)(c) or (d) in respect of any share issued for full cash consideration in case of preference shareholders
2. Buy back price paid by the company to shareholder as per section 77A of the Companies Act, 1956
3. Distribution of in demerger by the resulting company to the shareholders of the demerged company
4. Advance or loan made to a shareholder or the said concern by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company
5. Dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as a dividend as per sec 2(22)(e), to the extent to which it is so set off

Gifts

Section 56(2)(x)

Where **any person** receives, in any previous year, from any person or persons

	Immovable Property		**Movable Property**	
Cash/Cheque	**as gift (free)**	**bought for lower value**	**as gift (free)**	**bought for lower value**
If sum of Money exceeds ₹50,000, then the whole amount is taxable.	If SDV of immovable property without consideration exceeds ₹50000, whole SDV will be taxable.	If stamp duty value of such property exceeds such consideration, excess will be taxable if excess is more than higher of following amounts:	If aggregate FMV received without consideration exceeds ₹50000 whole of the FMV will be	If movable property is received for a consideration less than FMV by an amount exceeding ₹50000, the difference is chargeable to tax.

		(i) Rs. 50,000 (ii) 5% of the consideration	chargeable to tax.	

Stamp Duty Valuation – similar to SDV as per section 50C / 43CA

Exemptions (Excluded from ₹50,000 limit)

a) received from any relative
b) received on the occasion of the marriage of the individual
c) received under a will or by way of inheritance
d) received in contemplation of death of the payer
e) received from any local authority as defined in section 10(2)
f) received from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution u/s 10(23C)
g) received from any trust or institution registered under section 12AA
h) from an individual by a trust created or established solely for the benefit of relative of the individual
i) by way of transaction not regarded as transfer under section 47 eg. Partition of HUF, amalgamation, demerger, Holding / Subsidiary Company related
j) received from such class of persons and subject to such conditions, as may be prescribed (w.e.f. AY 2020-21)

Property means the following capital asset of the assessee:

Immovable Property	Movable Property
land or building or both	Shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art, bullion; Gift of Car, Scooter, Mobile Phones, Watches etc. won't be taxable.

Relatives

1. **in case of an individual**
   a) spouse of the individual,
   b) brother or sister of the individual,
   c) brother or sister of the spouse of the individual,
   d) brother or sister of either of the parents of the individual,
   e) any lineal ascendant or descendant of the individual,
   f) any lineal ascendant or descendant of the spouse of the individual, and
   g) spouse of a person referred to in items (b) to (f) mentioned above.
2. **in case of a HUF, any member thereof**

Section 56(2)(viib)

If a Closely held company issues shares at premium to resident, then aggregate consideration as exceeds the fair market value of the shares shall be taxable.

This clause shall not apply where the consideration for issue of shares is received

a) by a venture capital undertaking from a venture capital company or a venture capital fund or **specified fund (w.e.f. AY 2020-21)**
b) from Non Residents
c) Persons notified by Central Government - Startup company

Notification No.24/2018 (retrospectively w.e.f. 11 April 2018)

The provisions of section 56(2)(viib) of the said Act shall not apply to consideration received by a company for issue of shares that exceeds the face value of such shares, if the consideration has been received for issue of shares from an investor in accordance with the **approval granted by the Inter-Ministerial Board of Certification** under Notification Number G.S.R. 364(E) issued by the Department of Industrial Policy and Promotion.

Where these provisions have not been applied to a company on account of fulfilment of conditions specified in the notification issued and such company fails to comply with any of those conditions, then, any consideration received for issue of share that exceeds the fair market value of such share shall be deemed to be the income of that company chargeable to income-tax for the previous year in which such failure has taken place and, it shall also be deemed that the company has under- reported the said income in consequence of the misreporting referred to section 270A for the said previous year. (Penalty = 200% of Tax)

Note

- **Specified fund means a fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category II Alternative Investment Fund and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012 made under the Securities and Exchange Board of India Act, 1992.**

Section 115BBE

Income tax shall be calculated at **60%** on (Surcharge @ 25% and HEC @ 4% - effective rate – 78%)

Following incomes reflected in the return of income furnished under section 139			Following incomes determined by AO if such income is not covered in Return		
Sec 68: Unexplained Cash Credits	**Sec 69A**: Unexplained money etc.	**Sec 69**: Unexplained Investments	**Sec 69B**: Investments not fully disclosed in the books	**Sec 69C**: Unexplained expenditure	**Sec 69D**: Amount borrowed or repaid on hundi other than through an account-payee cheque drawn

No deduction of any expenditure or allowance or set off of any loss shall be allowed.

Proviso to section 68: In case of Closely held Company, **share application money, share capital, share premium** or any amount shall be treated as Income u/s 68 of such company if

a) **Resident Shareholder** in whose name such credit is recorded in the books of such company does not offer an explanation about the nature and source of such sum so credited or
b) such explanation in the opinion of the Assessing Officer aforesaid has not been found to be satisfactory.

This provision shall not apply if

a) Shareholder is a Venture Capital Fund or Company and Company is Venture Capital Undertaking or
b) Shareholder is Non Resident or
c) It is a Company in which public are substantially interested

Distribution Taxes (Surcharge @ 12% and HEC @ 4% will apply)

Particulars	Section 115-O	Section 115R	Section 115QA
Type of Tax	Dividend Distribution Tax on dividend by Domestic Companies	Tax on Distributed Income by Mutual Fund	Tax on Buyback by Unlisted as well as **Listed Companies** (**w.e.f. AY 2020-21**)
Rate	15% of dividend declared, distributed or paid by such company **In case of deemed dividend u/s 2(22)(e), it would be 30%** **(Dividend will cover deemed dividend u/s 2(22)(a) to (e))**	**Equity Oriented Fund:** 10% **Money Market Mutual Fund or Liquid Fund or Debt Fund**: Paid to Individual / HUF: 25% Paid to Others: 30% **Infrastructure Debt Fund**: Paid to Non Resident / Foreign Company : 5%	20% of (Buy Back Price (-) Issue Price) **It shall not apply to such buy-back of listed shares in respect of which public announcement has been made before 5.7.2019**
Exemption	See Note	No such tax by UTI	--
Taxation in the hands of recipients	Dividend received by Shareholders would be exempt u/s 10(34)	Income from units of a Mutual Fund or UTI is exempt u/s 10(35)	Buyback price received by such shareholders is exempt u/s 10(34A)
Grossing up	**Applicable** **(No Grossing up in case of deemed dividend u/s 2(22)(e))**	**Applicable**	**Not Applicable**

Section 115-O(1A)

The amount on which tax is to be calculated shall be reduced by

Dividend received by the domestic company during the financial year if such dividend is received from its subsidiary and a) where such subsidiary is a domestic company, the subsidiary has paid the tax which is payable under this section on such dividend or b) where such subsidiary is a foreign company, the tax is payable by the domestic company under section 115BBD on such dividend A company shall be a subsidiary of another company, if such other company, holds **more than half in nominal value** of the equity share capital of the company.	Dividend, if any, **paid to** any person for, or on behalf of, the **New Pension System Trust** referred to in section 10(44).

Changes in section 115R (w.e.f. 1.9.2019)

- No additional income-tax under section 115R shall be chargeable in respect of any amount of income distributed on or after the 1st day of September, 2019 by a specified Mutual Fund, out of its income derived from transactions made on a recognised stock exchange located in any IFSC
- Specified Mutual Fund means a Mutual Fund specified under section 10(23D)
  a) located in any International Financial Services Centre
  b) deriving income solely in convertible foreign exchange
  c) of which all the units are held by non-residents

Chapter 6 : Income from House Property

Section 22

The annual value of any property comprising of building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".

Conditions

- Property should consist of any **building or land appurtenant** thereto.
- Assessee must be the **owner** of the property
- The property may be used for any purpose, but it should **not be used** by the owner for the purpose of any **business or profession** carried on by him, the profit of which is chargeable to tax.

Income from letting out of vacant land is, however, taxable under the head "Income from other sources".

Computation of Gross Annual Value

Step I: Calculate Expected Rent Expected Rent is higher of: • Municipal Valuation of the property (MV) • Fair Rent (FR) • Subject to Standard Rent (SR)	**Step II** : Rent Received Rent for previous year / part of the year for which the house property is let out Less : Unrealised Rent Less : Loss due to Vacancy Rent Received / Receivable	**Step III** : GAV = higher of Step I and Step II If Step II is Lower due to Vacancy Loss, GAV = Step II

Deductions

Property / Municipal taxes (Payment Basis)	Standard Deduction	Interest on borrowed capital (Sec 24(b)) (Accrual Basis)
• It should be **borne** by the assessee (owner) and • It should be **actually paid** during the previous year	30% of NAV (Sec 24(a))	• Interest payable on loans borrowed for **acquisition, construction, repairs, renewal or reconstruction** can be claimed as deduction. • Interest payable on a **fresh loan taken to repay the original loan** raised earlier is also allowable as deduction. • **Interest on unpaid interest is not deductible**.

Pre-construction Interest / Pre-possession period Interest

Pre-construction period	Deduction
From Date of disbursement of Loan To earlier of a) Date of Complete Repayment b) 31st March preceding the date of completion of construction	1/5th of such pre-construction Interest shall be allowed for 5 years beginning from the year in which construction is completed.

Types of House Property

Self Occupied	Let Out	Deemed to be Let out
If house property is used for self residential purposes by the assessee, then it is treated as Self Occupied Property. GAV / NAV shall be nil. Municipal Taxes shall not be allowed as deduction. However, Interest will be deductible.	If house property is given on rent, then the income shall be computed as per format already discussed.	If the assessee owns more than **2** House Property, then **two** would be treated as Self Occupied and others would be treated as deemed to be let out. GAV would be Step 1. (**w.e.f. AY 2020-21**)

Ceiling Limits for Interest

Self Occupied Property (Limit applies for Current as well as Pre-construction Interest)

Conditions	Interest
• Property is acquired or constructed with capital borrowed on or after 1.4.99 • Acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed. • Such interest is payable in respect of the amount advanced for acquisition or construction of the house or as refinance of the principal amount outstanding under earlier loan taken for such acquisition or construction.	Actual interest payable subject to maximum of ₹2,00,000
Property is repaired, renewed or reconstructed with capital borrowed	Maximum ₹30,000
Property is acquired or constructed with capital borrowed on or before 1.4.1999	Maximum ₹30,000

Aggregate of the amounts of deduction shall not exceed Rs. 2,00,000. (w.e.f. 2020-21)

Deemed to be let out property / Let out Property

The ceiling prescribed for one self-occupied property as above in respect of interest on loan borrowed does not apply to a deemed let-out property.

Special Cases

Case 1: Where a house property is let-out for part of the year and self-occupied for part of the year

- If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the Step 1 for the whole year shall be taken into account for determining the GAV.
- Property taxes for the whole year are allowed as deduction if paid by the owner during the year.

Case 2: In case of a house property, a portion let out and a portion self-occupied

- Income from any portion or part of a property which is let out shall be computed separately under the "let out property" category and the other portion or part which is self-occupied shall be computed under the "self-occupied property" category.
- Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

Case 3: If House Property is purchased or sold during the year (i.e. owned for some part of the year)

Entire calculation has to be made for that part of the year for which the property was held.

Case 4: Self-Occupied for own residence / cannot be occupied due to employment or business or profession carried out at any other place

GAV / NAV shall be nil. Municipal Taxes shall not be allowed as deduction. However, Interest will be deductible.

This benefit shall be allowed only for 2 House Properties (w.e.f. AY 2020-21)

This benefit shall not apply if

a) the house or part of the house is actually let during the whole or any part of the previous year or
b) any other benefit therefrom is derived by the owner.

Case 5: House Property held as Stock-in-trade

Where the property is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for up to **two years** from the end of the FY in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil. **(time limit changed w.e.f. AY 2020-21)**

Case 6: House Property is used for the purpose of Business / Profession

If the property is used for the purpose of any **business or profession** carried on by the assessee, then no Income shall arise from such property. All expenses relating to it will be allowed while calculating Business Income.

Arrears of rent and unrealized rent received subsequently (Section 25A)

The amount of arrears of rent received from a tenant or the unrealised rent realised subsequently from a tenant by an assessee shall be deemed to be the income from house property in respect of the financial year in which such rent is received or realised, A sum equal to 30% of amount is allowed as deduction.

Letting out is supplementary to the main business	**Composite Rent (where lettings are separable)**	**Composite Rent (where lettings are not separable)**
• Where the property is let out with the object of carrying on the business of assessee, then the rental income is taxable as **business income**, provided letting is not the main business but it is supplementary to main business.	Where composite rent includes rent of building and charges for different services the composite rent has to be split up - • sum for use of property: Income from House Property. • sum for use of services : Profits and gains of business or profession / Income from other sources	• If the letting out of building and other assets are not separable i.e. the other party does not accept letting out of buildings without other assets, then the rent is taxable either as **business income or income from other sources**

Section 27: Deemed Ownership (Income from House Property)

a) **Transfer to a spouse** otherwise than for adequate consideration
   Exception – In case of transfer to spouse in connection with an agreement to live apart
b) **Transfer to a minor child** otherwise than for adequate consideration
   Exception – In case of transfer to a minor married daughter
c) **Holder of an impartible estate**
d) **Member of a co-operative society etc**
e) **Person in possession of a property even if** sale deed has not been executed in favour of the buyer,
f) **Person having right in a property for a period not less than 12 years**
   Exception – Any rights by way of lease from month to month or for a period not exceeding one year.

Chapter 7 : Income from Salaries

Salary is chargeable to tax either **on 'due' basis or on 'receipt' basis** whichever is earlier.

Computation of Income from Salary

Basic Salary	**XXX**
Allowances (to the extent not exempt)	**XXX**
Taxable Value of Perquisites	**XXX**
Less :	
1.Entertainment allowance (only to Government employees)	**XXX**
2.Professional tax on employment	**XXX**
3. Standard Deduction	**XXX**
Income from Salary	**XXX**

Permissible Deductions

Section 16(ii): Entertainment Allowance	**Section 16(iii): Professional Tax**
It is first included in the Salary and later can be deducted only by **Government Employees** (Central/State Government) - lower of a) Rs.5,000 b) 20% of Basic Salary c) Entertainment Allowance received during the year (actual amount spent is immaterial)	• Deduction is available **only on payment basis**. • If Professional tax is **paid by employer**, then it is included in the salary as **perquisite** and then allowed as a deduction.

Section 16(ia): Rs. 40,000 or the amount of the salary, whichever is less

Allowances

Special Allowances exempt under Section 10(14) read with Rule 2BB

Exemption = Amount of Allowance or amount utilized for specific purpose whichever lower.

Travelling / Transfer Allowance for official purpose	Daily Allowance (to meet the ordinary daily charges)	Conveyance Allowance for official purpose
Helper Allowance	Research Allowance	Uniform Allowance

Allowances not dependent upon expenditure under Section 10(14) read with Rule 2BB

Children Education Allowance (for maximum of two children)	**₹100** per month per child
Children Hostel Allowance (for maximum of two children)	**₹300** per month per child
Transport allowance for personal purpose for employee who is blind or deaf and dumb or orthopedically handicapped	**₹3,200 per month**
Transport allowance for personal purpose to an employee working in any transport system	**70%** of such allowance upto a maximum of **₹10,000** per month.
Tribal Area Allowance	**₹ 200** per month
Underground Allowance	**₹ 800** per month

Special Compensatory (Tribal Areas / Schedule Areas / Agency Areas) Allowance	**Rs.200** per month

Section 10(13A): House rent allowance (HRA)

HRA granted to an employee is exempt to the extent of least of the following :

Delhi, Kolkata, Chennai, Mumbai	Other Cities
a) HRA received	a) HRA received
b) Rent – 10% of Salary	b) Rent – 10% of Salary
c) 50% of Salary for relevant period	c) 40% of Salary for relevant period

Salary = Basic Salary + dearness allowance, if provided in terms of employment + commission as a fixed percentage of turnover.

