CHAPTER 8

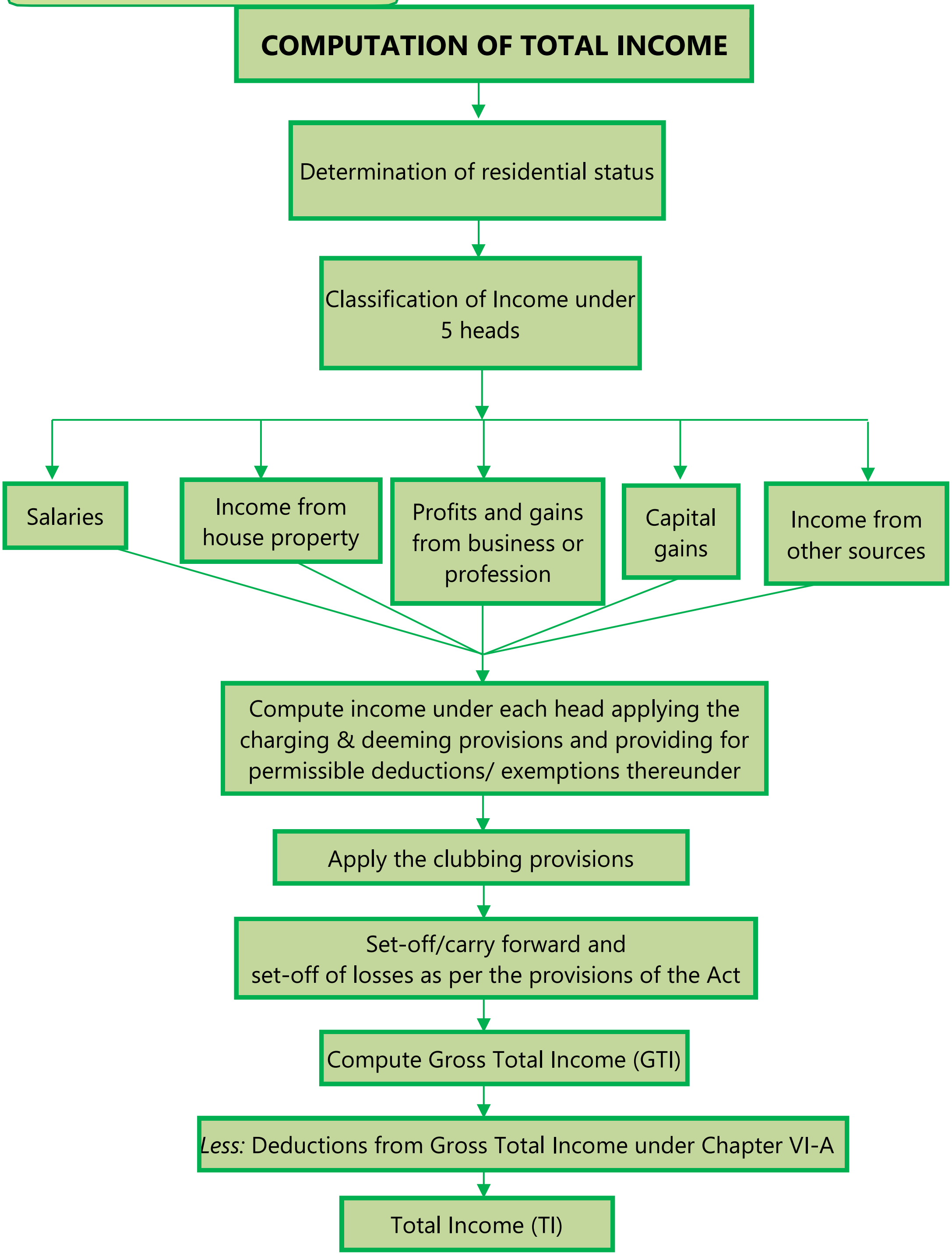
COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

LEARNING OUTCOMES

After studying this chapter, you would be able to–

- 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;
- Examine the applicability of the provisions of Alternate Minimum Tax (AMT) and if applicable, compute the tax liability applying such provisions and determine the tax credit, if any, to be carried forward.

CHAPTER OVERVIEW



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 income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward & set-off of losses.

