

INCOME TAX LAW AND ACCOUNTS

Tax: A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works.

Types Of Taxes in India: The tax structure in India is a three-tier structure: local municipal bodies, state, and central government. Taxation in India is broadly classified into **direct and indirect tax**.

a. Direct Taxes

- Direct tax is levied on people's income or profits.
- For example, a taxpayer pays the government for different purposes, including income tax, personal property tax, FBT, etc.
- The burden has to be borne by the person on whom the tax is levied and cannot be passed on to someone else.
- **Central Board of Direct Taxes (CBDT) governs and administers the Direct Tax.**

b. Indirect Taxes

- Indirect tax is levied by the government on goods and services.
- Therefore, it can be shifted from one tax-paying individual to another.
- E.g.; the wholesaler can pass it on to retailers, who then pass it on to customers.
- Therefore, customers bear the brunt of indirect taxes. **The Central Board of Indirect Taxes and Customs (CBIC) governs and administers indirect taxes.**

DIRECT TAXES	INDIRECT TAXES
These are paid directly by the individual or entity to the central/state government	These are paid by one individual/entity to the government and subsequently the tax burden is passed on to a different entity/individual
Examples of Direct Taxes in India are:	Examples of Indirect Taxes in India are:
<ul style="list-style-type: none"><input type="checkbox"/> Income Tax<input type="checkbox"/> Corporation Tax<input type="checkbox"/> Capital Gains Tax<input type="checkbox"/> Profession Tax<input type="checkbox"/> Property Tax<input type="checkbox"/> Road Tax<input type="checkbox"/> Stamp Duty	<ul style="list-style-type: none"><input type="checkbox"/> Goods and Services Tax (GST)<input type="checkbox"/> Value Added Tax (VAT)<input type="checkbox"/> Customs Duty<input type="checkbox"/> Excise Duty<input type="checkbox"/> Securities Transaction Tax<input type="checkbox"/> Dividend Distribution Tax<input type="checkbox"/> Sales Tax

POWER TO LEVY TAXES

Seventh Schedule to Article 246 contain three list which enumerate the parliament and state to make laws for the purpose of levy taxes.

1. **Union List:** Parliament has power to make law on matters containing Union List.
2. **State List:** State government has power to make law on matters containing State List.
3. **Concurrent List:** Both together have right to make law.

Entry 82 of the Union list i.e., in seventh schedule to Article 246 of constitution of India has given power to parliament to make law on taxes on income other than agricultural income.

Definition of Income Tax: Income tax is a tax charged on the annual income of an individual or business earned in a financial year.

The Income Tax system in India is governed by The Income Tax Act, 1961 and is administered by the **Central Board of Direct Taxes (CBDT)**.

Why Do We Pay Taxes?

Taxes are the primary source of revenue for most governments. Among other things, this money is spent to improve and maintain public infrastructure, including the roads we travel on, and fund public services, such as schools, emergency services, and welfare programs.

EVOLUTION OF INDIAN INCOME TAX ACT

- **1860:** In India, this tax was introduced for first time by Sir James Wilson to meet the losses sustained by govt. on account of Military Mutiny.
- **1886:** Separate Income tax Act was passed, to divide income into four schedules, each taxed separately.
- **1918:** Defined organisational structure of various Income Tax authorities for first time.
- **1922:** This Act repealed Act of 1886.
- **1961:** Introduced Revenue Audit and new system for evaluation of work done by Income tax officers.
- **1962:** Multiple addition of Chapters, Sections, and Schedules in Income Tax Act.

RAJA TODAR MAL

- Raja Todar Mal, the finance minister of Mughal emperor Akbar,
- Introduced the Dahsala system of taxation and the zabt revenue system. These systems were used to collect taxes on agricultural produce and land.

BACKGROUND

- Raja Todar mal initially served under Sher Shah Suri.
- It was under Sher Shah Suri reign that todar mal first gained experience in revenue collection.

Features of Todarmal's Taxation Policy

- **Land measurement:** Land was measured using a standardized unit called the bigha.
- **Crop survey:** Todar Mal surveyed crop yields and prices over a 10-year period.
- **Taxation system:** Taxes were based on the average produce and prices over the past 10 years.
- **Revenue collection:** Revenue was collected in cash.

- **Land classification:** Land was classified based on fertility, irrigation facilities, and other factors.
- **Record keeping:** Todar Mal emphasized the importance of accurate records and accounts.
- **Revenue settlements:** Todar Mal ensured that revenue demands were realistic and fair.

Dahsala system

- The Dahsala system was a taxation system that calculated the average produce of crops over a 10-year period.
- One-third of the average produce was given to the state, while the remaining two-thirds was given to the cultivators.
- The system was used in the provinces of Multan, Delhi, Allahabad, Awadh, Agra, and Lahore.
- The system was considered to be the most efficient and convenient method of revenue collection.
- The system changed the method of land measurement from rope to bamboo strips with iron rings.

Zabt system

- The Zabt system was a revenue collection system that helped to produce fixed rupees for crop cultivation.
- The system helped to measure land and fixed land rates for cultivation.
- The system helped farmers to yield crops.

Objectives of the Dahsala system

- **Revenue stability:** The system provided a predictable revenue stream for the state.
- **Agricultural growth:** The system encouraged farmers to invest in their land and increase productivity.
- **Economic stability:** The system contributed to the economic stability of the Mughal Empire.

Key points about Raja Todar Mal's income tax Impact:

- **Standardized land revenue:**
He implemented a uniform system of land measurement, allowing for a more accurate assessment of land value and tax collection based on the average yield over ten years.
- **Dahsala System:**
This system, meaning "ten-year system," involved calculating the average produce of a given land over a decade, which provided a more stable and equitable basis for taxation.
- **Reduced exploitation of farmers:**
By basing taxes on actual crop yields, the system aimed to lessen the exploitation of farmers by corrupt officials and protect them from excessive tax burdens during crop failures.
- **Increased revenue for the empire:**

Due to the improved accuracy and fairness of the system, the Mughal empire was able to collect more consistent and substantial revenue from the land.

- **Impact on economic development:**

A stable and predictable tax system fostered economic growth by encouraging investment in agriculture and trade.

ASSESSEE (Section 2(7)).

- An Income tax assessee is a person who pays tax or any sum of money under the provisions of the Income tax Act, 1961.
- Furthermore, Section 2(7) of the act defines an income tax assessee as anyone who is required to pay taxes on any earned income or incurred loss in a single assessment year.

Classification of Assessee

As per the Income Tax Act, the assessee has been classified into different categories. For better understanding, we have given a description of the same-

1. **Normal Assessee:** An individual is considered to be a normal assessee when he is liable to pay tax for the income that is earned by him or the loss incurred by him in a Financial Year. Any person who is liable to pay any interest or penalty to the government or entitled to get any refund under the act is considered a normal assessee.
2. **Representative Assessee:** A person who is not only liable to pay taxes for his income or loss but for the income or loss of other persons also. As the name suggests, under this category assessee acts as a representative for the persons who may be able to pay their taxes due to some reasons. Examples of representative assessee are Guardian of Minors and Agent of NRIs.
3. **Deemed Assessee:** Individuals who are covered under deemed assessee are-
 1. Executors or legal heirs of the property will be treated as deemed assessee, where a deceased person dies after writing his will to the legal heirs and executors.
 2. Where a person dies without writing his or her will. In this case, his eldest son or if there is any other legal heir will be considered deemed assessee.
 3. Guardians of Minors, lunatics, or an idiot whose income is taxable as per the Income Tax Act, covered under deemed assessee.
 4. Any person who is acting as the agent of [NRI having taxable income in India](#).
4. **Assessee in Default:** A person is said to be an assessee in default if he fails to comply with the duties imposed or fails to fulfill the statutory obligation under the Income Tax Act.
For example- A person paying interest to another person is responsible for deducting [TDS](#) at source on this amount and depositing the tax with the government. If he did not follow any of

these duties, he shall be deemed to be an assessee in default. Same way as per section 218, if a person does not pay advance tax (in case coming under that), then in this case, he shall be considered an assessee in default.

Responsibilities and Duties of an Assessee

Here are the key responsibilities of a taxpayer after receiving a notice:

1. File the Overdue Returns

The taxpayer must immediately file the tax return for the assessment year mentioned in the notice.

2. Review the Notice Grounds

After filing, the taxpayer can obtain a copy from the Assessing Officer detailing the reasons for issuing the notice.

3. File an Objection, if Necessary

If the taxpayer disagrees with the grounds mentioned, they may file an objection questioning the notice's validity. The objection must be supported by valid reasons.

4. Request Additional Clarifications

If the Assessing Officer rejects the objection, the taxpayer can request further explanations to address their concerns.

5. Challenge the Notice Legally

Taxpayers may contest the notice's validity by filing a writ petition with the High Court before or after the assessment or reassessment is completed.

6. Provide Required Details Promptly

The taxpayer must submit details related to their income returns within 30 days from the date the notice was issued, not from the date it was received. The submission should include all relevant income details, particularly for the income where tax payment was avoided, to prevent future complications.

Person under Income Tax Act

- Section 2(31) in The Income Tax Act, 1961 define "Person".
- person" includes—
 - (i)an individual,
 - (ii)a Hindu undivided family,
 - (iii)a company,
 - (iv)a firm,
 - (v)an association of persons or a body of individuals, whether incorporated or not,

- (vi) a local authority, and
- (vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

As per the Income Tax Act of 1961, there are different types of Persons who are subject to tax in India. The types of assessee under the Income Tax Act are broadly classified into the following categories:

1. **Individual:** An individual is a person who is taxed as an individual entity. An individual may be a resident or a non-resident of India. A resident individual is taxed on their global income, whereas a non-resident individual is taxed only on their Indian income.
2. **Hindu Undivided Family (HUF):** An HUF is a separate tax entity consisting of all persons in a family who are lineally descended from a common ancestor. The income of the HUF is taxed separately from the income of its members.
3. **Firm:** A firm is an association of persons who carry on a business together with a view to making a profit. The income of a firm is taxed as a separate entity, and the partners are taxed on their share of the profits.
4. **Company:** A company is a legal entity that is separate from its shareholders. The income of a company is taxed separately from the income of its shareholders.
5. **Association of Persons (AOP):** An AOP is an association of two or more persons who come together to carry on a business or profession. The income of an AOP is taxed separately from the income of its members.
6. **Body of Individuals (BOI):** A BOI is a group of individuals who come together for a common purpose, such as to receive income from a property. The income of a BOI is taxed separately from the income of its members.
7. **Local Authority:** A local authority is a legally constituted body that is responsible for the administration of a particular area or locality. The income of a local authority is taxed separately from the income of its members.
8. **Artificial Juridical Person (AJP):** An AJP is an entity that is not a person in the ordinary sense, but is treated as a person for the purposes of taxation. This includes entities such as trusts, funds, and other similar entities.

INCOME

Introduction

The sum of money which a business or an individual receives in exchange of sale of goods or services, or through capital investment is known as income. The definition of income is different for different individuals. Pocket money is the only source of income for a 5-year-old kid. Similarly, pension income might be a primary source of income for retired individuals.

What is Income?

In case of individuals employed, salary or wages earned is considered to be the primary source of income. In businesses, the revenue received from the core business functions after paying all expenses or applicable taxes is the business income. To sum up, income is nothing but ones earning received during a period. Generally, all incomes are subjected to taxes in India.

According to income tax, there are two types of income:

1. Taxable income

Income earned during a year by an individual or a business is categorized into five heads of income and taxed accordingly. Five heads of income are as follows: -

- **Income from salary/pension:** This includes basic salary, allowances, perquisites and profits in lieu of salary earned by an individual. Pension income received by a retired individual is also included here. –
- **Income from business/profession:** Any income earned or received by a business from the sale of goods or services is called business or professional income. This income is subject to tax after adjusting the expenses and allowable deductions. –
- **Income from house property:** Any income received from renting a house is included under house property income. –
- **Income from capital gains:** Profit or gains from the sale of any capital asset such as land or building is included here. –
- **Income from other sources:** All those incomes not covered under the aforementioned heads of income will be included here.

2.Exempt or non-taxable income:

There are certain income that are exempt from being taxed. For instance, agricultural income is exempt from taxes under Section 10 of the Income Tax Act."

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Different Types of Income in Income Tax

Job	→	Income from Salary
Business Income	→	Profits and gains of Business & Professions (PGBP)
Rental Income	→	Income from House Property
Profit on Sale of Assets	→	Income from Capital Gains
All Other Income	→	Income from other sources

GROSS TOTAL INCOME

What is Total Gross Income?

Gross Total Income is the aggregate of all the income earned by you during a specified period. According to Section 14 of the Income Tax Act 1961, the income of a person or an assessee can be categorized under these five heads,

[Income from Salaries](#)

[Income from House Property](#)

[Profits and Gains of Business and Profession](#)

[Capital Gains](#)

[Income from Other Sources](#)

How to Calculate Gross Total Income

Gross Total income is arrived at when your earnings from all these five heads of income are taken together. In other words, the aggregate of the incomes computed under the above 5 heads after setting off and carrying forward of losses and after applying clubbing provisions is known as Gross Total Income (GTI) under section 80B (5). Here's the formula for calculating G.T.I. -

G.T.I. = Salary Income + House Property Income + Business/Profession Income + Capital Gains + Other Sources Income + Clubbed Income - Set off of Losses.

Components of Gross Total Income (GTI):

Gross Total Income (GTI) is the sum of all income earned before any deductions or exemptions are applied. Here's a list of the various components that contribute to GTI:

- **Income from Salary:** This includes your regular wages, bonuses, commissions, and any allowances paid by your employer.
- **Income from House Property:** If you own and rent out a property, the rental income you receive falls under this category.
- **Income from Business or Profession:** Profits earned from running a business or practicing a profession are included in GTI.
- **Capital Gains:** Profits made from selling capital assets like stocks, bonds, or real estate are considered capital gains and contribute to GTI.
- **Income from Other Sources:** This is a broad category encompassing various income streams like interest accumulated on savings accounts, dividends income from investments, and income from freelancing gigs.
- **Clubbed Income (if applicable):** In some cases, income earned by certain family members might be added to your GTI. This depends on specific tax laws.
- **Set-off of Losses (if applicable):** Under certain circumstances, you might be able to deduct business losses or capital losses from your GTI.

TOTAL INCOME

What is Total Income (TI)?

Total Income, on the other hand, is the amount of income that is subject to tax. It is calculated by subtracting the deductions and exemptions allowed under the Income Tax Act from the GTI. The resulting figure is the amount of income on which a person is required to pay tax.

Features of Total Income (TI)

The following are the features of GTI:

- **Post-Deduction Income:** TI is the income that remains after all eligible deductions and exemptions have been subtracted from the GTI. These deductions could be under sections 80C to 80U, section 24(b) (home loan interest), and others.
- **Taxable Income:** TI is essentially the taxable income. It is the income on which an individual or entity is required to pay tax. The tax slabs are applied to this income to calculate the tax liability.
- **Derived from GTI:** TI is calculated by subtracting eligible deductions and exemptions from the GTI. It is a derived income, as it is based on the GTI.

- **Indicator of Net Income:** TI provides a more accurate measure of an individual's or entity's net income. It reflects the income that is actually available to the individual or entity for use after [accounting](#) for tax-saving investments and deductions.

Gross Total Income is calculated foremost by adding your income under all five heads of income. Now, to arrive at the Total income, you must subtract from it the [deductions under Chapter VI A](#) of the Income Tax Act 1961. I.e., the deduction ranges from section 80C to 80U. This means -

Income From Salary	XX
Add: Income Under the Head House Property	XX
Add: Profits and Gains of Business and Profession	XX
Add: capital gains Income	XX
Add: Income from Other Sources	XX
Gross Total Income	XXX
Less: Deductions under Section 80C to 80U	XX
Total Income	Xxx

DIFFERENCE BETWEEN GROSS INCOME AND TOTAL INCOME

Parameter	Gross Income	Total/ Net Income
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Meaning	An assessee overall income is calculated under all five income source heads as per the ITA after applying clubbing rules and setting off losses	The income amount is used to calculate an assessee payable tax amount
Equals to	The entire income earned in a financial year before claiming deductions under Chapter VI-A	Deductions under Section 80 (80C to 80U)
Tax Treatment	Tax is not levied on it	Income tax is payable on this sum
Deductions made under Chapter VI-A of the 1961 Income Tax Act	The income before deductions under Chapter-VIA of the I-T Act of 1961 is referred to as gross total income.	After deductions under Chapter VIA of the I-T Act of 1961, income is defined as total income.
Income Tax Obligation	Gross Total Income is not used to determine income tax obligations.	The total income is used to determine and/or assess the income tax obligation.

What is the Assessment Year?

The assessment year (AY) is the year that comes after the FY. This is the time in which the income earned during FY is assessed and taxed. Both FY and AY start on 1 April and end on 31 March. For instance, for FY 2023-24, the assessment year is AY 2024-25.

What is a Financial Year?

A Financial Year (FY) is the 12-month period between 1 April and 31 March – the accounting year in which you earn an income.