Perquisites

Rule 3(1): Rent Free Accommodation

Government employees	Other Employees
Value of Perquisite = Licence fee as per Central/State Government as per rules framed for allotment of houses to its officers	<table><tr><th>Population</th><th>More than 25 lakhs</th><th>10 lakhs to 25 lakhs</th><th>Less than 10 lakhs</th></tr><tr><td>Owned by employer</td><td>15% of Salary</td><td>10% of Salary</td><td>7.5% of Salary</td></tr><tr><td>Taken on lease / rent</td><td colspan="3">Lease Rent paid or payable or 15% of Salary whichever lower</td></tr></table>
Salary =Basic + DA if taken into account for calculating retirement benefits + Bonus + Commission (payable monthly or otherwise) + Fees + **other taxable allowances** + monetary payments (except perquisites) **from one or more employers** Salary is to be considered on **accrual basis**.	

Furnished Accommodation	Furnished Accommodation in Hotel
Find out the value of unfurnished accommodation as above Value of furniture = **10% p.a.** of original cost of furniture (if owned by the employer) or **actual hire charges** (if hired by the employer)	Value of Perquisite shall be lower of a) **24% of Salary** paid or payable b) **Actual charges** paid for the accommodation No perquisite is taxable if: a) Hotel Accommodation is for a period not exceeding 15 days in the previous year. b) It is provided to employee for transfer from one place to another.

No Perquisite in following cases

For employees working at mining site / oil exploration site / project execution site / dam site / power commissioning.		New accommodation on transfer of employee
Accommodation in **remote area** (area atleast 40 km from a town having a population not exceeding 20000)	Accommodation of **temporary nature** and having plinth area of **800 sq ft** or less located at least **8 km away** from local limits of municipality or cantonment board.	If he is provided accommodation at **new place of posting** while retaining the other accommodation, value of perquisite will be lower value of both for a period **not exceeding 90 days.**

Rule 3(3): Perquisite for free domestic servants

Servant appointed by	Servant's salary paid by	Value of perquisite
Employee	Employee	Nil
Employee	Employer	Actual cost incurred by the employer on the servant
Employer	Employer	Actual cost incurred by the employer on the servant
Employer	Employee	Nil

Rule 3(4): Perquisite in respect of gas, electricity, water supply provided free of charge or at a concessional rate

Facility in the name of	Value of Perquisite	
	Provided from own sources	Provided from outside
Employee	Manufacturing cost to employer	Amount paid to the supplier
Employer	Manufacturing cost to employer	Amount paid to the supplier

Rule 3(5): Perquisite of free or concessional educational facilities

Reimbursement of Fees

This will be taxable in hands of all employees.

Educational Facilities in Employer's Institute

Facility provided to	Value of Perquisite	
	Provided from own sources	Provided from outside
Children	Cost of such education in similar school (if upto Rs.1,000 p.m. per child, then no perquisite)	Cost of such education in similar school (if upto Rs.1,000 p.m. per child, then no perquisite)
Other members	Cost of such education in similar school	Cost of such education in similar school

In case any amount is recovered from the employee, such value has to be deducted from value of perquisite.

Note: There is no restriction on number of children.

Rule 3(6): Free or concessional tickets

- The value of any benefit or amenity resulting from the provision by an **employer engaged in the carriage of passengers or goods** to any employee or to any member of his household for personal or private journey free of cost or concessional shall be the value at which such benefit or amenity is offered by such employer to the public. Any amount recovered from the employee shall be reduced.
- However, this sub-rule shall **not apply** to the **employees of an airline or the railways.**

Rule 3(7)(i) : Interest-free or concessional loan to employee or member of household

a) Value of perquisite = Interest computed as per SBI rates – Interest recovered by the employer from the employee
b) The interest rate shall be the State Bank of India (SBI) as on the 1st day of the relevant previous year.
c) This rate should be applied on the maximum outstanding monthly balance (i.e. the balance outstanding for each loan as on the last day of the month) and the resulting amount should be reduced by the interest, if any, actually paid by him or any member of his household.

Exemption

a) Loans for medical treatment in respect of diseases specified in rule 3A of the Income Tax rules. (The exemption shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.)
b) The amount of loans does not exceed in the aggregate Rs.20,000.

Member of household shall include spouse(s), children and their spouses, parents, and servants and dependants.

Rule 3((2)(A)): Motor Car (Car facility between office to residence and back is not chargeable to tax at all)

	Circumstances (Rates per calendar month)	**Engine Capacity = / < 1600 cc**	**Engine Capacity > 1600 cc**
1	**Where the motor car is owned or hired by the employer**		
1 (a)	The motor car used wholly and exclusively in the performance of his **official duties**;	Nil (Documents specified should be maintained by the employer)	Nil (Documents specified should be maintained by the employer)
1 (b)	The motor car is used **exclusively for the private or personal purposes** of the employee or any member of his household and the running and maintenance expenses are met or reimbursed by the employer.	Expenditure incurred by the employer on the running and maintenance of motor car including remuneration paid by the employer to the chauffeur and increased by the amount representing normal wear and tear of the motor car (10% p.a. of actual cost) less any amount charged from the employee for such use.	
1 (c)	The motor car is used **partly in the performance of duties and partly for private or personal purposes** of the employee or any member of his household and		
	(i)the expenses on maintenance and running are met or reimbursed by the employer	Rs. 1,800 (plus Rs. 900, if chauffeur is also provided to run the motor car)	Rs. 2,400 (plus Rs. 900, if chauffeur is also provided to run the motor car)
	(ii) the expenses on running and maintenance for such private or personal use are fully met by the assessee.	Rs. 600 (plus Rs. 900, if chauffeur is also provided by the employer to run the motor car)	Rs. 900 (plus Rs. 900, if chauffeur is also provided to run the motor car)
2	**Where the employee owns the vehicle and the actual running and maintenance charges including remuneration of the chauffeur are met or reimbursed to him by the employer**		
2 (i)	Reimbursement is for use of vehicle wholly & exclusively for official purposes	Nil (Documents specified should be maintained by the employer)	
2 (ii)	The reimbursement is for the use of the vehicle partly for official purposes and partly for personal or private purposes of the employee or any member of his household.	Actual expenditure incurred by the employer as reduced by Rs. 1,800 (Rs. 900, if chauffeur is also provided to run the motor car)	Actual expenditure incurred by the employer as reduced by Rs. 2,400 (Rs. 900, if chauffeur is also provided to run the motor car)

	Where the employee owns any other automotive conveyance but the actual running and maintenance charges are met or reimbursed to him by the employer		
3	such reimbursement is for the use of the vehicle wholly and exclusively for official purposes;	Nil (Documents specified should be maintained by the employer)	Not Applicable
	such reimbursement is for the use of vehicle partly for official purposes and partly for personal or private purposes	Actual amount of expenditure incurred by the employer as reduced by Rs. 900.	Not Applicable

Rule 3(7)(iii) : **Free or concessional food and non-alcoholic beverages**

a) Perquisite = Expenditure incurred by the employer (-) the amount recovered from the employee

b) Following shall not be chargeable as perquisites:

Free food and non-alcoholic beverages provided by the employer during the working hours at office or business premises up to **Rs.50 per meal**	Free food and non-alcoholic beverages provided through **paid vouchers** which are not transferable and usable only at eating joints if the value thereof is up to **Rs.50 per meal**	**Tea or snacks** provided during working hours (Working hours include extended office hours (holidays, overtime)	Free food and non-alcoholic beverages during working hours provided in a **remote area or an offshore installation**.

Rule 3(7)(v): **Credit card expenses**

Perquisite	Not a Perquisite
The expenses including membership fees and annual fees incurred by the employee or any member of his household which is **charged to a credit card** (including add-on card) paid for / reimbursed **by the employer**	Expenses incurred wholly and exclusively for official purposes and a) Complete details of such expenditure are maintained by the employer b) the employer gives the certificate for expenditure that the same was incurred wholly and exclusively for the performance of official duties.

Rule 3(7)(iv) : Value of gift, voucher or token in lieu of such gift

- The value of any gift, or voucher received by the employee or by member of his household on ceremonial occasions from the employer shall be the sum equal to the amount of such gift.
- If its value is below Rs. 5,000 in the aggregate, the value of perquisite shall be taken as nil.

Rule 3(7)(vi): Club expenditure

Perquisite	Not a Perquisite
If employer reimburses or makes payment of any expenditure incurred in a club including the amount of **annual or periodical fee** for the employee or any member of household	a) If the employer provides uniformly to all employees the use of **health club, sports and similar facilities**, b) If the club expenditure is incurred wholly and exclusively for business purposes

Corporate Membership of Club (other than Health/Sports Club)

Initial Fee paid by the employer	Subscription fee
Not a Perquisite	Taxable Perquisite

Rule 3(7)(vii): Use of Moveable Assets

Asset	Value of benefit
Use of laptops and computers	Nil
Other Assets owned by employer	10% p.a. of actual cost
Other Assets taken on hire by the employer	Amount of rent paid/payable

Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

Rule 3(7)(viii): Transfer of Movable Assets

Asset	Perquisite	Depreciation	Rate	Deduct Depreciation
Computers & electronic Items	Depreciated value of asset	WDV	50%	For each completed year of usage
Motor cars		WDV	20%	
Any other asset		SLM	10%	

Rule 3(8): Sweat Equity Shares/Specified Securities

c) Specified Securities include shares, scrips, debentures, units, Government securities.
d) Sweat Equity shares / Specified Securities are taxable in the hands of the employees if they are allotted by employer/former employer to employee either free of cost or at concessional rate.
e) Income shall be taxable in the year of allotment of shares.
f) **Perquisite = Fair Market Value of the Shares/Securities as on the date of exercise of option (-) amount actually paid by the employee**

Section 10(5): Leave travel concession

a) This clause exempts the leave travel concession (LTC) received by employees from their employers for proceeding to any place in India, either on leave or after retirement from service or after termination of his service.
b) The amount exempt shall be the amount of expenses actually incurred for the purpose of such travel.
c) The benefit is available to individuals (citizens as well as non-citizens) in respect of travel concession or assistance for himself or herself and for his/her family- i.e., spouse and children of the individual and parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.

Note

a) The exemption will be available to an individual in respect of 2 journeys performed in a block of 4 calendar years commencing from the calendar year 1986.
b) Where such travel concession or assistance is not availed by the individual during any block of 4 calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption.
c) The exemption referred to shall not be available to more than **two surviving children** of an individual after **1.10.1998**. This shall not apply to:
   a) children born before 1.10.1998
   b) in case of multiple births after one child. (multiple births treated as 1 child)

Rule 3(7)(ii): Travelling, touring and accommodation

Expense incurred by Employee	Perquisite
Value of travelling, touring, stay and other expenses borne by the employer for any holiday availed by the employee or any member of his household	Amount of the expenditure incurred by the employer (It applies for trips other than those exempt under section 10(5) - Leave Travel Concession)
If the facility is maintained by the employer and it is not available uniformly to all employees	Value at which such facilities are offered by other agencies to the public
Employee is on official tour and the expenses are incurred for any accompanying member of his household	Expenses are incurred in respect of any member of his household
Official tour is extended as a vacation	Expenses for extended period of stay or vacation

Proviso to Section 17(2): Medical Facilities in India

Hospital (including clinic, dispensary or nursing home)	Nature of medical facilities made available to employees and family members	Expenditure	Chargeability to tax
Maintained by employer	Any	Incurred by employer	Not chargeable to tax
Maintained by a) Central/State Government b) Local Authority c) Approved person	Any	Incurred or reimbursed by the employer	Not chargeable to tax
Approved by the Chief Commissioner	For treatment of prescribed diseases under Rule 3A(2)	Incurred or reimbursed by the employer	Not chargeable to tax
Health Insurance Policy	-	Medical insurance premium paid or reimbursed by the employer	Not chargeable to tax

Section 17(2)(vi) : Medical Facilities outside India

Perquisite not chargeable to tax	Condition to be satisfied
Medical treatment of employee/family member outside India	Expenditure excluded only to the extent permitted by the Reserve Bank of India
Cost of travel of employee/family member and one attendant who accompanies the patient	Expenditure shall be excluded if the Gross total income computed before including the expenditure on travelling doesn't exceed Rs.2,00,000/-
Cost of stay abroad of employee/member and one attendant	Expenditure excluded only to the extent permitted by the Reserve Bank of India

Particulars	Recognized PF	Unrecognized PF	Statutory PF	Public PF
Employer's Contribution	Amount in excess of 12% of salary is taxable	Not taxable yearly	Fully exempt	Not applicable
Employee's Contribution	Eligible for deduction u/s 80C	Not eligible for Deduction	Eligible for deduction u/s 80C	Eligible for deduction u/s 80C
Interest Credited	Amount in excess of 9.5% p.a. is taxable	Not taxable yearly	Fully exempt	Fully exempt
Amount received on retirement, etc.	• Amount received on the maturity of RPF is fully exempt for employee who has rendered continuous service of 5 years or more. • In case the maturity of RPF takes place within 5 years then the amount received would be fully exempt only if service terminated due to employee's ill-health or discontinuance or contraction of employer's business etc. • In any other case, the amount received will be taxable in the same manner like URPF.	• Employee's contribution is not taxable • Interest on Employee's contribution is taxable under 'Income from Other Sources'. • Employer's contribution and interest thereon is taxable as Income from Salary.	Fully exempt u/s 10(11).	Fully exempt u/s 10(11).

Retirement Benefits

Section 10(10): Gratuity

Central / State Government Employees	Non-government employees	
	covered by the Payment of Gratuity Act, 1972 (if more than 10 employees in the establishment)	**Not covered by the Payment of Gratuity Act, 1972**
fully exempt from tax	Any death cum retirement gratuity is exempt from tax to the extent of least of the following: a) Rs.20,00,000 b) Gratuity actually received c) 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months Salary = Basic Salary + Dearness Allowance. No. of days in a month shall be taken as 26.	Any death cum retirement gratuity is exempt from tax to the extent of least of the following: • Rs.20,00,000 • Gratuity actually received • Half month's salary (based on last 10 months' average salary immediately preceding the month of retirement or death) for each completed year of service (fraction to be ignored) Salary = Basic Salary + Dearness Allowance, if provided in the terms of employment for retirement benefits, forming part of salary + commission which is expressed as a fixed percentage of turnover.

Section 10(10A): Payment in commutation of pension

Uncommuted Pension	Commuted Pension
It refers to pension received periodically. It **is fully taxable** in the hands of both government and non-government employees.	It means lump sum amount taken by commuting the whole or part of the pension. It is exempt as follows.

Central / State Government / local authorities/Statutory Corporation/ Employees/ members of Defence Services	Non-government employees	
	Employee is in receipt of gratuity	Employee does not receive any gratuity
Any commuted pension received is fully exempt from tax.	Exemption = 1/3rd of the amount of pension which he would have received had he commuted whole pension.	Exemption = ½ of the amount of pension which he would have received had he commuted the whole of the pension

Section 10(10AA): Leave encashment

It provides exemption in respect of amount received by way of encashment of unutilised earned leave by an employee at the time of his retirement whether on superannuation or otherwise.

Received during period of service	Received at the time of retirement	
	Government employees	Non-government employees
Fully taxable	Fully exempt from tax	Exempt from tax to the extent of least of the following : 1. Rs.3,00,000 2. Leave salary actually received 3. 10 months' salary (on the basis of average salary of last 10 months) 4. Cash equivalent of leave (based on last 10 months' average salary immediately preceding the date of retirement) to the credit of the employee at the time of retirement or death (calculated at 30 days' credit for each completed year of service (fraction to be ignored)

Sec 10(10B): Retrenchment compensation

Retrenchment compensation will be exempt from tax subject to the following limits:

a) Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes Act, 1947 (15/26 * Average Salary of last 3 months * completed year of service or any part in excess of six months)
b) An amount, not less than ₹5,00,000, whichever is lower.

