CHAPTER



COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

LEARNING OUTCOMES

After studying this chapter, you would be able to-

8

- identify the income earned in different capacities by an individual which are to be considered while computing his total income.
- appreciate the steps involved in computation of total income and tax liability of an individual.
- compute the total income of an individual by identifying his residential status, applying the charging, deeming and exemption provisions under different heads, applying the clubbing provisions, provisions for set-off of losses and provisions for deductions from Gross Total Income.
- compute the tax liability of a person applying the applicable rates of taxes on total income, the rate of surcharge, if applicable, and rate of education cess/ secondary and higher education cess.



© The Institute of Chartered Accountants of India

(1. MEANING OF TOTAL INCOME

The Total Income of an individual is arrived at after making deductions under Chapter VI-A from the Gross Total Income. As we have learnt earlier, Gross Total Income is the aggregate of the net income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward and set-off of losses.

COMPUTING TOTAL INCOME OF INDIVIDUALS

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	 (i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iii) Share of profit in the firm is exempt in the hands of the partner.
(3)	As a member of HUF	 (i) Share of income of HUF is exempt in the hands of the member (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF (iii) Income from self-acquired property converted into joint family property.

	8.4 INCOME TAX LAW	,
(4)	Income of other persons included in the income of the individual	 (i) Transferee's income, where there is a transfer of income without transfer of assets (ii) Income arising to transferee from a revocable transfer of an asset. In cases (i) and (ii), income is includible in the hands of the transferor. (iii) Income of spouse as mentioned in section 64(1) (iv) Income from assets transferred to son's wife or to any person for the benefit of son's wife. (v) Income of minor child as mentioned in section 64(1A)

3. COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The procedure for computation of total income for the purpose of levy of income-tax is detailed hereunder –

Step 1 – Determination of residential status

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

- In case of an individual, the number of days of his stay in India during the relevant previous year and/or the earlier previous years would determine his residential status.
- An individual/HUF can be either a -
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
- Persons, other than an individual and HUF, can be either resident or non-resident.
- An Indian company is resident in India.
- A company, not being an Indian Company and having its place of effective management in India in a particular year, would be resident in India for that year.
- The determining factor for every other assessee is the place where the control and management of its affairs are situated during that year i.e., whether in India or outside India.

• The residential status of a person determines the scope of his taxable income.

For example, income which accrues outside India and is received outside India is taxable in the hands of a resident and ordinarily resident but is not taxable in the case of a non-resident.

Step 2 – Classification of income under different heads

- There are five heads of income, namely, -
 - Salaries,
 - Income from house property,
 - Profits and gains of business or profession
 - Capital Gains
 - Income from other sources
- The income of a person should be identified and grouped under the respective head of income.
- Each head of income has a charging section (for example, section 15 for salaries, section 22 for income from house property).
- Deeming provisions are also contained under certain heads, by which specific items are sought to be taxed under those heads.

For example, if bad debts allowed as deduction in an earlier year is recovered in a subsequent year, then the amount recovered would be deemed as business income of the person in the year of recovery.

The charging section and the deeming provisions would help you to determine the scope of income chargeable under a particular head.

Step 3 – Computation of income under each head

- Income is to be computed in accordance with the provisions governing a particular head of income.
- Assess the income under each head by -
 - applying the charging and deeming provisions,
 - excluding the specific exemptions provided for in section 10 relating to that head.
 - There are certain incomes which are wholly exempt from income-tax e.g. agricultural income. These incomes have to be excluded and will not form part of Gross Total Income.
 - Also, some incomes are partially exempt from income-tax e.g. House Rent Allowance, Education Allowance. These incomes are excluded only to the extent of the limits specified in the Act.
 - allowing the permissible deductions under that head, and

8.6 INCOME TAX LAW

For example, while calculating income from house property, municipal taxes and interest on loan are allowed as deduction. Similarly, deductions and allowances are prescribed under other heads of income.

disallowing the non-permissible deductions.

For example, while computing net consideration for capital gains, brokerage is a permissible deduction from gross sale consideration but securities transaction tax paid is not permissible.

Step 4 – Clubbing of income of spouse, minor child etc.

An individual in a higher tax bracket may have a tendency to divert his income to another person who is not subject to tax or who is in a lower tax bracket.

For example, an individual may make a fixed deposit in the name of his minor son, so that income from such deposit would accrue to his son, who does not have any other income.

- In order to prevent evasion of income-tax by such means, clubbing provisions ٠ have been incorporated in the Income-tax Act, 1961, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability.
- For example, income of a minor child (say, interest income) is includible in the • hands of the parent whose total income is higher before including minor's income. Such interest income will be included in the hands of the parent under the head "Income from other sources" after providing for deduction of up to ₹ 1,500 under section 10(32).
- However, if a minor child earns income on account of his or her special skills or • talent, like music or dance, then such income is not includible in the hands of the parent.

Step 5 – Set-off or carry forward and set-off of losses

An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. For instance, an individual may have profit from his let-out house property and loss from his self-occupied property. This loss can be set-off against the profits of the let-out property to arrive at the net income chargeable under the head "Income from house property".

- Inter-source set-off of losses
 - A person may have income from one source and loss from another source under the same head of income. For instance, a person may have profit from wholesale trade of merchandise and loss from the business of plying vehicles.

The loss of one business can be set-off against the profits of another business

to arrive at the net income under the head "Profits and gains of business or profession".

- Set-off of loss from one source against income from another source within the same head of income is permissible, subject to certain exceptions, like long-term capital loss cannot be set-off against short-term capital gains though short-term capital loss can be set-off against long-term capital gains.

Inter-head set-off of losses

- Likewise, set-off of loss from one head (say, loss from house property) against income from another head (say, Salaries) is also permissible, subject to certain exceptions, like business loss cannot be set-off against salary income.
- Also, Loss under the head house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs only.

Carry forward and set-off of losses

- Unabsorbed losses of the current year can be carried forward to the next year for set-off only against the respective head of income.
- Here again, if there are any restrictions relating to inter-source set-off, the same will apply, like long-term capital loss which is carried forward can be set-off only against long-term capital gains and not short-term capital gains of a later year.
- The maximum number of years up to which any particular loss can be carried forward is also provided under the Act.
 - For example, business loss can be carried forward for a maximum of 8 assessment years to be set-off against business income.