2. INCOME TO BE CONSIDERED WHILE 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.
(4)	Income of other persons included in	(i) Transferee's income, where there is a transfer of income without transfer of assets

	the income of the individual	(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 otherwise than for adequate consideration 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 items of income relating to that head in respect of which specific exemptions are provided in section 10.

  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 while computing income under the relevant head only to the extent of the limits specified in the Act.

- allowing the permissible deductions under that head, and

  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 income under the head "Profits and gains from business or profession" expenditure of personal nature and expenditure which is in the nature of offence are not allowable as deduction. Hence, such expenditure, if any, debited to profits and loss account, has to be added back while computing income under this head.

  Likewise, 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 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.

- **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 computed under each head	→	Apply clubbing provisions	→	Apply the provisions for set-off and carry forward 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 –

- **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 incomes, for example,**

Section	Nature of Income
80QQB	Royalty income of authors of certain books other than text books
80RRB	Royalty on patents.

- **Deduction in respect of other incomes**

Section	Nature of Income
80TTA	Interest on savings account with a bank, co-op-society and post office.
80TTB	Interest on deposit with a bank, co-op-society and post office in case of senior citizens

- **Other Deductions**

  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
(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 *plus* 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,12,500 *plus* 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 assessees 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	5% of the amount by which the total income exceeds ₹ 3,00,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000;	₹10,000 *plus* 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,10,000 *plus* 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
(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 ₹ 10,00,000	₹ 1,00,000 *plus* 30% of the amount by which the total income exceeds ₹ 10,00,000

- 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 on certain assets, long-term capital gains on other assets, certain short-term capital gains and winnings from lotteries, crossword puzzles, races etc. are prescribed in sections 112, 112A, 111A and 115BB, respectively. The rates of tax are 20%, 10%, 15% and 30%, respectively, in the above cases. Under section 112A, long term capital gains exceeding ` 1,00,000 on transfer of equity shares of a company or unit of equity oriented fund or a unit of a business trust is taxable @10%.
- 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 unexhausted basic exemption limit can, however, be adjusted against long-term capital gains taxable under section 112/112A and short-term capital gains taxable under section 111A.

Step 10 – Rebate under section 87A (where total income ≤ ₹ 5,00,000)/ Surcharge (where total income > ₹ 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 ***₹ 5,00,000***. The rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of ***₹ 12,500***, whichever is less.

However, rebate under section 87A is not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.

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/AOPs/BOIs/Artificial Juridical Person is above ₹ 50 lakhs, the rate of surcharge applicable would be as indicated in column (2).

Total Income (1)	***Surcharge (2)***
> ₹ 50 lakhs ≤ ₹ 1 crore	*10% of income-tax*
> ₹ 1 crore ≤ ₹ 2 crore	*15% of income-tax*
> ₹ 2 crore ≤ ₹ 5 crore	*25% of income-tax*
> ₹ 5 crore	*37% of income-tax*

Step 11– Health and Education cess (HEC) on Income-tax

The income-tax is to be increased by health and education cess @4% on income-tax *plus* surcharge/ *minus* rebate under section 87A, wherever applicable. This cess is payable by all assessees who are liable to pay income-tax irrespective of their level of total income.

Total Tax Liability of an individual	=	Tax on total income at applicable rates	+	Surcharge, at applicable rates, if total income > ₹ 50 lakhs,	+	HEC@4%
			-	Rebate u/s 87A, if total income ≤ ₹ 5 lakh		

Step 12 – Alternate Minimum Tax (AMT)

Chapter XII-BA contains the special provisions for levy of alternate minimum tax in case of persons other than a company. Any person other than a company, who has claimed deduction under any section (other than section 80P) included in Chapter VI-A under the heading "C – Deductions in respect of certain incomes" or under section 10AA or investment-linked deduction under section 35AD would be subject to AMT [Section 115JEE(1)].

The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh [Section 115JEE(2)].

***Note** - At intermediate level, since profit-linked deductions provided under section 80-IA to 80-IE, section 80JJA, 80LA, 80P and 80PA have been excluded from the scope of syllabus by way of Study Guidelines and computation of total income and tax liability is restricted to individual assessees only, the discussion in relation to AMT in this chapter is limited with respect to deduction under section 10AA, section 35AD and deduction under section 80JJAA, 80QQB & 80RRB only.*

Accordingly, where the regular income-tax payable by an individual for a previous year computed as per the provisions of the Income-tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5% [Section 115JC].

