Keshav Memorial Institute of Commerce & Sciences, Narayanaguda

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Paper DSC 401: INCOME TAX

Objective: *To acquire conceptual and legal knowledge about Income Tax provisions relating to computation of Income from different heads with reference to an Individual Assessee.*

UNIT–I: INTRODUCTION:
Direct and Indirect Taxes – Canons of Taxation - Features and History of Income Tax in India – Definitions and Basic Concepts of Income Tax: Assessee – Deemed Assessee – Assessee-in-default – Assessment Year – Previous Year - Person – Agricultural Income – Heads of Income – Gross Total Income – Total Income — Incomes Exempt from Tax. Residential Status and Scope of Total Income: Meaning of Residential Status – Conditions applicable to an Individual Assessee – Incidence of Tax – Types of Incomes. (Theory only)

UNIT–II: INCOME FROM SALARIES:
Definition of 'Salary' – Characteristics of Salary – Computation of Salary Income: Salary u/s 17(1) – Annual Accretion – Allowances – Perquisites – Profits in lieu of Salary – Deductions u/s. 16 – Problems on computation of Income from Salary.

UNIT–III: INCOME FROM HOUSE PROPERTY:
Definition of 'House Property' – Exempted House Property incomes– Annual Value – Determination of Annual Value for Let-out House and Self-occupied House – Deductions u/s.24 – Problems on computation of Income from House Property.

UNIT–IV: PROFITS AND GAINS OF BUSINESS OR PROFESSION:
Definition of 'Business and Profession' – Procedure for computation of Income from Business – Revenue and Capital nature of Incomes and Expenses – Allowable Expenses u/s. 30 to 37 – Expenses expressly disallowed – Deemed Profits – Miscellaneous provisions u/s 44. Depreciation: Meaning – Conditions for charge of depreciation – Problems on computation of Income from Business.Income from Profession: Rules– procedure – problems on computation of Income from Profession.

UNIT-V: CAPITAL GAINS AND INCOME FROM OTHER SOURCES:
Introduction - Meaning – Scope of charge – Basis of charge – Short term and Long term Capital Assets – Transfer of Capital Asset – Deemed Transfer –Determination of Cost of Acquisition – Procedure for computation of Long-term and Short-term Capital Gains/Losses – Exemptions in respect of certain Capital Gains u/s. 54 – Problems on computation of capital gains - General Incomes u/s. 56(1) – Specific Incomes u/s. 56(2) – Dividends u/s. 2(22) – Winnings from lotteries Puzzles, crown world puzzles, Races – Interest on Securities – Gifts received by an Individual – Casual Income – Family Pension – Rent received on let out of Furniture- Plant and Machinery with/without Building – Deductions u/s. 57. (Theory only)

Unit-I

Basic Concepts of Income Tax

A glossary of basic concepts from the Income Tax Act, 1961 can be helpful for understanding tax-related terms and principles. Here's a simplified glossary:

1. **Assessee**: Any person who is liable to pay tax under the Income Tax Act.
2. **Assessment Year (AY)**: The year following the financial year in which income is earned and assessed for tax purposes.
3. **Previous Year (PY)**: The financial year in which income is earned and assessed for tax purposes.
4. **Income**: Money earned or received, which is subject to taxation. It includes salary, profits from business or profession, capital gains, dividends, interest, rent, etc.
5. **Gross Total Income (GTI)**: Total income earned by an individual or entity before any deductions or exemptions.
6. **Total Income**: Gross total income minus deductions allowed under various sections of the Income Tax Act.
7. **Taxable Income**: The portion of total income on which tax is calculated after allowing deductions and exemptions.
8. **Tax Deduction at Source (TDS)**: The system of deducting tax at the source of income itself, which ensures a steady collection of tax by the government.
9. **Advance Tax**: Tax paid in advance, usually in installments, based on estimated income during the financial year.
10. **Tax Rate**: The percentage at which income is taxed, which varies depending on income slabs and types of income.
11. **Exemptions**: Certain types of income or investments that are not subject to tax or are taxed at a reduced rate.
12. **Deductions**: Expenses or investments that can be subtracted from total income to arrive at taxable income, reducing the tax liability.
13. **Residential Status**: The status of an individual or entity as a resident or non-resident for tax purposes, which determines the extent of their tax liability in India.
14. **Assessment**: The process of evaluating and determining the tax liability of an assessee by the Income Tax Department.
15. **Assessment Officer**: An officer designated by the Income Tax Department responsible for assessing the tax liability of an assessee.
16. **Penalties and Interest**: Charges imposed for failure to comply with tax laws, such as late filing of returns, under-reporting income, or evasion of taxes.