Step 6 – Computation of Gross Total Income

- The income computed under each head, after giving effect to the clubbing provisions and provisions for set-off and carry forward and set-off of losses, have to be aggregated to arrive at the gross total income.
- The process of computing GTI is depicted hereunder -

Add income	\rightarrow	Apply clubbing	\rightarrow	Apply the provisions for
computed under		provisions		set-off and carry forward
each head				of losses

Step 7 – Deductions from Gross Total Income

Certain deductions are allowable from gross total income to arrive at the total income. These deductions contained in Chapter VI-A can be classified as –

INCOME TAX LAW

Deduction in respect of certain payments, for example,

Section	Nature of Payment/Deposit
80C	Payment of life insurance premium, tuition fees of children, deposit in public provident fund, repayment of housing loan etc.
80D	Medical insurance premium paid by an individual/HUF for the specified persons/ contribution to CGHS etc.
80E	Payment of interest on educational loan taken for self or relative

Deduction in respect of certain income, for example,

Section	Nature of Income
80QQB	Royalty income of authors of certain books other than text books
80RRB	Royalty on patents.
80TTA	Interest on savings account with a bank, co-op-society and post office.

Other Deductions

8.8

Deduction under section 80U in case of a person with disability

These deductions are allowable subject to satisfaction of the conditions prescribed in the relevant sections. There are limits in respect of deduction under certain sections. The payments/incomes are allowable as deduction subject to such limits. For example, the maximum deduction under section 80RRB is ₹ 3 lakhs.

Step 8 – Total income

• The gross total income as reduced by the above deductions under Chapter VI-A is the total income.

Total income = GTI – Deductions under Chapter VI-A

- It should be rounded off to the nearest multiple of ₹ 10.
- Tax is calculated on the total income of the assessee.

Step 9 – Application of the rates of tax on the total income

- The rates of tax are specified in the Finance Act.
- For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 2,50,000. This means that no tax is payable by individuals with total income of up to ₹ 2,50,000. The rates of tax and level of total income are as under -

	Level of total income	Rate of tax
(i)	where the total income does not exceed ₹ 2,50,000	NIL

	Level of total income	Rate of tax
(ii)	where the total income exceeds ₹ 2,50,000 but does not exceed ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 2,50,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	₹ 12,500 <i>plus</i> 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,00	₹ 1,12,500 <i>plus</i> 30% of the amount by which the total income exceeds ₹ 10,00,000

For a senior citizen (being a resident individual who is of the age of 60 years or more at any time during the previous year), the basic exemption limit is ₹ 3,00,000 and for a very senior citizen (being a resident individual who is of the age of 80 years or more at any time during the previous year), the basic exemption limit is ₹ 5,00,000. Therefore, the tax slabs for these assesses would be as follows –

For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years)

	Level of total income	Rate of tax			
(i)	where the total income does not exceed ₹ 3,00,000	NIL			
(ii)	where the total income exceeds ₹ 3,00,000 but does not exceed ₹ 5,00,000	,			
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	₹ 10,000 <i>plus</i> 20% of the amount by which the total income exceeds ₹ 5,00,000			
(iv)	where the total income exceeds ₹ 10,00,00	₹ 1,10,000 <i>plus</i> 30% of the amount by which the total income exceeds ₹ 10,00,000			

For resident individuals of the age of 80 years or more at any time during the previous year

	Level of total income	Rate of tax
(i)	where the total income does not exceed ₹ 5,00,000	NIL

•

INCOME TAX LAW

	Level of total income	Rate of tax			
(ii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	20% of the amount by which the total income exceeds ₹ 5,00,000			
(iv)	where the total income exceeds ₹ 10,00,00	₹ 1,00,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000			

Clarification regarding attaining prescribed age of 60 years/80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April [Circular No. 28/2016, dated 27-07-2016]

An individual who is resident in India and of the age of 60 years or more (senior citizen) and 80 years or more (very senior citizen) is eligible for a higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000, respectively.

The CBDT has, *vide* this Circular, clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday. In particular, the question of attainment of age of eligibility for being considered a senior/very senior citizen would be decided on the basis of above criteria.

Therefore, a resident individual whose 60th birthday falls on 1st April, 2018, would be treated as having attained the age of 60 years in the P.Y. 2017-18, and would be eligible for higher basic exemption limit of ₹ 3 lakh in computing his tax liability for A.Y. 2018-19. Likewise, a resident individual whose 80th birthday falls on 1st April, 2018, would be treated as having attained the age of 80 years in the P.Y. 2017-18, and would be eligible for higher basic exemption limit of ₹ 5 lakh in computing his tax liability for A.Y. 2018-19.

- Companies and firms are subject to a flat rate of tax, without any basic exemption limit.
- The rates of tax have to be applied on the total income to compute the tax liability.
- Rates of tax in respect of certain income are provided under the Income-tax Act, 1961 itself. For instance, the rates of tax for long-term capital gains, certain short-term capital gains and winnings from lotteries, crossword puzzles, races etc. are prescribed in sections 112, 111A and 115BB respectively. The rates of tax are 20%, 15% and 30%, respectively, in the above cases.
- The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of total income after adjusting the basic exemption limit.

© The Institute of Chartered Accountants of India

8.10

8.11

• The unexhausted basic exemption limit can, however, be adjusted against longterm capital gains taxable under section 112 and short-term capital gains taxable under section 111A.

Step 10 – Rebate under section 87A (where total income $\leq 3,50,000$) / Surcharge (where total income $\geq 3,50,00,000$)

Rebate under section 87A: In order to provide tax relief to the individual tax payers who are in the 5% tax slab, section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed ₹ **3,50,000**. The rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of ₹ **2,500**, whichever is less.

Surcharge: Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax. In case where the total income of an **individual/HUF/AOP/BOI** exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore, surcharge is payable at the rate of **10%** of income-tax; In case total income of such person exceeds ₹ 1 crore, surcharge is payable at the rate of **15%** of income-tax.

Level of Total Income	Surcharge	Rebate under section 87A
≤ ₹ 3,50,000	Not applicable	Income-tax on total income or ₹ 2,500 , whichever is less
> ₹ 3,50,000 ≤ ₹ 50,00,000	Not applicable	Not applicable
> ₹ 50,00,000 ≤ ₹ 1,00,00,000	10% of income-tax	Not applicable
> ₹ 1,00,00,000	15% of income-tax	Not applicable

Step 11 – Education cess and "Secondary and higher education cess"

The income-tax is to be increased by education cess@2% and secondary and higher education cess@1% on income-tax plus surcharge minus rebate under section 87A, wherever applicable. This is payable by all individuals who are liable to pay income-tax irrespective of their level of total income.