"Adjusted total income" would mean the total income before giving effect to Chapter XII-BA as increased by

(i) the deductions claimed, if any, under section 10AA;

(ii) the deduction claimed under section 35AD, as reduced by the depreciation allowable under section 32, as if no deduction under section 35AD was allowed in respect of the asset for which such deduction is claimed; and

(iii) deduction under any section included in Chapter VI-A under the heading C-Deductions in respect of certain incomes [For Intermediate level, the relevant sections are 80JJAA, 80QQB & 80RRB].

Tax credit for AMT [Section 115JD]

Tax credit is the excess of AMT paid over the regular income-tax payable under the provisions of the Income-tax Act, 1961 for the year. Such tax credit shall be carried forward and set-off against income-tax payable in the later year to the extent of excess of regular income-tax payable under the provisions of the Act over the AMT payable in that year. The balance tax credit, if any, shall be carried forward to the next year for set-off in that year in a similar manner.

AMT credit can be **carried forward for set-off upto a maximum period of 15** assessment years succeeding the assessment year in which the credit becomes allowable.

Tax Credit allowable even if Adjusted Total Income does not exceed ₹ 20 lakh in the year of set-off [Section 115JEE(3)]

In case where the assessee has not claimed any deduction under section 10AA or section 35AD or deduction under section 80JJAA, 80QQB & 80RRB in any previous year and the adjusted total income of that year does not exceed ₹ 20 lakh, it would still be entitled to set-off his brought forward AMT credit in that year.

Step 13 – 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.
- 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 instalments during the previous year itself on the basis of estimated income, if the tax payable, after reducing TDS/TCS, is ₹ 10,000 or more.
- Both Corporate and non-corporate assessees are required to pay advance tax in four instalments, on or before 15th June, 15th September, 15th December and 15th March of the financial year.
- Assessees opting for presumptive provisions under section 44AD or under section 44ADA can, however, pay the entire advance tax on or before 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 Liability	=	Total tax liability	- TDS	- TCS	- Advance tax paid

Step 14 - 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 2.03.2019 and came to India for the first time on 16.03.2019. She left for USA on 19.9.2019. She returned to India again on 27.03.2020. While in India, she had purchased a show room in Mumbai on 22.04.2019, which was leased out to a company on a rent of ₹25,000 p.m. from 1.05.2019. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹97,500 upto 31.03.2020. She had received the following gifts from her relatives and friends during 1.4.2019 to 31.3.2020:

- From parents of husband	₹ 51,000
- From married sister of husband	₹ 11,000
- 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 2020-21.

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.2020-21 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2020-21 i.e. P.Y.2019-20 and in the preceding four assessment years.

Her stay in India during the previous year 2019-20 and in the preceding four years are as under:

P.Y. 2019-20

01.04.2019 to 19.09.2019	-	172 days
27.03.2020 to 31.03.2020	-	5 days
Total		177 days

Four preceding previous years

P.Y.2018-19 [1.4.2018 to 31.3.2019]	-	16 days
P.Y.2017-18 [1.4.2017 to 31.3.2018]	-	Nil
P.Y.2016-17 [1.4.2016 to 31.3.2017]	-	Nil
P.Y.2015-16 [1.4.2015 to 31.3.2016]	-	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 non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2020-21.

Computation of total income of Miss Charlie for the A.Y. 2020-21

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2019 to 31.03.2020 @ ₹ 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 'relative' 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. 2020-21

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax payable	**884**
Total tax payable (rounded off)	**880**

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.

2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 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. 2020-21, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 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, 2020 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:

1.4.2019	*Opening W.D.V.*	*- ₹ 5,00,000*
7.12.2019	*Acquired (cost) by cheque*	*- ₹ 2,00,000*

(iii) Rent received relates to property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2019, 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 2019-20.*

(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, 2020 for her medical insurance premium.*

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2020-21.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2020-21

	Particulars	₹	₹	₹
I	**Income from Salary**			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction under section 16(ia)		50,000	40,000
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	
	Less: 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	
	Less: Allowable expenditure			
	Depreciation on Clinic equipments			
	on ₹ 5,00,000 @ 15%	75,000		
	on ₹ 2,00,000 @ 7.5%	15,000		
	(On equipments acquired during the year in December 2019, she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
	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	
	Add: 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		
	Less : 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			**3,37,400**
	Less: 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			**1,54,400**