17. **Appeals**: The process of challenging tax assessments or decisions made by tax authorities through higher judicial authorities.
18. **Tax Planning**: Legal methods employed to minimize tax liability through various provisions and incentives provided in the Income Tax Act.
19. Agricultural income is income derived from agricultural operations, including:

1. **Income from Agricultural Land**: Revenue generated from the cultivation of land, including the sale of crops grown, produce harvested, or any other agricultural activities carried out on the land.
2. **Rent from Agricultural Land**: Income received by renting out agricultural land for farming purposes.
3. **Farm Income**: Income earned from activities related to farming, such as dairy farming, poultry farming, beekeeping, etc.

The Income Tax Act, 1961, provides certain exemptions and concessions regarding agricultural income:

1. **Exemption from Tax**: Agricultural income is generally exempt from income tax in India. As per Section 10(1) of the Income Tax Act, agricultural income earned by an individual or Hindu Undivided Family (HUF) is not included in their total income and is therefore not taxed.
2. **Clubbing Provisions**: Agricultural income cannot be added to non-agricultural income for tax purposes. This means that if an individual or HUF has both agricultural and non-agricultural income, the agricultural income will not be taxed, and only the non-agricultural income will be considered for taxation.

However, it's essential to note that certain conditions and exceptions may apply, and it's advisable to consult with a tax professional or refer to the Income Tax Act for specific details and provisions related to agricultural income taxation.

The five heads of income under the Income Tax Act, 1961, are:

1. **Income from Salaries**: This head includes earnings received by an individual as salaries, wages, bonuses, commissions, perquisites, and other monetary benefits arising from employment. Income from salaries is taxable under this head after allowing for certain deductions and exemptions.
2. **Income from House Property**: This head includes rental income earned by an individual from a house property they own. It also includes income from vacant land or commercial properties. The income is computed after allowing deductions for municipal taxes paid and a standard deduction for repairs and maintenance.

3. **Profits and Gains from Business or Profession (PGBP)**: This head covers income earned by individuals or entities engaged in business or profession. It includes earnings from trading, manufacturing, services, consultancy, freelancing, etc. The income is computed after deducting allowable expenses from gross receipts or turnover.
4. **Capital Gains**: This head includes profits or gains arising from the transfer of capital assets such as real estate, stocks, mutual funds, gold, bonds, etc. Capital gains are categorized as short-term capital gains (STCG) or long-term capital gains (LTCG) based on the period of holding of the asset. Certain exemptions and deductions are available to reduce the tax liability on capital gains.
5. **Income from Other Sources**: This head includes income that doesn't fall under the previous four heads. It encompasses a wide range of earnings such as interest income, dividend income, rental income from assets other than house property, winnings from lotteries or gambling, gifts received exceeding specified limits, etc. Deductions and exemptions may be available to reduce the tax liability on income from other sources.

These five heads of income provide a comprehensive framework for the classification and taxation of various sources of income earned by individuals and entities in India. Each head has its own set of rules, deductions, exemptions, and tax treatment, which taxpayers need to understand for accurate reporting and compliance with the Income Tax Act.