AY and FY for Recent Years

Period	Financial Year	Assessment Year
1 April 2024 to 31 March 2025	2024-25	2025-26

1 April 2023 to 31 March 2024	2023-24	2024-25
1 April 2022 to 31 March 2023	2022-23	2023-24
1 April 2021 to 31 March 2022	2021-22	2022-23
1 April 2020 to 31 March 2021	2020-21	2021-22
1 April 2019 to 31 March 2020	2019-20	2020-21
1 April 2018 to 31 March 2019	2018-19	2019-20

What is the Difference Between AY and FY?

From an [income tax perspective](#), FY is the year in which you earn an income. AY is the year following the financial year in which you have to evaluate the previous year's income and pay taxes on it.

For instance, if your financial year is from 1 April 2023 to 31 March 2024, then it is known as FY 2023-24. The assessment year for the money earned during this period would begin after the financial year ends – that is, from 1 April 2024 to 31 March 2025. Hence, the assessment year would be AY 2024-25.

FINANCIAL YEAR VS ASSESSMENT YEAR

CALENDAR YEAR IN INCOME TAX

Worldwide, the fiscal year starts on January 1 and concludes on December 31.
But in India, the income tax year begins on April 1 and ends on March 31.

COMPARISON	FINANCIAL YEAR (F.Y) वित्तीय वर्ष	ASSESSMENT YEAR (A.Y) निर्धारण वर्ष
Nature	Financial year is the year in which assessee earns the total income	Assessment year is the year in which the assessee's income is assessed and taxed.
Income tax perspective	Financial year is known as the previous year.	Assessment year is the year which comes after financial year.
Tax planning	Investments made by the taxpayer cannot be deducted from his or her taxes during that FY.	Deductions can be claimed for AY if the investments have been made during or before FY.
Example	FY 2021-22 income means earned from 1st April 2021 to 31st March 2022	Income of FY 2021-22 will be assessed and taxed in AY 2022-23.

End and Beginning: Both FY and AY begin with 01st April and end on 31st March.
For example FY 2021-2022 & AY 2022-23 are same thing.

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Important Differences Between AY and FY

Financial Year

The financial year is the time period where income is earned.

The financial year is when salaried professionals and senior citizens earn their money.

Taxation and evaluation are carried out in the AY for the income that has been earned in the financial year.

Income is always earned in the period known as the financial year it cannot be taxed prior to being earned.

Assessment Year

The assessment year that follows is the financial year and the period in which tax returns are filed.

While AY is the time when the income that was earned in the financial year gets evaluated.

Income Tax Return Forms are specialized forms for the evaluation and taxation of FY income.

After money has been earned by an individual it will be evaluated for the purpose of taxation in the latter, that is the AY.

What Is Agriculture Income?

It is the total revenue generated by an individual or entity by executing agricultural activities on identified agricultural land. [Section 2\(1A\) of the Income Tax Act of 1961 defines agriculture income](#) under the following activities.

- Revenue or rent generated through activities executed on agricultural land situated in India for agricultural purposes
- Income or revenue generated by the commercial sale of produce grown on agricultural land
- Income or revenue generated by leasing or renting buildings on or around agricultural land (the tenant should be a farmer or cultivator and use the building for a warehouse/storeroom, residential space or outhouse)

Furthermore, the land on which the building is situated should be assessed for land revenue or through a local rate set and collected by local government officers.

For an income to be categorized as agricultural income and for a better understanding of the agricultural income meaning, consider the following factors.

- **Existence:** The income earned should come from an existing piece of land.
- **Utilization:** The rent or revenue and the income generated by the tenant or the cultivator from the agricultural land should be through agricultural operations only on the piece of land. The income also includes the marketing expenses done to promote the agricultural produce.
- **Cultivation:** The income will be considered agricultural income if the income is generated by way of the cultivation of land. Such an income includes revenue from all land produce such as fruits, pulses, grains, commercial crops etc. However, the income does not include revenue from activities such as poultry farming, dairy farming etc., on the agricultural land.
- **Optional Ownership:** The cultivators do not necessarily have to be the owner of the land through which they generate the agricultural income. However, the individual must possess a monetary interest in the land as an owner or a mortgagee.

Here are some examples of agricultural income:

- Income from the sale of seeds.
- Revenue generated from the sale of replanted trees.
- Interest on the capital amount a partner receives from a company or firm engaged in agricultural operations.
- Income from growing creepers and flowers.
- Rent received by an individual or entity for agricultural land.
- Profits received by a partner from a company or a firm engaged in agricultural produce or activities.

Types of Agricultural Income

Understanding the types of agricultural income is crucial for farmers, policymakers, and tax authorities alike. Agriculture income includes:

- Revenue from the sale of replanted trees
- Income from selling seeds
- Rent earned for agricultural land

- Earnings from cultivating flowers and creepers

However, not all income-generating agricultural activities fall under the category of agricultural income. The following are instances of non-agricultural income:

- Profits from poultry farming or beekeeping
- Returns from selling mature trees
- Income derived from dairy farming

Revenue or Rent Received from Indian Agricultural Land

The money paid in exchange for the right to utilize the land is known as rent. Land can be used to generate revenue in a variety of ways. Fees earned for the renewal of a land grant under lease would be one example. Nevertheless, the definition of agricultural income does not include the proceeds from the sale of land.

Income from agricultural land

- **Agriculture:** The fundamental tasks would involve tilling the land after it has been cultivated, planting, seeding, and other tasks requiring human skill and effort on the actual land. Other activities include weeding, tilling soil around crops, and other tasks that help the produce grow and preserve it. Further, it also includes tasks like tending, trimming, cutting, harvesting, and other tasks that help the product be fit for the market. Agricultural income would also include revenue from seedlings or saplings raised in nurseries, regardless of whether the fundamental activities were done on land.
- **By carrying out a procedure** that certifies the agricultural product as fit for sale by the grower or the recipient of rent (in kind): These procedures entail mechanical or manual actions that are typically used to preserve the agricultural product's inherent qualities while making it suitable for the market.
- **By selling such agricultural produce:** If the produce is not subjected to standard procedures to make it marketable, a portion of the proceeds from the sale will often be classified as non-agricultural (taxable) and a portion as agricultural (exempt) revenue.

Furthermore, to make this distinction between agricultural and non-agricultural produce for goods like tea, coffee, rubber, etc., the Income Tax has established regulations.

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INCOME FROM AGRICULTURAL LAND

Activity	Agricultural income	Non-agricultural income
Growing and Manufacturing Tea	60%	40%
Growing and curing Coffee	75%	25%
Growing, curing, roasting, and grinding coffee with or without mixing chicory or flavouring ingredients	60%	40%
Manufacturing Rubber	65%	35%

Income from farm buildings for agricultural operations

The following criteria must be met for income from farm building to be classified as agricultural income: The structure should be situated on the agricultural field or close by. Additionally, because of his relationship to the property, the landowner or renter utilizes the building for these kinds of purposes, such as a storeroom or as a place to live. One of the two requirements ought to be met:

- Government officials either use land revenue or a local rate to determine and collect the assessment of the land; OR
- If the aforementioned need is not met, the land shouldn't be situated in the following area:

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INCOME FROM FARM BUILDINGS FOR AGRICULTURAL OPERATIONS

Aerial distance from the municipality	Population
Within 2 km	10,000-1,00,000
Within 6 km	1,00,000 -10,00,000
Within 8 km	More than 10,00,000

Examples of Agricultural and Non-Agricultural Income in India

Agricultural Income	Non-Agricultural Income
Income from the sale of seeds	Income from poultry and dairy farming
Income from growing flowers and creepers	Income from bee hiving
Income from growing bamboo	Income from fisheries
Income from the sale of replanted trees	Income from cutting and selling timber trees
Rent received for agricultural land	Receipts from TV serial shooting in a farmhouse
Profits from a firm involved in agrarian activities	Income from agricultural land held as stock
Interest on capital received from a firm engaged in agricultural activities	Dividend paid from a firm's agriculture income

Taxability of Agricultural Income in India

For taxation purposes, agricultural revenue in India is considered differently from other forms of income. According to the Income Tax Act, income from agriculture is excluded from income tax and does not count towards the total amount of income used to determine the tax due. [Section 10\(1\) exempts agricultural income from taxation](#). This exemption suggests that there is no tax on agricultural revenue levied or imposed by the Central Government. **State-level agricultural income taxes still exist, though.** To tax such revenues, the legislature implements a technique called partial integration of agricultural income with non-agricultural income.

Applicability of Tax Exemption for Agricultural Income

In the following situations, there is a full tax refund on agricultural income:

- If your total agricultural income is less than Rs. 5,000 per year
- If your income from agricultural land is your only source of income, meaning you have no other sources of income
- If your total income, excluding your agricultural income, is less than the basic exemption limit and you have both other and agricultural income.

Income from non-agricultural sources exceeds the base exemption amount:

- More than Rs. 2.5 lakh for people under 60 and for everyone else who qualifies.
- Over Rs. 3 lakhs for people in the age range of 60 to 80.
- More than Rs. 5 lakhs for people over the age of 80

However, if your income from agriculture exceeds Rs. 5,000 and you also have other sources of income, the following formula should be used to determine your tax due for that year. This formula applies to individuals, [HUFs](#), AOP/BOIs, and artificial juridical persons.

Calculation of Tax on Agricultural Income

Despite the fact that income from agriculture is not subject to income tax in India, the Income Tax Act of 1961 outlines a procedure for indirectly taxing such revenue. It combines the aforementioned requirements with a portion of the income from both agriculture and non-agriculture. The following three steps are used to determine the farm income tax if an individual or company meets the aforementioned requirements:

Step 1: Calculate the tax due on net agricultural income plus non-agricultural revenue.

Step 2: Determining the tax based on the net agricultural revenue plus the maximum exemption amount according to the relevant [tax slab](#).

Step 3: Subtracting the amount of step 2 from the amount of step 1 to arrive at the ultimate tax amount.

The information provided by this step is as follows:

- Withholding of any applicable tax refund.
- The inclusion of a [surcharge](#), if relevant.
- The Health and Education Cess has been added.

Illustration

A taxpayer receives agricultural income of Rs. 3,00,000. His earnings from non-agricultural sources are Rs. 5,00,000. As a result, the following is how his agriculture income tax for the financial year is determined:

Step 1: Tax on non-agricultural income + net agricultural income (Rs. 3,00,000 + Rs. 5,00,000= Rs. 8,00,000)

Tax on the first Rs. 2,50,000 = Nil

Tax @5% on the second Rs. 2,50,000 = Rs. 12,500

Tax @20% on balance Rs. 3,00,000= Rs. 60,000
Total= Rs. 72,500

Step 2: Tax on net agricultural income + maximum exemption limit according to rates (Rs. 3,00,000 + Rs. 2,50,000= Rs. 5,50,000)

Tax on the first Rs. 2,50,000 = Nil

Tax @5% on the next Rs. 2,50,000 = Rs. 12,500

Tax @10% on balance Rs. 50,000 = Rs. 10,000
Total= Rs.22,500

Step 3: Final tax= Rs. 72,500 – Rs. 22,500= Rs.50,000
(+) Health and Education cess @ 4% = Rs. 2000
Total tax liability Rs. 52,000

Residential Status Under Section 6 Of Income Tax Act

Meaning and Importance of Residential Status

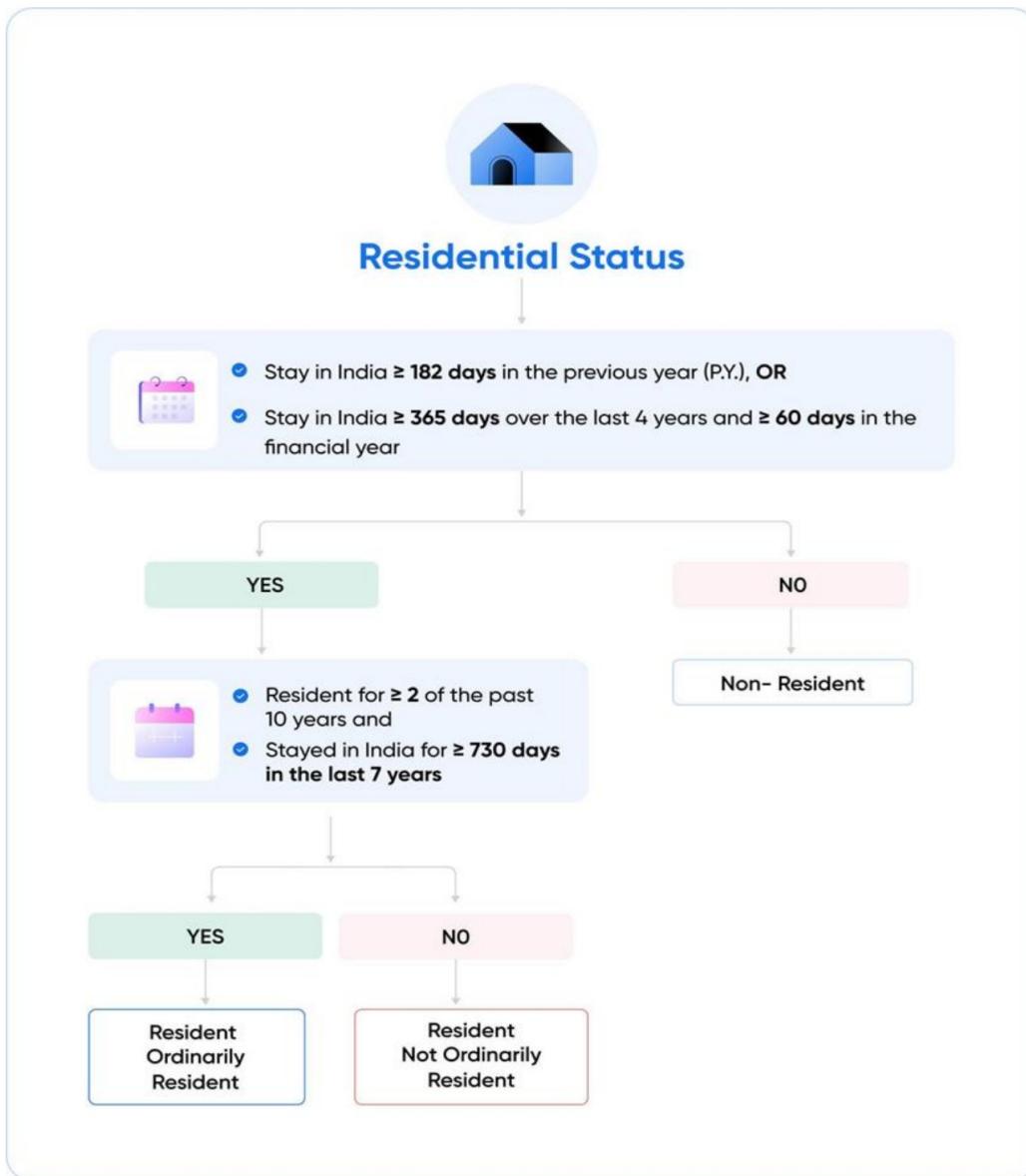
- The taxability of an individual in India depends upon his residential status in India for any particular financial year.
- An individual may be a citizen of India but may end up being a non-resident for a particular year. Similarly, a foreign citizen may end up being a resident of India for income tax purposes for a particular year.

How to Determine Residential Status?

For the purpose of income tax in India, the income tax laws in India classifies taxable persons as:

1. A resident and ordinarily resident (ROR)
2. A resident but not ordinarily resident (RNOR)
3. A non-resident (NR)

The taxability differs for each of the above categories of taxpayers. Before we get into taxability, let us first understand how a taxpayer becomes a resident, an RNOR or an NR.