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, 2020 reads as follows:

Expenditure	***(₹)***	***Income***	***(₹)***	***(₹)***
Salary to staff	*15,50,000*	*Fees earned:*		
Stipend to articled assistants	*1,37,000*	*Audit*	*27,88,000*	
		Taxation services	*15,40,300*	
Incentive to articled assistants	*13,000*	*Consultancy*	*12,70,000*	*55,98,300*
		Dividend on shares of Indian companies		*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 out*		*85,600*
Purchase of car (for official use)	*80,000*			
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 1-10-2019 to 30-09-2020.*

(v) *Salary include ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.*

(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 2020-21.

Answer

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2020-21

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: Health and Education cess @ 4%		4,371
Total tax liability		**1,13,635**
Tax Payable		**1,13,640**

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
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: 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 1.4.2020 to 30.9.2020 i.e. for 6 months amounting to ₹ 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 31-3-2020 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 ₹ 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. ¾th is for business purposes.

(8) Miscellaneous expenses included ₹ 30,000 paid to A &Co., a goods transport operator in cash on 31-1-2020 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 2020-21.

Answer

Computation of total income of Mr. Y for the A.Y. 2020-21

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 profit as per profit and loss account		11,20,000
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	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	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 deducted.		50,000
			11,76,000
Less:	**Incomes credited to profit and loss account 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
			11,21,500
Less:	Depreciation allowable under the Income-tax Rules, 1962		50,000
			10,71,500

Notes:

(i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.

(ii) Disallowance under section 40A(3) is not attracted in respect of cash payment 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))

(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).
2. In point no. 9 of the question, it has been given that depreciation as per Income-tax 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 31-03-2020:

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 (Computed)	*60,000*
Long term capital gain u/s 112	*70,000*

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

Answer

Computation of total income of Balamurugan for the year ended 31.03.2020

Particulars	₹	₹
Salaries	60,000	
Less: Loss from house property	(15,000)	
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
Add: Health and Education cess @ 4%	6,000
Total tax liability	**1,56,000**

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 ₹ 6,000 (₹ 1,56,000 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Notes:

(1) The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary 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 instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2020. 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. In this case, it has been assumed that tax has been deducted at source from lottery income.

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 2019-20.

Receipts and Payments Account

Receipts	₹	*Payments*	₹
Opening balance (1.4.2019) Cash on hand and at Bank	*12,000*	*Staff salary, bonus and stipend to articled clerks*	*21,50,000*
Fee from professional services	*59,38,000*	*Other administrative expenses*	*11,48,000*
Rent	*50,000*	*Office rent*	*30,000*
Motor car loan from Canara Bank (@ 9% p.a.)	*2,50,000*	*Housing loan repaid to SBI (includes interest of ₹ 88,000)*	*1,88,000*
		Life insurance premium (10% of sum assured)	*24,000*
		Motor car (acquired in Jan. 2020 by A/c payee cheque)	*4,25,000*

		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	*18,000*
		Books bought on 1.07.2019 (annual publications by A/c payee cheque)	*20,000*
		Computer acquired on 1.11.2019 by A/c payee cheque (for professional use)	*30,000*
		Domestic drawings	*2,72,000*
		Public provident fund subscription	*20,000*
		Motor car maintenance	*10,000*
		Closing balance (31.3.2020) Cash on hand and at Bank	*19,15,000*
	62,50,000		***62,50,000***

Following further information is given to you:

(1) He occupies 50% of the building for own residence and let out the balance for 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 1-4-2019 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 2020-21.

Answer

Computation of total income of Mr. Rajiv for the assessment year 2020-21

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 limited to		30,000		
Loss from self occupied property			(30,000)	
Let out property				
Annual value (Rent receivable has been taken as the annual value in the absence of other 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	
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 50%	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.2020-21:

Particulars	*₹*
Salary including dearness allowance	*3,35,000*
Bonus	*11,000*
Salary of servant provided by the employer	*12,000*
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 ₹ 4,75,000 in April, 2013, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years.