2. Slab Rates

The rates of tax as announced under the Finance Act 2022 for the assessment year 2022-2023 are as under:

The rates of Tax applicable to individuals, HUF & BOI for the assessment year 2022-23 are as under :

1. Super Senior Citizens (80 years or more)

Income	*Tax Rate*
Upto ₹ 5,00,000	Nil
₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

2. Senior Citizens (60 years or more but less than 80 years)

Income	Tax Rate
Upto ₹ 3,00,000	Nil
₹ 3,00,001 to ₹ 5,00,000	5%
₹ 5,00,001 to 10,00,000	20%
Above ₹ 10,00,000	30%

3. Individuals aged below 60 years; HUF; BOI etc.

Income	Tax Rate
Upto ₹ 2,50,000	Nil
₹ 2,50,001 to ₹ 5,00,000	5%
₹ 5,00,001 to 10,00,000	20%
Above ₹ 10,00,000	30%

- **Residential status** under the Income Tax Act, 1961, determines the taxability of an individual's income in India. It is primarily based on the physical presence of an individual in India during a financial year. The Act classifies individuals into three categories based on their residential status:

1. **Resident and Ordinarily Resident (ROR)**:
    - An individual is considered a Resident and Ordinarily Resident if they fulfill any of the following conditions:
        - They are present in India for 182 days or more during the relevant financial year, OR
        - They are present in India for 60 days or more during the relevant financial year and have been present in India for 365 days or more during the four preceding financial years.
    - Additionally, they should have been resident in India for at least two out of the ten preceding financial years, OR they have been in India for a period of 730 days or more during the seven years immediately preceding the relevant financial year.
2. **Resident but Not Ordinarily Resident (RNOR)**:
    - An individual is considered a Resident but Not Ordinarily Resident if they satisfy any of the following conditions:

        - They are a resident of India as per the conditions mentioned above but do not meet the additional conditions to be considered Ordinarily Resident.
        - Or if they have been a non-resident in India for nine out of ten preceding financial years or have been in India for 729 days or less during the seven years immediately preceding the relevant financial year.
3. **Non-Resident (NR)**:
    - An individual who does not meet any of the conditions mentioned above to qualify as a Resident, either Ordinarily or Not Ordinarily, is considered a Non-Resident for tax purposes.

The residential status of an individual determines the scope of their tax liability in India. Residents are taxed on their global income (income earned both in India and abroad), while Non-Residents are taxed only on income earned in India or income received or deemed to be received in India.

It's crucial for individuals to determine their residential status correctly as it impacts their tax obligations and filing requirements under the Income Tax Act.

- **List of some of the common types of exempted income under the Income Tax Act, 1961:**

1. **Agricultural Income**: Income derived from agricultural operations as defined in the Income Tax Act.
2. **Dividend Income**: Dividends received from Indian companies are exempt from tax under Section 10(34) if they are received from companies that have paid dividend distribution tax (DDT).
3. **Long-Term Capital Gains (LTCG) on Equity Shares and Mutual Funds**: LTCG on the sale of equity shares or units of equity-oriented mutual funds on which Securities Transaction Tax (STT) has been paid are exempt under Section 10(38).
4. **Interest on Certain Savings and Investments**: Interest earned on tax-saving instruments like Public Provident Fund (PPF), Employees' Provident Fund (EPF), National Savings Certificates (NSC), etc., is exempt under various sections of the Income Tax Act.
5. **Income of Charitable and Religious Institutions**: Income earned by institutions registered under Sections 12A and 12AA for charitable or religious purposes is exempt under Sections 11 and 12, subject to certain conditions.
6. **House Rent Allowance (HRA)**: HRA received by an employee from the employer to meet the cost of renting accommodation is exempt under Section 10(13A).