Section 10(10C) read with Rule 2BA: Voluntary Retirement Receipts

Exemption shall be least of

a) Actual Compensation received
b) ₹5,00,000
c) Last drawn Salary * 3 * Number of years of service
d) Last drawn Salary * Balance number of months of Service left

Salary = Basic Salary + dearness allowance, if provided in terms of employment + commission as a fixed percentage of turnover

Chapter 8 : Deductions under Chapter VI-A

Section 80C: Deduction for Individual / HUF

<table>
<tr><th></th><th>Payment / Investment qualifying for deduction</th><th>In whose name</th></tr>
<tr><td>1</td><td>Premium paid on insurance policy (life policy / endowment policy)
<table>
<tr><th>Policy issued prior to 1.4.2012</th><th>Policy issued on/after 1.4.2012</th><th>Policy issued on/after 1.4.2013</th></tr>
<tr><td>Deduction = Premium or 20% of capital sum assured whichever lower</td><td>Deduction = Premium or 10% of capital sum assured whichever lower</td><td>Deduction = Premium or 15% of capital sum assured whichever lower * (only for disability / disease)</td></tr>
</table>
The 15% criteria will apply only for a person with disability or severe disability (section 80U) or suffering from disease or ailment (section 80DDB); Sum assured doesnot include any premium agreed to be returned or benefit of bonus.</td><td>If assessee is Individual, then policy for own life or life of spouse or children. If assessee is HUF, then policy on life of any member of the family.</td></tr>
<tr><td>2</td><td>Contributions made to Public Provident Fund</td><td>Individual, spouse and any child</td></tr>
<tr><td>3</td><td>Contributions for participation in the Unit-linked Insurance Plan 1971 or any Unit linked Insurance Plan of the LIC Mutual Fund</td><td>If assessee is an individual, then individual, spouse and any child; for HUF, any member thereof.</td></tr>
<tr><td>4</td><td>Premium paid to effect and keep in force a contract for a deferred annuity</td><td>Individual, spouse or child (N.A. for HUF)</td></tr>
<tr><td>5</td><td>Contributions to approved annuity plans of LIC (New Jeevan Dhara / New Jeevan Akshay) or any other insurer (eg. ICICI Prudential Life Insurance Co Ltd.)</td><td>Assessee</td></tr>
<tr><td>6</td><td>Amount deducted by the Government from the salary of Government employee for securing a deferred annuity (subject to maximum of 20% of Salary)</td><td>Individual , spouse or children</td></tr>
<tr><td>7</td><td>Contributions to Statutory Provident Fund by an employee</td><td>Assessee</td></tr>
<tr><td>8</td><td>Contributions to Recognized Provident Fund by an employee</td><td>Assessee</td></tr>
<tr><td>9</td><td>Contribution by an employee to an Approved Superannuation Fund</td><td>Assessee</td></tr>
<tr><td>10</td><td>Subscription to National Savings Certificates, VIII Issue or IX Issue</td><td>Assessee</td></tr>
<tr><td>11</td><td>Subscription to any units of any mutual fund approved by the Board</td><td>Assessee</td></tr>
<tr><td>12</td><td>Contribution by an individual to a pension fund</td><td>Assessee</td></tr>
<tr><td>13</td><td>Payment of tuition fees at the time of admission or thereafter to any university, college, school or other educational institutions within India for the purpose of full-time education of any two children of the individual.
This benefit shall not include
a) any payment towards development fees or donation or payment of similar nature (capitalization fees)</td><td>For maximum two children of the individual</td></tr>
</table>

	b) payment made for education to any institution **situated outside India**.	
14	Investment in **Sukanya Samriddhi Account** (The interest on deposits in and withdrawals would be exempt under section 10(11A))	a) the individual b) any girl child of the individual c) any girl child for whom such individual is the legal guardian
15	Subscription to any deposit scheme or contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.	Assessee
16	Term deposit of five years with a scheduled bank	Assessee
17	5 year time deposit under Post Office Time Deposit Rules, 1981	Assessee
18	FD under the Senior Citizens Savings Scheme Rules, 2004.	Assessee
19	Subscription to any such deposit scheme of a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes (**Public deposit scheme of HUDCO**)	Assessee
20	Subscription to **equity shares or debentures** forming part of any eligible issue of capital by company engaged in Infrastructure sector as notified	Assessee
21	Subscription to such **bonds issued by NABARD**	Assessee
22	Subscription to any units of any mutual fund under section 10(23D) or from the Administrator or the specified company under any plan formulated in accordance with **Equity Linked Savings Scheme**	Assessee
23	**Contribution to a specified account of the pension scheme referred to in section 80CCD by an employee of the Central Government** **(a) for a fixed period of not less than three years and** **(b) which is in accordance with the scheme as may be notified by the Central Government in the Official Gazette.** **Specified account means an additional account referred to in section 20(3) of the Pension Fund Regulatory and Development Authority Act, 2013. (w.e.f. AY 2020-21)**	**Assessee**

Payment for cost of Purchase or Construction of Residential House Property eligible under section 80C

Approved Payments	Repayment of Loan from
a) Any installment or part payment of the amount due under any **self-financing** or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis b) Any installment or part payment of the amount due to any **company or a cooperative society** of which	• The Central Government or any State Government • Any bank including a co-operative bank • The L.I.C. • The National Housing Bank • Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii).

the assessee is a shareholder or member towards the cost of house allotted to him; or c) **Stamp duty**, **Registration Fee** and other expenses for the purposes of transfer of such house property to the assessee.	• Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses. • The assessee's employer if it is an authority or a board or a corporation or any other body established or constituted under a Central or State Act or a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.

Inadmissible payments

a) **Admission Fee**, **Cost of Share** and **Initial Deposit** which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member
b) the cost of any **addition or alteration or renovation or repair** of the house property after the completion of the house or after the house has been occupied by the assessee or any person on his behalf or after it has been let out
c) any expenditure whose deduction is allowable under section 24 i.e. **Interest on Borrowed Capital**

Section 80CCC: Deduction in respect of Pension Fund

- Where an assessee (individual), has paid **amount out of his income chargeable to tax** to effect or keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund, he shall be allowed a deduction in the computation of his total income.
- Interest or bonus accrued or credited to the assessee's account shall not be reckoned as contribution.

Section 80CCD: Deduction in respect of contribution to a Notified Pension Scheme

This deduction is allowed to an individual has paid any amount in his account under a pension scheme notified

Individual employed by the Central Government or any other employer	Other person
Deduction shall be subject to 10% of his salary (Sec 80CCD(1))	Deduction shall be subject to **20%** of Gross Total Income (Sec 80CCD(1))
• Total deductions under section 80C, 80CCC and 80CCD shall not exceed ₹1,50,000 (Section 80CCE) • Additional deduction of upto ₹ 50,000 is allowed in addition to limit of ₹ 1.50 lakh (Section 80CCD(1B))	

Employer's Contribution

- Where employer makes any contribution, assessee shall be allowed a deduction of the whole amount or 10% of his salary whichever less. (Employer's contribution shall be added to salary as perquisite)
- **Where such contribution is made by Central Government - 14% of his salary (w.e.f. AY 2020-21)**
- Contribution made by the employer to NPS under section 80CCD shall be excluded from the limit of ₹ 1,50,000 provided under section 80CCE
- Salary includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites (Same for employees

Section 80D: Deduction in respect of Medical Insurance Premia

Deduction shall be allowed if payment is made out of income chargeable to tax.

For Individuals		
Preventive Health Check-Up	**Medical Insurance Premia**	**Contribution to the Central Government Health Scheme or Notified Schemes**
Any mode, including cash	Any mode other than cash	
Sub limit : ₹5,000/-	No Sub Limit	
Overall Limit : **₹25,000** (for self, spouse, dependent children) **₹25,000** (for parent/s) If any of the above mentioned persons are **Resident senior citizens**, the maximum deduction would be **₹ 50,000** instead of ₹25,000.		
Deduction upto **₹ 50,000** would be allowed in respect of any payment made on account of medical expenditure in respect of assessee or any spouse or dependent children or parent being senior citizen (Resident), if no payment has been made to keep in force insurance on the health of such person.		
For Hindu Undivided Family		
Medical Insurance Premia on the life of members	**Contribution to the Central Government Health Scheme or Notified Scheme or Preventive Health Check-Up**	
Deduction = ₹25,000	No deduction available	
If any of the members are **Resident senior citizens**, the maximum deduction would be **₹ 50,000** instead of ₹25,000.		

Notified Scheme: Contributory Health Service Scheme of the Department of Space Contributory Health Service Scheme of the Department of Atomic Energy

Medical Insurance in force for more than a year in case of Individual or HUF

- Where the amount is **paid in lump sum** in the previous year to effect or to keep in force an insurance on the health of any person (assessee, spouse, dependent children, parents or members of HUF) for more than a year, then, a deduction = **appropriate fraction** for each of the relevant previous year.
- Appropriate fraction means the fraction, the numerator of which is one and the denominator of which is the total number of relevant previous years.
- Relevant previous year means the previous year beginning with the previous year in which such amount is paid and the subsequent previous year/s during which the insurance shall have effect or be in force.

Person with Disability / Severe Disability (80% or more disability)	**Certain disease or ailment**
The deduction is available to an assessee, who is a **resident in India**, being an individual or HUF	
Section 80U: Deduction if assessee himself is a person with disability and incurs expense for **medical treatment** **Section 80DD** a) Any amount **paid for the medical treatment** (including nursing), training and rehabilitation of a **dependant**, being a person with disability b) any amount **paid under a scheme** by the Life Insurance Corporation / other insurer etc. for the maintenance of a dependant, being a person with disability	**Section 80DDB** Assessee has actually paid any amount for the medical treatment of such specified disease or ailment for himself or a dependant
Deduction = **₹75,000** ; in case of severe disability = **₹1,25,000** (irrespective of expenditure incurred)	Deduction = amount actually paid or a sum of **₹40,000** whichever less

	For **Resident senior / super senior citizen**, amount paid or **₹1,00,000** whichever less

Section 80E: Deduction for interest on loan taken for higher education

- The deduction is available to an **individual** only.
- Any amount paid towards **interest on loan** borrowed from any financial institution or any approved charitable institution for the purpose for the pursuing higher education is deductible.
- The Higher Education shall be pursued by the assessee himself or by any of the relative of the assessee.
- The amount shall be actually paid out of the income of the assessee taxable during the previous year.
- This deduction is allowed for year of commencement of repayment of interest and immediately succeeding 7 assessment years or until the interest is repaid by the assessee in full, whichever is earlier.

Section 80EEA: Deduction in respect of interest on loan taken for certain house property (w.e.f. AY 2020-21)

- In computing the total income of an assessee, being an **individual** not eligible to claim deduction under section 80EE, there shall be deducted interest payable upto **Rs. 1,50,000** on loan taken by him from any financial institution for the purpose of acquisition of a residential house property
- The deduction shall be subject to the following conditions:
  a) the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2020
  b) the stamp duty value of residential house property does not exceed **Rs. 45 Lakhs**
  c) the assessee does not own any residential house property on the date of sanction of loan.
- Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

Section 80EEB: Deduction in respect of purchase of electric vehicle (w.e.f. AY 2020-21)

- In computing the total income of an assessee, being an **individual**, there shall be deducted interest upto **Rs. 1,50,000** payable on loan taken by him from any financial institution for the purpose of purchase of an electric vehicle.
- The deduction shall be subject to the condition that the loan has been sanctioned by the financial institution during the period beginning on the 1.4.2019 and ending on the 31.3.2023.
- Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

Section 80G: Deduction for Donations to Certain Funds, charitable institutions

Deduction is available to any assessee. The institution eligible for deduction u/s 80G are categorized into 4 segments.

I	II	III	IV
100% deduction without any limit	50% deduction without any limit	100% of the restricted amount	50% of the restricted amount

No deduction shall be allowed in respect of donation of any sum exceeding **Rs. 2,000** unless such sum is paid by any mode other than cash.

Category I: Various finds/ institutions, which are eligible to 100% deduction without any limit

1. PM's National Relief Fund
2. PM's Armenia Earthquake Relief Fund

3. The Africa (Public Contribution – India) Fund
4. The National Foundation for Commercial Harmony
5. A University or any educational institution of national eminence as may be approved
6. The National Illness Assistance Fund
7. Any Zilla Saksharta Samiti constituted for the purpose of improvement of primary education in villages and towns and for literacy and post literacy activities
8. National Blood Transfusion Council or to any State Blood Transfusion Council
9. Any fund set up a State Government to provide medical relief to the poor
10. The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air force Central Welfare Fund established by the armed forces of the Union for the welfare of the past and present member of the such forces or their dependents
11. The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund in respect of any State or Union Territory, as the case may be
12. The National Sports Fund to be set up by the Central Government
13. The National Cultural Fund set up by the Central Government
14. The Fund for Technology Development and Application set by the Central Government
15. The National Defence Fund
16. Any fund set by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
17. National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities constituted under the relevant Act of 1999
18. Andhra Pradesh Chief Minister's Relief Fund
19. National Children's Fund
20. National Fund for Control of Drug Abuse
21. Swachh Bharat Kosh
22. Clean Ganga Fund

Category II: Various funds / institutions, donations to which are eligible to unrestricted 50% deduction without any ceiling limit;

1. Jawaharlal Nehru Memorial Fund;
2. PM's Drought Relief Fund
3. Indira Gandhi Memorial Trust
4. Rajiv Gandhi Foundation.

Category III: Donations that qualify for restricted donations (100% of the restricted amount)

1. Donations eligible for Contribution by a company as donations to the Indian Olympic Associations or to any other Associations or institutions established in India for the development of infrastructure for sports and games or for the sponsorship of sports and games in India notified by the Central Government in the official gazette.
2. Government or local authority or approved institution /association for promotion of family planning.
3. Archery Association of India

Category IV: Donations eligible for 50% of the restricted amount

1. Renovation of temple, mosque, church, gurudwara or any other place of national importance notified by the Central Government;
2. The Government or any local authority, to be utilized for any charitable purpose other than the purpose of promoting family planning;

3. Any incorporation established by government for promoting interest of scheduled caste / scheduled tribe / backward class or a minority community
4. Any authority set up for providing housing accommodation or city, town or village planning.
5. Any Institution or Fund established in India for charitable purposes

Net Qualifying Amount (Steps for calculating Category III/IV deductions)

Step 1: Compute Adjusted Total Income, which is Gross Total Income as reduced by –

a) Deduction under Chapter VI-A except under section 80G
b) Long term capital gains (Section 112)
c) Short term capital gains on listed securities (Section 111A)
d) Winnings from Lottery, crossword puzzles
e) Income referred to in section 115A, 115AB, 115AC, 115ACA, 115AD, 115D

Step 2: Compute 10% of Adjusted Total Income.

Step 3: Compute actual donations qualifying for restricted deduction (50% or 100% as the case may be)

Step 4: Lower of Step 2 or Step 3 is the maximum permissible deduction.

Section 80GG: Deduction in respect of rent paid

- The deduction is available to an individual only.
- Rent paid is allowable as deductions to the extent of the least of the following;
  a) Excess of rent paid over 10% of total income (Total income same as above)
  b) 25% of total income
  c) ₹ 5,000 per month

Section 80GGA: Donations for scientific research, rural development

- No deduction shall be allowed in the case of an assessee whose earns Business income.
- No deduction shall be allowed in respect of any sum exceeding ₹10,000/- unless such sum is paid by any mode other than cash.
- Donations eligible for deduction - Research association or to a University, college or other institution to be used for scientific research / research in social science or statistical research / rural development programmes / approved by National Committee / Rural Development Fund / National Urban Poverty Eradication Fund

Contributions to Political Parties or Electoral Trust

Section 80GGB	Section 80GGC
Contributions by **companies** are eligible for deduction.	Contributions by **other persons** except local authority and every artificial juridical person wholly or partly funded by the Government are eligible for deduction.
No deduction shall be allowed u/s 80GGB / 80GGC in respect of any sum contributed by way of cash.	

Section 80TTA: Deduction in respect of interest on deposits in savings account

- Deduction is available to an individual (**except resident senior citizen**) or a Hindu undivided family on interest on deposits (not being time deposits) in a **savings account** with

Banking Company	Co-operative Bank (including a co-operative land mortgage bank or a co-operative land development bank)	Post Office

- Deduction shall be available upto **₹10,000**/-

Section 80TTB: Deduction in respect of interest on deposits in case of Senior Citizens

- Deduction is available to a senior citizen in respect of interest on deposits with

Banking Company	Co-operative Bank (including a co-operative land mortgage bank or a co-operative land development bank)	Post Office

- Deduction shall be available upto **₹50,000**
- Senior citizen means an individual resident in India who is of the age of sixty years or more at any time during the relevant previous year

Note: Section 80TTA excludes interest on Time Deposits (Fixed / Recurring Deposit) whereas section 80TTB includes the interest on time deposits. Both these sections cover interest on savings account.