The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

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

(b) House Insurance ₹ 860

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

(d) In the year 2014-15, 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. 2020-21

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
Less: Standard deduction under section 16(ia)		50,000
		3,19,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(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 carried forward as it cannot be set off against any other head of 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 money gifted to wife has to be clubbed with the income of 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			**4,29,390**
Less: Deduction under section 80C			
Contribution to Public Provident Fund			50,000
Total Income			**3,79,390**

Particulars	₹
Tax on total income	6,470
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000	6,470
Tax liability	Nil

Notes:

(1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2020;

(2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized 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 31.03.2020:

–	*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 25th wedding anniversary.*

– *Music System purchased on 01.04.2019 by the company for ₹ 85,000 and was given to him for personal use.*

– *Two old light 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 ₹ 6,786 (Net) from the debentures of Indian Companies.*

– *Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.*

– *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. 2020-21.

Answer

Computation of Total Income for the A.Y.2020-21

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 **(See Note 1)**		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt **(See Note 2)**	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary 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
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles 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 light goods vehicle (₹ 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 (₹ 6786 x 100/90)	7,540	
Dividend on shares **[Exempt under section 10(34)]**	Nil	13,400
Gross total Income		**5,99,160**
Less: Deductions under Chapter VI-A		
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		22,500
Section 80G (See Note 4)		10,600
Total Income		**4,40,690**
Tax on total income		
Income-tax		9,535
Add: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Total Tax Payable		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		**754**
Tax refundable (rounded off)		**750**

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

3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in 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 ₹ 4,00,760.

4. Deduction under section 80G is computed as under:

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. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income =Gross Total Income – Deductions under section 80C and 80D= ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

Question 9

From the following particulars furnished by Mr. X for the year ended 31.3.2020, you are requested to compute his total income and tax payable for the assessment year 2020-21.

(a) Mr. X retired on 31.12.2019 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 covered by the payment of Gratuity Act. 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 31.3.2020.

(f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Answer

Computation of total income of Mr. X for A.Y.2020-21

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	
Less: Exemption under section 10(10)(ii) **(Note 2)**	3,50,000	-
Leave encashment		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) **(Note 3)**	2,45,000	70,000
Gross Salary		**3,13,000**
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
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		**2,63,000**
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		**1,63,000**
Tax on total income		**Nil**

Notes:

(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

(2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts :

		₹
(i)	Actual amount received	3,50,000
(ii)	Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii)	Statutory limit	20,00,000

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

		₹
(i)	Actual amount received	3,15,000
(ii)	10 months average salary (₹ 24,500 x 10)	2,45,000
(iii)	Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired **(See Note 4 below)**	3,06,250
(iv)	Statutory limit	3,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

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= 750 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 25= 375 days
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 /30= ₹ 3,06,250

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 31.3.2020:*

S. No.	Particulars	Rosy ₹	Mary ₹
1.	*Pension received from State Government*	--	*60,000*
2.	*Pension received from Canadian Government*	*20,000*	--
3.	*Long-term capital gain on sale of land at Mumbai*	*1,00,000*	*1,00,000*
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 by A/c Payee Cheque*	--	*25,000*
8.	*Deposit in PPF*	--	*20,000*
9.	*Rent received in respect of house property at Mumbai*	*60,000*	*30,000*

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2020-21 and tax thereon.

Answer

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2020-21

S. No.	Particulars		Mrs. Rosy	Mrs. Mary
			₹	₹
(I)	**Salaries**			
	Pension received from State Government	₹ 60,000		
	Less: Standard deduction under section 16(ia)	₹ 50,000	-	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**
(III)	**Capital gains**		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	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	**3,50,000**
(A)	**Gross Total Income [(I)+(II)+(III)]**	**1,62,000**	**3,81,000**
	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. Deposit in PPF	-	20,000
		40,000	**30,000**
2.	Deduction under section 80D – Mediclaim premium paid		25,000
		40,000	**55,000**
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	**Total income (A-B)**	**1,22,000**	**3,50,000**

	Tax liability of Mrs. Rosy for A.Y. 2020-21		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2020-21		
	Tax on short-term capital gains @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 *less* ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess @ 4%	920	100
	Total tax payable	**23,920**	**2,600**

Notes:

(1) Long-term capital gains on sale of land 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 unexhausted basic exemption limit against long-term capital gains taxable under section 112 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 ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.

(5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs. 5,00,000, since she is non-resident for the A.Y. 2020-21.