Resident

- A taxpayer would qualify as a resident of India if he satisfies one of the following 2 conditions:
 1. Stay in India for a year is 182 days or more in previous year or
 2. Stay in India for the immediately 4 preceding years is 365 days or more and 60 days or more in the relevant financial year

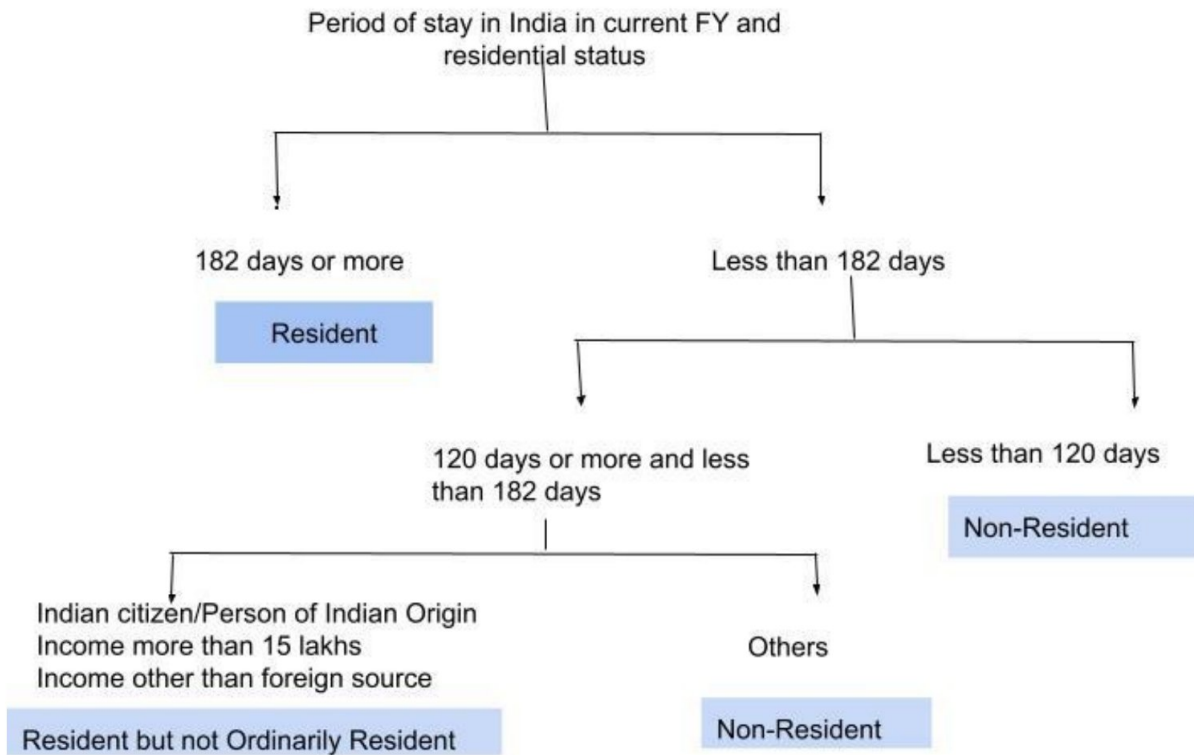
Exceptions to Residential Status

1. In the event an individual who is a citizen of India leaves India as a member of the crew of an Indian ship or for the purpose of employment during the FY, he will qualify as a resident of India only if he stays in India for 182 days or more.

2. Indian citizen or person of Indian origin who stays outside India comes on a visit to India during the relevant previous year. However, such a person having a total income, other than the income from foreign sources which exceeds Rs.15 lakhs during the previous year will be treated as a resident in India if –
- he stays in India during the relevant previous year for 182 days or more, or
 - he stayed in India for 365 days or more during the previous 4 years and has been in India for at least 120 days in the previous year.

As mentioned as a significant amendment above, the individual will be treated as a “**deemed resident of India**” if a citizen of India having total income (other than foreign sources) exceeds Rs 15 lakh and nil tax liability in other countries.

The amendment can be further simplified as below-



Resident Not Ordinarily Resident

If an individual qualifies as a resident, the next step is to determine if he/she is a Resident and ordinarily resident (ROR) or Resident but not ordinarily Resident (RNOR). He will be an ROR if he meets both of the following conditions:

1. Has been a resident of India in at least 2 out of 10 years immediately previous years and
2. Has stayed in India for at least 730 days in 7 immediately preceding years

Therefore, there are 3 situations in which an individual is said to be RNOR

if any individual fails to satisfy either or none of the above-mentioned conditions.

- If an individual is an Indian citizen or person of Indian origin having a total income more than exceeding Rs.15 lakhs (excluding foreign income), who has been in India for 120 days or more but less than 182 days during that previous year.
- If an individual is deemed to be a resident in India, by default, he will be considered as a Resident and Not Ordinarily Resident.

Non-resident

An individual failing to satisfy the condition of stay in India for :

1. 182 days or more in the previous year or
2. 60 days or more in the previous year and 365 days in the 4 years preceding previous years will be considered as a Non-Resident for that financial year.

Important Terms to Understand

Before proceeding further on the key aspects of Section 6 of the Income Tax Act, 1961, you should be familiar with certain terminologies. They are explained below:

Income from foreign sources: It implies income earned outside India, excluding the income sourced from a business operated in or a profession set up in India, which is not deemed to accumulate or arise in India.

Non-resident Indian (NRI): An NRI is an individual who is a citizen of India or Indian origin but not a resident.

Person of Indian Origin (PIO): An individual shall be considered to be of Indian origin if he/she or either his/her parents or any of his/her grandparents was born in undivided India.

Taxability

Resident and Ordinarily Resident: A resident and ordinarily resident will be charged to tax in India on his global income i.e. income earned in India as well as income earned outside India.

Resident but not ordinarily resident: There is a thin line in taxability of income between ROR and RNOR, on below incomes RNORs are not required to pay taxes.

- Income earned outside India as well as received outside India.

Non-Resident: A Non-resident will be charged tax only on the income 'received in India' or source of income 'received from India'. However, income earned outside India, having no connection with India, is not taxable

Examples:

- 'Received in India' - interest on Fixed deposits kept with banks in India. Technically called as Income earned in India.
- 'Received from India' - payment from an Indian person/company in a foreign bank account for the services provided to such person. Technically called as Income accrued from India.

Residential Status of HUF

Resident: An HUF would be resident in India if its management is made from the members in India, if not will be considered a Non-resident.

Resident and ordinarily resident/ Resident but not ordinarily resident

If Karta (manager) of resident HUF satisfies the below conditions, then HUF will be treated as resident and ordinarily resident, otherwise, it will be resident but not ordinarily resident.

- should be resident in at least 2 previous years out of the last 10 years.
- Stay in the last 7 years should be 730 days or more.

Note: Only individuals and HUFs can be Resident and not ordinarily residents in India. All other classes of assesses can be either a resident or non-resident.

Residential Status of a Company

A company would be resident in India in the following circumstances:

- If it is an Indian Company
- The place of effective management in the previous year is in India.

Note: **Place of effective management** means a place where management and commercial decisions that are necessary for the conduct of business or entity are taken.

Residential Status of Firms, LLPs, AOPs, BOIs, Local authorities and Artificial juridical persons

In simple words, again, the residential status will depend on the place from where the management of the above persons management is made, similar to HUF, if it's done by members in India, then it will be resident, else it will be non-resident.

RESIDENTIAL STATUS AND TAX INCIDENCE (LIABILITIES)

Tax liability of an assessee depends upon the residential status on which income he is liable to pay tax and which incomes are not taxable for him, for determination of this matter, now we have to understand the relationship between residence and tax liabilities:

a) Tax liability of Resident

- i) Income received or deemed to be received in India.
- ii) Income accrued or deemed to be accrued in India.
- iii) Income received or accrued outside the India

b) Tax liability of Not ordinarily resident:

- i) Income received or deemed to be received in India.
- ii) Income occurred or deemed to be accrued in India.
- iii) Income business situated outside India but controlled and managed from India

c) Tax liability of non-residents:

- i) Income received or deemed to be received in India
- ii) Income occurred or deemed to be accrued in India.

Capital and Revenue

What Are Capital Expenditures?

- Capital expenditures are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.
- Capital Expenditure is often used to undertake new projects or investments by a company. Making capital expenditures on fixed assets can include repairing a roof, purchasing a piece of equipment, or building a new factory.
- This type of financial outlay is made by companies to increase the scope of their operations or add some economic benefit to the operation.

Capital expenditures can include the purchase of the following:

- A facility or factory, including an upgrade or expansion
- Vehicles, such as trucks used for the delivery of products
- Manufacturing equipment
- Computers
- Furniture

Revenue Expenditures

- Revenue expenditures are short-term expenses used in the current period or typically within one year. Revenue expenditures include the expenses required to meet the ongoing operational costs of running a business, and thus are essentially the same as operating expenses (OPEX).

- Revenue expenditures also include the ordinary repair and maintenance costs that are necessary to keep an asset in working order without substantially improving or extending the useful life of the asset.
- Revenue expenses related to existing assets include repairs and regular maintenance as well as repainting and renewal expenses.

Other examples of revenue expenditures include the following:

- Salaries and employee wages
- Any overhead expense, such as salaries for the corporate office, which typically fall under selling, general, and administrative expenses (SG&A)
- Research and development (R&D)
- Utilities and Rent
- Business travel

Differences between capital expenditure and revenue expenditure:

Basis	Capital Expenditure	Revenue Expenditure
Definition	Expenditure incurred for acquiring assets, to enhance the capacity of an existing asset that results in increasing its lifespan	Expense incurred for maintaining the day-to-day activities of a business
Tenure	Long Term	Short term
Value Addition	Enhances the value of an existing asset	Does not enhance the value of an existing asset
Physical Presence	Has a physical presence except for intangible assets	Does not have a physical presence
Occurrence	Non-recurring in nature	Recurring in nature
Availability of Capitalisation	Yes	No
Impact on Revenue	Do not reduce business revenue	Reduce business revenue

CAPITAL GAIN

The term capital gain refers to **the increase in the value of a capital asset** when it is sold. Put simply, a capital gain occurs when you sell an asset for more than what you originally paid for it. Almost any type of asset you own is a capital asset whether that's a type of investment (like a stock, bond, or real estate) or something purchased for personal use (like furniture or a boat).

Capital gains are realized when you sell an asset by taking the subtracting the original purchase price from the sale price. The Internal Revenue Service (IRS) taxes individuals on capital gains in certain circumstances.

CAPITAL LOSS

A capital loss is the opposite of a capital gain. It is incurred when there is a **decrease in the capital asset** value compared to an asset's purchase price.

What Is Revenue?

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold. It is the top line (or gross income) figure from which costs are subtracted to determine net income.

Revenue is also known as **sales on the income statement**.

Important Points:

- Revenue, often referred to as sales or the top line, is the money received from normal business operations.
- Operating income is revenue (from the sale of goods or services) less operating expenses.
- Non-operating income is infrequent or nonrecurring income derived from secondary sources (e.g., lawsuit proceeds).

Examples of Revenue

In the case of government, revenue is the money received from taxation, fees, fines, intergovernmental grants or transfers, securities sales, mineral or resource rights, as well as any sales made. For non-profits, revenues are its gross receipts. Its components include donations from individuals, foundations, and companies; grants from government entities; investments; fundraising activities; and membership fees. In terms of real estate investments, revenue refers to the income generated by a property, such as rent or parking fees. When the operating expenses incurred in running the property are subtracted from property income, the resulting value is net operating income (NOI).

Distinguish between Capital Receipts and Revenue Receipts:

Basis	CAPITAL RECEIPT	REVENUE RECEIPT
Meaning	Capital Receipts are the income generated from investment and financing activities of the business.	Revenue Receipts are the income generated from the operating activities of the business.
Nature	Non-Recurring	Recurring
Term	Long Term	Short Term
Shown in	Balance Sheet	Income Statement
Received in exchange of	Source of income	Income

MEANING OF EXEMPTED INCOME

Exempted income is that income on which income tax is not chargeable.

Such incomes are classified as under:

- i) Incomes which do not form part of total income nor is income tax payable on them. They are called fully exempted incomes.
- ii) Incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to the total income. They are called partially exempted incomes.
- iii) Incomes of certain Institutions or authorities are exempted subject to fulfilment of the required conditions.

LIST OF EXEMPTED INCOMES (Section 10)

- 1) **Agricultural income [Sec.10 (1)]**: Agricultural income from the land situated in India is fully exempted from income tax (Agricultural income definition given under Income Tax Act.)
- 2) **Sum received by a member from Hindu undivided family [Sec.10 (2)]**: Any sum received by a member of Hindu undivided family at the time of division is tax free.
- 3) **Share of a partner in firm's income [Sec.10 (2A)]**: The share of a partner in firms' profit is fully tax free.
- 4) **Profit of newly established industrial undertaking in free trade zone [Sec.10AA]**.
- 5) **Compensation received by victims of Bhopal gas leak disaster [Sec.10 (10BB)]**: Any compensation paid under any Plan of Bhopal Gas Leak Disaster (Processing of claims Act, 1985) is exempted from tax.
- 6) **Sum received from life insurance [Sec.10 (10D)]**: Any sum received from life Insurance Corporation as the maturity of insurance policy is fully exempt from tax, even bonus received is fully exempted. But, Keyman Insurance Policy and any sum received under u/s 80DD (3) will not be exempted.
- 7) **Sum received from Public Provident Fund [Sec.10 (11)]**: Any sum received from public provident fund (in State Bank and head offices) is fully exempted.
- 8) **Payment from Sukanya Samridhi account [Sec.10 (11A)]**: Any sum received from Sukanya Samridhi Account rules, 2014 made under Government Saving Bank Act, 1873 is fully exempt from tax.
- 9) **Payment from National Payment System Trust [Sec.10 (12A)]**: Any payment from National Payment System trust u/s 80(CCD), if it does not exceed 40% of total amount, payable to assessee at time of closure of the scheme is exempt from tax.
- 10) **Partial withdrawal from National Pension System Trust [Sec.10 (12B)]**: Any withdrawal by the assessee from National Pension System trust, up to 25% is tax free.
- 11) **Interest, premium or bonus on specified investments [Sec.10(15)]**: Like Annuity certificates, National Saving Certificates, Post Office Savings, Bank Account, Interest on relief Bonds, Post office cash certificates etc are fully exempt from tax.
- 12) **Scholarships [Sec.10 (16)]**: Any fellowship or scholarship granted by Government for education and research work will be exempted.
- 13) **Allowances of M. Ps and MLA's [Sec.10 (17)]**: Daily allowances, constituency allowance, of MPs and MLAs shall be exempt fully.
- 14) **Award or reward [Sec.10 (17A)]**: Any award in form of cash or kind granted by Central or State Government for work of literature or scientific shall be exempted. Any award from any other institution apart from Government, shall be exempted from tax provided, such exemption is approved by Central Government.

- 15) Pension to an individual awarded by 'Vir Chakra' [Sec.10 (18)] Any amount in form of pension received by an individual or family who had been a Central or State Government employee and was awarded 'Param Veer Chakra, Vir Chakra, Mahavir Chakra, shall be exempted.
- 16) Family pension to family members of armed forces [Sec.10 (19)]: Family pension to widow or children or nominated pension of a member of the armed forces died during operational duty shall be exempted.
- 17) Annual value of a palace of the Ex-rulers [Sec.10 (19A)]
- 18) Incomes of scheduled tribes [Sec.10 (26)]: Any income accrued to scheduled tribes living in tribal areas (as given in VI schedule of constitution) of State of Manipur, Sikkim, Tripura, Mizoram, Nagaland and Arunachal Pradesh shall be exempted.
- 19) Subsidy received from Tea Board [Sec.10(30)] Any subsidy received from Tea Board to the assessee, carrying on the business of growing and manufacturing tea in India, shall be exempt from tax, provided the certificate of exemption has been presented to Income Tax officers.
- 20) Subsidy received by planters [Sec.10(31)] Any subsidy from Rubber Board office or spice board to the assessee, under any scheme for replantation of rubber plants or coffee plants etc. shall be exempt.
- 21) Income of minor child [Sec.10 (32)] Income upto Rs.1,500/- in respect of minor is exempt from tax and any excess of that amount is included in parent's income whose income is greater.
- 22) Capital gain on transfer of units of US-64 [Sec.10(33)] Any capital gain on transfer of units US-64 shall be exempted provided such transfer is done on or after 1/4/2002.
- 23) Any income received in respect of units of a mutual fund, Units from the administrator of the specified undertaking or units from the specified company [Sec.10 (35)] This income is exempt with effect from AY 2004-05.
- 24) Long term capital gain on eligible equity shares [Sec.10(36)] This exemption is applicable only when shares have been held for at least 12 months and when investment have been made on or after 1/3/2003 and not later on 31st March 2004.
- 25) Exemption of capital gains on compensation received on compulsory acquisition of agricultural land situated within specified urban cities [Sec.10 (37)]. Such exemption is available to an individual or Hindu undivided family, on short- or long-term capital gain, provided such compensation should be received on or after 1/4/2004 and land is used for agriculture preceding 2 years from compulsory acquisition.
- 26) Exemption of specified income from international sporting event held in India (with effect from Assessment Year 2006-07) [Sec.10 (39)].
- 27) Exemption in respect of grant etc. received by a subsidiary company from its holding company engaged in business of distribution of power [Sec.10 (40)] (with effect from AY 2006-07).
- 28) Exemption of capital gain to undertakings engaged in business of generation of power (with effect from Assessment Year 2006-07) [Sec.10 (41)].
- 29) Exemption of specified income of certain bodies or authorities (with effect from Assessment Year 2006-07) [Sec.10 (42)].
- 30) Exemption of amount received by an individual as loan under reserve mortgage scheme [Sec.10 (43)] Such exemption is available to senior citizen, who does not make payment of principal amount and interest throughout his life under the scheme.
- 31) Exemption of sum received by an individual on behalf of new pension scheme trust [Sec.10 (44)].
- 32) Exemption of a specified income of notified body or authority or trust or board or commission [Sec.10 (46)].
- 33) Income of infrastructure debt fund [Sec.10 (47)] Such exemption can be availed only if return of income is filed as per section 139.

- 34) **Income of foreign company [Sec.10 (48)]** Such exemption is allowed to a foreign company in India, only if any income is received by sale of crude oil (in Indian currency).
- 35) **Income of foreign company on account of storage of crude oil [Sec.10 (48A)].**
- 36) **Income of National Financial Holdings Company Limited [Sec.10 (49)].** Such company must have been set up by central Government relating to the AY on or before 1st April 2014.