Total Tax = Liability	Tax on total income at applicable rates	+	Surcharge, at applicable rates , if total income > ₹ 50 lakhs,	+	EC @2%	+	SHEC @1%
		-	Rebate u/s 87A, if total income ≤ ₹ 3.5 lakh				

Step 12 – Credit for advance tax, TDS and TCS

• Tax is deductible at source at the time of payment of salary, rent, interest, fees for professional services, royalty etc.

INCOME TAX LAW

8.12

- The payer has to deduct tax at source at the rates specified in the respective section, say, tax is deductible@10% in respect of royalty and fees for professional services.
- Such tax deducted at source has to be reduced by the payee to determine his net tax liability.
- Tax is collectible by the seller in case of certain goods at the rate specified in the respective section. Credit of such tax collection at source is allowable to determine the tax liability.
- The Income-tax Act, 1961 also requires payment of advance tax in installments during the previous year itself on the basis of estimated income, if the tax payable, after reducing TDS, is ₹ 10,000 or more.
- Both Corporate and non-corporate assessees are required to pay advance tax in four installments, on or before 15th June, 15th September, 15th December and 15th March of the financial year.
- From the total tax due, deduct the TDS, TCS and advance tax paid for the relevant assessment year.

Net Tax = Total tax liability – TDS – TCS – Advance Liability tax paid

Step 13 - Tax Payable/Tax Refundable

After adjusting the advance tax and tax deducted at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of tax payable (called self-assessment tax) at the time of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

Note: Students are advised to read the above steps carefully and follow the given procedure while solving problems on computation of total income and tax liability.

EXERCISE

Question 1

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2017 and came to India for the first time on 16.03.2017. She remained in India up till 19.9.2017 and left for USA on 20.9.2017. She returned to India again on 27.03.2018. While in India, she had purchased a show room in Mumbai on 22.04.2017, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2017. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2018. She had received the following gifts from her relatives and friends during 1.4.2017 to 31.3.2018:

- From parents of husband

₹ 51,000

- From married sister of husband

- From two very close friends of her husband, ₹ 1,51,000 and ₹ 21,000 ₹ 1,72,000 Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2018-19.

Answer

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2018-19 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2018-19 i.e. P.Y. 2017-18 and in the preceding four assessment years.

Her stay in India during the previous year 2017-18 and in the preceding four years are as under:

P.Y. 2017-18

01.04.2017 to 19.09.2017	-	172 days
27.03.2018 to 31.03.2018	-	5 days
Total		177 days
Four preceding previous years		
P.Y.2016-17 [1.4.2016 to 31.3.2017]	-	16 days
P.Y.2015-16 [1.4.2015 to 31.3.2016]	-	Nil
P.Y.2014-15 [1.4.2014 to 31.3.2015]	-	Nil
P.Y.2013-14 [1.4.2013 to 31.3.2014]	-	Nil
Total		16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to nonfulfillment of any of the two conditions for a resident, she would be treated as nonresident for the Assessment Year 2018-19.

₹ 11,000

8.14 INCOME TAX LAW

Computation of total income of Miss Charlie for the A.Y. 2018-19

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2017 to 31.03.2018 @ ₹ 25,000/- p.m. Gross Annual Value [25,000 x 11] (See Note 1 below)		2,75,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction under section 24			
30% of NAV	82,500		
Interest on loan	97,500	1,80,000	95,000
Income from other sources			
Gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil	
 ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax. 		Nil	
 Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below) 		1,72,000	1,72,000
Total income			2,67,000

Computation of tax payable by Miss Charlie for the A.Y. 2018-19

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Education cess@2%	17
Add : Secondary and higher education cess @1%	9
Total tax payable	876

Notes:

- 1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceeds ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
- 3. Since Miss Charlie is a non-resident for the A.Y. 2018-19, rebate under section 87A would not be available to her, even though her total income is less than ₹ 3.5 lacs.

Question 2

Dr. Niranjana, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2018 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and Medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (Principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved under section 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:

1.4.2017	Opening W.D.V.	-	₹ 5,00,000
7.12.2017	Acquired (cost) by cheque	-	₹ 2,00,000

8.16 INCOME TAX LAW

- (iii) Rent received relates to property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2017, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the year 2017-18.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2018 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2018-19.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2018-19

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)			90,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less : Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 @ 30% of ₹ 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	<i>Less</i> : Items of income to be treated separately			
	(i) Rent received	27,000		
	(ii) Dividend from units of UTI	10,500		
	(iii) Winning from game show on T.V.(net of TDS)	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	

	Particulars	₹	₹	₹
	Less : Allowable expenditure			
	Depreciation on Clinic equipments			
	on ₹ 5,00,000 @ 15%	75,000		
	on ₹ 2,00,000 @ 7.5% (On equipments acquired during the year in December 2017 she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year)	15,000		
	Additional deduction of 50% for amount paid to scientific research association (Since weighted deduction of 150% is available in respect of such payment)	75,000	1,65,000	
			1,97,450	
	<i>Add</i> : Items of expenditure not allowable while computing business income			
	 (i) Rent for her residential accommodation included in Income and Expenditure A/c 	30,000		
	 (ii) Municipal tax paid relating to residential house at Surat included in administrative expenses 	2,000	32,000	2,29,450
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI	10,500		

8.17

Particulars	₹	₹	₹
<i>Less</i> : Exempt under section 10(35)	10,500	Nil	
(c) Winnings from the game show on T.V. (₹ 35,000 + ₹ 15,000)		50,000	50,450
 Gross Total Income			3,87,400
<i>Less</i> : Deductions under Chapter VI A:			
(a) Section 80C - Tuition fee paid to university for full time education of her daughter		1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible		55,000	1,83,000
Total income			2,04,400

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) Since Dr. Niranjana is staying in a rented premise in Surat itself, she would not be eligible for deduction u/s 80GG, as she owns a house in Surat which she has let out.

Question 3

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2018 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled		Audit	27,88,000	
assistants	1,37,000	Taxation services	15,40,300	
Incentive to articled		Consultancy	12,70,000	55,98,300
assistants	13,000	Dividend on shares of Indian companies(Gross)		10,524
Office rent	12,24,000	Income from UTI		7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800
Meeting, seminar and Conference	31,600	Rent received from residential flat let		85,600
Purchase of car	80,000	out		
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2017 to 30-09-2018.
- (v) Salary include ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.