Deduction under the heading "C.—Deductions in respect of certain incomes

Section 80JJA: Deduction in respect of profits from business of processing of bio-degradable waste

- Deduction is allowed to assessee if it derives any profits and gains derived from the business of

collecting, processing, or treating of bio- degradable waste for generating power	producing bio- fertilizers, bio- pesticides or other biological agents	for producing bio gas	making pellets or briquettes for fuel or organic manure.

- Deduction = 100% of profits for a period of 5 consecutive PYs beginning with PY in which such business commences.

Section 80JJAA: Deduction for employment of new employees

- Where the gross total income of an assessee to whom **section 44AB applies**, includes any profits and gains derived from business, there shall be allowed a deduction of an amount equal to **30% of additional employee cost** incurred in the course of such business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.
- Emoluments means any sum paid or payable to an employee in lieu of his employment by whatever name called, but does not include
  a) any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and
  b) any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.
- Additional employee cost means total emoluments paid or payable to additional employees employed during the previous year. In the case of an existing business, the additional employee cost shall be nil, if
  a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year
  b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or **through such other electronic mode as may be prescribed (w.e.f. AY 2020-21)**
  In the first year of a new business, emoluments paid or payable to employees employed during that previous year shall be deemed to be the additional employee cost;
- Additional employee means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include
  a) an employee whose total emoluments are more than twenty-five thousand rupees per month; or

b) an employee for whom the entire contribution is paid by the Government under the Employees' Pension Scheme notified in accordance with the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952
c) an employee employed for a period of less than 240 days during the previous year (In case of apparel manufacturing business footwear or leather products – 150 days)
d) an employee who does not participate in the recognised provident fund;

Where an employee is employed during the previous year for a period of less than 240 / 150 days but is employed for 240 / 150 days in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly.

Section 80QQB: Deduction in respect of Royalty Income of Authors	**Section 80RRB: Deduction in respect of Royalty on Patents**
The Deduction is available to a Resident individual who is an author or joint author.	The Deduction is available to a Resident individual who is a patentee (he may be a co-owner of patent).
Deduction = ₹3,00,000 or Income from royalty whichever is lower. If the Royalty is not a lump sum consideration, deduction shall be allowed only upto **15%** of the value of such books sold	Deduction = ₹3,00,000 or Income from "royalty" whichever is lower. Patentee means the person (being the true and first inventor of the invention), whose name is entered on the patent register as the patentee.

Section 80-IA: Deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc.

Infrastructure Facility ***	**Industrial Park**	**Power Undertaking** (new or substantial renovation*)	**Reconstruction/Revival of Power Generating Plant**
Should be operational by 1st April 1995	Should be completed by 31st March, 2011	Should be completed by 31st March, 2017	Should be completed by 31st March, 2011
100% of profit in 10 consecutive assessment years out of 20 years	100% of profit in 10 consecutive assessment years out of 15 years	100% of profit in 10 consecutive assessment years out of 15 years	100% of profit in 10 consecutive assessment years out of 15 years
The company / consortium of companies should enter into an agreement with the Central or State Government or a local authority		*Increase in the plant by at least 50% of book value of plant as on 1st April, 2004	It should be an Indian company with majority equity participation by public sector companies

*** **Infrastructure facility** means

a) a road including toll road, a bridge or a rail system
b) a highway project including housing or other activities being an integral part of the highway project
c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system
d) a port, airport, inland waterway, inland port or navigational channel in the sea.

Housing or other activities are an integral part of the highway project

- Such profit shall not be liable to tax where the profit has been transferred to a special reserve account
- The Reserve is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year in which such amount was transferred
- The unutilised amount shall be taxable as income of the year in which such transfer to reserve account took place.

Nothing contained herein shall apply in relation to a business which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise.

Section 80-IAB: Deductions in respect of profits and gains of Developer of Special Economic Zone

- Deduction = **100%** of the profits for **10 consecutive years out of 15 years** beginning from the year in which a Special Economic Zone has been notified by the Central Government.
- In a case where an undertaking is transferred to another Developer, the deduction shall be allowed to such transferee Developer for the remaining period as if the operation and maintenance were not so transferred.

Section 80-IB: Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings

Industrial Undertaking in Jammu and Kashmir
It should begin to manufacture till 31st day of March, 2012 (it should not be engaged in the manufacture of any article or thing specified in Part C of the Thirteenth Schedule)
• Initial 5 AYs – 100% • Next 5 AYs: 25% (for companies 30%) • Instead of next 5 years, next 7 years 25% for co-operative society

Production of mineral oil

Deduction = 100% of profits for 7 consecutive AYs

Engaged in commercial **production of natural gas** in blocks licensed under **NELP-VIII**	All blocks licensed under a single contract awarded under NELP or in pursuance of any law or by the Central or a State Government shall be treated as a single "undertaking".
Engaged in commercial **production of natural gas** under the IV Round of bidding for award of exploration contracts for **Coal Bed Methane blocks**	It should begin commercial production of natural gas on or after the 1st April, 2009.

Section 80-IC	Section 80-IE
Undertaking in **Himachal Pradesh or Uttaranchal**	Undertaking in **North Eastern States**
• which manufactures / produces any article or thing • undertakes substantial expansion	• manufacture/produce any **eligible article** or things; • undertake substantial expansion to manufacture • carry on any **eligible business**
Deduction = **100%** of profits for first 5 years, **25% (30%** in the case of a company) for the next 5 years	Deduction = **100%** of profits for first 10 years
It should commence before **31st March 2012**	It should commence before **31st March 2017**

Substantial expansion means increase in the investment in the plant and machinery by **at least 50%** of the book value of plant and machinery (before taking depreciation in any year), as on first day of the previous year in which the substantial expansion is undertaken.	"Substantial expansion" means increase in the investment in the plant and machinery by **atleast 25**% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial is undertaken;

Section 80-IAC: Special provision in respect of specified business

- Where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall be allowed deduction = 100% of the profits and gains derived from such business for three consecutive assessment years.
- Eligible business means a business carried out by an eligible start up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.
- Eligible start-up means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions:
  a) it is incorporated on or after the 1st day of April, 2016 but before the **1st day of April, 2021**
  b) the total turnover of its business does not exceed twenty-five crore rupees **in the previous year for which such deduction is claimed** and
  c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government;
- The deduction may, at the option of the assessee, be claimed by him for any three consecutive assessment years out of **seven** years beginning from the year in which the eligible start-up is incorporated.

Section 80-IBA: Deductions in respect of profits and gains from housing projects (highlighted points changed w.e.f. AY 2020-21)

- Deduction = 100% of profits derived from the Housing Project

Date of Approval by Local Authority	Date of completion
01/06/2016 to **31/03/2020**	**5 years** from end of year in which project of approved

- If approval is obtained more than once, it shall be deemed to have been approved on the date on which the building plan of such housing project is **first approved** by the local authority.
- The date of completion of construction of the housing project shall be taken to be the date on which the completion certificate in respect of such housing project is issued by the local authority.

Location of Project	Minimum Size of plot of Land	Residential Unit Carpet Area (Maximum)	Minimum % of permissible floor area used
within the cities of Chennai, Delhi, Kolkata or Mumbai	1000 sq. meters	30 sq. meters	not less than 90%
other places	2000 sq. meters	60 sq. meters	not less than 80%

The project is the only housing project on the plot of land

The carpet area of the shops and other commercial establishments included in the housing project does not exceed 3% of the aggregate carpet area.

- **For the projects approved on or after the 1st day of September, 2019**

Location of Project	Minimum Size of plot of Land	Residential Unit Carpet Area (Maximum)	Minimum % of permissible floor area used
such within the metropolitan cities of Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai (whole of Mumbai Metropolitan Region)	1000 sq. meters	60 sq. meters	Not less than 90%
Any other place	2000 sq. meters	90 sq. meters	Not less than 80%

- The stamp duty value of a residential unit in the housing project does not exceed Rs. 45 Lakhs.
- Where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual.
- The assessee maintains separate books of account in respect of the housing project.
- Not more than one residential unit in the housing project is allotted to any person not being an individual.
- Nothing contained here shall apply to any undertaking which executes the housing project as a works contract awarded by any person (including the Central or State Government).
- Assessee maintains separate books of account in respect of the housing project.

Section 80LA: Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre (changed w.e.f. AY 2020-21)

Scheduled bank or bank incorporated by or under the laws of a country outside India (Foreign Bank) and having an offshore banking unit in a special economic zone	Unit of International Financial Services Centre set up in such a center in Special Economic Zone
Deduction = 100% of income for first 5 years (deduction from the year in which permission under Banking Regulation Act or under SEBI Act or any other law was obtained) and 50% for the next 5 years.	Deduction = 100% of income for any 10 consecutive AYs at the option of the assesse, out of 15 years, beginning with the year in which the permission, under section 23(1)(a) of the Banking Regulation Act, 1949 or permission or registration under the SEBI Act,1992 or any other relevant law was obtained

Section 80P: Deduction in Respect of income of Co-operative Societies (Primary agricultural credit society or a primary co-operative agricultural and rural development bank)

Section 80P(2)(a): Profits attributable to certain specified activities

100% of the profits attributable to any of the following activities are deductible:

i) Carry on the business of banking or providing credit facilities to its members (deduction is available only to primary agricultural credit society or a primary co-operative agricultural and rural development bank and not to Co-operative Banks)

ii) A cottage industry

iii) The marketing of the agricultural produce grown by its members

iv) The purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its member
v) The processing without the aid of power of the agricultural produce of its member
vi) The collective disposal of the labour of its member
vii) Fishing or allied activities i.e., the catching, curing, processing, preserving, storing or marking of fish or purchase of materials and equipments in connection therewith for the purpose of supply them to its members.

Section 80P(2)(b): Profits of certain primary co-operative societies

100% of the profits are deductible in the case of a co-operative society being a primary society engaged in supplying milk, oilseeds fruits or vegetables raised or grown by its members to:

a) A federal Co-operative Society engaged in the business of supplying milk oilseed, fruits or vegetables
b) The Government or a local authority
c) Government Company or statutory Corporation supplying milk oilseeds, fruits or vegetables as to public.

Section 80P(2)(c) : General Deduction	**Section 80P(2)(d): Income from Investment with other co-operative societies**	**Section 80P(2)(e): Income from letting of godowns or warehouse**	**Section 80P(2)(f) : Co-operative society, not being a housing society or an urban consumers' society or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power**
For other incomes except referred above, a general deduction a) Consumers Co-op b) erative society **₹1,00,000** c) In any other case **₹50,000**	100% of income by way of interest or dividends from investment with any other co-operative society.	100% of income from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities.	If the gross total income does not exceed ₹20,000/-, the deduction shall be amount of any income by way of interest on securities or any income from house property

Section 80PA: Deduction in respect of certain income of Producer Companies

- This deduction shall be available to a Producer Company having a total turnover of less than Rs. 100 crore rupees in any previous year for AY 2019-20 to AY 24-25
- Deduction = 100% of the profits and gains attributable to following eligible businesses
  a) the marketing of agricultural produce grown by the members; or
  b) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to the members; or
  c) the processing of the agricultural produce of the members
- In a case where the assessee is entitled also to deduction under any other provision of this Chapter, the deduction under this section shall be allowed with reference to the income, if any, as referred to in this section included in the gross total income as reduced by the deductions under such other provision.

Chapter 9 : Exemptions under Section 10

10(1)	Agricultural Income
10(2)	Share of Profit from HUF received by member of HUF
10(2A)	Share of Profit from Firm / LLP received by Partner
10(4)	Interest on Non-Resident (External) Account in any bank in India if such individual is a person resident outside India or is a person who has been permitted by RBI to maintain the Account
10(5)	Leave Travel Concession
10(6)	Remuneration of Foreign Diplomats if they are not engaged in any business or profession or employment in India and similar Remuneration of Indian officials is exempt in that country
10(6)	Remuneration of Employee of Foreign Enterprise if the foreign enterprise is not engaged in any trade or business in India, his stay in India does not exceed in the aggregate 90 days in such previous year and such remuneration is not liable to be deducted from the income of the employer
10(6)	Salary received by Crew Member of Foreign Ship who is Non Resident and his stay in India does not exceed in the aggregate 90 days in such previous year
10(6)	Remuneration of Employee of Foreign State for Training if Training is in any establishment or office of, or in any undertaking owned by Government, 100% Government Company or its Subsidiary, Statutory Corporation or Registered Society wholly financed by Government.
10(6A)	Tax borne by payer on Royalty or fees for technical services received by foreign company from Government or an Indian concern as per agreement made after 31.3.76 but before 1.6.2002 where the agreement is as per the industrial policy of the Government of India, or is approved by Central Government
10(6B)	Tax borne by payer on income (not being salary, royalty or fees for technical services) from Government or an Indian concern by non-resident or of a foreign company as per an agreement entered into before the 1st day of June, 2002 by the Central Government with the Government of a foreign State or an international organisation
10(6BB)	Tax borne by payer i.e. Indian company in terms of the agreement entered into on after 01.04.2007 and approved by the Central Government in respect of the income derived by a foreign government or a foreign enterprise as a consideration of acquiring an aircraft or an aircraft engine on lease. The Indian company should be engaged in the business of operation of aircraft. No exemption for payment for providing spares, facilities or services in connection with the operation of leased aircraft.
10(6C)	Royalty or fees for technical services of foreign company as per an agreement entered into with that Government of providing services in or outside India in project connected with security of India.
10(6D)	Income arising to a non-resident or a foreign company, by way of royalty from, or fees for technical services rendered in or outside India to, the National Technical Research Organisation
10(7)	Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India
10(8)	Remuneration received from the foreign Government by an individual serving in India in connection with any co-operative technical assistance programmes and projects under an agreement entered into by the Central Government and the foreign Government if any other income of such individual accruing outside India and not deemed to accrue or arise in India, which becomes taxable in the respective country
	In the case of a Consultant

10(8A)	a) any remuneration or fee received out of the funds made available to an international organization/agency under a technical assistance grant agreement between such organization and a foreign Government b) any other income which accrues outside India and is not deemed to accrue or arise in India which becomes taxable in the respective country
10(8B)	In the case of an individual who is assigned to duties in India in connection with any technical assistance programme and project in accordance with an agreement entered into by the Central Government and the international organization, in respect of- (a) Remuneration received by him from any consultant for such duties (referred to above) and (b) Any other income which accrues outside India and is not deemed to accrue or arise in India, which becomes taxable in the respective country, shall be exempt.
10(9)	The income of any member of the family of any such individual as is referred to in clause (8) or (8A) or (8B) accompanying him to India, which accrues outside India, and is not deemed to accrue or arise in India, in respect of which such member becomes taxable in the respective country shall be exempt.
10(10)	Gratuity
10(10A)	Commuted Pension
10(10AA)	Leave Salary Encashment
10(10B)	Retrenchment Compensation
10(10BB)	Any Payments made under the Bhopal gas leak disaster (Processing of Claims) Act, 1985 except payment to the extent such assessee has been allowed a deduction (any loss or damage)
10(10BC)	Any amount from the Central/State Government or a local authority by an individual or his legal heir by way of compensation on account of any disaster except to the extent allowed a deduction
10(10C)	Voluntary Retirement Receipts (VRS Compensation)
10(10CC)	Tax borne by employer on non-monetary perquisites given to employees
10(10D)	Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy shall be exempt if the specified % criterion is fulfilled (Refer Sec 80C for %). No exemption if a) Insurance premium paid exceeds % of sum assured b) Maturity proceeds of Keyman Insurance Policy
10(11)	Payment/ Withdrawals/Interest from Statutory Provident Fund or Public Provident Fund
10(11A)	Any Payment: Interest or withdrawals from Sukanya Samriddhi Account
10(12)	Accumulated to an employee in a recognised provident fund (No exemption if continuous period of service is less than 5 years)
10(12A)	Payment from National Pension System Trust to an asssessee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed **60%** of the total amount payable to him at the time of such closure or his opting out of the scheme (**w.e.f. AY 2020-21**)
10(12B)	Payment from the National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawal made out of his account in accordance with the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder, to the extent it does not exceed 25% of the amount of contributions made by him.