Question 11

Mr. X, an individual set up an unit in Special Economic Zone (SEZ) in the financial year 2015-16 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2018-19, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2019 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2019-20 are as follows:

Particulars	***₹***
Profit of unit located in SEZ	*40,00,000*
Export sales of above unit	*80,00,000*
Domestic sales of above unit	*20,00,000*
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	*1,05,00,000*

Compute income tax (including AMT under Section 115JC) payable by Mr. X for Assessment Year 2020-21.

Answer

Computation of total income and tax liability of Mr. X for A.Y.2020-21 (under the regular provisions of the Income-tax Act, 1961)

Particulars	**₹**	**₹**
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction under section 10AA **[See Note (1) below]**	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000

Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD **[See Note (2) below]**	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		**48,00,000**
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess@4%		50,100
Total tax liability		**13,02,600**

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (as computed above)		**48,00,000**
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs[1]	6,50,000	58,50,000
Adjusted Total Income		**1,38,50,000**
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability under section 115JC (rounded off)		**30,64,450**

[1] Assuming the capital expenditure of ₹65 lakhs is incurred entirely on buildings

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 30,64,450.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,02,600
	17,61,850

Notes:

(1) **Deduction under section 10AA in respect of Unit in SEZ =**

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$₹\,40{,}000 \times \frac{₹\,80{,}00{,}000}{₹\,1{,}00{,}00{,}000}$$

(2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2020-21 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2018-19 and capitalized in the books of account on 1.4.2019, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

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 five 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 current year losses and brought forward 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 Income	=	Add income computed under each head	→	Apply clubbing provisions	→	Apply the provisions for set-off and carry forward of losses

Step 7 – Deductions from Gross Total Income

- Deductions in respect of certain payments
- Deductions in respect of certain incomes
- Deduction in respect of other incomes
- Other deductions

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 income (in ₹)	Rate of Tax
Upto ₹ 2,50,000 (below 60 years) Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India) Upto ₹ 5,00,000 (above 80 years and resident in India)	Nil
₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000	5%
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Step 10 – Surcharge and Rebate

Surcharge

Total Income	*Surcharge*
> ₹ 50 lakhs ≤ ₹ 1 crore	*10% of income-tax*
> ₹ 1 crore ≤ ₹ 2 crore	*15% of income-tax*
> ₹ 2 crore ≤ ₹ 5 crore	*25% of income-tax*
> ₹ 5 crore	*37% of income-tax*

Rebate under section 87A: Rebate of up to ₹ 12,500 for resident individuals having total income of up to ₹ 5 lakh

Step 11 – Health and Education cess on Income-tax:

Health and Education cess	4% of income-tax and surcharge, if applicable

Total Tax Liability	=	Tax on total income at applicable rates	+	Surcharge, at applicable rates, if total income > ₹ 50 lakhs,	+	H & EC@4%
			-	Rebate u/s 87A, if total income ≤ ₹ 5 lakh		

Step 12 – Examine the applicability of AMT

- If an individual is claiming deduction under section 10AA or under section 35AD or section 80JJAA, 80QQB & 80RRB and his adjusted total income exceeds ₹ 20 lakhs, AMT provisions will apply.
- Compute AMT [18.5% of adjusted total income]

- If AMT > tax computed as per regular provisions, adjusted total income would be deemed to be total income.
- Tax is leviable @18.5%
- Tax credit to be carried forward = AMT *less* Tax computed as per regular provisions

Step 13 – Credit for advance tax, TDS and TCS

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

Step 14 – 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
- 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*
   (b) *six heads*
   (c) *four heads*
   (d) *seven heads*
2. *What is the basic exemption limit for a woman assessee for A.Y. 2020-21, who turned 60 years on 2.4.2020?*
   (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 of ₹ 2.5 crore?*
   (a) *15%*
   (b) *25%*
   (c) *10%*
   (d) *37%*
4. *What is the basic exemption limit for A.Y. 2020-21 for Mrs. X, a resident individual, who is of the age of 80 years as on 30.3.2020?*
   (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, a firm resident in India, 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 A.Y. 2020-21 for Mr. X, a resident individual, who is of the age of 60 years as on 1.4.2020?*

(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. 2020-21 is -*

(a) ₹ 12,500, if the total income does not exceed ₹ 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. 2020-21 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.**	(b);	**4.**	(a);	**5.**	(a);	**6.**	(c);
7.	(a);	**8.**	(c);	**9.**	(c);	**10.**	(d).				