8.20 INCOME TAX LAW

- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2018-19.

Answer

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2018-19

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		15,800
Gross Total Income		9,93,820
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		9,83,820
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 9,83,820 @20%	96,764	1,09,264
Add: Education cess @ 2%		2,185
Secondary and higher education cess @ 1%		1,093
Total tax liability		1,12,542
Tax Payable		1,12,540

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
 (i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000 	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
<i>Add</i> : Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
<i>Less:</i> Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes :

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2018 to 30.9.2018 i.e.

© The Institute of Chartered Accountants of India

8.21

8.22 INCOME TAX LAW

for 6 months amounting to \mathbf{R} 1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹	₹
Dividend on shares of Indian companies	10,524	
Less: Exempt under section 10(34)	10,524	Nil
Income from UTI	7,600	
Less: Exempt under section 10(35)	7,600	Nil
Honorarium for valuation of answer papers		15,800
		15,800

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 4

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2018 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (*a*) Dividend from UTI ₹ 22,000.
 - (b) Interest on debentures ₹ 17,500.
 - (c) Winnings from races \gtrless 15,000.
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock ₹ 8,000.

Closing stock ₹ 12,000.

- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. ³/₄th is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A &Co., a goods transport operator in cash on 31-1-2018 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings ₹ 10,000.
- *(11) Investment in NSC* ₹ *15,000.*

Compute the total income of Mr. Y for the assessment year 2018-19.

Answer

Computation of total income of Mr. Y for the A.Y. 2018-19

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	10,71,500
Income from other sources (See Working Note 2 below)	32,500
Gross Total Income	11,04,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	10,89,000

Working Notes :

1. Computation of profits and gains of business or profession

	Particulars		₹
Net p	Net profit as per profit and loss account		11,20,000
Add:	Add: Expenses debited to profit and loss account but not allowable as deduction		
	Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	

8.24 INCOME TAX LAW

	Motor car expenses attributable to personal use not allowable (₹ 78,000 × $\frac{1}{4}$)	19,500	
	Depreciation debited in the books of account	55,000	
	Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
	Investment in NSC [See Note (iii)]	15,000	1,02,000
			12,22,000
Add:	Under statement of closing stock		12,000
			12,34,000
Less:	Under statement of opening stock		8,000
			12,26,000
Less:	Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction@150%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 50% has to be		50,000
	deducted.		11 76 000
Less:	Incomes credited to profit and loss account		11,76,000
LC33.	but not taxable as business income		
	Income from UTI [Exempt under section 10(35)]	22,000	
	Interest on debentures (taxable under the head "Income from other sources")	17,500	
	Winnings from races (taxable under the head "Income from other sources")	15,000	54,500
			10,21,500
Less:	Depreciation allowable under the Income-tax Rules, 1962		50,000
			10,71,500

Notes :

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important (i) customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment (ii) exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of

payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))

8.25

(iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of "Income from other sources"

Particulars	₹
Interest on debentures	17,500
Winnings from races	15,000
	32,500

Notes :

The following assumptions have been made in the above solution:

- 1. The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
- In point no. 9 of the question, it has been given that depreciation as per Incometax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

Question 5

Balamurugan furnishes the following information for the year ended 31-03-2018:

Particulars	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary	60,000
Long term capital gain	70,000

Compute his total income, tax liability and advance tax obligations.

Answer

Computation of total income of Balamurugan for the year ended 31.03.2018

Particulars	₹	₹
Salaries	60,000	
Less: Loss from house property	(15,000)	

8.26 INCOME TAX LAW

Particulars	₹	₹
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	(1,35,000)	
Net business loss to be set-off against long-term capital gain	(35,000)	
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

Computation of tax liability

Particulars	₹
On total income of ₹ 80,000 (excluding lottery winning)	Nil
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
<i>Add:</i> Education Cess @ 2% and Secondary and higher education cess@1%	4,500
Total tax liability	1,54,500

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B.Since the remaining tax liability of ₹ 4,500 (₹ 1,54,500 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Notes:

- The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary 1. income of ₹ 45,000.The unexhausted basic exemption limit of ₹ 2,05,000 can be adjusted against long-term capital gains of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- 2. The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining

installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31^{st} March, 2017.The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

Question 6

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2017-18.

Receipts	₹	Payments	₹
Opening balance (1.4.2017) Cash on hand	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
and at Bank		Other administrative expenses	11,48,000
Fee from professional services	59,38,000	Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Life insurance premium	24,000
		Motor car (acquired in Jan. 2018 by cheque)	4,25,000
		Medical insurance premium (for self and wife)	18,000
		Books bought (annual publications by cheque)	20,000
		Computer acquired on 1.11.2017(for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2018) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Receipts and Payments Account

Following further information is given to you:

(1) He occupies 50% of the building for own residence and let out the balance for

8.28 INCOME TAX LAW

residential use at a monthly rent of ₹ 5,000.The building was constructed during the year 1997-98, when the housing loan was taken.

- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2017 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2018-19.

Answer

Computation of total income of Mr. Rajiv for the assessment year 2018-19

Particulars		₹	₹	₹
Income from house property				
Self-occupied				
Annual value		Nil		
Less: Deduction under section 24(b Interest on housing loan 50% of ₹ 88,000 = 44,000 but limit		30,000		
Loss from self occupied property			(30,000)	
Let out property Annual value (Rent receivable has as the annual value in the absence information)		60,000		
Less: Deductions under section 24				
30% of Net Annual Value	18,000			
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)	
Loss from house property				(32,000)
Profits and gains of business or	profession			
Fees from professional services			59,38,000	
Less: Expenses allowable as deduction				
Staff salary, bonus and stipend		21,50,000		
Other administrative expenses		11,48,000		

Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications @ 40%	8,000		
Furniture and fittings @ 10% of ₹ 60,000	6,000		
Plant and machinery @ 15% of ₹ 80,000	12,000		
Computer @ 40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x ½ thereon	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid ₹ 18,000		18,000	1,62,000
Total income			23,30,500

Question 7

From the following details, compute the total income of Siddhant of Delhi and tax payable for the A.Y. 2018-19:

Particulars	₹
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000

INCOME TAX LAW

Particulars	₹
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for \gtrless 4,75,000 in April, 2011, which was financed by a loan from Life Insurance Corporation of India of \gtrless 1,60,000 @ 15% interest, his own savings of \gtrless 65,000 and a deposit from a nationalized bank for \gtrless 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was \gtrless 3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) House Insurance

8.30

(c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.