10(13)	Payment from an Approved Superannuation Fund a) on the death of a beneficiary or b) to an employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement or c) by way of refund of contributions on the death of a beneficiary or d) by way of refund of contributions to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or on his becoming incapacitated prior to such retirement, to the extent to which such payment does not exceed the contributions made prior to the commencement of this Act and any interest thereon e) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the Central Government
10(13A)	House Rent Allowance
10(14)	Certain Allowances received by employees
10(15)	Interest on tax free, secured, redeemable, non-convertible bonds of Rural Electrification Corporation Limited, National Highways Authority of India, Indian Railways Finance Corporation Ltd. (IRFCL), Housing and Urban Development Corporation Ltd(HUDCL) and Power Finance Corporation (PFC) Interest on deposit certificates under the Gold Monetisation Scheme, 2015
10(16)	Scholarships granted to meet cost of education
10(17)	Income of Members of Parliament or State Legislature or any Committee thereof by way of a) Daily allowance received b) Any allowance received by a Member of Parliament under the Members of Parliament (Constituency Allowance) Rules 1986 c) Any Constituency Allowance received by a Member of any State Legislature.
10(17A)	Any payment made in cash or in kind as any Award instituted in the public interest by Central or any state Government or any other body and approved by the Central Government or as a Reward by the Central or state Government for purposes approved by the Central Government in the public interest
10(18)	Pension received by an individual who has been in the service of the Central or state Government and has been awarded Param Vir Chakra/Maha Vir Chakra/Vir Chakra or such other gallantry award
10(19)	Family Pension received by the widow or the children or nominated heirs of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties
10(19A)	Annual value of any one palace in the occupation of a Former Ruler
10(20)	The Income of Local Authority (Panchayat, municipality, municipal committee, District Board and Cantonment Board) which is chargeable under the following heads: a) Income from house property b) Income from business of the supply of ➢ Water and electricity in any area ➢ Any other commodity or service within its own jurisdictional area c) Capital gains d) Income from other sources Only taxable income is Income from Supply of commodity / service outside its area.
10(21)	Any income of a Scientific Research Association approved u/s 35, provided the income is applied or accumulated solely for the objects of that association

10(22B)	Any income of a News Agency set up in India solely for collection and distribution of news if it applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its member (**Notified agency: Press Trust of India**)
10(23A)	Income of a Professional Association or Institution if the following conditions are fulfilled: a) The object should be the control supervision regulation or encouragement of the profession of law medicine, accountancy, engineering or architecture or such other notified profession; b) Application or accumulation of income should be solely for the objects for which it is established c) The institution should be approved by the Central Government.
10(23AA)	Income received by any person on behalf of Regimental fund or Non-Public Fund established by the armed forces of the Union for welfare of past / present members of such forces or their dependants
10(23AAA)	Income of any person on behalf of a notified fund established for the welfare of employees or their dependants and of which fund such employees are members for following purposes a) Cash benefits to a member of a fund on superannuation or in the event of his illness or illness of his spouse or dependent children or to meet the cost of education of his dependent children; b) Cash benefits to the dependants of a member of fund in the event of the death of such member.
10(23AAB)	Income of a Pension Fund set up by Life Insurance Corporation of India or any other insurer approved by the Controller of Insurance or IRDA
10(23B)	Any income of an institution constituted as a public charitable trust or a registered society and existing solely for the development of khadi or village industries or both and not for the purposes of profit to the extent such income is attributable to the business of production sale or marketing of khadi or products of village industries (Khadi and Village Industries)
10(23BB)	Income of Khadi and Village Industries Board
10(23BBA)	Income of any statutory body or authority in the administration of Public Charitable or religious trust or endowments or registered societies for religious or charitable purposes (including maths, temples, gurdwaras, wakfs, churches, synagogues, agiaries or other places of public religious worship). No exemption to the income of any trust, endowment or society.
10(23BBB)	Income of a European Economic Community by way of interest, dividends or capital gains derived in India from investments made out of its funds under notified scheme
10(23BBC)	Income of the SAARC Fund for Regional Projects
10(23BBE)	Income of the Insurance Regulatory and Development Authority established under section 3 of the Insurance Regulatory and Development Authority Act,1999
10(23BBG)	Income of Central Electricity Regulatory Commission constituted u/s 76 of the Electricity Act, 2003
10(23BBH)	Income of the Prasar Bharati (Broadcasting Corporation of India) established under section 3(1) of the Prasar Bharati (Broadcasting Corporation of India) Act, 1990
10(23C)	Income of Various Funds / Institutions (Refer Chapter – Taxation of Entities)
10(23D)	Income of Mutual Fund registered under the Securities and Exchange Board of India Act, 1992 or set up by a public sector bank or a public financial institution or authorised by the Reserve Bank of India
10(23DA)	Income of a securitisation trust from the activity of securitisation

10(23EA)	Income of Investor Protection Fund by way contributions received from recognized stock exchanges and their members (Notified Fund: National Stock Exchange Investor Protection Fund Trust)
10(23EC)	Income by way of contributions received from Commodity Exchanges and their members of such Investor Protection Fund
10(23ED)	Income by way of contributions received from a depository, of such Investor Protection Fund
10(23EE)	Following incomes of Core Settlement Guarantee Fund, set up by a recognised clearing corporation in accordance with the regulations shall be exempt: a) the income by way of contribution received from specified persons i.e. ➢ any recognised clearing corporation which establishes and maintains the Core Settlement Guarantee Fund ➢ any recognised stock exchange being a shareholder in such recognised clearing corporation or a contributor to the Core Settlement Guarantee Fund ➢ any clearing member contributing to the Core Settlement Guarantee Fund b) the income by way of penalties imposed by the recognised clearing corporation and credited to the Core Settlement Guarantee Fund c) the income from investment made by the Fund Where any amount standing to the credit of the Fund and not charged to income-tax is shared, either wholly or in part with the specified person, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared. Notified Fund: Core Settlement Guarantee Fund, set up by Indian Clearing Corporation Limited (ICCL), Core Settlement Guarantee Fund set up by National Securities Clearing Corporation Limited
10(23FBA)	Income of an investment fund other than Business Income
10(23FBB)	Income of a unit holder of an investment fund, being that proportion of income which is of the same nature as income chargeable under the head "Profits and gains of business or profession"
10(23FC)	Income of a business trust by way of interest received or receivable from a special purpose vehicle
10(23FCA)	Income of a real estate investment trust by way of renting or leasing or letting out any real estate asset owned directly by such business trust
10(23FD)	Distributed income received by a unit holder from the business trust, not being that proportion of the income which is of the same nature as the income as referred to in Section 10(23FC) / 10(23FCA)
10(24)	Income under the heads "Income from house property" and "Income from other sources" of a) a registered union as per Trade Unions Act, 1926 formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen b) an association of registered unions referred
10(25)	a) interest on securities by any provident fund to which the Provident Funds Act, 1925 applies, and any capital gains of the fund arising from the sale, exchange or transfer of such securities b) any income received by the trustees on behalf of a recognised provident fund c) any income received by the trustees on behalf of an approved superannuation fund d) any income received by the trustees on behalf of an approved gratuity fund
10(25A)	Income of the Employees State Insurance Fund set up under the ESI Act, 1948

10(26)	Following income of member of a Scheduled Tribe securities residing in Arunachal Pradesh, Manipur, Mizoram, Nagaland and Tripura, area specified in Part I or Part II appended to Para 20 of the VI schedule to the Constitution and Ladakh region of the State of Jammu and Kashmir a) from any source in the areas or States b) by way of dividend or interest on securities
10(26AAA)	Any income which accrues or arises to a Sikkimese Individual a) From any source in the state of Sikkim b) by way of dividend or interest on securities (Whether generated in Sikkim or any other place). However, this exemption is not applicable in case a Sikkimese woman who marries a non-Sikkimese on or after the April 1, 2008.
10(26AAB)	Income of an agricultural produce market committee or board constituted under any law for the purpose of regulating the marketing of agricultural produce
10(26B)	Income of a Statutory Corporation or Institution or Association wholly financed by Government and established for promoting the interest of member of the Scheduled Castes or the Scheduled Tribes or Backward Classes
10(26BB)	Income of a Corporation established by the Central Government or any State Government for promoting the interests of the members of a notified minority community
10(26BBB)	Income of a corporation established by a Central, State or a Provincial Act for the welfare and economic upliftment of ex- servicemen being the citizens of India
10(27)	Income of a Co-operative society formed for promoting the interest of the members of either the Scheduled Castes or Scheduled Tribes or both if the membership of the co-operative society should consist of only other co-operative societies formed for similar purposes and the finances of the society are provided by the Government and such other societies
10(29A)	Any income accruing or arising to following boards shall be exempt. 1. Coffee Board 2. Rubber Board 3. Tea Board 4. Tobacco Board 5. Marine Products Export Development Authority 6. Agricultural & Processed food products Export Development Authority 7. Spices Board 8. Coir Board constituted under the relevant legislations.
10(30)	Subsidy received by an assessee who carries on the business of growing and manufacturing **tea** in India from or through the Tea Board for replantation or replacement of tea bushes or for rejuvenation or consolidation of areas used for cultivation of tea
10(31)	Subsidy received by an assessee carrying on the business of growing and manufacturing **rubber, coffee, cardamom** or such other commodity in India from the concerned Board under any scheme for replantation or replacement of plants or for rejuvenation or consolidation of areas used for cultivation
10(32)	From any income of minor child includible u/s 64(1A) in the income of parent, exemption of ₹1,500 in respect of each minor child
10(33)	Income arising from the transfer of a capital asset, being a unit of the Unit Scheme, 1964 (UTI)
10(34)	Dividend from Domestic Companies (Dividend Distribution Tax is payable u/s 115-O) Exemption shall not apply to any income by way of dividend under section 115BBDA.
10(34A)	Income arising to a shareholder, on account of buy back of shares (not being listed on a recognised stock exchange) by the company if additional tax u/s 115QA is payable
10(35)	Income / Dividend from units of a Mutual Fund or UTI
10(35A)	Income by way of distributed income received by investor from a securitisation trust
	• The assessee should an individual or a Hindu undivided family

10(37)	• Such **Urban land** should be used during the period of two years immediately preceding the date of transfer for **agricultural purposes** by such HUF or individual or a parent • Such transfer should be by way of **compulsory acquisition** under any law, or a transfer the consideration for which is determined or approved by the Central Government or RBI
10(37A)	Any income chargeable under the head "Capital gains" in respect of transfer of a specified capital asset arising to an individual or a Hindu undivided family, who was the owner of such specified capital asset as on the 2nd day of June, 2014 and transfers that specified capital asset under the Land Pooling Scheme covered under the Andhra Pradesh Capital City Land Pooling Scheme (Formulation and Implementation) Rules, 2015 made under the provisions of the Andhra Pradesh Capital Region Development Authority Act, 2014 and the rules, regulations and Schemes made under the said Act shall be exempt.
10(39)	Any specified income arising from any International Sporting Event held in India to a person notified by the Central Government shall be exempt if such international sporting event- a) is approved by the International Body regulating the International Sport relating to such event b) has participation by more than two countries c) is notified by the Central Government
10(40)	Grant received by a subsidiary company (Indian company) notified section 80-IA(4)(v)(a) from its holding company on reconstruction or revival of an existing business of power generation for transfer of business
10(42)	Any specified income arising to a body or authority which- a) has been established or constituted or appointed under a treaty or an agreement entered into by the Central Government with two or more countries or a convention signed by the Central Government b) is established or constituted or appointed not for the purposes of profit c) is notified by the Central Government shall be exempt.
10(43)	Any amount **received by an individual as a loan**, either in lump sum or in installment in a transaction of reverse mortgage
10(44)	Any income received by any person for, or on behalf of, the New Pension System Trust
10(45)	Perquisites / Allowances received by Chairman and Members of Union Public Service Commission
10(46)	Specified Income of body / authority / board / trust / commission or a class thereof set up by any Act / Government to regulate and administer any activity for the benefit of general public
10(47)	Income of Infrastructure Debt Fund (**Notified: India Infradebt Limited**)
10(48)	Income received in India in Indian currency by a foreign company on account of **sale of crude oil**, any other goods or rendering of services to any person_in India subject to the following conditions: a) receipt of such income in India by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government b) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf and c) the foreign company is not engaged in any activity, other than receipt of such income, in India. **Notified Company: National Iranian Oil Company (exemption subject to the condition that it shall not engage in any activity in India, other than the receipt of income under the agreement)**

10(48A)	Income accruing or arising to a foreign company on account of **storage of crude** oil in a facility in India and sale of crude oil therefrom to any person resident in India subject to: a) the storage and sale by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government and b) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf.
10(48B)	Income accruing or arising to a foreign company on account of **sale of leftover stock of crude oil,** if any, from the facility in India after the expiry of the agreement or the arrangement referred to in section 10(48A) or **on termination of the said agreement or the arrangement, in accordance with the terms mentioned therein** subject to such conditions as may be notified by the Central Government in this behalf.
10(50)	Any income arising from any specified service provided which is chargeable to Equalisation Levy

Chapter 10 : Clubbing of Income (as well as Losses)

Clubbing in case of Spouse

Section 64(1)(ii): Remuneration from a concern in which the individual has substantial interest

Salary, commission, fees or any other form of remuneration whether in cash or in kind will be clubbed in the hands of assessee-individual if a) Individual has substantial interest in any concern (20% of voting power or profits at any time during the year) b) Spouse is employed in the concern and c) Salary etc. is received by spouse from the concern **Exception**: No clubbing if the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience	Remuneration will be clubbed in the hands of that Spouse whose total income excluding such salary is higher if a) both have substantial interest in a concern b) both receive salary etc. from the concern c) both of them don't have qualification, experience etc. If it is once included in the total income of either spouse, income for succeeding year shall not be included in the total income of the other spouse unless AO is satisfied, that it is necessary to do so.

Section 64(1)(iv): Income to Spouse from transfer of Assets without consideration

- If assessee (individual) has transferred an asset to spouse, directly or indirectly for **inadequate consideration**, the Income from such asset shall be included in the total income of the transferor.
- The relationship should exist at the time of **time of transfer** and time of **accrual of income**.
- **Exception**: The income will not be clubbed if transfer is in connection with an **agreement to live apart**.
- The spouse may hold the asset in same form or in different form.
- Income earned by investing income arising from transferred asset cannot be clubbed.
- Same provisions for transfer to son's wife for inadequate consideration.

Common Provision for Transfer of asset to Spouse or Son's wife

Assets transferred to spouse/son's wife is **invested** by the transferee in the business, amount to clubbed

$$= \text{Taxable income of transferee spouse/son's wife from business} \times \frac{\text{Investment by spouse out of assets transferred without adequate consideration as on the } \textbf{first day of previous year}}{\text{Total Investment of Transferee Spouse in the business } \textbf{on the first day of previous year}}$$

Section 64(1A): Clubbing of Minor Child (Child includes includes a step-child and an adopted child)

- All income of a minor is to be included in the income of parent, whose total income is greater.
- **Section 10(32)**: If income of minor child is clubbed, exemption to parent ₹1,500 per child per annum
- **Exceptions** : Following Income would not be clubbed in the hands of parent
  a) The income derived from **manual work**
  b) The Income from any activity involving his **skill, talent or specialized knowledge or experience**
  c) The Income of a minor child from suffering from any **disability** as specified in **section 80U**
- If it is once included in the total income of either spouse, income for succeeding year shall not be included in the total income of the other spouse unless AO is satisfied, that it is necessary to do so
- Where the marriage of the parents does not subsist, the income of the minor will be includible in the income of that **parent who maintains the minor child** in the relevant previous year.

Sec 60: Transfer of income without transfer of assets	**Section 61/62/63: Revocable transfer of assets**
If person transfers the income from any asset without transferring the asset itself, such income shall be clubbed in hands of transferor.	All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferor as and when the power to revoke the transfer arises. **When shall clubbing provisions not apply in case of Revocable Transfer?** • Transfer not revocable during the life time of the beneficiary of the trust or any other transferee • The transferor derives no direct or indirect benefit from such income.

Cross Transfers

If the two transfers are interconnected and are parts of the same transaction in such a way that it can be said that the circuitous method has been adopted as a device to evade implications of this section, the case will fall within the section 64.

Section 64(2): Conversion of Self-acquired property into HUF's Property (Movable or Immovable)

- The Income from such property shall continue to be included in the total income of the Transferor if:
  a) an individual (member of HUF) converts his individual property into property of the HUF
  b) throws such property into the common stock of the family through the act of impressing such separate property with the character of property belonging to the family or throwing it into the common stock of the family or otherwise transfers such individual property, directly or indirectly, to the family otherwise than for adequate consideration
- Where the converted property has been partitioned (total or partial partition), the income derived from such property received by the spouse on partition shall be clubbed in the total income of the individual who effected the conversion of such property.