CERTAIN EXEMPTED INCOMES IN THE HANDS OF AN INDIVIDUAL

Income of a salaried personnel

The details of these incomes have been given under head 'Income from salaries'

- 1) Leave travel concession [Sec.10(5)]
- 2) Allowances and perquisites received abroad [Sec.10(7)]
- 3) Death-cum retirement gratuity [Sec.10(10)]
- 4) Commuted amount of pension [Sec.10(10A)]
- 5) Encashment of earned leave [Sec.10(10AA)]
- 6) Compensation due to retrenchment [Sec.10(10B)]
- 7) Income tax paid by employer on perquisites [Sec.10(10CC)]
- 8) Any sum received from statutory provident fund [Sec.10(11)]
- 9) Any income received from recognized provident fund [Sec.10(12)]
- 10) Payment from national pension system trust [Sec.10(12A)]
- 11) Tax exempt on partial withdraws from national pension system [Sec.10(12B)]
- 12) Any sum received from approved superannuation fund [Sec.10(13)]
- 13) Transfer of account of employee under pension scheme [Sec.10(13)(v)] Exempted Incomes 55 Fundamentals
- 14) House rent allowance [Sec.10(13A)]
- 15) Special allowance for official duties [Sec.10(14)]

EXEMPTED INCOMES OF CERTAIN INSTITUTIONS AND FUNDS

1. Income of a Local Authority. [Sec.10 (20)]- It includes municipality, Nagar Nigam, village panchayat etc.
2. Income of Scientific Research Association [Sec.10 (21)] -Such exemption is allowed only when the association is approved by the Central Government, and it utilizes its income to achieve its objectives.
3. Income of News Agency [Sec. 10(22B)]-Such news agency must be notified by the central Government and is established in India.
4. Income of certain Professional Institutions [Sec.10 (23A)]-Exemption is allowed only when such professional institutions of medical, engineering, advocacy etc. are approved by Central Government.
5. Income of regimental fund of the Armed Forces [Sec.10 (23AA)]- Such income is exempt only if such fund is set up for the welfare of past and present members or their dependents.
6. Income of funds established for the welfare of employees and their dependents [Sec.10(23AAA)]
7. Income of funds set-up by Life Insurance Corporation of India [Sec.10 (23AAB)]-Such exemption is allowed only when the receiver of the pension contributes to this fund.
8. Income of Khadi and Village Industries Association [Sec.10 (23B)]- Such exemption is allowed only when such association is non-profit and is approved by khadi and village industries commissions.

9. Income of an authority known as Khadi and Village Industries Board etc. [Sec.10 (23BB)]-This exemption is allowed only when such authority is established under state or provincial Act.
10. Income of statutory authority administering public religious activities [Sec.10 (23BBA)] -Such authorities or trusts like temples, mosques, church, Gurudwara etc. must be established under Central or State Act.
11. Income of European Economic Community [Sec.10 (23BBB)]-Such community must have been established under treaty of Rome on 25th March 1957. Such exemption can be availed only when income is received through interest or dividend.
12. Income of South Asian Association of Republican Countries (SAARC) fund [Sec.10 (23BBC)] (With effect from AY 1992-93)-Any such income is exempt only when such income is used in local projects of SAARC Fund.
13. Income of Insurance Regulatory and Development Authority (IDRA) [Sec.10 (23BBE)].
14. Income of the Central Electricity Regulatory Commission [Sec.10 (23BBG)].
15. Income of Prasar Bharti [Sec.10 (23BBH)] (with effect from AY 2013- 2014).
16. Income of the certain National Funds [Sec.10(23C)]-It includes National Foundation for communal harmony, Prime minister's relief fund, Prime minister's Student Aid fund, Income from Swachh Bharat Kosh and Clean Ganga fund, Prime Minister's Fund for Promotion of Folk Art, etc.
17. Income of notified Mutual Funds [Sec.10(23D)]-Such mutual funds should be authorized by bank of public sector, public financial institution or India Reserve Bank and is registered under SEBI Act, 1992.
18. Income of notified Investor's Protection Fund [Sec.10 (23EA)]-Such fund should be set up by a recognized stock exchange in India.
19. Income of a Venture Capital Fund or a Venture Capital Company (if investment done in venture capital undertaking) [Sec.10 (23FB)] (with effect from AY 2002-03)- Such income is exempted only when the venture capital fund is approved by prescribed authority and the fund or company has purchased equity shares. This exemption is not allowed if such shares are not transferred within 3 years of purchase.
20. Income of Registered Trade Unions [Sec.10 (24)]- Such trade unions shall be registered under Trade Unions Act, 1926.
21. Income of Provident Funds [Sec.10(25)]- It includes income of deposit linked insurance fund, income of recognized provident fund, approved gratuity fund, approved superannuation fund and interest on securities purchased under statutory provident fund and capital gain on sale of those securities.
22. Income of Employees' State Insurance Fund [Sec.10 (25A)]-This provision is with effect from 1/4/1962 and was brought under finance Act, 1995.
23. Income of member of Scheduled Tribe of certain specified areas [Sec.10 (26)]- Such exemption is allowed to the member of scheduled tribe under the Article 366(25) of the Constitution.
24. Income of a Corporation or a Body established for Scheduled Caste and Tribes [Sec.10 (26B)]- This exemption is allowed only when such corporation is set up under central or provincial Act and work for the welfare of above-mentioned castes.
25. Income of a Corporation established for promoting the interests of members of a Minority Community [Sec.10 (26BB)]- Such community must have been notified by Central Government.
26. Income of Corporation established for upliftment of Ex-servicemen [Sec.10(26BBB)]

27. Income of Cooperative Societies [Sec.10 (27)]- Such society should have been established for the interests of schedule castes and schedule tribes and their financial arrangements must have been done by the Government.
28. Income of Foreign Company in Foreign Currency [Sec. 10(48)]-Such income should be under an agreement as approved by the Central Government.
29. Payment from an Approved Superannuation Fund [Sec. 10(13)]-Such payment is made under a pension scheme as u/s 80CCD or on the death of beneficiary or on retirement etc.
30. Income of certain Boards [Sec.10 (29)]-It includes the Spice Board (Spice Board Act, 1986), the Coffee Board (Coffee Act, 1942), the Tobacco Board (Tobacco Board Act, 1975), the Rubber Board (Rubber Board Act, 1947) and the Tea Board (Tea Board Act, 1953).

INCOME OF CHARITABLE AND RELIGIOUS TRUSTS AND POLITICAL PARTIES

Sections 11, 12, 13 and 13A deal with the incomes of charitable and religious trusts and the income of political parties. The income of Charitable and Religious Trust and political parties are exempt under 'Income Tax Act'. Let us now explain in detail the provisions of Sec. 11, 12, 13 and 13A.

Income of Charitable and Religious Trusts

With a view to encouraging public charitable and religious trusts, special provisions have been made in the Income Tax Act for granting exemption to the income of such trusts. Sections 11, 12 and 13 of the Act deal mainly with the exemption and assessment of the income of Public Charitable Trusts.

Charitable purposes Sec. 2(15)

Charitable purposes include the following:

- i) Relief to the poor
- ii) Promotion of Education or literacy –
- iii) Hospital or Medical facilities to public at no cost
- iv) any other activity in the category of charitable purpose. Religious purposes religious purposes mean a trust for the advancement, support, or propagation of a particular religion. But it must be a public religious trust.

INCOME FROM SALARIES

❖ SALARIES

Any remuneration paid by an employer to his employee in consideration of his services is called salary. It includes monetary value or non monetary value of benefits and facilities provided by an employer which are taxable. Any amount received other than from employer cannot be termed as salary. For e.g., A Member of Parliament / a MLA is not treated as an employee of the Government therefore salary and allowance received by him is not chargeable to tax under the head income from salary.

Under section 15, the following incomes are taxable under the head 'Salaries':

- (a) The salary due from an employer or former employer to an assessee in the previous year, whether paid or not;
- (b) The salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him;
- (c) Any arrear of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income tax for any earlier previous year.

Under the provisions of this section the amount of salary due in the year, amount of advance salary received and the amount of arrears of salary received during the year from the present or past employer are to be included in this head.

If any salary paid in advance is included in the total income of any person for any previous year, it shall not be included again in the total income of the person when the salary becomes due.

Any salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm shall not be regarded as salary for the purposes of section 15.



Some Important Points regarding Salaries

1. **Salaries.** Every kind of remuneration of every kind of servant, public or private, and however highly or lowly placed he may be, is covered under the scope of this term used in the Income Tax Act. It means that for the purposes of the Income Tax Act, there is no distinction between the wages of labourer and salaries of high officials.
2. **Foreign Salary and Pension.** Salary and pension received from foreign government is taxable under the head 'Salaries'.
3. **Relationship of employer and employee.** It is very essential for a payment to fall under the head 'Salaries' that the relationship of employer and employee must exist between the payer and payee. Every servant is an employee but an agent may or may not be an employee.
4. **Salaries and professional income.** Where the employment is merely incidental to the exercise of a profession the income from such employment would be professional income, taxable under the head "profit and gains of business or profession". When a person occupies a regular post or office amounting to service, it is employment as distinct from mere engagement in the course of the profession.
5. **Receipts from person other than employer.** Perquisites or profits or any remuneration received from person other than the employer would be taxable under the head 'Income from Other Sources' even if they accrue to the employee by reason of his employment. For example, remuneration received by a professor of a college for acting as an examiner in a University or Board.
6. **Payment made after cessation of employment.** Payment made by an employer to his employee after the cessation of his employment is also taxable under the head 'Salaries'. It is taxable under this head because it represents remuneration for services rendered in the past.
7. **Payment made to employee or to the widow or legal heir.** a) Lump-sum payment made gratuitously or by way of compensation or otherwise to the widow or other legal heirs of an employee, who dies



while still in active service, will not be taxable as income.

b) Where a person or his heir receives ex gratia payment from the Central Government / State Government / Local Authority / Public Sector Undertaking, consequent upon injury to the person / death of a family member, while on duty is not liable to income tax.

8. **Pension.** Pension received by an employee after his retirement is taxable as salary. Pension earned and received abroad is taxable only in the case of ordinary resident, whether remitted to India or not. Pension paid by a foreign government to its employees serving in India is also taxable.
9. **Tax-free salary.** When a salary is paid tax-free, the employee has to include in his total income the gross salary, i.e., the aggregate of the net salary received plus the amount of tax paid on his behalf by the employer, except under the provisions of Sec.10 (10CC).
10. **Deductions by employer.** If, an employer makes certain deductions out of the salary payable to an employee, amount so deducted is deemed to be received by the employee and the amount so deducted is also taken as application of income by the employee.
11. **Salary of a Member of Parliament.** This is not chargeable under the head 'Salaries', as a Member of Parliament is not an employee of the Government. It is taxable under the head 'Income from Other Sources'.
12. **Salary of a Partner.** Any salary received by a partner from the firm in which he is a partner is not chargeable under the head 'Salaries'. It is taxable under the head 'Profits and Gains of Business or Profession'.
13. **Family Pension.** Any family pension received by the widow or legal heirs of a deceased employee is taxable under the head 'Income from Other Sources'.
14. **Voluntary foregoing - Application of Salary.** Voluntary foregoing of salary by an employee is simply an application of income by him and,



therefore, any voluntary foregoing of salary is taxable when it is due, whether paid or not u/s 15.

15. **Salary Grade or Scale of Pay.** Salary grade means that at what starting salary any employee is to be appointed and during the entire service period (if there is no revision of grade or no promotion), what will be his increment per year and what will be his maximum salary after which there will be no increment. Here salary means basic salary. For example, 8,000-250-10,000-375-12,000-450-18,800.
16. **Salary from the former employer, present employer or prospective employer.** The salary is taxable irrespective of whether it is received from the present, past or prospective employer. As any income received by the recipient in the relationship of employer and employee is taxable under the head income from salaries.
17. **Salary from more than one employer.** Salary and other service benefits received by an assessee from more than one employer in the same financial year are taxable as salary in the year of receipt.
18. **Salary is taxable on due or receipt whichever is earlier.** The salary income is taxable either on due or receipt basis whichever is earlier.
19. **Gross Salary is taxable.** While taxing the salary income it is the gross salary that is taxed not the net or take home salary. Hence any amount if deducted from gross salary has to be added to net salary.
20. **Due date of Salary.** Following are the general rules regarding this:
 - (a) **In the case of employees of the government and semi-government.** Salary for a particular month is due on the first of the next month. Thus, in such a case, salary for the month of March of the preceding financial year upto the salary for the month of the current financial year is taken into account.
 - (b) **In the case of employees of banks and non-government bodies.** Salary for a particular month is due on the last date of the same month. Thus, in such a case salary for April of the current financial year upto

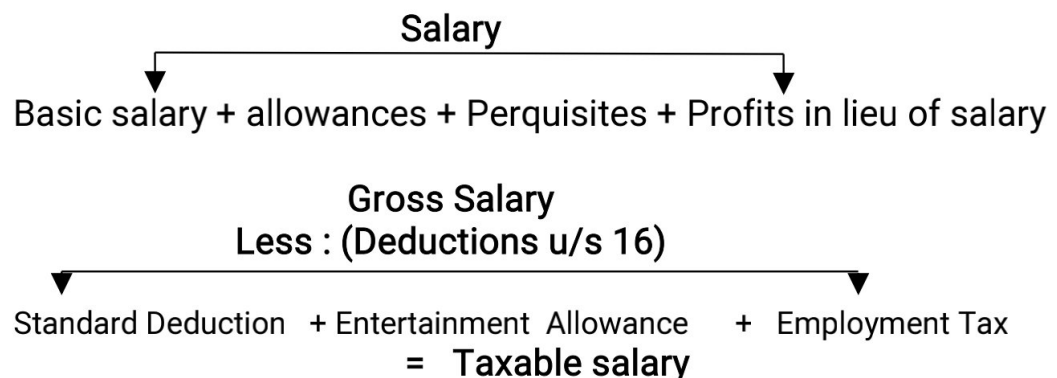


the salary for the month of March of the current financial year is taken into account.

Definitions:

SALARY (Sec. 17 (1)): Salary includes:

1. Wages;
2. any annuity of pension;
3. any gratuity;
4. any fees, commission, perquisites, profit in lieu of salary or in addition to any salary or wages;
5. any advance of salary; but not loan for purchasing a car, scooter or a house etc.
6. any payment received by an employee in respect of any period of leave not availed of by him;
7. employer's contribution towards recognized provident fund in excess of 12% of the employee's salary and interest on provident fund in excess of 9.5% rate.
8. the aggregate of all sums comprised in the transferred balance to the extent to which it is chargeable to tax under sub-rule (4) of Rule 11.
9. the contribution made by the Central Government or any other employer in the previous year, to account of an employee, under a pension scheme.



Different forms of salary

Different forms of salary are: Leave salary, compensation for



retrenchment, fees and commission, bonus, death-cum-retirement gratuity, commutation of pension, receipts by employees of public sector and other companies at time of voluntary retirement, annuity, salary and pension from UNO and other foreign pension.

ALLOWANCES

Payment in cash made by an employer to his employees monthly, other than salary, is called allowance. It is a fixed sum of money paid regularly in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by an employee.

For the purpose of Income tax, Allowances are divided into three categories. They are:

1. Taxable Allowances
2. Allowances Exempt up to Specified Limit
3. Fully exempted Allowances

Taxable Allowances

1. Dearness Allowance, Additional D.A and Dearness Pay:

This is a very common allowance these days on account of high prices. Sometimes additional D.A is also given. It is included in the income from salary and is taxable in full. Sometime it is given under the terms of employment and sometimes without it. When it is given under the terms of employment it is included in salary for purposes of determining the exemption limits of HRA, RPF, gratuity and for determining the value of rent-free house and is also taken into account for the purposes of retirement benefits.

Sometimes D.A is given as 'Dearness Pay'. It means that it is being given under the terms of employment.

2. Fixed Medical Allowance. It is fully taxable.

3. Tiffin Allowance. It is given for lunch and refreshments to the



employees. It is also called Meal Allowance and Refreshment Allowance. It is fully taxable.

4. **Servant Allowance.** It is fully taxable even if it is given to low paid employee, not being an officer.
5. **Non-Practicing Allowance.** It is generally given to those medical doctors who are in government service and they are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.
6. **Hill Allowance.** It is given employees working in hilly areas on account of high cost of living in hilly areas as compare to plains. It is fully taxable, If the place is located at less than 1,000 meter height from sea level.
7. **Warden Allowance and proctor Allowance.** These allowances are given in educational institutions for working as Warden of the hostel and / or working as Proctor in the institution. These allowances are fully taxable.
8. **Deputation Allowance.** When an employee is sent from his permanent place of service to some other place or institution on deputation for a temporary period, he is given this allowance. It is fully taxable.
9. **Overtime Allowance:** When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages. It is fully taxable.
10. **Other Allowances:** There may be several other types of allowances, for example, Family Allowance to armed personnel while on field without family, Project Allowance, Marriage Allowance, Rural Allowance, City Compensatory Allowance, Telephone Allowance, Dinner Allowance, Health Allowance, Holiday Allowance, Special Qualification Allowance, etc. These are taxable unless specifically exempted.

Allowances exempt upto specified limit



1. House Rent Allowance: An allowance granted to an assessee by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him exempt from tax to a certain extent.