₹ 860

- (d) In the year 2012-13, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- (e) Siddhant received a gift of ₹ 25,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

Answer

Computation of total income and tax liability of Siddhant for the A.Y. 2018-19

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 \times 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		

Particulars		₹	₹
(i) 30% of NAV	₹ 11,310		
 (ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] 	₹ 24,000	35,310	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss from cotton speculation business		4,200	
Net Loss		1,500	
Net loss from speculative business has to be forward as it cannot be set off against any ot income.			
Income from Other Sources			
 (i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) 		3,800	
Less: Exempt under section 10(32)		1,500	
		2,300	
(ii) Interest income earned from advancing m gifted to wife has to be clubbed with the the assessee as per section 64(1)		5,700	
 (iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000) 		1,00,000	1,08,000
Gross Total Income			4,79,390
Less: Deduction under section 80C			
Contribution to Public Provident Fund			50,000
Total Income			4,29,390

Particulars	₹
Tax on total income	8,970
Add: Education cess@2%	179
Add: Secondary and higher education cess@1%	88
Tax liability	9,237
Tax liability (rounded off)	9,240

8.32 INCOME TAX LAW

Notes:

- It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2018; (1)
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 8

Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2018:

– Basic Salary	₹ 15,000 p.m.	
- DA (50% of it is meant for retirement benefits)	₹ 12,000 p.m.	
- Commission as a percentage of turnover of the Company	0.5 %	
– Turnover of the Company	₹ 50 lacs	
– Bonus	₹ 50,000	
– Gratuity	₹ 30,000	
– Own Contribution to R.P.F.	₹ 30,000	
- Employer's contribution to R.P.F.	20% of basic salary	
- Interest credited in the R.P.F. account @ 15% p.a.	₹ 15,000	
- Gold Ring worth ₹ 10,000 was given by employer on his 25 th wedding anniversary.		
- Music System purchased on 01.04.2017 by the company for $₹$ 85.000 and was		

- Irchasea on 01.04.2017 by the company for R given to him for personal use.
- Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs, dividend of ₹ 1,260 from shares of Indian Companies and interest of ₹ 7,540 from the debentures of Indian Companies.
- Made payment by cheques of ₹ 15,370 towards premium of Life Insurance policies and ₹ 12,500 for Mediclaim Insurance policy.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2018-19.

Answer

Computation of Total Income for the A.Y.2018-19

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
<i>Less:</i> Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 th wedding anni- versary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two trucks (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [Exempt under section 10(34)]	Nil	13,400
Gross total Income		6,49,160
Less: Deductions under Chapter VI-A		

8.34 INCOME TAX LAW

Particulars	₹	₹
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D - Mediclaim Insurance		12,500
Section 80G (Note 4)		10,600
Total Income		5,00,690
Tax on total income		
Income-tax		12,638
Add: Education cess @ 2%		253
Add: Secondary and higher education cess @ 1%		126
Total Tax Payable		13,017
Tax Payable (rounded off)		13,020

Notes:

- 1. Gratuity received during service is fully taxable.
- 2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

=12% of (₹ 1,80,000+ (50% of ₹ 1,44,000)+ ₹ 25,000)

=12% of 2,77,000 = ₹ 33,240

- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in 3. view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,50,760.
- Deduction under section 80G is computed as under: 4.

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income i.e. ₹ 51,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D=₹ 6,49,160-₹ 1,37,870 =₹ 5,11,290.

Question 9

From the following particulars furnished by Mr. X for the year ended 31.3.2018, you are requested to compute his total income and tax payable for the assessment year 2018-19.

- (a) Mr. X retired on 31.12.2017 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as ₹ 24,500. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2018.
- (f) Mr. X has invested ₹ 62,500 in public provident fund and ₹ 37,500 in National Savings Certificates.

Answer

₹ ₹ **Particulars Income from Salaries** Basic salary (₹ 25,000 x 9 months) 2,25,000 House rent allowance Actual amount received (₹ 6,000 x 9 months) 54,000 Less : Exemption under section 10(13A) (Note 1) 36,000 18,000 Gratuity Actual amount received 3,50,000 43,750 Less: Exemption under section 10(10)(iii) (Note 2) 3,06,250 Leave encashment Actual amount received 3,15,000 70,000 Less : Exemption under section 10(10AA) (Note 3) 2,45,000 **Gross Salary** 3,56,750

Computation of total income of Mr. X for A.Y.2018-19

8.36 INCOME TAX LAW

Particulars	₹	₹
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		3,56,750
Less : Deduction under section 80C		
Investment in public provident fund	62,500	
Investment in NSC	37,500	1,00,000
Total income		2,56,750
Tax on total income		338
Less: Rebate under section 87A		338
Tax payable		Nil

Note:

(2)

(1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹	
(i) HRA actually received (₹ 6,000 x 9)	54,000	
 (ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months 	36,000	
(iii) 50% of salary	1,12,500	
Gratuity of ₹ 3,06,250 is exempt under section 10(10)(iii), being the minimum of the following amounts :		
	₹	

(i) Actual amount received	3,50,000
 (ii) Half month average salary for each year of completed service(1/2 x ₹ 24,500 x 25) 	3,06,250
(iii) Statutory limit	10,00,000

(3) Leave enchashment is exempt up to the least of the following:

	₹		
(i) Actual amount received	3,15,000		
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000		
	COMPUTATION OF TOTAL INCOME AN	ID TAX PAYABLE	8.37
-----	--	-----------------------------------	----------------------
	 (iii) Cash equivalent of unavailed leave calcula basis of maximum 30 days for every year or rendered to the employer from whose ser (See Note 4 below) (iv) Statutory limit 	of actual service	3,06,250 3,00,000
			3,00,000
(4)	Since the leave entitlement of Mr. X as per his e for each year of service and he had accumulated period of his service, he would have availed/ta every year.	d 15 days per annum	during the
	Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 25 days	= 750
	Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 25 days	= 375
	Earned leave to the credit of Mr. X at the time of his retirement	375 days	
	Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 375 × ₹ 24,500 /3 ₹ 3,06,250	0=

Question 10

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2018:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	-	10,000
2.	Pension received from Canadian Government	20,000	-
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	-	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	-
7.	Mediclaim policy premium paid	-	25,000
8.	Investment in PPF	-	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

8.38 INCOME TAX LAW

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2018-19 and tax thereon.