7. **Gratuity**: Gratuity received by employees covered under the Payment of Gratuity Act, 1972, is exempt subject to certain limits and conditions under Section 10(10).
8. **Leave Travel Allowance (LTA)**: LTA received by an employee for travel within India with family members is exempt under Section 10(5).
9. **Scholarships and Awards**: Scholarships granted to students and awards received in recognition of academic, literary, scientific, or artistic achievements are exempt under Section 10(16).
10. **Insurance Proceeds**: Amount received under a life insurance policy, including bonus, is exempt under Section 10(10D).
11. **Retrenchment Compensation**: Compensation received by an employee at the time of retrenchment or termination of service is exempt under Section 10(10B).
12. **Foreign Income of Non-Residents**: Income earned by non-residents from foreign sources is generally not taxable in India.
13. **Interest on Savings Accounts**: Interest earned on savings accounts up to a certain limit is exempt under Section 80TTA.
14. **Special Economic Zone (SEZ) Income**: Income earned by units located in SEZs is exempt under Section 10AA.
15. **Income of Political Parties**: Income of political parties is exempt from tax under Section 13A.

This list covers some of the significant sources of exempted income under the Income Tax Act. However, there may be additional exemptions available under specific provisions of the Act or through notifications issued by the government. It's recommended to consult with a tax advisor for comprehensive guidance tailored to individual circumstances.

Unit-II

Income from Salaries

Income from salaries is one of the primary heads of income under the Income Tax Act, 1961. It includes earnings received by an individual in the form of salaries, wages, bonuses, commissions, perquisites, allowances, and any other monetary benefits arising from employment.

Proforma for computation of Income from Salary

Here's an overview of income from salaries:

Computation of Salary Income

	₹	₹
Salary		xxx
Basic salary		xxx
Bonus		xxx
Commission		xxx
Fees		xxx
Overtime remuneration		xxx
Leave encashment		xxx
Employer's contribution to RPF in excess of prescribed limit		xxx
Interest credited to RPF in excess of prescribed limit		xxx
Allowances		
A. Fully taxable allowances		xxx
B. Partly taxable allowances	xxx	
Less : Exempted	xxx	xxx
C. Allowances not taxable		—
Perquisites		
A. Taxable in all cases of employees		xxx
B. Taxable in specified cases of employees		xxx
C. Perquisites not taxable		—
Profits-in-Lieu of Salary		xxx
Gross Salary		xxx
Less : Deduction u/s 16 (*i*) : standard deduction ₹ 50,000	xxx	
Deduction u/s 16 (*ii*) : entertainment allowance	xxx	
Deduction u/s 16 (*iii*) : employment tax /professional tax	xxx	xxx
Income from Salary		**xxx**

1. **Basic Salary**: This is the fixed component of the salary agreed upon between the employer and the employee.

2. **Dearness Allowance (DA)**: An allowance paid to employees to compensate for the impact of inflation. It is fully taxable.
3. **House Rent Allowance (HRA)**: An allowance provided by the employer to the employee to meet the cost of renting accommodation. HRA is partially taxable, subject to certain conditions and exemptions under Section 10(13A) of the Income Tax Act.
4. **Special Allowances**: Allowances provided to employees for specific purposes such as conveyance, medical expenses, education, etc. These allowances may be fully taxable or partially taxable, depending on their nature and usage.
5. **Bonuses and Incentives**: Additional payments made to employees as incentives or rewards for performance. These are fully taxable.
6. **Perquisites**: Non-monetary benefits provided by the employer to the employee, such as rent-free accommodation, use of a company car, free meals, club memberships, etc. Perquisites are taxable based on their valuation rules prescribed under the Income Tax Act.
7. **Leave Encashment**: Payment received by employees for leave not availed during the tenure of employment. It is taxable subject to certain exemptions under Section 10(10AA).
8. **Pension**: Regular payments received by employees after retirement from their employer's pension scheme. Pension is taxable as salary income.
9. **Gratuity**: Lump sum payment made by the employer to the employee as a token of appreciation for the services rendered. Gratuity is taxable subject to certain exemptions under Section 10(10) and Section 10(10A).
10. **Employer's Contribution to Provident Fund (EPF)**: The employer's contribution to the EPF account of the employee is not taxable. However, interest earned on the employer's contribution is taxable.
11. **Employee Stock Options (ESOPs)**: Benefits received by employees through stock options are considered part of their salary and are taxable as perquisite income at the time of exercise or sale of the shares.