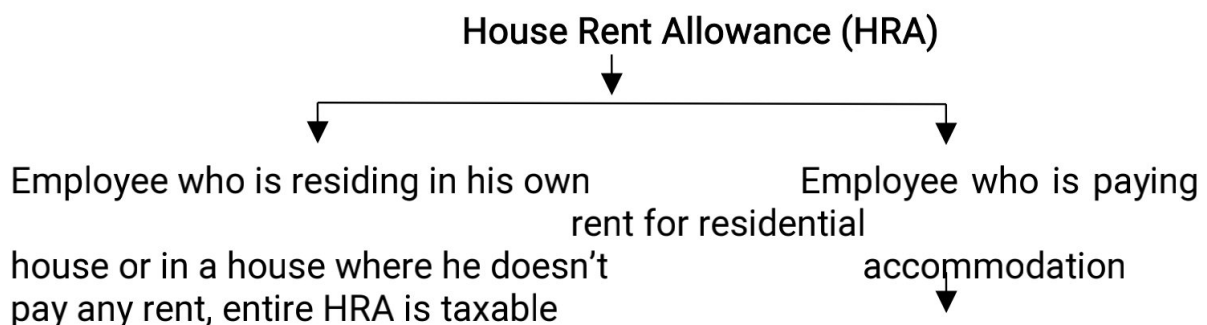
Rule 2A prescribed that the least of the following amounts shall be exempt:

- (a) House Rent Allowance actually received by the assessee; or
- (b) Excess of rent paid by the assessee over 10% of salary due to him for the relevant period; or
- (c) (i) if the accommodation is situated at Mumbai, Kolkata, Delhi or Chennai – 50% of salary due to the assessee, and
(ii) if the accommodation is situated at any other place – 40% of salary due to the assessee.

In case an employee is living in his own house and is getting HRA or is living in a house for which he is not paying any rent, full amount of HRA receivable is taxable.

In this rule- (i) 'Salary' includes dearness allowance, if the terms of employment so provide. It also includes the commission based on fixed percentage of turnover, but excludes all other allowances, perquisites and bonus.

- (ii) 'Relevant period' means the period during which the said accommodation was occupied by the assessee during the previous year. It means that the salary of the period during which rented accommodation is not occupied by the employee will be excluded.



Least of the following is exempt:
a) HRA actually received
b) Rent paid – 10% of salary
c) 40% of salary OR (50% in case residing in Delhi, Mumbai, Chennai or Kolkata)

2. Entertainment Allowance: It is an allowance given by an employer to his employee. It is first included in the income from salary under section 15, and then deduction is allowed to a government employee under section 16(ii).

3. Special allowance for meeting certain expenditure [Section 10(14)]: Special allowances which are exempt from tax while computing income under the head 'salaries' have been notified by the Central Government. There are two types of special allowances. They are:

A. Those which are exclusively to be incurred in the performance of the duties of his office. These are exempt to the extent actually spent.

B. Those which are to meet the personal expenses. These are exempt upto specified limit.

A. Those which are exclusively to be incurred in the performance of the duties of his office Sec.10(14) (i):

Special allowance which is granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office will be exempt from tax, to the extent to which such expenses are actually incurred for that purpose and notified by the Central Government.

The following special allowances have been notified as exempt u/s 10(14) (i):

1) Travelling Allowance: The allowance granted to meet the cost of travel on tour or on transfer. The cost of travel on transfer includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.

- 2) **Daily Allowance:** Any allowance, granted for the period of journey on tour or on transfer to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.

- 3) **Conveyance Allowance:** The allowance granted to meet the expenditure incurred on conveyance in the performance of duties of an office or employment of profit.

- 4) **Helper Allowance:** Any allowance granted to meet the expenditure incurred on a helper where such helper is engaged for the performance of official duties.

- 5) **Academic Allowance:** Any allowance granted for encouraging the academic, research and other professional pursuits.

- 6) **Uniform Allowance:** Any allowance granted to meet the expenditure incurred on the purchase or maintenance of uniforms for wear during the performance of official duties.

B. Special Allowance to meet the personal expenses.

Any such allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office are ordinarily performed by him or at a place where he ordinarily resides, or to compensate him for the increased cost of living, will be exempt from tax, to the extent notified by the Central Government.



1) Special Compensatory (Tribal Areas/Scheduled Areas/Agency Areas) Allowance: The exemption is available @ Rs. 200 p.m. in Madhya Pradesh, Tamilnadu, U.P, Karnataka, Tripura, Assam, West Bengal, Bihar, and Orissa.

2) Any allowance granted to an employee working in any Transport System: Any allowance granted to any employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is exempt in the whole of India upto 70% of such allowance or Rs. 10,000 per month, whichever is less.

3) Children Education Allowance: It is exempt in the whole of India @ Rs. 100 per month per child upto a maximum of **two children.**

4) Children Hostel Allowance: Any allowance granted to an employee to meet the hostel expenditure on his child is exempt in the whole of India @ Rs. 300 p.m per child upto a maximum of **two children.**

5) Transport Allowance: The transport allowance granted by the Government to its employees or by an employer to employees, by whatever name called, to compensate them for the cost incurred on account of commuting between the place of residence and the place of duty, will be exempt subject to a maximum of Rs.1600p.m. (No exemption, w.e.f assessmet year 2019-20).

However, if the employee is blind or orthopedically handicapped with disability of lower extremities, the transport allowance shall be exempt upto Rs. 3,200 pm.



6) **Underground Allowance:** It is granted to an employee who is working in uncongenial, unnatural climate in underground mines. It will be exempt subject to a maximum of Rs. 800 p.m.

7) **Compensatory Field Area Allowance:** It is exempt upto Rs. 2,600 p.m

8) **Compensatory Modified Field Area Allowance:** It is exempt upto Rs. 1,000 p.m

9) **Counter-insurgency Allowance:** It is exempt upto Rs. 3,900 p.m

10) **High Altitude Allowance:**

(a) For altitude of 9,000 to 15,000 feet – It is exempt upto Rs.1,060 p.m

(b) For altitude above 15,000 feet – It is exempt upto Rs. 1,600 p.m

11) **Highly Active Field Area Allowance:** It is exempt upto Rs.4,200 p.m.

12) **Island Duty Allowance:** It is exempt upto Rs. 3,250 pm

Fully Exempted Allowances:

(1) **Foreign Allowance:** This allowance is usually paid by the government to an Indian citizen outside India for rendering service abroad. It is not taxable at all. There may be several types of foreign allowances, e.g., Overseas Allowance, Children Education Allowance, Car Allowance, Entertainment Allowance, etc.



This exemption is not available to non-government employees and to those who are not citizens of India.

(2) Sumptuary Allowance to High Court or Supreme Court Judges. Such allowance given to high court/supreme court judges is fully exempt from tax.

(3) Allowance from UNO: Allowance paid by a UNO to its employees is fully exempt from tax.

(4) Per-diem Allowance: If per-diem allowance is paid for the purposes of use of hotel, boarding and lodging facilities to an employee any surplus accruing to him from such allowance is exempt from tax.

PERQUISITES

The term 'perquisite' means any benefit, attached to an office or position in addition to salary or wages. Perquisite denotes a personal advantage. It may be given in cash or in kind. If it is given in kind it should be capable of being measured in terms of money. For income tax purposes we limit the scope of perquisites to the benefits received in kind and which are convertible in terms of money. Perquisites received in cash are termed as allowances for income tax purposes.

1. Perquisites Taxable in case of all employees:

The following perquisites are taxable in case of all employees:

- 1) The value of residential accommodation provided to the assessee by his employer



- 2) Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. For example-
 - a) Payment by the employer of the employee's club or hotel bills provided that they are not connected with the employer's business;
 - b) Payment by the employer of any loan due on this employee;
 - c) Payment by the employer of education expenses of the children of his employees;
 - d) Payment by the employer of the salary of the domestic servant of an employee meant for his personal use and employed by the employee;
 - e) Income tax paid by the employer in respect of the salary of his employee;
 - f) Legal expenses incurred by the employer to save or defend the employee;
- 3) Any sum payable by the employer, whether directly or through a fund, other than a recognized provident fund or an approved superannuation fund or a Deposit-linked Insurance Fund, to effect an insurance on the life of the employee or in respect of a contract for an annuity.
- 4) The value of any specified security or sweat equity shares allotted or transferred directly or indirectly by the employer or former employer free of cost or at concessional rate to the assessee.
- 5) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent exceeding Rs. one lakh fifty thousand.
- 6) The value of any other fringe benefit or amenity as may be prescribed.

In terms of provisions of Sec. 17(2) (viii), the value of the following benefits or amenities shall be included in the income of an employee:



1. Interest free or concessional loan;
2. Holiday enjoyment;
3. Free food;
4. Gift;
5. Expenses charged to a credit card;
6. Club expenses;
7. Use of movable asset;
8. Transfer of movable asset;
9. Any other benefit or amenity

2. Perquisites Taxable in the case of specified employees only

Specified Employees: The employees who fulfil any of the following three conditions are called specified employees:

- a) **A Director – employee:** An employee, who is also a director in the employer-company whether full-time or part-time and whether continuing as director for the whole or part of the year, is a specified employee.
- b) **Employee having substantial interest in the employer-company:** An employee is said to have substantial interest in the employer-company if he is the beneficial owner of equity shares carrying not less than 20% of voting power. He is also termed as a specified employee.
- c) **Any other employee(i.e. not covered by the above two conditions)** whose income chargeable under the head Salaries, including all monetary payments from one or more employers, but excluding the value of all benefits or amenities given in kind, exceeds Rs. 50,000 is called a specified employee.

The following are the taxable perquisites in hands of specified



employees:

- 1) Facility of Car;
- 2) Sweeper, Watchman, Gardener and Personal attendant;
- 3) Gas, electric energy and water;
- 4) Education facility to the members of employee's household;
- 5) Transport facility.

3. Tax-free Perquisites

The value of the following perquisites shall not be included in the salary income of an employee:

1. Medical benefits
2. Tea or snacks provided free in office or factory (work place)
3. Residential accommodation provided at site
4. Expenses on telephones including mobile phone
5. Employer's contribution to Staff Group Insurance Scheme
6. Scholarships to employees or their children paid by the employer
7. The facility of conveyance provided by the employer from residence to place of employment and vice-versa
8. Refresher courses, etc. If the employer pays fees for an employee taking refresher courses or management course in order to enable, the employee to perform his services more efficiently. Such expenses are treated as scholarship



9. Tax paid by the employer on the value of perquisites
10. Perquisites to Government employees posted abroad: Any perquisite allowed outside India by the Government of India to a citizen of India for enduring service outside India. This exemption is not available to non-government employees and also to those who are not citizens of India
11. Rent-free house and conveyance facility provided to High Court Judges
12. Rent- free house and conveyance facility provided to Supreme Court Judges
13. The value of rent-free furnished residence provided to a Minister, specified officers of Parliament or a Leader of the Opposition in Parliament
14. Laptops and computers provided by the employer for personal use of employee or any member of his household
15. Interest- free or concessional loan, if the amount of loan in aggregate does not exceed Rs. 20,000 during the 'Previous year'.
16. Transfer without consideration to an employee of a movable asset(other than computers, electronic items and car) by the employer after using it for a period of ten years or more
17. Periodicals and journals required for discharge of work
18. Leave travel concession u/s 10(5).

MEDICAL BENEFITS

1. Medical Treatment within India;



- a) The value of any medical treatment provided free to an employee or any member of his family in any hospital maintained by the employer;
- b) Any sum paid by the employer in respect of any expenditure incurred by the employee on medical treatment of himself and members of his family
 - (i) in a hospital maintained by government or any local authority or approved by the government for medical treatment of its employees;
 - (ii) in respect of the prescribed diseases or ailments in any hospital approved by the Chief Commissioner.
- c) Premium paid by the employer on the health insurance of the employee (including members of his family), under an approved scheme, or group medical insurance by the employer for his employees (including members of their families);
- d) Reimbursement by the employer of any premium paid by the employee on his health insurance or on the health insurance of any member of his family under an approved scheme;
- e) Limited Exemption: If the medical treatment of the employee or any member of his family is done at any private hospital, nursing home or clinic other than those stated in clauses (a) and (b) above the exemption will be restricted to Rs. 15,000. No exemption w.e.f. the Assessment Year 2019-20.

2. Medical Treatment outside India:

- a) If the employer incurs any expenditure on the medical treatment of the employee or any member of his family outside India, to the extent permitted by the RBI; and
- b) If the employer incurs any expenditure on travel and stay abroad



of the patient (employee or any member of his family) and one attendant who accompanies the patient in connection with such treatment, it will be exempt subject to the conditions that (i) the expenditure on medical treatment and stay abroad will be exempt to the extent permitted by the RBI and (ii) the expenditure on travel shall be exempt in the case of an employee whose gross total income (excluding this expenditure) does not exceed Rs. 2 lakh.

VALUATION OF PERQUISITES

Tax-free perquisites are not to be valued at all. Those perquisites which are either taxable in all cases or in specified cases are to be valued.

1. VALUATION OF RESIDENTIAL ACCOMMODATION

For the purpose of determining the value of residential accommodation provided by the employer, the employees have been divided into two categories:

(1) Government Employees:

These include the employees holding office or post in connection with the affairs of union or State or serving with anybody or undertaking under the control of such Government on deputation.

Valuation: The value of the rent-free unfurnished house will be taken to be the licence fee determined by the Government in accordance with the rules framed by Government for allotment of residences. If the accommodation is furnished, the value of the perquisite will first be computed on the above basis and then increased by an amount equal to 10% per annum of the original cost of the furniture (including refrigerators, television sets, radio sets, air-conditioning plant or equipments other household appliances) provided. If such furniture is hire by the employer the hire charges payable for the furniture will be taken into account.



From the above value, if any amount is paid or payable by the employee during the previous year shall be reduced and the balance shall be the value of perquisite.

Computation of value of Residential Accommodation in case of Govt. Employees

Amount determined as per Government Rules	xxxxx
Add: 10% p.a. of cost of furniture or Hire charges, if any xxxxx	
_____	xxxxx
Less: Amount paid or payable by the employee (if any)	xxxxx

Value of Accommodation	xxxxxxx

(2) Other Employees:

(a) Accommodation owned by employer:

- (i) 15% of salary in cities having population exceeding 25 lakh as per 2001 census,
- (ii) 10% of salary in cities having population exceeding 10 lakh but not exceeding 25 lakh as per

2001 census,

(iii) 7.5% of salary in any other places,

in respect of the period during which the accommodation was occupied by the employee during the P.Y.

(b) Accommodation is taken on lease or on rent by the employer:

Actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, will be the value of accommodation.

Where the accommodation is furnished 10% p.a. of the cost of furniture shall be added to the above value. If the furniture is hired by the employer the hire charges payable for the furniture will be taken into account.

From the above value, if any amount is paid or payable by the employee during the P.Y. shall be reduced and the balance shall be the value of perquisite.

(c) Accommodation provided in a Hotel:

Where the accommodation is provided by the employer (Government or non-Government) to the employee in a hotel, its value shall be as under:

(i) Where the accommodation is provided on his transfer from one place to another and the period in aggregate does not exceed 15 days- the value shall be taken as nil.

(ii) In any other case, the value shall be taken 24% of salary paid or payable for the previous year

(for the period during which such accommodation is provided) or the actual charges paid or payable to such hotel, whichever is less.

From the above value, if any amount is paid or payable by the employee shall be reduced and the balance shall be the value of perquisite.



(d) Accommodation provided at site:

Where the accommodation is provided to an employee working at a mining site or an onshore oil exploration site or a project execution site or a dam site or a power generation site or an off-shore site which:

(i) being of temporary nature and having plinth area not exceeding 800 square feet, is located not less than 8 k.m. away from the local limits of any municipality or cantonment board; or

(ii) is located in a remote area, the value of such accommodation shall be taken as nil.

(e) Accommodation at the time of transfer:

Where on account of transfer of an employee from one place to another, he is provided with accommodation at the new place of posting while he retains the accommodation at the other place, the value of perquisite shall be taken for one accommodation which has lower value.

2. VALUATION OF MOTOR CAR

(1) Car owned or hired by the employer. Car is used wholly and exclusively in the performance of his official duties.

Value shall be taken as nil provided the prescribed conditions are satisfied.



(2) Car owned by employer and it is used exclusively for the private or personal purposes of the employee or any member of his household:

Actual amount of expenditure incurred on the running and maintenance of motor car XXXXX

Add: (i) Remuneration, if any, paid to the chauffeur (driver)
XXXXX

(ii) Depreciation @ 10% p.a. of the actual cost of the motor car
XXXXX

XXXXX

Less: Amount charged from the employee if any
XXXXX

Value of perquisite

XXXXXX

(3) Car is taken on lease and it is used exclusively for the private or personal purposes of employee or any member of his household:

Amount spent on running and maintaining the car XXXX

Add: Remuneration, if any, paid to the chauffeur (driver) XXXX

XXXXXX

Less: Amount charged from the employee XXXX

Value of perquisite

XXXXXX

(4) Car owned or hired by employer. Car is used partly in the performance of duties and partly for private or personal purposes of employee or any member of his household:



(a) If the entire expenses of maintenance and running of the motor car are borne by the employer:

(i) Small car (Cubic capacity of engine of the car does not exceed 1.6 litre)
Rs. 1,800 p.m.