Answer

Computation of taxable income of Mrs. Rosy and Mrs. Mary
for the A.Y. 2018-19

S. No.	Particulars	Mrs. Rosy	Mrs.
INO.		7	Mary *
		₹	₹
(I)	Salaries		
	Pension received from State Government	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a) @ 30%	18,000	9,000
		42,000	21,000
(111)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,00,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,31,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	
	3. Investment in PPF	-	20,000
		40,000	30,000

	Total tax payable	23,690	5,150
	Education cess @ 2% & SHEC@ 1%	690	150
			5,000
	Less: Rebate under section 87A		2,500
	₹ 50,000 [i.e. ₹ 2,50,000 less ₹ 2,00,000, being the unexhausted basic exemption limit as per proviso to section 111A]		7,500
	Tax on short-term capital gains @ 15% of		
	Tax liability of Mrs. Mary for A.Y.2018-19		
		23,000	
	Tax on short-term capital gains @ 15%	3,000	
	Tax on long-term capital gains @ 20%	20,000	
	Tax liability of Mrs. Rosy for A.Y. 2018-19		
(C)	Total income (A-B)	1,22,000	3,00,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
		40,000	55,000
2.	Deduction under section 80D – Mediclaim premium paid (assuming that the same is paid by cheque)		25,000

Notes :

- (1) Long-term capital gains is chargeable to tax @ 20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust there unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 50,000 and the balance limit of ₹ 2,00,000 (i.e., ₹ 2,50,000 ₹ 50,000) against short-term capital gains.

INCOME TAX LAW

Question 11

8.40

Mr. Rajesh is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2018 are as follows:

Basic Salary	₹ 5,40,000
HRA (Computed)	₹ 1,80,000
Transport allowance	₹ 22,000
Apart from the above his employer has sold the following assets to him	on 1st January

Apart from the above, his employer has sold the following assets to him on 1st January, 2018:

(i) Laptop computer for ₹ 20,000 (Acquired in September, 2016 for ₹ 1,20,000)

(ii) Car 1800 cc for ₹ 3,20,000 (purchased in April, 2015 for ₹ 8,50,000)

He also owns a residential house, let out for a monthly rent of ₹ 15,000. The fair rental value of the property for the let out period is ₹ 1,50,000. The house was self-occupied by him from 1st January, 2018 to 31st March, 2018. He has taken a loan from bank of ₹ 20 lacs for the construction of the property, and has repaid ₹ 1,05,000 (including interest ₹ 40,000) during the year.

Mr. Rajesh sold shares of different Indian companies on 14th April, 2017:

Name	Sale value (per share)	Purchase price(per share)	Acquired on	No. of shares
A Ltd.	₹ 150	₹ 120 (STT paid at acquisition)	2 nd May, 2009	200
B Ltd.	₹ 82	₹ 65	16 th April, 2016	125

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration. He received income-tax refund of ₹ 5,750 (including interest ₹ 750) relating to the assessment year 2016-17.

Compute the total income of Mr. Rajesh for the Assessment Year 2018-19.

Answer

Computation of total income of Mr. Rajesh for the A.Y. 2018-19

Particulars	₹
Income from salaries (Working Note 1)	9,86,800
Income from house property (Working Note 2)	1,00,000
Capital gains	
Short-term capital gains (Working Note 3)	2,115
Income from other sources: Interest on Income-tax refund	750
Gross Total Income	10,89,665

8.41

Particulars	₹
Less: Deduction under Chapter VIA	
Deduction under section 80C	
Repayment of housing loan (principal) [See Note below]	65,000
Total Income	10,24,665
Total Income (rounded off)	10,24,670

Working Notes:

	Particulars	₹	₹
1.	Income from salaries		
	Basic Salary		5,40,000
	HRA (computed)		1,80,000
	Transport allowance	22,000	
	Less: Exempt under section 10(14) [₹ 1,600 ×12]	19,200	2,800
	Perquisites (relating to sale of movable assets by employer)		
	Laptop Computer		
	Cost [September, 2016]	1,20,000	
	Less: Depreciation at 50% for one completed year	60,000	
	WDV [September, 2017]	60,000	
	Less: Amount paid to the employer	20,000	
	Perquisite value of laptop (A)	40,000	
	Car		
	Cost [April, 2015]	8,50,000	
	<i>Less</i> : Depreciation for the 1 st year (April, 15 to March, 16) @ 20% of WDV	1,70,000	
	WDV [April, 2016]	6,80,000	
	<i>Less</i> : Depreciation for the 2 nd year (April, 16 to March, 17) @ 20% of WDV	1,36,000	
	WDV [April, 2017]	5,44,000	
	Less: Amount paid to the employer	3,20,000	
	Perquisite value of car (B)	2,24,000	
	Perquisite value (A) + (B)		2,64,000
	Income chargeable under the head "Salaries"		9,86,800

8.42 INCOME TAX LAW

2. **Income from house property**

Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as nil would be available only if the house is self-occupied for the whole year.

In this case, therefore, the benefit of taking annual value as Nil is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.

Particulars	₹	₹
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = ₹ 1,50,000 × 12/9	2,00,000	
Actual rent received = ₹ 15,000 × 9	1,35,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)		2,00,000
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	40,000	1,00,000
Income from house property		1,00,000

Note: It is presumed that the interest of ₹ 40,000 paid on housing loan represents the interest actually due for the year.

3. Income chargeable as "Capital Gains"

Section 10(38) exempts long-term capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax and STT was paid at the time of acquisition of such shares. Since Mr. Rajesh has held shares of A Ltd. for more than 12 months, the gains arising from sale of such shares is a long-term capital gain, which is exempt under section 10(38), since securities transaction tax has been paid on such sale and at the time of acquisition of shares.

Shares in B Ltd. are held for less than 12 months and hence the capital gains arising on sale of such shares is a short-term capital gain chargeable to tax @15% as per section 111A, since the transaction is subject to securities transaction tax. It may be noted, however, that securities transaction tax is not a deductible expenditure.

Short-term capital gains arising from sale of shares of B Ltd.		
Particulars	₹	
Sale consideration (82×125)	10,250	
Less: Brokerage @ 0.1%	10	
Net sale consideration	10,240	
Cost of acquisition (65 x 125)	8,125	
Short-term capital gains	2,115	

Question 12

Mr. Ashok owns a property consisting of two blocks of identical size. The first block is used for business purposes. The other block has been let out from 1.4.2017 to his cousin for ₹10,000 p.m. The cost of construction of each block is ₹5 lacs (fully met from bank loan), rate of interest on bank loan is 10% p.a. The construction was completed on 31.3.2017. During the year ended 31.3.2018, he had to pay a penal interest of $₹2,000 \text{ in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was <math>₹42,000$. Principal repayment for each block was ₹23,000 made at the end of the year. An identical block in the same neighbourhood fetches a rent of ₹15,000 per month. Municipal tax paid in respect of each block was ₹12,000.