Income from salaries is subject to tax deduction at source (TDS) by the employer based on the applicable tax slab rates. Employees are required to report their salary income and claim deductions or exemptions, if any, while filing their income tax returns.

Deductions under income from salaries are certain expenses or investments that individuals can claim to reduce their taxable salary income. These deductions help in lowering the tax liability and maximizing tax savings. Here are some common deductions available under income from salaries:

1. **Standard Deduction**: A standard deduction of up to Rs. 50,000 is available for salaried individuals under Section 16(ia) of the Income Tax

Act, 1961, or the amount of salary income, whichever is less. This deduction is available from the financial year 2018-19 onwards.

2. **Professional Tax**: Any professional tax paid by the employee during the year is allowed as a deduction under Section 16(iii) of the Income Tax Act.
3. **Deduction for Entertainment Allowance**: If an employee receives an entertainment allowance, one-fifth of the entertainment allowance or Rs. 5,000, whichever is less, is deductible under Section 16(ii) of the Income Tax Act.

Illustration:

From the following particulars compute taxable salary of Mr. 'A' for the assessment 2022-23.

	₹
Basic pay	48,000 p.a.
DA (part of salary)	4,000 p.a.
Bonus	2,000 p.a.
Own contribution to RPF	5,000
Employer's contribution to RPF	5,000
Interest credited to RPF @ 12%	1,200
House rent allowance	6,000 p.a.
Rent paid at Bangalore	5,000 p.a.
During the year his employer gave him gifts	
(*a*) in cash	10,000
(*b*) in kind	4,000

He is using the furniture belonging to the employer purchased on 1-4-2014 for ₹ 40,000.

Solution :

Computation of Taxable Salary of Mr. 'X'
for the Assessment Year 2022-23.

	₹	₹
Basic pay		48,000
DA (Part of salary)		4,000
Bonus		2,000
Employers contribution to RPF	5,000	NIL
(−) 12% of salary (₹ 48,000 + ₹ 4,000)	6,240	
Interest on RPF	1,200	

	₹	₹
...ss interest @ 9.5% $\left(\frac{1,200}{12\%} \times 9.5\%\right)$	950	250
HRA : Least of the following is exempt :		
(a) actual amount of HRA ₹ 6,000		
(b) 40 % of salary (₹ 48,000 + ₹ 4,000) = ₹ 20,800		
(c) Rent paid – 10% of salary		
₹ 5,000 – ₹ 5,200 = ₹ Nil		
Taxable HRA = 6,000 – Nil		6,000
Furniture value (movable asset) 10% of the cost price		4,000
gift in cash is fully taxable. Gift in kind is taxable if it exceeds ₹ 5,000		10,000
Gross salary		**74,250**
Less : Standard deduction u/s 16(i)		50,000
Salary Income		**24,250**

Note : Gifts either in cash or in kind in aggregate is taxable. Gift in kind is taxable in excess of ₹ 5,000. Gift in cash is fully taxable.

Unit-III

Income from House Property

Income from house property refers to the rental income earned by an individual or entity from a house or property they own. The Income Tax Act, 1961, provides specific provisions for calculating and taxing income from house property. Here's an overview:

1. **Gross Annual Value (GAV)**: The gross annual value is the amount for which the property might reasonably be expected to be let out from year to year. It is determined based on the actual rent received or receivable by the owner of the property.
2. **Standard Rent**: If the property is let out and the actual rent received is lower than the fair rent or standard rent fixed by the Rent Control Act, then the standard rent is considered for calculating GAV.
3. **Municipal Value**: If the property is not let out, the GAV is determined based on the municipal valuation of the property.
4. **Fair Rent**: If neither standard rent nor municipal value is available, the fair rent determined by the Income Tax Officer is considered for calculating GAV.
5. **Deductions**: From the GAV, certain deductions are allowed under Section 24 of the Income Tax Act to arrive at the Net Annual Value (NAV):
    - Municipal taxes paid during the year.
    - Standard deduction of 30% of NAV to cover repairs, maintenance, and other expenses.
6. **Net Annual Value (NAV)**: NAV is the annual value of the property after deducting municipal taxes and the standard deduction.
7. **Income from House Property**: The income from house property is calculated by subtracting deductions like interest on housing loan from the NAV:
    - If the property is self-occupied, a deduction of up to Rs. 2 lakh is allowed on interest paid on housing loan under Section 24(b).
    - If the property is let out, the entire interest paid on housing loan is allowed as a deduction from the income from house property.
8. **Loss from House Property**: If the interest paid on the housing loan exceeds the income from house property, the excess amount can be carried forward for up to eight subsequent years to set off against income from house property.