(ii) Large car (Cubic capacity of engine of the car exceeds 1.6 litre)
Rs.2,400 p.m.

If chauffeur is also provided, add Rs. 900 p.m.

(b) If the expenses of maintenance and running for his private or personal purpose are met by the assessee (i.e., the employee):

(i) Small car Rs. 600 p.m.

(ii) Large car Rs.900

If chauffeur is also provided, add Rs.900 p.m.

(5) Employee uses more than one car for private purposes:

Where more than one motor car is owned or hire by the employer and the employee or any member of his household is allowed the use of such motor cars (otherwise than wholly and exclusively in the performance of duties), the value of perquisite shall be:

a) In respect of one car:

(i) Small car Rs. 1,800 p.m. (ii) Large car Rs. 2,400 p.m.

If chauffeur is also provided, add Rs.900 p.m.

b) In respect of other car / cars:

Assuming the car / cars is used exclusively for private purposes and the value shall be determined as discussed in 2 if the car is owned by the employer or as discussed in 3 if the car is taken on lease by the employer.



(6) Car owned by the employee;

(a) The actual running and maintenance charges (including chauffeur's remuneration) are met or reimbursed by the employer and such reimbursement is for the use of the car wholly and exclusively for official purposes- Value shall be taken as nil provided the prescribed conditions are satisfied.

(b) Where reimbursement of expenses of the car is wholly for personal purposes of the employee or any member of his household- Value shall be taken equal to amount reimbursed.

(c) Where reimbursement of expenses of the car is partly for official purposes and partly of personal purposes of the employee or any member of his household:

(i) **Small car-** The value of perquisite shall be the actual amount of expenditure incurred by the employer less Rs. 1,800 p.m. + Rs. 900 p.m. for chauffeur, if any, provided the prescribed conditions are satisfied.

(ii) **Large car –** The value of perquisite shall be the actual amount of expenditure incurred by employer less Rs/. 2,400 p.m. + Rs.900 p.m. for chauffeur, if any, provided the prescribed conditions are satisfied.

Prescribed Conditions: Where it is claimed that vehicle is used wholly and exclusively in the performance of official duty or the actual expenses on running and maintenance of the vehicle, owned by the employee, for official purposes are more than prescribed amount (Car Rs.1,800/Rs.2,400 p.m. as the case may be and other automotive Rs.900 p.m.), the following documents should be maintained:



(a) Complete details of journey undertaken for official purpose which may include date of journey, destination, mileage and the amount of expenditure incurred.

(b) A certificate of the employer to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

3. SWEEPER, GARDNER, WATCHMAN OR PERSONAL ATTENDANT

Where the employer provides to his employee or his household services of a sweeper, a Gardner, a watchman or a personal attendant, the value of the perquisite shall be the total amount of salary paid or payable by the employer or any other person on his behalf, less the amount paid by the employee for such services.

4. GAS, ELECTRIC ENERGY OR WATER

(i) Where the employer provides gas, electric energy or water for household consumption of the employee, the value of the benefit shall be the amount paid on that account by the employer to the agency supplying the gas, electric energy or water.

(ii) Where such supply is made from resources owned by the employer (without purchasing them from any other outside agency), the value of perquisite shall be the manufacturing cost per unit incurred by the employer.

However, in both the cases, if employee is paying any amount in respect of such services, the amount so paid shall be deducted from the aforesaid value.

5. EDUCATION FACILITY

(A) Where an educational institution is itself owned and maintained by the employer or where free educational facilities are allowed in any other educational institution by reason of his being in employment of that employer, the value shall be:

(a) Education facility provided to children of the employee:

(i) if the cost of such education or the value of such benefit per child does not exceeds Rs.1,000 p.m.-Nil

(ii) if cost or value exceeds Rs.1,000 p.m. – Cost of such education in a similar institution in or near the locality less the amount recovered from the employee.

(b) Education facility provided in any other educational institution:

Cost of education in similar institution in or near the locality less the amount recovered from the employee

(B) Education facility provided in any other educational institution: Education facility provided to the children of the employee or other household members – The value shall be the expenditure incurred by the employer.

6. TRANSPORT FACILITIES

Where an undertaking is engaged in the carriage of passengers or goods and it provides to any employee or to any member of his household for private journey free of cost or at concessional fare, in any conveyance owned, leased or made available by any other arrangement by the undertaking for the purpose



of transport of passengers or goods – The value of the benefit or amenity shall be the value at which such benefit or amenity is offered by the undertaking to the public.

If any amount is paid or recovered from the employee for such benefit or amenity, it shall be deducted from the aforesaid value.

Note: In case of an employee of an Airline or the Railways, the value of transport facility shall be exempt.

7. INTEREST ON FREE LOAN

- Interest on loan given to employee by the employer is exempted if the loan amount is less than Rs.20,000
- If the loan amount is more than Rs. 20,000, the prevailing SBI rates have to be taken for calculating perquisites. If the rate of interest charged by the employer is below SBI rates, then the difference in the rate is taken as perquisites.

8. FREE FOOD, etc

The value of free food and non-alcoholic beverages provided by the employer to an employee shall be as under:

- a) Tea and snacks provided during working hours – nil.
- b) Free food and no-alcoholic beverages provided during working hours in a remote area or an off-shore installation – nil
- c) Free food and non-alcoholic beverages provided during working hours at the office or business premises or through paid vouchers which are not transferable and usable at eating joints, the value thereof shall be the amount of expenditure incurred by the employee as reduced by i) the amount paid or recovered from the employee, and ii) Rs. 50 per meal.

9. GIFT



The value of any gift or voucher or token in lieu of which such gift may be received by the employee or by a member of his household on ceremonial occasions or otherwise shall be sum equal to the amount of such gift.

Where the gifts are given to the employees on social and religious occasions like Diwali, Christmas, New year, the anniversary of the organization, et., such gifts up to Rs. 5,000 in the aggregate during the previous year would be exempt, beyond which it would be taxed as perquisite.

However, gifts made in cash or convertible into cash, like gift cheque etc., shall not be exempt.

PROFIT IN LIEU OF SALARY

Profit in lieu of salary includes the following:

- 1) The amount of any compensation due to or received by an assessee from his employer or former employer in connection with the termination of his employment or the modification of the terms and conditions relating to thereto.
- 2) Any payment due to or received by an assessee from an employer or a former employer. Where an employer gives to his employee any sum by way of personal gift and not in appreciation of his services, it is not taxable in the hands of the employee.
- 3) Any payment made from unrecognized provident fund or other fund will be included only to the extent of employer's contributions and interest thereon. Interest on employee's own contribution is also taxable but it will be taxed under the head 'Income from Other Sources' and not as salary income.
- 4) Any payment received under a Key man Insurance Policy including the amount of bonus.



5) Any amount due or received (whether in lump-sum or otherwise) by an assessee from any person.

- Before joining any employment with that person; or
- After cessation of his employment with that person.

Deductions

The income chargeable under the head 'Salaries' shall be computed after making the following deductions:

- 1) Standard Deduction up to Rs. 40000 [Sec. 16(ia)]
- 2) Entertainment Allowance [Section 16(ii)]
- 3) Employment Tax [Section 16(iii)]

1) Entertainment Allowance: Amount granted as entertainment allowance to an employee by his employer is included under the head 'Salaries' and then the following deduction is allowed in this connection:

a) In the case of a Government employee:

1. Amount received;
2. 1/5 of basic salary;
3. Rs. 5,000 whichever is less

b) In the case of any other employee : Nil



Note: Any entertainment expenses incurred by the employee (whether government employee or non-government employee) is not taken into consideration at all.

2) Tax on Employment: Any sum paid by the assessee on account of a tax on employment, leviable by or under any law, is allowable as deduction.

Notes: (1) If the amount of employment tax has been paid by the employer, it will be added in salary income and then the deduction will be allowed.



UNIT:2

Income from House Property and Taxes

A house property could be your home, an office, a shop, a building or some land attached to the building like a parking lot. The Income Tax Act does not differentiate between commercial and residential property. All types of properties are taxed under the head 'income from house property' in the income tax return. An owner for the purpose of income tax is its legal owner, someone who can exercise the rights of the owner in his own right and not on someone else's behalf. Income tax classifies the properties in two ways:

A. **Self-Occupied House Property**

B. **Let Out House Property**

a. **Self-Occupied House Property**

- A self-occupied house property is used for one's own residential purposes. This may be occupied by the taxpayer's family – parents and/or spouse and children. A vacant house property can also be considered self-occupied for the purpose of Income Tax.
- Prior to FY 2019-20, if more than one self-occupied house property is owned by the taxpayer, only one is considered and treated as a self-occupied property and the remaining are assumed to be let out. The choice of which property to choose as self-occupied is up to the taxpayer.
- From the FY 2019-20 and onwards, the benefit of considering the houses as self-occupied has been **extended to 2 houses**. Now, a homeowner can claim his 2 properties as self-occupied and the remaining house as let out for Income tax purposes.

b. **Let Out House Property**

A house property that is rented for the whole or part of the year is considered a let-out house property for income tax purposes. A house property in excess of 2 self-occupied properties, as mentioned above, is also **deemed a let-out property** (treated as a let-out even if vacant).

There is one more term used in practical life - Inherited Property

An inherited property is one which is one bequeathed from parents, grandparents, etc. and again, can either be a self-occupied one or a let-out one based on its usage as discussed above.

Taxability of Land Appurtenant to Property

- Land which is an inseparable part of building, which is enjoyed by people who use the building is called as Land Appurtenant to Building. Eg. garden, driveway, parking etc.,
- Income from such land is always taxed under the head 'Income from House Property'.
- Income from letting out of vacant land is taxable under the head "Income from Other Sources" or "Profits or gains from business or profession" as the case may be.

Taxability When Property is Used as Place of Business

If the owner of the property occupies it for carrying out his own business or profession, the annual value is not chargeable to tax.

How to Calculate Income from House Property?

Income from house property is taxed based on annual value. Here is how you compute your income from a house property:

a. Determine Gross Annual Value (GAV) of the property:

- *For Self Occupied Property:* The gross annual value is zero.
- *For Let Out Property:* GAV for let out property is rent for a let-out property.

- *For Deemed Let Out Property:* In case of deemed let out property GAV is the market value of the rent received.

b. Reduce Property Tax: Property tax, when paid, is allowed as a deduction from GAV of the property.

Note:

- The property taxes which the owner pays during the previous year are only to be deducted to arrive at NAV. This deduction can be claimed even if it pertains to preceding financial years paid in the financial year.
- It is allowed even when the property is left vacant for the part year.
- If the property taxes are paid by tenant, the deduction cannot be claimed by the owner. Only the sum owner paid can be claimed as deduction.

c. Determine Net Annual Value (NAV) : $\text{Net Annual Value} = \text{Gross Annual Value} - \text{Property Tax}$

d. Reduce 30% of NAV towards standard deduction: 30% on NAV is allowed as a standard deduction from the NAV under Section 24 of the Income Tax Act. No other expenses such as painting and repairs can be claimed as tax relief beyond the 30% cap under this section. You can claim 30% expense deduction even if you have not actually incurred the expenses.

e. Reduce home loan interest: A deduction under Section 24 is also available for interest incurred on a housing loan used to purchase or construct a property. In the case of construction, however, the interest deduction is available only after the completion of the construction.

f. Determine Income from house property: The resulting value is your income from house property. This is taxed at the slab rate applicable to you. In case you are opting for new regime interest deduction on housing loan is available only in case of let out property.

g. Loss from house property: When you own a self-occupied house, since its GAV is Nil, claiming the deduction on home loan interest will result in a loss from house property. This loss can be adjusted against income from other heads.

Note:

- There is no limit for set-off of house property loss with house property income. However, there is a limit of Rs. 2 lakhs against the set-off of house property loss to income from other heads.
- If the loss exceeds Rs. 2 lakhs in a year, the excess loss can be carried forward for 8 years. However, in the subsequent years, it could be only set off under the same head "Income Under Head House property".
- When a property is let out, its gross annual value is the rental value of the property. The rental value must be higher than or equal to the reasonable rent of the property determined by the municipality.

How to Calculate the Gross Annual Value of the Let-out Property?

GAV should be calculated for both let-out property and deemed let-out property. Where the property is let out for the whole year, then the GAV would be higher of:

1. Expected Rent (ER): The expected rent is the higher of the fair rent and municipal value but is restricted to standard rent. It cannot exceed standard rent but can be lower than standard rent, but it can be more than fair rent and Municipal value.

For example, if Manoj owns a house that is let out, Determine the GAV, Municipal value-Rs.80,000, Fair Rent –Rs.90,000, Standard Rent-Rs.75,000, Actual Rent-Rs.72,000.

Solution:

Particulars	Amount
1. Municipal Value	Rs.80,000
2. Fair Rent	Rs.90,000
3. Higher of (1)and (2)	Rs.90,000
4. Standard Rent	Rs.75,000
5.Expected Rent (Lower of (3) and (4))	Rs.75,000
6. Actual Rent Received	Rs.72,000
7. Gross Annual Value(GAV) Higher of (5) and (6)	Rs.75,000

Note: If the property is covered under the Rent Control Act, then the reasonable expected rent cannot exceed the maximum recoverable rent from the tenant (also called Standard Rent)

2. Actual rent received or receivable during the year.

Actual rent means the rent for the property during the year, including rent during vacancy periods. If the conditions below are met, the unpaid rent will be subtracted from the actual rent. Unpaid/ Unrealized rent is rent the owner couldn't collect if:

- The rental agreement is real.
- The tenant who didn't pay has left, or efforts have been made to make them leave.
- The tenant doesn't have another property belonging to the owner.
- The owner tried to get the rent, even legally or can prove legal action won't work.

House Property Income Calculation

Particulars	Amount
Gross annual value	XXXX
Less: - Municipal taxes paid during the year	XXXX
Net Annual Value (NAV)	XXXX
Less: - Deduction	
- under section 24(a) @ 30% of NAV	XXXX

- under section 24(b) on interest	(XXXX)
Income from house property	XXXX

Example of Calculation of Income for House Property

Let's consider a property with the following details:

- Gross annual value: Rs. 5,00,000
- Municipal taxes paid during the year: Rs. 20,000
- Interest on loan borrowed for the year: Rs. 1,00,000

Particulars	Amount
<ul style="list-style-type: none"> Gross annual value 	5,00,000
<ul style="list-style-type: none"> Less: - Municipal taxes paid during the year 	20,000
Net Annual Value (NAV)	4,80,000
Less: - Deduction under section 24	
<ul style="list-style-type: none"> - Deduction under section 24(a) @ 30% of NAV 	1,44,000

<ul style="list-style-type: none"> - Deduction under section 24(b) on interest 	1,00,000
Income from house property	2,36,000

Tax Deduction on Home Loans

a. Tax Deduction on Home Loan Interest: Section 24

Homeowners can claim a deduction of up to Rs 2 lakh on their home loan interest if the owner or his family resides in the house property. The same treatment applies when the house is vacant. If you have rented out the property, the entire home loan interest is allowed as a deduction.

However, your deduction on interest is limited to Rs. 30,000 instead of Rs 2 lakhs if any of the following conditions are satisfied:

A. Condition I

- The loan is taken on or after 1 April 1999, and
- The purchase or construction is not completed within 5 years from the end of the FY in which loan was availed.

B. Condition II

- The loan is taken before 1 April 1999.

C. Condition III

- The loan is taken on or after 1 April 1999 for the purpose of repairs or renewal of the house property.

When is the deduction limited to Rs 30,000?

As already mentioned, if the construction of the property is not completed within 5 years, the deduction on home loan interest shall be limited to Rs. 30,000. The period of 5 years is calculated from the end of the financial year in which loan was taken. So, if the loan was taken on 30th April 2017, the construction of the property should be completed by 31st March 2023. (For years prior to FY 2016-17, the period prescribed was 3 years which got increased to 5 years in Budget 2016).

Note: Interest deduction can only be claimed, starting in the financial year in which the construction of the property is completed.

How do I claim a tax deduction on a loan taken before the construction of the property is complete?

Deduction on home loan interest cannot be claimed when the house is under construction. It can be claimed only after the construction is finished. The period from borrowing money until construction of the house is completed is called pre-construction period. Interest paid during this time is called as a [pre-construction interest](#) and can be claimed as a tax deduction in five equal instalments starting from the year in which the construction of the property is completed. Understand pre-construction interest better with this example.

Deduction Amount Available in New vs Old Regimes

The following matrix shows the allowability of deduction for interest on housing loan under different tax regimes.

Particulars	Self-Occupied Property	Let Out Property
New Tax Regime u/s 115 BAC	Not Allowed	Allowed
Old Tax Regime	Allowed upto Rs.2,00,000	Allowed

b. Tax Deduction on Principal Repayment

The deduction to claim principal repayment is available for up to Rs. 1,50,000 within the overall limit of [Section 80C](#). Check the principal repayment amount with your lender or look at your loan instalment details.