The income computed in respect of business prior to adjustment towards depreciation on any asset is \gtrless 2,20,000.

Depreciation on equipments used for business is ₹ 30,000.

On 23.3.2018, he sold shares of B Ltd., a listed share in BSE for ₹ 2,30,000. The share had been purchased 10 months back for ₹ 1,80,000. Securities transaction tax at sale paid may be taken as ₹ 220.

Brought forward business loss of a business discontinued on 12.1.2017 is ₹ 80,000.This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.

The following payments were effected by him during the year:

- (i) LIP of ₹ 20,000 on his life and ₹ 12,000 for his son aged 22, engaged as a software engineer and drawing salary of ₹ 25,000 p.m.
- (ii) Mediclaim premium of ₹ 6,000 for himself and ₹ 5,000 for above son. The premiums were paid by cheque.

You are required to compute the total income for the assessment year 2018-19. The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 1.4.2017, as the bank had waived the same.

8.43



Answer

Computation of total income of Mr. Ashok for the A.Y.2018-19

Particulars	₹	₹	₹
Income from house property [See Note I]			
House block 2 let out (higher of fair rent and rent receivable)		1,80,000	
Less: Municipal tax paid		12,000	
Net annual value (NAV)		1,68,000	
Less: Deductions under section 24			
(a) 30% of NAV	50,400		
(b) Interest on bank loan @ 10% on ₹ 5,00,000	50,000	1,00,400	67,600
Profits and gains of business or profession [See Note II]			
Income prior to adjustment for depreciation		2,20,000	
<i>Less:</i> Depreciation on equipments used for business	30,000		
Depreciation on building ₹ 5,00,000 @ 10%	50,000	80,000	
		1,40,000	
Less: Set off of brought forward business loss relating to discontinued business [See Note III]		80,000	60,000
Capital Gains[See Note IV]			
Short term capital gains from sale of listed shares			
Full value of consideration		2,30,000	
Less : Cost of acquisition		1,80,000	50,000
Gross Total Income			1,77,600
Less : Deduction under section 80C in respect of LIP ₹ 32,000 and housing loan repayment in respect of II block ₹ 23,000		55,000	
Deduction under section 80D (for self)		6,000	61,000
Total income		0,000	1,16,600

Notes:

I – On computation of Income from house property

- (i) The annual value of the house property which is used for business would not fall under the head "Income from house property". Therefore, the annual value of the first block is not chargeable to tax under the head "Income from house property". However, depreciation there on at 10% has been claimed while computing the income from business.
- (ii) As regards the second block, the sum for which the property may be reasonably expected to be let is ₹ 15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., ₹ 15,000 p.m.) or the actual rent received (₹ 10,000 p.m.) Hence, the GAV of the second block is ₹ 1,80,000 (i.e. ₹ 15,000 p.m.)
- (iii) Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is ₹ 50,000 (i.e. 10% of ₹ 5 lakhs), which is allowable as deduction under section 24(b).
- II On computation of Profits and gains of business or profession: Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is ₹ 50,000 (being 10% of ₹ 5,00,000) and depreciation on equipments used for business is ₹ 30,000. Hence the depreciation allowable during the year is ₹ 80,000.
- **III On set off of business loss:** As per section 72, business loss relating to discontinued business is eligible for set off.
- IV On treatment of short-term capital gains (STCG): The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.
- V On computation of deductions under sections 80C and 80D: Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of ₹ 6,000 is eligible for deduction.

Question 13

Mr. Venus provides the following details for the previous year ending 31-3-2018

(i) Salary from HNL Ltd.

₹ 50,000 per month

8.46 INCOME TAX LAW

(ii)	Interest on FD	with SBI for the	financial year	2017-18	₹ 72,000 (Net of TDS)
------	----------------	------------------	----------------	---------	-----------------------

- (iii) Brought forward long term capital loss of A Y 2015-16 ₹ 96,000
- (iv) Long term capital gain
- (v) Loss of minor son ₹ 90,000 computed in accordance with the provisions of Incometax Act, 1961. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
- (vi) Loss of his wife's business

₹ (2,00,000)

₹ 75,000

She carried business with funds which Mr. Venus gifted to her.

You are required to compute taxable income of Mr. Venus for the AY 2018-19.

Answer

Computation of Taxable Income of Mr. Venus for the A.Y. 2018-19

P							
Particulars	₹	₹					
Salaries							
Income from Salary(₹ 50,000 × 12)	6,00,000						
<i>Less:</i> Loss from house property in respect of which Mr. Venus is the deemed owner to be set off against his salary income as per section 71(1) [See Note 1]	90,000	5,10,000					
Capital Gains	50,000	5,10,000					
Long term capital gain	75,000						
<i>Less</i> : Brought forward long term capital loss of A.Y. 2015-16 set off against current year long-term capital gain as per section 74(1) & (2) [See Note 2]	75,000	Nil					
Balance long-term capital loss of ₹ 21,000 (₹ 96,000 - ₹ 75,000) of A.Y.2015-16 to be carried forward to A.Y.2018-19 [See Note 2]							
Income from Other Sources							
Interest on fixed deposit with SBI (₹ 72,000 × 100/90)	80,000						
<i>Less</i> : Business loss incurred by wife includible in Mr. Venus's hands set off against interest income as per section 71(1) [See Notes 3 & 4]	80,000	Nil					
Balance business loss of ₹ 1,20,000 (₹ 2,00,000 – ₹ 80,000) to be carried forward to A.Y. 2019-20							
Taxable Income		5,10,000					

Notes:

(1) As per section 27(i), Mr. Venus is the deemed owner of the house transferred to his minor son without adequate consideration. Hence, the income from house

property would be assessable in Mr. Venus's hands. Since there is a loss from house property transferred to minor son without adequate consideration, Mr. Venus can set-off the same against salary income, since he is the deemed owner of such property.