It's important to note that income from house property is taxed under the head "Income from House Property" in the Income Tax Return (ITR). Proper documentation and maintenance of records related to rental income, expenses, and housing loan interest are crucial for accurate calculation and reporting of income from house property for tax purposes.

Illustration:

Mr. Sudhakar owns a property at Hyderabad. Its Municipal Value is ₹ 1,60,000, Fair Rent: ₹ 2,10,000, Standard Rent ₹ 1,80,000. The house is let out up to January 31st 2022. (monthly rent being ₹ 14,000). From February 1, 2022, the property is self occupied for own residential purpose. Municipal taxes paid ₹ 16,000; Repairs ₹ 11,000; Insurance; 20,000. Interest on loan taken for acquiring the property ₹ 1,20,000. Mr. Sudhakar's income from other sources is ₹ 1,50,000. Compute the total income of Mr. Sudhakar for the assessment year 2022-23.

Solution :

Computation of Mr. Sudhakar's Income from House Property for the Assessment year 2022-23

		₹
Gross Annual Value		
1. Expected rental value : ₹ 1,80,000 (Highest value of the following two and restricted to Standard Rent MV = ₹ 1,60,000 FRV = ₹ 2,10,000 Highest value ₹ 2,10,000 but restricted to Standard Rent ₹ 1,80,000 2. Actual Rent ₹ 1,40,000 (₹ 14,000 × 10) GAV = Highest value of the above two *i.e.*, ₹ 1,80,000		1,80,000
Less : Municipal tax is paid by the owner		16,000
Net Annual Value		1,64,000
Less : **Deductions U/s 24 :**	₹	
(i) Standard deduction @ 30% NAV	49,200	
(ii) Interest on Loan taken for acquiring the house property	1,20,000	1,69,200
Loss from House Property		(-)5,200

Total Income of Mr. Sudhakar for the Assessment Year 2022-23

		₹
I.	**Income from property**	
	Loss from House property	(-) 5,200
II.	**Income from other sources**	1,50,000
	Total Income	1,44,800

Note :

When a house is let out for a part of the year and self occupied for the remaining part of the period, self-occupancy benefit cannot be given. Calculation shall be made for the entire year, municipal taxes and interest on loan should be allowed for the full year.

Unit-IV

Profits & gains from Business & Profession

Profits and gains from business and profession refer to the income earned by individuals or entities engaged in commercial or professional activities. It includes earnings from trading, manufacturing, services, consultancy, freelancing, and any other business-related activities. Here's an overview of the key aspects related to profits and gains from business and profession:

Chart Showing the Computation of Business Income

	Balance as per Profit and Loss A/c		xx
Add:	**Inadmissible expenses**		
	Income tax paid	xx	
	Charity and donation	xx	
	House hold expenses	xx	
	Loss on sale of motor car	xx	
	Life insurance premium of proprietor	xx	
	Interest on capital	xx	
	Provision for bad debts	xx	
	Salary to proprietor	xx	
	Fines and penalties	xx	
	Staff welfare fund	xx	
	Gifts and presents	xx	
	Contribution to un-recognized provident fund	xx	xxx
			xxx
Less:	**Expenses not charged to Profit and Loss A/c**		
	Depreciation	xx	
	Sales tax paid	xx	
	Excise duty paid	xx	
Less:	**Non-business Incomes**		
	Rent received	xx	
	Interest from Bank	xx	
	Dividend received	xx	
	Refund of income-tax	xx	xxx
	Business Income		xxx