Conditions to claim this deduction-

- The home loan must be for the purchase or construction of a new house property.
- The property must not be sold within five years from the time you took possession. Doing so will add back the deduction to your income again in the year you sell.

Stamp duty and registration charges Stamp duty and registration charges and other expenses related directly to the transfer are also allowed as a deduction under Section 80C, subject to a maximum deduction amount of Rs 1.5 lakh. Claim these expenses in the same year you make the payment for them.

Note: Deductions under chapter VIA is not allowed under new tax regime u/s 115BAC. Therefore, deduction for principal repayment, stamp duty and registration charges is not allowed under section 115BAC for new tax regime.

c. Tax Deduction for First-Time Homeowners: Section 80EE

Section 80EE recently added to the Income Tax Act provides the homeowners, with only one house property on the date of sanction of loan, a tax benefit of up to Rs 50,000.

[Click here to read more.](#)

d. Tax Deduction for First-Time Homeowners: Section 80EEA

A new section 80EEA is added to extend the tax benefits of interest deduction for housing loan taken for affordable housing during the period 1 April 2019 to 31 March 2022. The individual taxpayer should not be entitled to deduction under section 80EE.

[Click here to read more.](#) These benefits are not available for an under-construction property.

Do you own more than one house?

If you own more than one house, you need to file the ITR-2 form.

Read our guide to [ITR-2 form](#) here.

Claiming Deduction on Home Loan

- The amount of deduction you can claim depends on the ownership share you have on the property.
- The home loan must also be in your name. A co-borrower can claim these deductions too.
- The home loan principal deduction can only be claimed from the financial year in which the construction is completed.
- Submit your **home loan interest certificate** to your employer for him to adjust tax deductions at source accordingly. This document contains information on your ownership share, borrower details and EMI payments split into interest and principal.
- Otherwise, you may have to calculate the taxes on your own and claim the refund, if any, at the time of tax filing. It's also possible that you may have to deposit the dues on your own if there is a tax payable.
- If you are self-employed or a freelancer, you don't have to submit these documents anywhere, not even to the IT Department. You will need them to calculate your **advance tax** liability for every quarter. You must keep them safely to answer queries that may arise from the IT Department and for your own records.

Tax Benefits on Home Loans for Joint Owners

The joint owners, who are also co-borrowers of a self-occupied house property, can claim a deduction on interest on the home loan up to Rs 2 lakh each. And deduction on principal repayments, including a deduction for stamp duty and registration charges under Section 80C within the overall limit of Rs.1.5 lakh

for each of the joint owners. These deductions are allowed to be claimed in the same ratio as that of the ownership share in the property.

You may have taken the loan jointly, but unless you are an owner in the property – you are not entitled to the tax benefits. There have been situations where the property is owned by a parent and the parent and child together take up a loan which is paid off only by the child. In such a case the child, who is not a co-owner is devoid of the tax benefits on the home loan.

Therefore, to claim the tax benefits on the property:

1. You must be a co-owner in the property
2. You must be a co-borrower for the loan

Each co-owner can claim a deduction of maximum Rs 1.5 lakh towards repayment of principal under section 80C. This is within the overall limit of Rs 1.5 lakh of Section 80C. Therefore, you can avail a larger tax benefit against the interest paid on home loan when the property is jointly owned and your interest outgo exceeds Rs 2 lakh per year.

It's important to note that the tax benefit of both the deduction on home loan interest and principal repayment under section 80C can only be claimed once the construction of the property is complete.

HRA and Deduction on Home Loan

Scenario 1: You live in a rented accommodation since your house is too small for your needs Raghav lives in a rented house in Noida since his own office, son's school and his wife's office are in Noida, He has his own house in the outskirts of Delhi which is quite small and also lying vacant. He is paying interest on the loan on his own house. **Raghav can claim:**

- HRA for rent he pays for the house in Noida, and
- Deduction on interest up to Rs 2,00,000 on the home loan

Scenario 2: You live in a rented house; your own house is also let out Neha recently bought a flat in Indore, though she lives and works in Bangalore. She has no plans of returning to Indore in the next five years so she gives that flat on rent. She lives on rent in Bangalore. **Neha can claim:**

- HRA for the rent she pays for the house in Bangalore and
- Claim the entire interest she pays during the year on the home loan

Set-off and Carry Forward of House Property Loss

- Under Old Regime, a maximum of Rs.2,00,000 losses can be set - off against income under other heads. Carry forward of losses is also allowed. In subsequent years, the losses can be set-off against income from house property income only.
- Under New Regime, loss under house property cannot be set off under any other head. Carry forward of losses is not allowed.

Exclusions to Income From House Property

Income from the following properties are excluded from the income from house property:

- Farmhouses contributing to agricultural income
- Any palace in the occupation of an ex-ruler
- Property of a local authority

- Property of any registered trade union
- Property of a member of a Scheduled tribe;
- Statutory corporation or an institution or association financed by the Government for promoting the interests of the members either of the Scheduled Castes or Scheduled tribes or both
- Any corporation established by the government to promote the interests of members of a minority group
- Any cooperative society formed for promoting the interests of the members either of the Scheduled Castes or Scheduled tribes or both
- Property Income from the letting of warehouses for storage, processing or facilitating the marketing of commodities by an authority constituted under any law for the marketing of commodities
- Any institution for the development of 'Khadi and Village Industries'
- Self-occupied house property of an individual which has not been rented throughout the previous year
- House property held for any charitable purposes
- Property of any political party

INCOME FROM PROFIT AND GAIN OF BUSINESS AND PROFESSION

Section 28 of Income Tax Act-Income Chargeable Under PGBP

Section 28 of the Income-tax Act, 1961 is regarded as one of the most significant provisions in the Indian tax law pertaining to "Profits and Gains of Business & Profession" (PGBP). The section outlines the opportunity for income from a business/profession and its taxability.

Meaning of Business and Profession

- **Business [2(13)]**

Business includes any trade, commerce or manufacture; or any adventure or concern in the nature of trade, commerce or manufacture.

- **Profession [2(36)]**

Profession includes vocation. Profession requires purely intellectual skill or manual skill on the basis of some special learning and qualification gathered through past training or experience e.g. chartered accountant, doctor.

Budget 2025 Update

It has been proposed to insert a new [section 44BBD](#) to cater non-residents providing services or technology to a resident, operating business related to electronics manufacturing. Such non-residents will be able to calculate profits at 25% of the amount received for such services.

Purpose of Section 28

- This particular section of the Income Tax Act sets out various sources of income and dealings falling within the ambit of "Profits and gains of business or profession". It makes sure that all kinds of incomes derived from a business or a professional activity are subject to taxes.
- Section 28 defines the taxable income base, paving the way for calculating the amount of tax an individual or business entity owes based on income from business or professional activities.

Types of incomes covered under section 28

Section 28 of the IT Act 1961 covers the following types of income.

- 1. Profits from Business or Profession:** Any income generated during the previous year through the conduct of a business or profession is taxable under Section 28. This includes profits from sales of goods or services, fees earned by professionals, and income from freelance work.
- 2. Salary, Commission, Bonus etc.:** The income mentioned in section 28 encompasses salaries, commissions, bonuses and other incomes that come as reward for effort exerted in connection with trade/profession employed by individuals as well as partners in a firm.
- 3. Compensation Payments:** Certain compensation payments received under specific circumstances are also taxable under Section 28. These include payments made upon termination of employment, modification of contracts, or termination/modification of agency agreements related to managing an Indian company.
- 4. Income from Specific Activities:** Section 28 extends to income generated from specific business or professional-like activities. This can include income earned through import/export businesses or income received by a partner from a firm (including salary, interest, bonus, etc.).
- 5. Receipts under Agreements:** It also covers the amounts received in terms of any agreement where the person carrying out the activity is paid off for refraining from performing any action concerning their trade or profession or not sharing their know-how, patent right, copyright, trade mark, license, franchise or other commercial rights like those capable of being used by it in manufacturing processing goods for sale or providing services.

6. Any sum received under the Keyman Insurance policy: Any sum received by an assessee as an employer under a Keyman Insurance policy will be taxable as income from the business.

7. Fair market value of inventory on its conversion/treatment as a capital asset: Fair market value of inventory on the date of its conversion or treatment as a capital asset would be chargeable to tax as business income.

1. Sections Summary

Sections	Particulars
28	Income chargeable under PGBP
28(i)	General Clause-Profits and Gains from Business and Profession
2(13)	Meaning of Business
2(36)	Meaning of Profession
28(ii)	Management Compensation
28(iii a)/(iii b)/(iii c)	Export Incentives
28(iv)	Any benefit, facilities, or perquisites in Business or Profession
28(v)	Interest/salary/bonus/commission received by partner from Firm/LLP

28(va)	Non-Competent Fee
28(vi)	Keyman Insurance Policy
28(via)	Stock converted into asset
	Amount received as insurance compensation/receipt for destroyed/sale of Business Asset
	Recovery of Expenses/Losses during relevant previous years which were claimed as deduct
	Remission/Cessation on outstanding liabilities during relevant previous years which were ion in earlier year.
41(2)	Balancing Charge on sale of SLM assets.
41(3)	Recovery of Bad Debts
	Research Asset sold without use in normal business
30	Revenue expenses incurred on Building to be use/used in business by Assessee (owner/tenant)
31	Revenue expenses incurred on Plant and machinery to be use/used in business by Assessee (owner/tenant)
32	Depreciation

32(1)(iia)	Additional Depreciation
38(2)	Assessing Officer (A.O.) Power to determine ratio for usage of Asset
43(6)	Computation of WDV
43(1)	Actual Cost of Asset
35	Donation to approved Research Institution
35(2AB)	In-House Research Expenditure
35AD	Specified Business/VIP Business
35CCA	Donation to national fund
35CCC	Expenses on Agricultural Extension Project
35CCD	Expenses on Training Program under Notified Skill Development Program
35D	Preliminary expense
35DD	Expenses incurred on amalgamation and demerger
35DDA	VRS Compensation paid to Employee
37(1)	General Deduction

37(2B)	Expenses incurred in any type of publication of Political Party
38(2)	All expenses incurred on asset in proportion to personal use determined by A.O.
40(a)	TDS Default not deducted or deducted but not deposited
40A(2)	Excess of Market Value on revenue expense incurred on good/services received from specified person
40A(3)	Cash Payment made for revenue expenditure greater than ` 10,000 to a single person for a single bill
40A(3A)	Cash received in respect outstanding revenue expense, previously claimed > 10,000
40A(7)	Employer's contribution to Unapproved gratuity fund.
40A(9)	Employer's contribution to NPS in excess of 10% of Salary.
44AA	Maintenance of Books of Accounts
44AB	Tax Audit

Income not Taxable Under PGBP

Following incomes are though in the nature of profits and gains of business or profession, shall not be taxable under this head:

- Rent from house property is taxable u/s 22 under 'Income from house property' even though –

1. the assessee is engaged in the business of letting out properties on rent; or
 2. such property is held as stock in trade.
- Dividend on shares is taxable u/s 562) (i) under the head 'Income from other sources' even though the assessee deals in shares and such shares are held as stock in trade. The provision is not applicable in case of interest on securities held as stock in trade.
 - Winning from lotteries, races etc. are taxable under the head 'Income from other sources' even if such income is derived through regular business activity. However, dealing in lottery tickets and incidental winning on sold tickets will be taxable as PGBP.
 - Exempted income by virtue of sec. 10, 11 or 13A.
 - Sum taxable under the head 'Capital gains' for the purpose of sec. 28 (va) shall not be taxable under this head. E.g. profit on sale of route permit.

Expenditures Allowed as a Deduction

1. Capital expenditures are not allowed as deduction, unless & until expressly allowed whereas revenue expenditures are allowed as deduction until & unless expressly disallowed under the Income tax Act.
2. Any expenditure of a non-assessable business is not allowed as deduction. E.g. Agricultural income u/s 10(1).
3. Expenditure must have been incurred by the assessee for its business.
4. Subject to certain exceptions, no deductions are allowed for anticipated losses. E.g. provision for bad & doubtful debts.
5. No one can earn income from himself/herself. E.g. Rent, salary to sole proprietor from his own firm.

Specific Deductions

As per sec. 29, income under this head will be computed considering the provisions of sec. 30 to 43DB, which decides the admissibility of expenditures for computing income under this head.

- **U/s 30- Rent, rates, taxes, repairs & insurance for premises used for the purpose of business or profession** shall be allowed under this section. Points to be noted in this regard:
 1. The building is to be used for the purpose of business or profession.
 2. Rent paid by firm to its partner for using his premises is an allowed expenditure.
 3. Only current repairs are allowed as deduction. Capital repairs are not disallowed.
 4. Rates & taxes (for e.g. land revenue, municipal tax, etc.) are deductible on cash basis [Sec. 30 read with sec. 43B]
- **U/s 31- Repairs & insurance of plant, machinery & furniture** are allowed as deduction. Points to be noted in this regard:
 1. The asset must be used for the purpose of business or profession.
 2. Only current repairs are allowed as deduction.
 3. Only repairs & insurance of machinery, plant & furniture is covered under this section. Rent paid for use of such assets is deductible u/s 37(1).
- **U/s 32- Depreciation on tangible assets** like building, machinery, plant, furniture and intangible assets like know how, copyright, trade mark, patent, license, franchise, or any other business or commercial right of the similar nature acquired on or after 1/4/1998. However, it does not include goodwill.

Conditions:

1. Asset must be owned by the assessee. In case of hire purchase, the buyer can claim depreciation even though he does not get legal title of the asset till he pays the last instalment. Lessee of a property is entitled to depreciation in respect of capital expenditure incurred on property. Possessor of an immovable property u/s 53A of Transfer of Property Act can claim depreciation.
 2. Asset must be used for the purpose of business or profession during the previous year. As per sec. 38, if an asset is partly used for business or profession and partly used for personal purpose, then proportionate depreciation (as determined by the Assessing Officer) shall be allowed.
- U/s 32(1)(iia) – Additional depreciation is applicable on all asses- see engaged in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power.

- An undertaking engaged in the business of generation or generation and distribution of power may charge depreciation (in respect of asset acquired after 31/3/1997) at its choice under:
 1. Written-down value method as followed by all other assessee (usual); or
 2. Straight-line method at the prescribed rate in 'Appendix IA' of the Income Tax Rules on actual cost of asset (not the block value of asset)

However, such option shall be exercised before the due date of furnishing return of income. Further, it may be noted that once the option is exercised, it shall be applicable for all subsequent assessment year

- **U/s35- Scientific research** means any activity for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries [Sec. 43(4)] Such research can be categorized either as –
 1. In-House research- Research done by the assessee himself (in connection with his business)
 2. Research through outside institutions- Any sum paid to outside agencies, engaged in scientific research, to be used for scientific research.
- **U/s35CCA**, where an assessee **incurs** any expenditure by way of payment of any sum –
 1. to an association or institution, which has as its object the undertaking of any program of rural development, to be used for carrying out any program of rural development approved by the prescribed authority and the assessee furnishes a certificate from such association or institution.
 2. to an association or institution, which has as its object the training of persons for implementing programs of rural development and the assessee furnishes a certificate from such association or institution; or,
 3. the National fund for rural development; or,
 4. to the National Urban Poverty Eradication Fund set up and notified by the Central Government in this behalf, the assessee shall, be allowed a deduction of the amount of such expenditure incurred during the previous year.
- **U/s 35CCC**, where an assessee incurs any expenditure on notified agricultural extension project, such expenditure is fully

- **U/s 35CCD**, where an assessee incurs any expenditure on notified agricultural extension project, such expenditure is fully
- **U/s 35 D & Rule 6AB**, Preliminary Expenses are expenses incurred before starting an establishment for business, or extending a running business, or starting up a new unit.

They are considered as capital expenditure and allowed as deduction during 5 years equally to an Indian company or any other resident as per Income-tax Act.

List of Preliminary Expenses Allowed as deduction by Income Tax Act, 1961

All Assessee (including company)	Additional Expenses for Company
Preparation of project report;	Drafting Expenses of MOA & AOA
Preparation of feasibility report;	Printing Expenses of MOA & AOA
Conducting market survey or any other survey necessary for the business;	Fees for registering company
Engineering services related to the business.	Expenses incurred for issue shares & debentures
Legal charges for drafting any agreement	

- **U/s 35DDA, Amortization of expenditure** incurred under VRS allowed to all assessee who have incurred any expenditure, by way of compensation to employees in connection with their voluntary retirement. 1/5th of expenditure so paid for a period of 5 years commencing from the year in which such expenditure was paid.
- **U/s 35DD, Expenses on Amalgamation or Demerger**- If an Indian Company incurred any expenditure on scheme of Amalgamation or Demerger with other company (can be foreign as well as Indian), then such expenditure shall be allowed for 5 years equally divided.
- **Donation U/s 35, to Approved Research Association** is fully allowed as deduction.

- **Donation U/s 35CCA**, by business entity to National funds for Rural development or Urban poverty eradication is fully allowed as deduction.
- **U/s 32AD**, Additional Investment Allowance- Whenever a manufacturer, establishes a new factory in notified backward area of 4 states of Andhra Pradesh, Bihar, West Bengal and Telangana, during 2015-20, then 15% of such actual Cost is Deductible.