Section 65: Liability of person in respect of income included in the income of another person

Where the income from any asset of a person other than the assessee is included in the total income of the assessee, such other person be liable to pay that portion of the tax levied on the assessee which is attributable to the income so included. Where any such asset is held jointly by more than one person, they shall be jointly and severally liable to pay the tax which is attributable to income from the assets so included.

Chapter 11 : Set off and Carry forward of Losses

	Section 73: Speculative Loss	**Section 73A: Loss of Specified Business (35AD)**	**Section 72: Other business Loss**	**Unabsorbed depreciation, Family Planning / Scientific Research Exp**	**Section 74A: Losses from Business of Running / Maintaining Race Horses ****
Inter Source Adjustment	It can be set off only against Speculative Income.	It can be set off only against Income of **Specified Business**	It can be set off against any Business Income (even speculative / 35AD)	It can be set off against any Business Income (even speculative / 35AD)	It can be set off only against Income from such Business only
Inter Head Adjustment	No such adjustment	No such adjustment	Any head except Salary	Any head except Salary	No such adjustment
C/f of Loss	It can be c/f for 4 years	It can be c/f indefinitely	It can be c/f for 8 years	It can be c/f indefinitely	It can be c/f for 4 years
Filing of ROI within due date	ROI should be filed within due date of ROI	ROI should be filed within due date of ROI	ROI should be filed within due date of ROI	ROI need not be filed within due date of ROI	ROI should be filed within due date of ROI
Set off in subsequent year/s	It can be set off only against Speculative Income	It can be set off only against Income of **Specified Business**	It can be set off only against any Business Income (even speculative / 35AD)	It can be set off against **any head of Income except Salary**	It can be set off only against Income from such Business only
Continuity of Business to set off loss in subsequent year/s	Not Required (Loss of discontinued business can be set off)	Not Required (Loss of discontinued business can be set off)	Not Required (Loss of discontinued business can be set off)	Not Required can be set off even if business is discontinued)	Required (Loss of discontinued business cannot be set off)

Note

As per one school of thought, unabsorbed depreciation can be set off against Income from Salary. However, unabsorbed depreciation is part of Business Income. Hence, on a conservative basis, it should not be set off against Salary Income.

Section 71B: Loss from house property

- Such loss can be set off against income from any other head of income even Salary.
- The balance loss shall be carried forward for 8 AYs; Filing of Return within the due date is not required.
- In subsequent year/s, it shall be set off against Income from House Property only.
- Assessee shall not be entitled to set off such loss exceeding ₹2 Lakhs against income under the other head in the year of loss.

Section 74: Losses under the head "Capital gains"		
	Short Term Capital Loss	**Long Term Capital Loss**
Inter Source Adjustment	It can be set off against Short Term as well as Long Term Capital Gains	It can be set off against Long Term Capital Gains only.
Inter Head Adjustment	Not possible	Not possible
Carry Forward of Loss	8 years	8 years
Filing of ROI within due date	Required	Required
Set off in subsequent year/s	It can be set off against Short Term as well as Long Term Capital Gains	It can be set off against Long Term Capital Gains only.

Section 41(5)

Where the business or profession is no longer in existence and there is income as per section 41(1) or 41(3) or 41(4) is earned, then any loss, not being speculation loss, which arose in that business or profession **during the year in which it ceased to exist** and which could not be set off against any other income shall be set off against the income chargeable to tax.

Section 41(1)	Section 41(3)	Section 41(4)
Remission or Cessation of Trading Liability (write back of creditors, Refund of Indirect Taxes etc.)	Sale of Scientific Research Asset without bringing into business	Bad debts Recovery

Proviso to Section 72(1)

If the business is discontinued due to following reasons and within 3 years, it is re-established, reconstructed or revived, the business loss (**including brought forward losses**) shall be carried forward to the previous year in which it is so re-established, reconstructed or revived and it shall be set off against Business Income of that year or 7 succeeding years.

Natural Causes	flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature
Man made Reasons	riot or civil disturbance, accidental fire or explosion, action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),

Speculative Loss

Section 43(5)

Speculative transaction: Transaction in which a contract for purchase or sale of any commodity, stocks and shares, is periodically or ultimately settled **otherwise than by the actual delivery or transfer** of the commodity or scrips.

Following transactions shall not be deemed to be speculative transactions:

Hedging Contracts	Derivative Contracts
a) Contract in respect of **Raw Materials or Merchandise** entered into by a person in the course of his manufacturing or merchanting business to guard against loss through future price fluctuations in contracts for actual delivery of goods manufactured by him or merchandise sold by him.	a) an eligible transaction in respect of trading in **derivatives** carried out in a recognised stock exchange b) an eligible transaction in respect of trading in

b) Contract for **Stocks and Shares** entered into by a dealer or investor to guard against loss in holdings of stocks and shares c) Contract by a **member of a forward market** or a stock exchange in the course of any transaction in the nature of **jobbing or arbitrage** to guard against loss which may arise in the ordinary course of his business as such member	**commodity derivatives** carried out in a recognised association, which is chargeable to commodities transaction tax

In respect of trading in agricultural commodity derivatives, the requirement of chargeability of commodity transaction tax shall not apply. Therefore even if CTT is not payable on Commodity Derivatives relating to Agricultural Commodities, the income / loss from such transactions shall be non-speculative.

Special Provisions for Companies (Explanation to Section 73)

Where any part of the business of a company consists in the purchase and sale of shares of other companies, such company shall be deemed to be carrying on a speculation business9 to the extent to which the business consists of the purchase and sale of such shares. (It will be deemed to be speculative business even if delivery of shares is effected)

Exceptions

a) company whose gross total income consists mainly of income which is chargeable under the heads "Income from house property", "Capital gains" and "Income from other sources"
b) a company the **principal business of which is the business of trading in shares** or banking or the granting of loans and advances

Section 78(1): Carry forward/set off of losses on change in constitution of firm (Retirement / Death)

- If change has occurred in the constitution of a firm, the firm shall not be allowed to have carried forward and set off loss proportionate to share of a retired or deceased partner as exceeds his share of profits in current year.
- This provision shall not apply to unabsorbed depreciation; hence, it can be carried forward and set off.
- This provision shall not apply when partners change the profit sharing ratio amongst themselves.

Section 78(2): Carry forward and set off of losses in case of succession

Succession by inheritance	Succession otherwise than by inheritance
Losses can be carried forward by successor. However, unabsorbed depreciation cannot be carried forward.	Neither losses nor unabsorbed depreciation can be carried forward.

Section 79: Carry forward / set off of losses in case of certain companies (changed w.e.f. AY 2020-21)

Where a change in shareholding has taken place in a previous year

In case of a company not being a company in which the public are substantially interested and other than a start-up company	In case of a company, not being a company in which the public are substantially interested but being an **eligible start-up** as referred to in section 80-IAC
Loss of earlier year shall be carried forward and set off against the income of the previous year if on the last day of the previous year, the shares of the company carrying not less than **51%** of the voting power were beneficially held by persons who beneficially held shares	**Even if the said condition is not satisfied in case of an eligible start up as referred to in section 80-IAC**, the loss incurred in any year prior to the previous year shall be allowed to be carried forward and set off against the income of the previous year if all the shareholders of such company who held shares carrying voting power on the

of the company carrying not less than **51%** of the voting power on the last day of the year/s in which the loss was incurred.	last day of the year or years in which the loss was incurred, continue to hold those shares on the last day of such previous year and such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated.

Eligible Start Up

It means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions:

a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, **2021**
b) the total turnover of its business does not exceed twenty-five crore rupees in the **previous year for which deduction under section 80-IAC is claimed** and
c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government.

Above Provision will not apply in following cases

a) Where a change in the said voting power and shareholding takes place in a previous year consequent upon
   - the death of a shareholder or
   - on account of transfer of shares by way of gift to any relative of the shareholder making such gift.
b) Any change in the shareholding of an Indian company which is a subsidiary of a foreign company as a result of amalgamation or demerger of a foreign company subject to the condition that 51% shareholders of the amalgamating or demerged foreign company continue to be the shareholders of the amalgamated or the resulting foreign company.
c) Where a change in shareholding takes place in a previous year due to a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.
d) to a company, and its subsidiary and the subsidiary of such subsidiary, where
   i. the Tribunal, on an application moved by the Central Government under section 241 of the Companies Act, 2013, has suspended the Board of Directors of such company and has appointed new directors nominated by the Central Government, under section 242 of the said Act and
   ii. **a change in shareholding of such company, and its subsidiary and the subsidiary of such subsidiary, has taken place in a previous year pursuant to a resolution plan approved by the Tribunal under section 242 of the Companies Act, 2013 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner**.

Note

A company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company.

Section 94(7): Dividend Stripping	**Section 94(8): Bonus Stripping**
This provision applies to securities or units	This provision applies to units only
a) Any person buys any **securities or unit** within **3 months** prior to record date b) He sells or transfers ➢ securities within **3 months** after record date ➢ units within **9 months** after record date	a) Any person buys or acquires any **units** within **3 months** prior to the record date b) He is allotted bonus units

c) Dividend or Income on such securities/unit received is **exempt** Loss arising on account of purchase and sale of securities or unit, to the extent of dividend or income received shall be ignored	c) sells or transfers all or any of original units within **9 months** after such date and continues to hold all or any of the additional units Loss arising on account of purchase and sale of unit shall be ignored Such loss shall be deemed to be the cost of purchase of such additional units held on the date of sale or transfer.

Record date: date as may be fixed for entitlement of the holder of the securities to receive dividend or bonus units.

Section 72A: Carry forward of Business Loss (except Speculative Loss) and Unabsorbed Depreciation in case of Amalgamation

This section applies where there has been an amalgamation of

Company owning an **industrial undertaking** or a **ship** or a **hotel** with another company	**Banking Company** with a specified bank(SBI)	One or more **public sector** company/ies engaged in the business of operation of **aircraft** with one or more public sector company/ies engaged in similar business.

Accumulated loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be that of the amalgamated company for the previous year in which the amalgamation was effected.

Section 72A: Carry forward of Business Loss (except Speculative Loss) and Unabsorbed Depreciation in case of other Types of Business Restructuring

Demerger	Conversion of Sole Proprietorship/Firm into Company	Conversion of Unlisted Company into Limited Liability Partnership
a) Loss or unabsorbed depreciation is **directly relatable** to undertakings transferred to the resulting company: loss to be **carried forward** in the hands of the resulting company. b) loss or unabsorbed depreciation is **not directly relatable** to undertakings transferred to the resulting company : Loss to be **apportioned** between the demerged company and the resulting company in the **same proportion of assets** of the undertakings **Loss can be c/f for balance years**	• Loss / Unabsorbed Depreciation of the predecessor shall be deemed to be that of the successor company for year in which business reorganisation was effected • If any of the conditions as per section 47(xiii)/(xiv)/(xiiib) are not complied with, the set off made in any year in the hands of the successor company, shall be deemed to be the income of the company taxable in the year in which such conditions are not complied with.	

Chapter 12 : Taxation of Entities

Taxation of Firms and Limited Liability Partnerships

Section 40(b): Payment of Interest, Salary, Bonus, Commission or Remuneration to its Partners

Interest on Capital	Remuneration
• The payment of interest to any partner (working or non-working) should not exceed the amount at the rate of **12% per annum simple interest** • Interest paid by the firm to its partners on their fixed Capital account, Current capital account and loan account is allowable as deduction to the firm provided the **partnership deed specifically authorizes**.	• Payment of Salary, bonus, commission or remuneration by whatever name called to a working partner shall be allowed. • If paid to a non-working partner, the same shall be disallowed. • The payment of remuneration should not exceed: On first Rs 3,00,000 of book profit or in case of a loss. — ₹ 1,50,000 or 90% of book profit whichever is more On balance book Profit — at the rate of 60%
Payment of remuneration /interest should be authorized by partnership deed and should be prospective.	

Calculation of Book Profit

- Book Profit = Net profit as shown in the profit and loss account (consider only Business Income) as increased by the remuneration to all partners; Remuneration is to be added back if it is debited to Profit & Loss Account.
- Interest paid to the partners to the extent it is deductible shall not be added back.
- Current year and unabsorbed depreciation is to be deducted; Brought **Forward Losses will not be deducted.**

Tax Implications in the hands of Partners

Interest and Remuneration	Share of Profit
Taxable in the hands of Partners as Business Income	Exempt under Section 10(2A)

Taxation of Association of Persons and Body of Individuals

Section 40(ba)

In case of AOP/BOI, any payment of interest, salary, bonus, commission or remuneration made by such association or body to a member of such association or body **shall be disallowed**.

Where shares are determinate and known

Situation	In the hands of AOP/BOI	In the hands of members
Where none of the members has taxable income excluding the share income from AOP	The AOP is taxable at the normal rates applicable to an individual.	Share income is included in his total income but rebate at the average rate of tax has to be allowed.
Where any member has taxable Income	AOP is taxable at maximum marginal rate (**42.744%)**	Share income is not taxable.
Where any member is taxable at a rate higher than the maximum marginal rate (foreign company)	AOP's Income to the extent of the share of such member is taxable at such higher rate **(43.68%)** and the balance is taxable at maximum marginal rate (**42.744%)**	Share income is not taxable.

Where shares are indeterminate and unknown

Situation	In the hands of AOP/BOI	In the hands of members
Where none of the members is taxable at a rate higher than MMR	Entire income of AOP is taxable at maximum marginal rate.	Share income is not taxable.
Where any member is chargeable to tax at a rate higher than MMR	Entire income of the AOP is taxable at such higher rate.	Share income is not taxable.

Section 67A: Method of computing a member's share in AOP / BOI where shares are determinate / known

- Interest, salary etc. paid to any member shall be deducted from the total income of the association or body
- Balance shall be apportioned among the members in the proportions of share in the income
- Interest paid by a member on drawings shall be deducted from his share.

Section 86: Rebate

The assessee shall be entitled to following deduction, from income-tax

$$= \frac{\text{Tax * Share in AOP/BOI}}{\text{Total Taxable Income}}$$

Agricultural Income

Section 10(1)

Agricultural income is exempt. It may be received in cash or in kind.

Section 2(1A): **Agricultural income** means

a) Rent or Revenue derived from land which is situated in India and is used for agricultural purposes
b) Income derived from such land by agriculture
c) Income derived from farm building
d) Any income derived from saplings or seedlings grown in a nursery

Partial Integration Scheme

It is applicable to individuals, HUF, AOP, BOI and artificial persons subject to:

1. The net agricultural income should exceed ₹5,000 p.a., and
2. Non-agricultural income should exceed the maximum amount not chargeable to tax.

It may be noted that aggregation provisions do not apply to company; firm, co-operative society and local authority.

Calculation Steps

Step 1: Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.
Step 2: Add net agricultural income and the basic exemption limit. Compute tax on that amount.
Step 3: Calculate Tax as per Step 1 – Tax as per Step 2
Step 4: Step 3 shall be increased by education cess @2% and secondary and higher education cess @1% to arrive at tax payable.

Apportionment in certain cases

Income	Non Agricultural Income	Agricultural Income
Rule 7A: Income from the sale of latex etc. manufactured from field latex or coagulum obtained from rubber plants grown by the seller in India	35%	65%
Rule 7B: income from the sale of coffee grown and cured in India	25%	75%
Rule 7B: income from sale of coffee grown, cured, roasted and grounded by seller in India with/without mixing chicory etc.	40%	60%
Rule 8: Growing and manufacturing tea in India	40%	60%

Rule 7 - Income from growing and manufacturing of any product

Where income is partially agricultural income and partially business income, the **market value** of any agricultural produce which has been **utilised as raw material** shall be deducted.

Explanation 7 to Section 43(6)

Where the income of an assessee is derived, in part from agriculture and in part from business, for computing the written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head "Profits and gains of business or profession" and the depreciation so computed shall be deemed to be the depreciation actually allowed.