Notes: Some of the deductions are allowable U/s 43(B) only on actual payment basis. Actual payment should be made either during the relevant previous year or on or before the due date of filing the return of Income U/s 139(1). They are

1. Any sum payable by the assessee by way of sales tax, excise duty, or cess
2. Contributions to employees provident fund, superannuation fund or gratuity fund
3. Any bonus or commission payable to employees.
4. Any interest payable to public financial institutions.
5. Amount payable towards leave encashment.

Illustration : 1

1. **Types of Business Income**:
   - **Trading Income**: Profits earned from buying and selling goods or commodities.
   - **Manufacturing Income**: Profits generated from manufacturing or producing goods.
   - **Service Income**: Income derived from providing services such as consultancy, IT services, legal services, etc.

- **Professional Income**: Income earned by professionals like doctors, lawyers, architects, engineers, etc., for their services.

2. **Computation of Business Income**:
   - Business income is computed by deducting allowable expenses from gross receipts or turnover.
   - Allowable expenses include expenses incurred wholly and exclusively for the purpose of the business or profession, such as rent, salaries, wages, utilities, office supplies, depreciation, etc.
   - Depreciation on assets used in the business is allowed as a deduction to account for the wear and tear of assets over time.
3. **Business Expenses**:
   - Expenses must be incurred for the purpose of the business or profession to be deductible.
   - Personal expenses or expenses not related to the business cannot be claimed as deductions.
   - Expenses must be supported by proper documentation and evidence.
4. **Capital vs. Revenue Expenses**:
   - Capital expenses are incurred for acquiring or improving capital assets and are not fully deductible in the year of expenditure. They are typically depreciated over time.
   - Revenue expenses are incurred in the ordinary course of business and are deductible in the year they are incurred.
5. **Taxation of Business Income**:
   - Business income is taxed under the head "Profits and Gains of Business or Profession" in the Income Tax Act, 1961.
   - Taxable income is computed after deducting allowable expenses from gross receipts or turnover.
   - Tax rates applicable to business income depend on the type of entity (individual, partnership, company) and the total income slab.
6. **Presumptive Taxation Scheme**:
   - Small taxpayers and certain professionals can opt for the presumptive taxation scheme under Sections 44AD, 44ADA, and 44AE of the Income Tax Act, which allows them to declare income at a prescribed rate without maintaining detailed books of accounts.
7. **Tax Planning and Compliance**:
   - Tax planning strategies can be employed to minimize tax liability, such as taking advantage of deductions, exemptions, and incentives available under the Income Tax Act.
   - Compliance with tax laws, including timely filing of returns, maintaining proper books of accounts, and adhering to tax regulations, is essential to avoid penalties and scrutiny by tax authorities.

Profits and gains from business and profession constitute a significant source of income for many individuals and entities. Understanding the taxation aspects and complying with tax laws are crucial for effective management of business income and ensuring tax efficiency.

In the context of Profits and Gains from Business or Profession (PGBP), expenses incurred for the purpose of the business or profession are allowable as deductions, subject to certain conditions and restrictions. Here's an overview of admissible (allowable) expenses and inadmissible (non-allowable) expenses under PGBP:

Admissible Expenses:

1. **Business Expenses**: Expenses directly related to carrying on the business or profession are generally allowable. These may include:
    - Cost of Goods Sold (COGS) for manufacturing or trading businesses.
    - Raw materials and inventory costs.
    - Manufacturing or production expenses.
    - Purchase of stock-in-trade.
    - Rent, utilities, repairs, and maintenance of business premises.
    - Salaries, wages, and bonuses paid to employees.
    - Advertisement and marketing expenses.
    - Legal and professional fees related to the business.
    - Insurance premiums for business assets or liabilities.
    - Travel and conveyance expenses incurred for business purposes.
    - Interest paid on business loans or overdrafts.
    - Depreciation on business assets.
2. **Expenses Incurred Wholly and Exclusively for Business**: Expenses must be incurred wholly and exclusively for the purpose of the business or profession to be allowable deductions.
3. **Revenue Expenses**: Expenses incurred in the ordinary course of business to maintain and run the business are allowable. These are typically deducted in the year they are incurred.
4. **Reasonable and Necessary Expenses**: Allowable expenses should be reasonable and necessary for the operation of the business or profession.