Note: There is a lock-in period of 5 year

- **U/s 36(1)**
 1. Stock Insurance (any mode of payment)
 2. Employee's Health Insurance (any bank mode)
 3. Bonus and Commission to employee
 4. Interest on Loan (taken for Business/Profession)
 5. Discount on zero Coupon Bond
 6. Employer's Contribution to RPF, SAF, (Approved), NPS, Gratuity Fund (Approved)
 7. Employee's Contribution to PF, SAF, NPS, or other staff welfare fund.
 8. Expense of acquisition of animal used in Business/Profession
 9. Bad Debts u/s 36(1)(vii)
 10. Expenses on family planning promotion
 11. Securities Transaction Tax, Commodity Transaction Tax

Disallowed Expenses

Following Expenses are not allowed while computing PGBP Income.

- U/s 40(a) TDS Default, not deducted or deducted but not deposited on:
 1. Interest, royalty, fees for technical services payable to a non-resident or outside India [Sec. 40(a)(i)].
 2. Any sum payable to a resident on which TDS provision is applicable [Sec. 40(a)(ia)]
 3. Income tax, Interest under Income tax.
 4. Penalty levied by under any law by Government/Local Authority.

5. Any obligation of employee met by employer is disallowed for employer but exempted u/s 10 (10CC) for employee.
- U/s 38(2), Proportionate amount of expenses incurred for personal purpose in respect to asset used in Business/Profession as well as personal.
 - U/s 40A (2), Revenue expense paid to specified person (relative), in excess of Market Value of Goods or Services received are disallowed.
 - U/s 40A (3), Cash Payment made for revenue expenditure greater than ` 10,000 to a single person for a single bill, in a single day is fully disallowed as deduction. Otherwise, then, any payment made through a/c payee cheque or draft, ECS, Prescribed banking mode (Rule 6ABBA) including debit/credit card, net/mobile banking are allowed even on exceeding ` 10,000.
 - U/s 40A(3A), If cash received, "in respect any outstanding revenue expense which was previously claimed as expenditure in earlier years", greater than 10,000 then it will be treated as income.
 - U/s 40A (7), Employer's contribution to Unapproved gratuity fund.
 - U/s 40A (9), Employer's contribution to NPS in excess of 10% of Salary. In this case, only excess amount is disallowed.

Depreciation Rates for FY 2025-26 Under Income Tax Act

The concept of depreciation is allowed under the Income Tax Act. Depreciation under the [Income Tax Act](#) is a deduction allowed for the reduction in the real value of a tangible or intangible asset used by a taxpayer.

What is Depreciation?

The concept of depreciation is used for the purpose of writing off the cost of an asset over its useful life. Depreciation is a mandatory deduction in the profit and loss statements of an entity using depreciable

assets and the Act allows deduction either using the Straight-Line method or Written Down Value (WDV) method.

Block of Assets- Concept

Depreciation is calculated on the WDV of a Block of assets. Block of assets is a group of assets falling within a class of assets comprising of:

- Tangible assets, being building, machinery, plant or furniture,
- Intangible assets, being know how, patents, copyrights, trade-marks, licenses, franchises or any other business or commercial rights of similar nature

The block of assets is identified depending on its life, nature, and similar use. Further, the depreciation percentage within the class of assets must be considered for asset classification. Each such class of asset with the same rate of depreciation will be identified as a block of the asset.

Individual assets lose their identity under Income Tax Act as depreciation is calculated on the block of assets rather than on individual assets.

Conditions for Claiming Depreciation

- The assets must be **owned, wholly or partly, by the assessee.**
- The assets **must be in use for the business or profession of the taxpayer.** If the assets are not used exclusively for the business, but for other purposes as well, depreciation allowable would be proportionate to the use of business purpose. The Income Tax Officer also has the right to determine the proportionate part of the depreciation under Section 38 of the Act.

- Co-owners can claim depreciation to the extent of the value of the assets owned by each co-owner.
- You cannot claim depreciation on Goodwill and cost of land.
- Depreciation is mandatory from A.Y. 2002-03 and shall be allowed or deemed to have been allowed as a deduction irrespective of a claim made by a taxpayer in the profit & loss account. That is, the taxpayer can carry forward the WDV after reducing the depreciation amount.
- If opted for presumptive taxation scheme, the deemed profit is said to have considered the effect of depreciation.
- Depreciation under the Companies Act, 1956 is different from that of Income Tax Act. Therefore, depreciation rates prescribed under the Income Tax Act are only allowed irrespective of the depreciation rates charged in the books of accounts.

Written Down Value(WDV) of Assets - Meaning

As per Section 32(1) of the IT Act depreciation should be computed at the prescribed percentage on the WDV of the asset, which in turn is calculated with reference to the actual cost of the assets. In the context of computing depreciation, it is important to understand the meaning of the term 'WDV' & 'Actual Cost'.

WDV under the Income Tax Act means:

- Where the asset is acquired in the previous year, the actual cost of the asset shall be treated as WDV.
- Where the asset is acquired in an earlier year, the WDV shall be equal to the actual cost incurred less depreciation actually allowed under the Act.

Depreciation Rates for FY 2025-26 for Most Commonly used Assets

Sl. No	Asset Class	Asset Type	Rate of Depreciation
1	Building	Residential buildings not including boarding houses and hotels	5%
2	Building	Boarding houses and hotels	10%
3	Building	Purely temporary constructions like wooden structures	40%
4	Furniture	Any fittings / furniture including electrical fittings	10%
5	Plant and machinery	Motor cars excluding those used in a business of running them on hire	15%
6	Plant and machinery	Motor cars excluding those used in a business of running them on hire purchased on or after 23 August 2019 but before the 1 April 2020 and is put to use before 1 April 2020	30%
7	Plant and machinery	Lorries/taxis/motor buses used in a business of running them on hire	30%

8	Plant and machinery	Lorries/taxis/motor buses used in a business of running them on hire purchased on or after 23 August 2019 but before the 1 April 2020 and is put to use before 1 April 2020	45%
9	Plant and machinery	Computers and computer software	40%
10	Plant and machinery	Books owned by assessee carrying on a profession being annual publications	100%
11	Plant and machinery	Books owned by assessee carrying on profession not being annual publications	60%
12	Plant and machinery	Books owned by assessee carrying on business in running lending libraries	100%
13	Intangible assets	Franchise, trademark, patents, license, copyright, know-how or other commercial or business rights of similar nature	25%

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

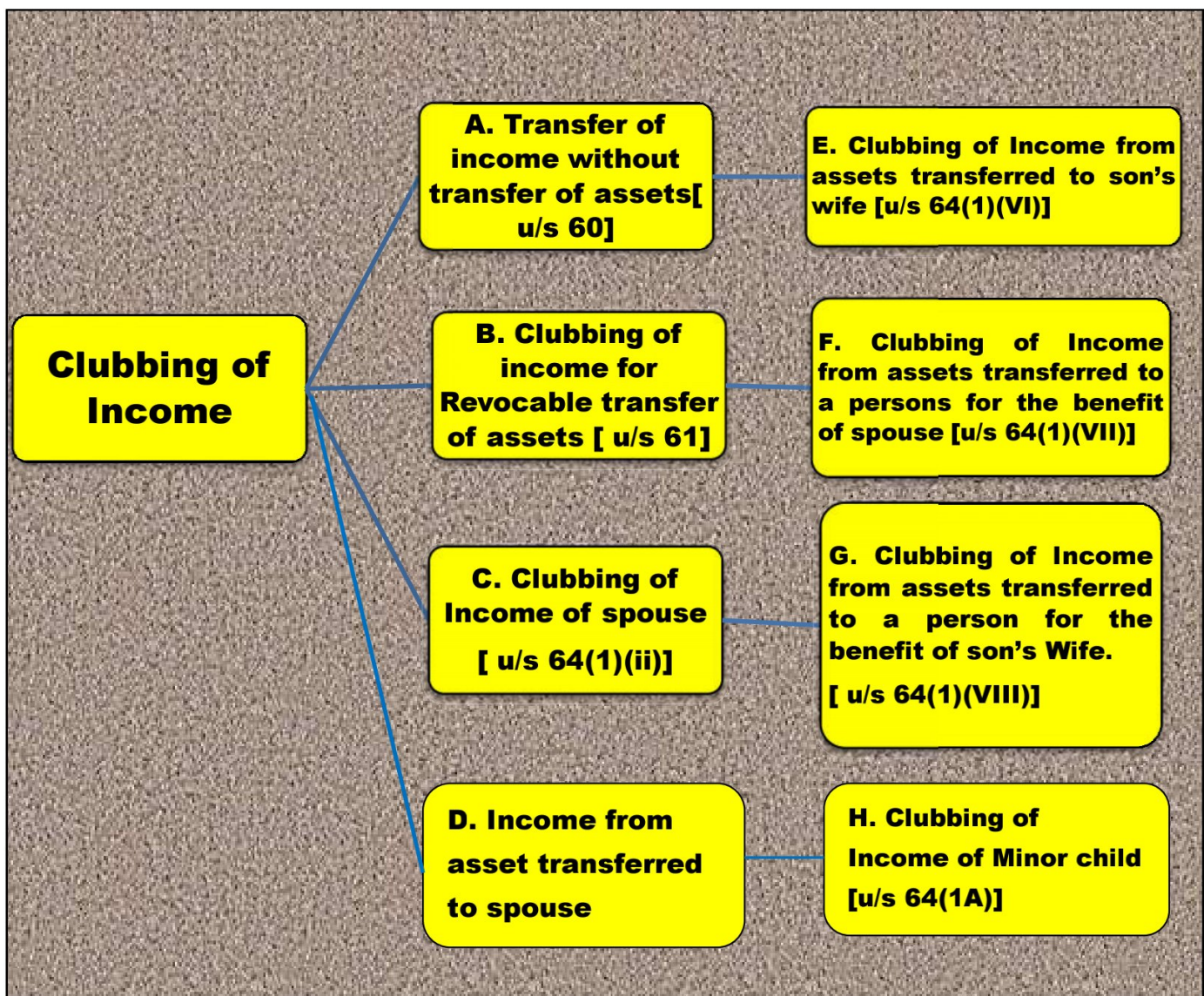
(CLUBBING OF INCOME)

Clubbing of income means including the income of any other person in assessee's total Income.

The Income Tax Act has specified certain cases where income of one person is statutorily required to be included in the income of another person if some conditions are satisfied. This inclusion is known as "Clubbing of Income"

For example , if a husband diverts some part of his income to his wife to reduce his tax burden, Then such transferred income of a wife is added & taxed as income of husband only & not his wife.

Overview of the various aspects of clubbing of income



A. Clubbing of Income for transfer of Income without transfer of Assets. [Sec. 60]

Section 60 is applicable if the following conditions are satisfied –

- ❖ The Taxpayer owns an assets.
- ❖ The ownership of assets is not transferred by him.
- ❖ The Income from the assets is transferred to any person under a settlement , or agreement.

If the above conditions are satisfied , the income from the assets would be taxable in the hands of the transferor.

Example – Mr. Bachan confers the right to receive rent in respect of his house property to his friend Mr. Khan , without transferring the house itself to him.

In this case , the rent received by Mr. Khan will be clubbed with the income of Mr. Bachan.

B. Clubbing of Income for Revocable transfer of Assets (Sec. 61)

Revocable transfer means the transferor of assets assumes a right to re – acquire asset or income from such an asset, either whole or in parts at any time in future, during the lifetime of transferee. It also includes a transfer which gives a right to re- assume power of the income from asset or asset during the lifetime of transferee.

If the following conditions are satisfied section 61 will become applicable.

- ❖ An asset is transferred under a “ Revocable Transfer”.
 - ❖ The Transfer for this purpose includes any settlement or agreement.
- Then any income from such an asset is taxable in the hands of the transferor.

Exception to Section – 61

- ❖ Where the income arises to any person by virtue of transfer by way to trust which is not revocable during the life time of the beneficiary, & in case of any other transfer which is not revocable during the life time of the transferee
- ❖ Where the income arises to any person by virtue of transfer made before 01.04.1961 which is not revocable for the period of 6 years or more.

C. Clubbing of Income of Spouse [Section 64(1)(ii)]

The following incomes of spouse of an individual shall be included in the total income of the Individual.

Remuneration from a concern in which spouse has substantial Interest –

Concern – Concern could be any form of business or professional concern. It could be a sole proprietor, partnership, company etc.

Substantial Interest – An individual is deemed to have substantial interest, if he/she beneficially holds equity shares carrying not less than 20% voting power or is entitled to not less than 20% profits at any time during the previous year.

If the following conditions are fulfilled this section [64(1)(ii)] becomes applicable]

If spouse of an individual gets any salary, commission, fees etc (remuneration) from a concern.

- The Individual has a substantial interest in such a concern.
- The remuneration paid to the spouse is not due to technical or professional knowledge of the spouse.
- Then such remuneration shall be considered as income of the individual & not for the spouse.

Example- Mr. X has a substantial Interest in A Ltd. & Mrs. X is employed by A Ltd. Without any technical or professional qualification . In this case salary income of Mrs. X shall be taxable in the hands of Mr. X.

When both husband & wife have substantial Interest

Where both the husband & wife have substantial interest in a concern & both are in receipt of the remuneration from such concern , both the remuneration will be included in the total income of husband or wife whose total income excluding such remuneration is greater.

D. Income from Asset transferred to Spouse [section 64(1)(iv)]

Income from assets transferred to spouse becomes taxable under provision 64(1)(iv) as per following conditions –

- The taxpayer is an individual.
- He / She has transferred (directly/indirectly) an asset (other than a house property). The asset is transferred to his/ her spouse.
- The asset is transferred without adequate consideration. Moreover there is no agreement to live apart. If the above conditions are satisfied any income from such asset shall be deemed to be the income of the taxpayer who has transferred the asset.

Example - Mr. B transfer 500 debentures of IFCI to his wife without adequate consideration. Interest Income on these debentures will be included in the Income of Mr. B.

When section 64(1)(iv) is not applicable

- If assets are transferred before marriage
- If assets are transferred for adequate consideration
- If on the date of accrual of income, transferee is not spouse of the transferor.
- If assets are transferred in connection with an agreement to live apart.
- If property is acquired by the spouse out of pin money (i. e an allowance given to the wife by her husband for her dress & usual household expenses.)

E. Clubbing of Income from Assets transferred to son's wife [SECTION 64(1)(vi)]

Income from assets transferred to son's wife attract the provisions of section 64(1)(vi) as per conditions below –

- The taxpayer is an individual.
- He / She has transferred an asset after May 31, 1973. The asset is transferred to son's wife.
- The asset is transferred without adequate consideration.

In the case of such individuals, the income from the asset is included in the income of the taxpayer who has transferred the asset.

Example – Mr. A transfers without any consideration fixed deposit of Rs. 1,50,000 with a bank to his daughter - in-law on May 5,2019. She earns interest income of Rs. 12,500 from such fixed deposit during the year 2019-20 . So, In the given case such income shall be included with the income of Mr. A.

F. Clubbing of Income from Assets transferred to a person for the benefit of spouse. [Section 64(1)(VII)]

Income from the assets transferred to a person for the benefit of spouse attract the provisions of section 64(1)(VII) on clubbing of income. If

- The taxpayer is an individual.
- He / She has transferred an asset to a person or an association of persons. Asset is transferred for the benefit of spouse.
- The Transfer of asset is without adequate consideration.

In case of such individuals income from such an asset is taxable in the hands of the taxpayer who has transferred the asset.

Example – Mr. M transfers 6% debentures of Rs. 2,80,000 of Co. Ltd. to Mr. S without adequate consideration on the condition that interest from such debenture will be utilized for benefits of Mrs. M

In such case, interest income will be included in the total income of Mr. M

G. Clubbing of Income from asset transferred to a person for the benefit of son's wife [section 64(1)(VIII)]

Income from the assets transferred to a person for the benefit of son's wife attract the provisions of section 64(1)(VII) on clubbing of income. If

- The taxpayer is an individual.
- He / She has transferred an asset after May 31, 1973.
- He / She has transferred an asset to a person or an association of persons. Asset is transferred for the benefit of son's wife.
- The Transfer of asset is without adequate consideration

In case of such individuals income from such an asset is included in the income of the person who has transferred the asset.

H. Clubbing of Income of Minor Child [Section 64(1A)]

All income which arises or accrues to the minor child shall be clubbed in the income of his parents, whose total income (excluding minor's income) is greater. However, in case parents are separated, the income of minor child will be included in the income of that parent who maintains the minor child in the relevant previous year.

Exemption to parent[sec. 10(32)]

An individual shall be entitled to exemption of Rs.1,500 p.a. in respect of each minor child if the income of such minor as included u/s 64(1A) exceeds that amount. However if the income of any minor child is less than Rs. 1,500 p. the aforesaid exemption shall be restricted to the income so included in the total income of the individual.

When Section 64(1A) is not applicable

In case of income of minor child from following sources, the income of minor child is not clubbed with the income of his parent.

- Income of minor child on account of any manual work.
- Income of minor child on account of any activity involving application of his skills, talent or specialized knowledge & experience.
- Income of minor child suffering from any disability specified u/s 80U.