Section 33AB: Tea/Coffee/Rubber Development Account

Deposit	Deduction
• An assessee carrying on business of growing and manufacturing tea/coffee/rubber in India • has deposited any amount a) with National Bank for Agriculture and Rural Development (NABARD) in **Special account** under scheme approved by Tea / Coffee / Rubber Board or b) in **deposit account** as per **deposit scheme** framed by the Tea / Coffee / Rubber Board with the previous approval of the Central Government • before 6 months from the end of previous year or before the due date of furnishing the return of his income whichever is earlier	The assessee shall be allowed a deduction of • amount/s so deposited • **40%** of the profits of such business whichever is less. Such deduction shall be allowed before the loss, if any, brought forward from earlier years.

Utilization of Amount withdrawn from the Special Account

Amount is utilised for the purposes specified in the scheme in the year of withdrawal (It can be used for Revenue or Capital expenditure)	No Tax Impact; In case amount is spent for business purpose, no deduction shall be allowed.
Amount is withdrawn but not utilised **within that previous year**	The amount unutilised shall be deemed to be Business Income.
Amount is not utilised for the purposes specified in the scheme	It shall be taxable as Business Income
Amount is utilised for the purchase of	

a) any machinery for office premises or residential accommodation, guest-house b) any office appliances (not being computers) c) any machinery, the whole of the actual cost of which is allowed as a deduction d) any new machinery for the purposes of business of construction, manufacture specified in the list in the Eleventh Schedule	The amount so utilised shall be deemed to be Business Income.
Asset acquired out of scheme is sold or transferred **within 8 years** from the end of the year of purchase	Such part of the cost as is relatable to the deduction allowed shall be Business Income.

Principle of Mutuality / Mutual Concerns

• The income of a mutual concern is exempt from tax as far as it is derived from activities of mutual nature, i.e. **income received from members is exempt**. • Income received from non-members is taxable. • **Example of Mutual Concerns:** Resident Welfare Association, Social Clubs Sports Clubs Bar Association Shop Owners Association, FICCI, Bombay Chartered Accounts Society, PHD Chambers, etc.	**Exception i.e. Income is taxable** a) Income of Mutual concern from Insurance Business b) If it is trade, professional or similar association, then the income derived from specific services performed for its members is taxable c) Income received from non-members

Section 44A: Trade & Professional Association

General Activities	Specific Activities
Any surplus from general activities i.e. entrance fees, etc. will not be taxable. Therefore, general expenditure shall also be not allowed as deduction.	Only the income arising from performing specific services to members is taxable and the expenditure to earn such income is deductible.

- Where the amount received from its members for general activities falls short of expenditure incurred, such deficiency shall be allowed as a deduction in computing the income of the association.
- Deficiency shall not exceed 1/2 of the total income computed before making any allowance.

Taxation of Charitable / Religious Trusts

Charitable purpose

relief of the poor	education	yoga	medical relief	preservation of environment	preservation of monuments etc.	advancement of any other object of general public utility

Limit on Trading Receipts to claim exemption in case of advancement of any other object of general public utility - 20% of the total receipts of the trust or institution

Computation of Income Income from property under trust Add : Voluntary contribution (not forming part of corpus) Total Income Less: 15% of Total Income set apart for future Balance Less: Expenses on activities of religious / charitable nature / Application	Corpus Donations received shall not be considered as Income Incomes exempt under section 10 has to be included while calculating total income. Exception: 10(1) / 10(23C) Donations given to another Trust will be considered as Application; but Corpus

Taxable Income	Donations shall not be considered as Application.

For the purposes of determining the amount of application, the following provisions shall apply as they apply in computing the income chargeable under the head "Profits and gains of business or profession".

a) 40(a)(ia) – TDS related disallowance
b) 40A(3) / 40A(3A) – Cash payment related disallowance

Explanation 2 to Section 11(1)

When application of Income falls short of 85% of Income

A. Income not received in the PY but received in the subsequent year	**B. other reason**
The Income can be spent in the PY in which income is received or PY immediately following such PY.	The income can be spent during the PY immediately following the PY in which the income was derived

When any Income for which above option has been exercised is not utilized within the time limits specified

- In case of (A), it will be taxed in the year immediately following the year in which Income is received.
- In case of (B), it will be taxed in the year immediately following the year in which the income was derived.

Section 11(2): Income accumulation

- Income can be accumulated for specified purpose
- Accumulated money shall be invested or deposited in the forms specified in section 11(5)
- Period of accumulation cannot exceed 5 years
- Statement of accumulation / Return of Income shall be furnished on or before the due date specified under section 139(1) for furnishing the return of income for the previous year
- No amount, out of accumulated income, shall be paid to trust or institution registered u/s 12AA or 10(23C)

Section 11(3): Deemed Income (in case of Income Accumulation)

applied to purposes other than charitable or religious purposes	deemed to be income of such year
ceases to be accumulated or set apart for application thereto	
ceases to remain invested or deposited in any of the forms as per section 11(5)	
credited /paid to any trust or institution registered under section 12AA or 10(23C)	
not utilised for the purpose for which it is so accumulated or set apart during the period of accumulation or in the year immediately following the expiry of such period of accumulation	of the year immediately following the expiry of the period of accumulation

Anonymous Donations

Section 115BBC: Anonymous donations

Taxability	**Deduction**
• **Net Anonymous donations will be taxed at 30%** • Exemption under section 11 or 12 shall not apply to anonymous donation.	Higher of the following c) 5% of the total donations received ₹1,00,000/-
Normal Tax will be calculated on **Total Income (-) [Anonymous Donations (-) deduction]**	

Wholly religious Trust	Partly religious and partly charitable trust	Wholly charitable trust
ADs not chargeable to tax u/s 115BBC; Normal Tax will be levied (Exemption u/s 11 and 12 is available)	Taxable u/s 115BBC if specific direction that donation for University/ Educational institutes / Hospital/ Medical institution run by trust Other cases : 115BBC not to apply; Normal Tax will be levied (Exemption u/s 11 and 12 is available)	Fully chargeable to tax u/s 115BBC

Section 11(1A): Capital Gains

Step 1: Calculate Long Term / Short Term Capital Gains

Step 2: Amount deemed to have invested for charitable or religious purposes in India

= Cost of New Asset (-) Cost of Old Asset

Step 3: Taxable Capital Gains = Step 1 (-) Step 2

Note

If the asset is partly used for charitable/religious purpose, then calculate Step 2 proportionately.

Section 13(1)

The exemption as per section 11 / 12 shall not apply

a) Income of Private Religious Trust which does not enure for the benefit of the public
b) Trust created for the benefit of any particular religious community or caste except for the benefit of Scheduled Castes/Tribes, backward classes, women and children
c) If any part of income or property is used or applied, directly or indirectly for the benefit of any person referred to in section 13(3)
d) Funds are invested / deposited otherwise than in forms / modes as per section 11(5) for any period

Section 13(3): Specified Persons

a) Author of Trust or Founder of Institution
b) Person who has made substantial contribution i.e. total contribution up to the end of the relevant year exceeds ₹50,000/-
c) where such author/founder is a Hindu undivided family, a member of the family
d) any trustee of the trust or manager of the institution
e) any relative of any such author, founder, person, member, trustee or manager
f) Any concern in which any of the persons referred above has a substantial interest (20% any time during the year)

Procedures relating to Charitable / Religious Trust

- The person has to **make an application** for registration to the CIT or Principal CIT.
- Sections 11 and 12 shall apply for the income from the **year in which such application is made**.
- If registration has been granted, then, the provisions of sections 11 and 12 shall apply in respect of any income of any assessment year preceding the aforesaid assessment year, for which assessment proceedings are pending before the Assessing Officer as on the date of such registration and the objects and activities remain the same for such preceding assessment year
- No action under section 147 shall be taken by the Assessing Officer for such preceding year only for non-registration of such trust or institution.
- The above provisions shall not apply in case of any trust or institution which was refused registration or the registration granted to it was cancelled at any time under section 12AA.

- Order granting/refusing registration shall be passed within **6 months** from the end of the month in which the application was received under section 12A.
- Where the total income of the trust / institution without giving effect to exemption under section 11 / 12 exceeds the basis exemption limit, the accounts should be **audited** by an accountant and the Audit Report should be filed along with ROI.

Fresh registration of a trust in the event of adoption or undertaking modifications of the objects after the registration has been granted

Where a trust or an institution has been granted registration and, subsequently, it has adopted or undertaken modifications of the objects which do not conform to the conditions of registration, it shall be required to obtain fresh registration by making an application within a period of 30 days from the date of such adoption or modification of the objects, to the Principal Commissioner or Commissioner.

Mandatory filing of return

The Trust shall furnish the return of income within the time allowed under section 139(4A) of the Act to claim the exemption under Section 11 and 12.

Section 12AA: Procedure for registration (highlighted points changed w.e.f. 1.9.2019)

- Principal CIT or CIT shall on receipt of an application for registration of trust or institution
  - **a) call for such documents or information from the trust or institution as he thinks necessary in order to satisfy himself about**
    (i) the genuineness of activities of the trust or institution and
    (ii) the compliance of such requirements of any other law for the time being in force by the trust or institution as are material for the purpose of achieving its objects, and may also make such inquiries as he may deem necessary in this behalf
  - b) after satisfying himself about the objects and the genuineness of its activities **as required under sub-clause (i) and compliance of the requirements under sub-clause (ii) of clause (a),** he shall pass an order in writing registering the trust or institution or
  - c) Alternatively, an order can be passed refusing to register the trust or institution after the applicant has been given a reasonable opportunity of being heard.
- Order granting/refusing registration shall be passed within **6 months** from the end of the month in which the application was received under section 12A.
- Principal Commissioner or Commissioner shall pass an order in writing **cancelling the registration** of such trust or institution, after giving a reasonable opportunity of being heard if the trust/institution has been granted registration and subsequently Principal Commissioner or Commissioner is satisfied that
  - a) the activities are not genuine or
  - b) the activities are not being carried as per the objects of the trust/institution
  - c) the activities are being carried out in a manner that the provisions of sections 11 and 12 do not apply due to operation of section 13(1)
  - d) **the trust or institution has not complied with the requirement of any other law, as referred to in sub-section (1)(a)(ii), and the order, direction or decree, by whatever name called, holding that such non-compliance has occurred, has either not been disputed or has attained finality**
- Registration shall not be cancelled if the trust or institution proves that there was a reasonable cause for the activities to be carried out in the said manner.

Section 115TD: Tax on accreted income / Exit Tax

Accreted income of the trust or the institution as on the **specified date** shall be charged to tax at the **maximum marginal rate** (**34.944**%) (Surcharge 12% in this case)

	Circumstances in which tax payable	Specified date	Liability to pay tax within 14 days from
1	Conversion into any form which is not eligible for grant of registration under section 12AA	Date of conversion	
a	the registration granted to it under section 12AA has been cancelled	Date of order cancelling the registration under section 12AA	the period for filing appeal under section 253 (ITAT) against the order cancelling the registration expires and no appeal has been or the order in any appeal, confirming the cancellation of the registration, is received by the trust or institution
b	it has adopted or undertaken modification of its objects which do not conform to the conditions of registration and it ➢ has not applied for fresh registration under section 12AA in the said previous year or	Date of adoption or modification of any object	End of the previous year
	➢ has filed application for fresh registration under section 12AA but the said application has been rejected		the period for filing appeal under section 253 (ITAT) against the order rejecting the application expires and no appeal has been filed or the order in any appeal, confirming the cancellation of the application, is received by the trust or institution
2	Merger with any entity other than an entity which is a trust or institution having objects similar to it and registered u/s 12AA	Date of merger	Date of merger
3	Failure to transfer upon dissolution all its assets to any other trust or institution registered under section 12AA or to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in section 10(23C) within a period of twelve months from the end of the month in which the dissolution takes place	Date of dissolution	Date on which period of 12 months (at the end of the month in which dissolution took place) expires

Calculation of Accreted Income

Aggregate fair market value of assets (computed as per Rule 17CB) (a)
Less: total liabilities (b)
Less : assets acquired out of agricultural income (c)
Less : assets acquired out of income during the initial period before registration (d)
Add : liability related to asset referred to in (c) and (d) above (e)
If this provision is applicable in case of failure to transfer upon dissolution all its assets to any other trust or institution, accreted income shall be reduced by assets transferred to specified institution within the specified period.

Subsequent Sale of Asset

Where the capital gain arises from the transfer of an asset, being the asset held by a trust or an institution in respect of which accreted income has been computed and the tax has been paid, the cost of acquisition of such asset shall be deemed to be the fair market value of the asset which has been taken into account for computation of accreted income as on the specified date.

Taxation of Political Party

Section 13A: Exempt Income of Political Party

a) Income by way of Voluntary Contributions
b) Income from House Property
c) Capital Gains
d) Income from other sources

Conditions to be satisfied to claim exemption u/s 13A

a) It keeps and maintains a record of such contribution and the name and address of the person who has made such contribution in respect of each such voluntary contribution other than contribution by way of electoral bond **or through such other electronic mode as may be prescribed** in excess of Rs. 20,000
b) No donation exceeding **Rs. 2,000** is received by such political party otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or **through electoral bond**.

Taxation of Electoral Trust

As per **Section 13B**, any voluntary contributions received by an electoral trust shall be exempt if

a) such electoral trust distributes to any political party, registered under section 29A of the Representation of the People Act, 1951during the said previous year, 95% of the aggregate donations received by it during the said previous year along with the surplus, if any, brought forward from any earlier previous year; and
b) such electoral trust functions in accordance with the rules made by the Central Government

Taxation of Securitisation Trust

Income received by Securitisation Trust	Income received by Investors from Securitisation Trust
Income of a securitisation trust from the activity of securitisation shall be exempt. (Section 10(23DA)) No TDS on the payments as per section 10(23DA) received by any securitisation trust.	Income shall be taxed as if Investors have directly received from third party who paid to Securitisation Trust (Section – 115TCA – Pass Through Status) TDS under section 194LBC

Section 194LBC: TDS on Income in respect of investment in securitization trust

Resident individuals and HUFs	25%
Resident payees, other than individuals and HUFs	30%
Non-corporate non-residents and foreign companies	Rates in Force

Taxation of Investment Funds (IF)

Particulars	Investment Fund	Unit Holder
Business Income earned by IF	Taxable (TDS will apply)	Exempt under Section 10(23FBB)
Other Income earned by IF	Exempt u/s 10(23FBA)	Taxable (TDS u/s 194LBB)

The total income of the investment fund shall be charged to tax at following rates

Investment Fund is a company or a firm or LLP	at the rate/s as per the Finance Act (30% or 25% as applicable)
It is other entity Eg. Trust	Maximum Marginal Rate

W.e.f. AY 2020-21

- **Business loss arising to the investment fund shall be allowed to be carried forward and it shall be set off by the investment fund.**
- **Other losses shall also be ignored for the purposes of distribution to investors if such loss has arisen in respect of a unit which has not been held by the unit holder for atleast 12 months.**
- **Loss other than Business loss accumulated at the level of investment fund as on the 31st day of March, 2019, shall be**
  - **i. deemed to be the loss of a unit holder who held the unit on the 31st day of March, 2019 in respect of the investments made by him in the investment fund**
  - **ii. allowed to be carried forward by such unit holder for the remaining period calculated from the year in which the loss had occurred for the first time taking that year as the first year and shall be set off by him in accordance with the provisions of Chapter VI.**

The loss so deemed xshall not be available to the investment fund on or after the 1st day of April, 2019.