- (2) As per section 74(1) and 74(2), brought forward long-term capital loss can be setoff only against long-term capital gains. Unabsorbed long-term capital loss can be carried forward for a maximum of eight assessment years (upto A.Y.2023-24, in this case) for set-off against long-term capital gains.
- (3) As per section 64(1)(iv), income from funds gifted to spouse by an individual and invested in business by the spouse is includible in the hands of the individual. As per *Explanation 2* to section 64, income includes "loss". Hence, in the given case, loss arising out of the business carried on by Mr. Venus's wife is to be included in the income of Mr. Venus, as she has carried on business with the funds gifted to her by Mr. Venus.
- (4) As per section 71(2A), business loss cannot be set-off against salary income. However, the same can be set-off against income from other sources (consisting of interest on fixed deposit).

8.48 INCOME TAX LAW

LET US RECAPITULATE

Computation of Total Income and Tax liability of Individuals:

Income-tax is levied on an assessee's total income. Total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The following steps has to be followed for computing the total income of an assessee:

Step 1 – Determination of residential status

- Resident
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
- Non-resident

Step 2 – Classification of income under different heads

- Salaries,
- Income from house property,
- Profits and gains of business or profession
- Capital Gains
- Income from other sources

Step 3– Computation of income under each head

Income under each head – exemptions - deductions

Step 4 – Clubbing of income of spouse, minor child etc.

Step 5 – Set-off or carry forward and set-off of losses

- Inter-source set-off of losses
- Inter-head set-off of losses
- Carry forward for set-off of losses

Step 6 – Computation of Gross Total Income

Gross Total = Add income Income

computed under each head

 \rightarrow Apply clubbing provisions \rightarrow Apply the provisions for set-off and carry forward of losses

Step 7 – Deductions from Gross Total Income

- Deductions in respect of expenditure
- Deductions in respect of income
- Deduction in respect of other income
- Other deduction

Step 8 – Computation of Total income

- Gross Total Income Deduction under chapter VI-A
- Rounded off to the nearest multiple of ₹ 10

Step 9 – Application of rates of tax on total income in case of an individual								
Total inc	ome (in ₹)	Rate of Tax						
Upto ₹ 2,50,000 (below 60 years Upto ₹ 3,00,000 (60 years or abo resident in India) Upto ₹ 5,00,000 (above 80 years	Nil							
₹ 2,50,001/₹ 3,00,001, as the case	5%							
₹ 5,00,000 to ₹ 10,00,000	20%							
Above ₹ 10,00,000	30%							
Step 10 – Surcharge and Rebat	9							
Surcharge								
Individual/HUF/AOP/BOI/Artif	icial juridical person							
Where the total income > ₹ 50 I	akh but is ≤ ₹1 crore	10%						
Where the total income > ₹ 1 cro	ore	15%						
Rebate under section 87A: Rebate of up to ₹ 2,500 for resident individuals having total income of up to ₹ 3.5 lakh Step 11 - Education Cess" and "Secondary and Higher Education Cess" on Income-Tax:								
Education cess2% of income-tax and surcharge, if applicableSecondary and Higher Education1% of income-tax and surcharge, if applicableCess1% of income-tax and surcharge, if applicable								
Total Tax = Tax on total Liability applicable rates	+ Surcharge, at + EC applicable rates, if @2 total income >₹ 50 lakhs,	2% + SHEC @1%						
	 Rebate u/s 87A, if total income ≤ ₹ 3.5 lakh 							
Step 12 – Credit for advance tax, TDS and TCS								
Net Tax Liability = Total tax liability		dvance tax aid						
 Step 13 – Tax payable/ Tax refundable Net tax liability should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of tax payable (called self-assessment tax) at the time of filing of the return 								

- tax) at the time of filing of the return
- If any refund is due, assessee will get the same after filing the return of income.

TEST YOUR KNOWLEDGE

- 1. Income under the Income-tax Act, 1961, is to be computed under -
 - (a) five heads

8.50

- (b) six heads
- (c) four heads
- (d) seven heads
- 2. What is the basic exemption limit for a woman assessee for A.Y. 2018-19, who turned 60 years on 2.4.2018?
 - (a) ₹ 2,00,000
 - (b) ₹ 3,00,000
 - (c) ₹ 2,50,000
 - (d) ₹ 5,00,000
- 3. What is the rate of surcharge applicable to individuals having total income exceeding ₹ 1 crore?
 - (a) 15%
 - (b) 12%
 - (c) 10%
 - (d) 2%
- 4. What is the basic exemption limit for Mrs. X, a resident individual who is of the age of 80 years as on 30.3.2018?
 - *(a)* ₹ *5,00,000*
 - *(b)* ₹ *2,40,000*
 - *(c)* ₹ *3,00,000*
 - (d) ₹ 2,50,000
- 5. Share of profit of Mr. P, who is a partner in M/s PQR is -
 - (a) exempt from tax
 - (b) taxable as his business income
 - (c) taxable as his salary
 - (d) taxable as other sources
- 6. What is the basic exemption limit for Mr. X, a resident individual who is of the age of 60 years as on 1.4.2018?
 - (a) ₹ 5,00,000

- (b) ₹ 2,40,000
- *(c)* ₹ *3,00,000*
- (d) ₹ 2,50,000
- 7. The maximum amount of rebate allowable under section 87A for A.Y. 2018-19 is -
 - (a) \gtrless 2,000, if the total income does not exceed \gtrless 5 lakh
 - (b) ₹ 5,000, if the total income does not exceed ₹ 5 lakh
 - (c) ₹ 2,500, if the total income does not exceed ₹ 3.5 lakh
 - (d) ₹ 5,000, if the total income does not exceed ₹ 3.5 lakh
- 8. If Mr. Y's total income for A.Y. 2018-19 is ₹ 52 Lakhs, surcharge is payable at the rate of -
 - (a) 15%
 - (b) 12%
 - (c) 10%
 - (d) 2%
- 9. Unexhausted basic exemption limit of a resident individual can be adjusted against
 - (a) only LTCG taxable @20% u/s 112
 - (b) only STCG taxable @15% u/s 111A
 - (c) both (a) and (b)
 - (d) casual income taxable @30% u/s 115BB
- 10. Unexhausted basic exemption limit of a non resident individual can be adjusted against
 - (a) only LTCG taxable @20% u/s 112
 - (b) only STCG taxable @15% u/s 111A
 - (c) both (a) and (b)
 - (d) Neither (a) nor (b)

Answers

1.	(a)	2.	(c)	3.	(a)	4.	(a)	5.	(a)	6.	(c)
7.	(c)	8.	(C)	9.	(C)	10.	(d)				