Section 194LBB: TDS on Income from units of investment fund

- For Resident Payee: 10%
- For Non Resident Payee / Foreign Company: Rate in force

Taxation of Business Trusts (Infrastructure Investment Trust / Real Estate Investment Trust)

Income received by Business Trust	Income received by Investors from Business Trust
• Any income of a business trust by way of interest from a special purpose vehicle or dividend referred to in section 115-O(7) shall be exempt u/s 10(23FC) – No TDS on Interest u/s 194A • Rent received by real estate investment trust shall be exempt u/s 10(23FCA) – No TDS on Rent u/s 194-I • Other Income taxable at maximum marginal rate subject to section 111A and 112.	Income other than Interest / Rental Income of REIT shall be exempt u/s 10(23FD); TDS u/s 194LBA will apply

Section 194LBA: TDS on certain income from units of a Business Trust

- Interest from SPV Component

Deductee is Resident	Deductee is Non Resident
10%	5%

- Rent of REIT Component

Deductee is Resident	Deductee is Non Resident
10%	Rate in force

Section 115-O(7)

No DDT on dividend paid by SPV (Domestic Company) to a business trust if

a) Business Trust holds 100% of nominal value of equity share capital of the company
b) It is paid out of its current income i.e. profits earned after the date on which it acquires 100% shares

Section 115BBF: Tax on income from patent

- If an eligible assessee earns royalty in respect of a patent developed and registered in India, it shall be **taxable at 10%.** No deduction in respect of any expenditure or allowance shall be allowed.
- Developed means at least 75% of the expenditure incurred in India by the eligible assessee for any invention in respect of which patent is granted under the Patents Act, 1970
- Where an eligible assessee opts for taxation of income by way of royalty in respect of a patent developed and registered in India for any previous year as per this section and the assessee offers the income for taxation for any of the five assessment years relevant to the previous year succeeding the previous year not in accordance with this section, then, the assessee shall not be eligible to claim the benefit of the provisions of this section for five years subsequent to the previous year in which such income has not been offered to tax in accordance with these provisions.

Section 115BBG: Tax on income from Transfer of Carbon Credits

If the assessee earns any income by way of transfer of carbon credits, the income-tax payable shall payable at the rate of 10%. No deduction in respect of any expenditure or allowance shall be allowed to the assessee.

Carbon credit in respect of one unit shall mean reduction of one tonne of carbon dioxide emissions or emissions of its equivalent gases which is validated by the United Nations Framework on Climate Change and which can be traded in market at its prevailing market price.

Minimum Alternate Tax on Companies

Section 115JB

In the case of a **company**, the income-tax, payable on the total income as computed under this Act is less than **15% of its book profit**, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee on such total income shall be the amount of income-tax at the rate of **15%**. Where the assessee is a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, MAT is payable at 9%. (**Rate changed w.e.f. AY 2020-21**)

MAT Provisions apply to

a) Domestic / Indian Company
b) Banking Company
c) Insurance Company (except to the company who is into life insurance business)
d) Company engaged in the generation or supply of electricity

Provisions of MAT **shall not be** applicable to an assessee, being a **foreign company**, if

a) the assessee is a resident of a country or a specified territory with which India has an agreement referred to in section 90 or the Central Government has adopted any agreement under section 90A and the assessee does not have a permanent establishment in India as per such agreement; or
b) the assessee is a resident of a country with which India does not have an agreement and the assessee is not required to seek registration under any law for the time being in force relating to companies.

The provisions of MAT shall not apply to

a) any income accruing or arising to a company from life insurance business referred to in section 115B
b) a person who has exercised the option referred to under section 115BAA or section 115BAB.

Book profit means the net profit as per statement of profit and lossfor the relevant previous year as

Increased by

1. Deferred tax (DTL)
2. Dividends paid or proposed
3. Amounts carried to any reserves **(**Excess provision is in the nature of reserve and hence shall be added back)
4. Amount/s set aside to provisions made for meeting unascertained liabilities
5. Provision for losses of subsidiary companies
6. Expenditure relatable to any income to which section 10 or section 11 or section 12 apply
7. Depreciation
8. Amount/s set aside as provision for diminution in value of any asset, if debited to the statement of profit and loss
9. Amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset
10. Expenditure relatable to share in the income of an association of persons or body of individuals, on which no income-tax is payable as per the provisions of section 86
11. Expenditure relatable to income accruing or arising to an assessee, being a foreign company, from
    - the capital gains arising on transactions in securities
    - interest, royalty or fees for technical services taxable at the rate/s specified in Chapter XII

    if the income-tax payable thereon as per provisions of this Act, other than the provisions of this Chapter, it is a rate less than **15%**
12. Notional loss on transfer of a capital asset, being share or a special purpose vehicle to a business trust in exchange of units allotted by the trust referred to in section 47(xvii) or the amount representing notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units referred to in section 47(xvii)
13. Actual gain on transfer of units referred to in section 47(xvii) computed by taking into account the cost of the shares exchanged with units or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through statement of profit and loss
14. expenditure relatable to income by way of royalty in respect of patent chargeable to tax under section 115BBF

Reduced by

1. Deferred tax (DTA)
2. Depreciation excluding that on account of revaluation of assets
3. Amount withdrawn from any reserve / provision if any such amount is credited to profit and loss account

The amount withdrawn from reserves shall not be reduced from the book profit unless the book profit of such year has been increased by those reserves

4. Amount withdrawn from revaluation reserve and credited to the profit and loss account, to the extent it does not exceed the amount of depreciation on account of revaluation of assets
5. Income to which any of the provisions of section 10 or section 11 or section 12 apply, if such amount is credited to the profit and loss account
6. Loss brought forward / unabsorbed depreciation whichever less as per books (on overall basis and not year wise) This clause does not apply to company which is mentioned in the next clause
7. Aggregate amount of unabsorbed depreciation and loss brought forward in case of a
   a) **company, and its subsidiary and the subsidiary of such subsidiary, where, the Tribunal, on an application moved by the Central Government under section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors who are nominated by the Central Government under section 242 of the said Act (added w.e.f. AY 2020-21) - A company shall be a subsidiary of another company, if such other company holds more than half in the nominal value of equity share capital of the company.**
   b) company against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under section 7 or section 9 or section 10 of the Insolvency and Bankruptcy Code, 2016
8. Profits of sick industrial company for year commencing on and from the year in which the said company has become a sick industrial company under section 17(1) of the Sick Industrial Companies (Special Provisions) Act, 1985 and ending with the year during which the entire net worth of such company becomes equal to or exceeds the accumulated losses.
9. share in the income of AOP / BOI, on which no income-tax is payable as per section 86, if such amount is credited to the profit and loss account
10. the amount of income accruing or arising to assessee, being a foreign company, from
    - the capital gains arising on transactions in securities; or
    - the interest, royalty or fees for technical services chargeable to tax at the rate/s as per Chapter XII if such income is credited to the profit and loss account and the income-tax payable thereon in accordance with the provisions of this Act, other than the provisions of this Chapter, is at a rate less than **15%**
11. Amount representing
    a) notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust referred to in section 47(xvii); or
    b) notional gain resulting from any change in carrying amount of said units; or
    c) gain on transfer of units referred to in section 47(xvii) , if any, credited to profit and loss account
12. Actual loss on transfer of units referred to section 47(xvii) computed by taking into account the cost of the shares exchanged with units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than cost through profit or loss account.
13. the amount of income by way of royalty in respect of patent chargeable to tax under section 115BBF

Section 115JAA: MAT Credit (Same for AMT Credit)

Credit Allowed	Credit Set off
• Where MAT is paid by a company, then credit of MAT = MAT (-) Tax on his total income • No interest shall be payable on the tax credit allowed.	• MAT credit shall be allowed to be set-off in a year when tax on the total income exceeds MAT • Set off in respect of brought forward tax credit = Tax on his total income (-) MAT

• The MAT credit shall be carried forward for **15 years** immediately succeeding the year in which tax credit becomes allowable.	
Where the amount of tax credit in respect of any income-tax paid in any country or specified territory outside India, under section 90 or section 90A or section 91 allowed against MAT exceeds the amount of such tax credit admissible against the tax payable by the assessee on its income in accordance with the other provisions of this Act, then, while computing the amount of credit under this sub-section, such excess amount shall be ignored.	

Section 115JB(2A): Provisions for Ind AS Compliant Companies

For a company whose financial statements are drawn up in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015, the book profit shall be

Increased by	Decreased by
• all amounts credited to other comprehensive income in the statement of profit and loss under the head "Items that will not be re-classified to profit or loss	• all amounts debited to other comprehensive income in the statement of profit and loss under the head "Items that will not be re-classified to profit or loss
• amounts or aggregate of the amounts debited to the statement of profit and loss on distribution of non-cash assets to shareholders in a demerger in accordance with Appendix A of the Indian Accounting Standards 10	• all amounts or aggregate of the amounts credited to the statement of profit and loss on distribution of non-cash assets to shareholders in a demerger in accordance with Appendix A of the Indian Accounting Standards 10

No adjustment shall be made where the amount credited or debited to other comprehensive income under the head "Items that will not be re-classified to profit or loss" in respect of

a) revaluation surplus for assets in accordance with the Indian Accounting Standards 16 and Indian Accounting Standards 38; or
b) gains or losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with the Indian Accounting Standards 109:

The book profit of the previous year in which the asset or investment is retired, disposed, realised or otherwise transferred shall be increased or decreased, as the case may be, by the amount or the aggregate of the amounts referred above for the previous year or any of the preceding previous years and relatable to such asset or investment.

The other comprehensive income (OCI) includes certain items that will permanently be recorded in reserves and hence, never be reclassified to the statement of profit and loss included in the computation of book profits. These items shall be included in book profit for MAT purposes at the point of time -

Particulars	Point of time
Changes in revaluation surplus of Property, Plant or Equipment (PPE) and Intangible assets (Ind AS 16 and Ind AS 38)	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
Re-measurements of defined benefit plans (Ind AS 19)	To be included in book profits every year as the re-measurements gains and losses arise

Any other item	To be included in book profits every year as the gains and losses arise

Appendix A of Ind AS 10

- Any distributions of non-cash assets to shareholders in a demerger shall be accounted for at fair value.
- The difference between the carrying value of the assets and the fair value is recorded in the profit and loss account.
- Correspondingly, the reserves are debited at fair value to record the distribution as a 'deemed dividend' to the shareholders.
- As there is a corresponding adjustment in retained earnings, this difference arising on demerger shall be excluded from the book profits.

In case of Demerger

In the case of a resulting company, where the property and the liabilities of the undertaking or undertakings being received by it are recorded at values different from values appearing in the books of account of the demerged company immediately before the demerger, any change in such value shall be ignored for the purpose of computation of book profit of the resulting company under this section.

MAT on First Time Adoption

- **Convergence date** means the first day of the first Indian Accounting Standards reporting period as defined in the Ind AS 101.
- **Year of convergence** means the previous year within which the convergence date falls.
- **Transition amount** means the amount or aggregate of the amounts adjusted in other equity (excluding capital reserve and securities premium reserve) on convergence date **but not including the following**:
  A. Amount or aggregate of the amounts adjusted in the other comprehensive income on the convergence date which shall be subsequently re-classified to the profit and loss
  B. Revaluation surplus for assets in accordance with the Indian Accounting Standards 16 and Indian Accounting Standards 38 adjusted on the convergence date
  C. Gains or losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with the Indian Accounting Standards 109 adjusted on the convergence date
  D. Adjustments relating to items of property, plant and equipment and intangible assets recorded at fair value as deemed cost in accordance with paragraphs D5 and D7 of the Indian Accounting Standards 101 on the convergence date
  E. Adjustments relating to investments in subsidiaries, joint ventures and associates recorded at fair value as deemed cost in accordance with paragraph D15 of the Indian Accounting Standards 101 on the convergence date
  F. Adjustments relating to cumulative translation differences of a foreign operation in accordance with paragraph D13 of the Indian Accounting Standards 101 on the convergence date

- In case of Ind AS compliant company, the book profit of the year of convergence and each of the following four previous years, shall be further increased or decreased, as the case may be, by one fifth of the transition amount.
- In the first year of adoption of Ind AS, the companies would prepare Ind AS financial statement for reporting year with a comparative financial statement for immediately preceding year. As per Ind AS 101, a company would make all Ind AS adjustments on the opening date of the comparative financial year. The

entity is also required to present equity reconciliation between previous Indian GAAP and Ind AS amounts, both on the opening date of preceding year as well as on the closing date of preceding year.

- For the purposes of computation of book profits of the year of adoption and for adjustments, the amounts adjusted as on the opening date of the first year of adoption shall be considered
- However, the book profit of the previous year in which the asset or investment referred to in (B) to (E) of Transition amount is retired, disposed, realised or otherwise transferred shall be increased or decreased, by the amount of the aggregate of the amounts relatable to such asset or investment.
- Further, the book profit of the previous year in which the foreign operation referred to in (F) of Transition amount is disposed or otherwise transferred, shall be increased or decreased, as the case may be, by the amount of the aggregate of the amounts relatable to such foreign operations.

Alternate Minimum Tax

Section 115JEE

- These provisions shall apply to a person who has claimed any deduction under any section (other than section 80P) included in Chapter VI-A under the heading "Deductions in respect of certain incomes or section 10AA or section 35AD.
- The provisions of this Chapter shall not apply to an individual or a Hindu undivided family or an association of persons or a body of individuals, whether incorporated or not, or an artificial juridical person if the adjusted total income of such person does not exceed ₹ 20 Lakhs.

Section 115JC(1)

- Where the regular income-tax payable for a previous year **by a person other than company** is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income and he shall be liable to pay income-tax on such total income at the rate of **18.5%**.
- Where person is a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, then AMT shall be payable at 9%
- Adjusted total income shall be the total income before giving effect to this Chapter as increased by
  a) deductions claimed under any section included in Chapter VI-A under the heading " C. — Deductions in respect of certain incomes "
  b) deduction claimed under section 10AA.
  c) deduction claimed, if any, under section 35AD as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed.

Deduction under Section 10AA for SEZ Units

- Deduction is allowed to an assessee who is engaged in manufacture or produces articles or things or provides any services.
- Deduction under section 10AA

$$= \text{Profits of the business of the Undertaking To which Section 10AA applies (As computed under the head P/G/B/P)} \times \frac{\text{Export Turnover of the Undertaking to which Section 10AA applies}}{\text{Total Turnover of the Undertaking to which Section 10AA applies}}$$

- Unit in Special Economic Zones who manufactures articles/ provides any services shall avail deduction of

100% of profit for **5 years** from the year in which it begins to manufacture or provide services.	**50%** of profit for next **5 years**	**50%** of profit for next **5 years** if such 50% profit is debited to the profit and loss account and credited **SEZ Re-investment Reserve Account**

Taxation of Film Producer & Film Distributor

Situations	Quantum of Deduction	
	Film released before 90 days of year-end	**Film released within 90 days of year-end**
Film Producer / Distributor **sells all rights** of exhibition of the film	Entire cost of Production / Acquisition	Entire cost of Production / Acquisition
He himself exhibits the film on a commercial basis in some of the areas and sells the rights of exhibition of the film in respect of some of the areas	Entire cost of Production / Acquisition	Deduction will be lower of a) Entire cost of Production / Acquisition b) Amount realized by releasing / exhibiting film / sale of exhibition rights Balance will be allowed in the next year.

Tonnage Taxation (Optional Scheme)

Section 115VC: Qualifying Company

- It is an Indian Company
- The place of effective management is in India
- It owns at least one qualifying ship
- The main object of the company is to carry on the business of operating ships.

Computation of Tonnage Income

Net Tonnage of ship	Daily tonnage Income	
Upto 1,000	**Rs.70** for each 100 tons	• Tonnage consisting of kilograms shall be ignored. • Tonnage shall be rounded off to the nearest multiple of 100 tons • No deductions / Loss / Chapter VI-A deductions shall be allowed from such Income
1,000 - 10,000	**Rs.53** for each 100 tons	
10,000 - 25,000	**Rs.42** for each 100 tons	
Exceeding 25,000	**Rs.29** for each 100 tons	

Conditions for Applicability of Tonnage Tax Scheme

Minimum Training Requirement	Maintenance / Audit of Accounts	Transfer of 20% of the book profit to Tonnage Tax Reserve Account

Procedures relating to Tonnage Tax Scheme

- Application shall be made to **Joint Commissioner**
- Every order shall be passed within **one month from end of month** in which application was received
- An **appeal** against the order refusing to approve the option shall lie to the **CIT(A)**
- The scheme shall remain in force for 10 years from the date on which such option is exercised.
- An option for tonnage tax scheme approved under section 115VP may be renewed within **one year** from the end of the previous year in which the option ceases to have effect
- A qualifying company which, **on its own opts out** or makes a default or whose option has been excluded **shall not be eligible** to opt for tonnage tax scheme for a period of **10 years from the date of opting out or default or order**.
- Where a tonnage tax company is a party to any transaction or arrangement which amounts to an abuse of the tonnage tax scheme, **AO** shall exclude such company from the tonnage tax scheme with the **previous approval of Chief Commissioner or Principal Chief Commissioner**. An appeal against the order of the expulsion passed under section 115VZC by the Assessing Officer shall lie before the **ITAT**.