Inadmissible Expenses:

1. **Personal Expenses**: Expenses of a personal nature or not related to the business or profession are not allowable deductions. These include expenses incurred for personal use or enjoyment, such as personal travel, residential rent, personal entertainment, etc.

2. **Capital Expenses**: Expenses incurred for acquiring or improving capital assets are not fully deductible in the year of expenditure. These are typically capitalized and depreciated over time. Examples include the purchase of land, buildings, machinery, equipment, etc.
3. **Excessive or Unreasonable Expenses**: Expenses that are excessive or unreasonable in relation to the business's income or size may be disallowed by tax authorities.
4. **Non-Business Expenses**: Expenses unrelated to the business or profession are not allowable. For example, donations made for personal reasons, fines and penalties unrelated to business operations, etc.
5. **Non-Documented Expenses**: Expenses must be supported by proper documentation and evidence to be allowable. Non-documented expenses may be disallowed during tax assessments.
6. **Disallowance under Specific Provisions**: Certain expenses may be specifically disallowed or restricted under the Income Tax Act, such as disallowance of certain entertainment expenses, disallowance of expenditure incurred in cash exceeding specified limits, etc.

It's important for businesses and professionals to maintain proper records and documentation of expenses to support their deductibility and compliance with tax laws.

Below given is the Profit and Loss A/c of Mr. 'X' for the year ended 31-3-2022

	Amount ₹		Amount ₹
To Salaries	40,000	By Gross Profit	4,40,000
To Bad debts	20,000	By Rent of building	60,000
To General expenses	50,000	By Rent of open plot	40,000
To Provision for bad debts	6,000	By Rent of staff quarters	20,000
To Fire insurance	8,000	By Bad debts recovered	20,000
To Advertising	6,000		
To Interest on capital	8,000		
To Interest on Bank loan	30,000		
To Depreciation	40,000		
To Provision for sales tax	20,000		
To Provision for income-tax	18,000		
To Gratuity	12,000		
To Net profit	3,22,000		
	5,80,000		5,80,000

Additional information

1. Depreciation chargeable to P&L A/c ₹ 60,000.
2. Actual Sales tax paid during the year ₹ 26,000.
3. Actual bad debts written off ₹ 8,000.
4. Actual income-tax paid ₹ 40,000.
5. Bad debts recovered were disallowed in earlier years.
6. Fire insurance premium is paid in relation to let out building.
7. General expenses include ₹ 10,000 travelling expenses to canvass among customers of a product to be launched in the market soon.

Compute Business Income of Mr. X for A.Y. 2022-23

Solution :

Computation of Business Income of Mr. 'X' for the Assessment Year 2022-23

	₹	₹
Balance as per P&L A/c		3,22,000
Add : **Inadmissible expenses**		
Provision for bad debts	6,000	
Interest on capital	8,000	
Depreciation (separately treated)	40,000	
Provision for sales tax	20,000	
Provision for income tax	18,000	
Fire insurance premium of let out house	8,000	1,00,000
		4,22,000
Less : Expenses not charged to P&L A/c:		
Depreciation	60,000	
Sales-tax actually paid	26,000	
Bad debts written off	8,000	
Less : Non-business incomes:		
Rent of the building	60,000	
Rent of open plot	40,000	
Bad debts recovered	20,000	2,14,000
Business Income		2,08,000

Professional expenses and incomes refer to the expenses incurred and income earned by individuals engaged in professions such as doctors, lawyers, architects, engineers, consultants, etc. These professionals typically provide specialized services to clients and earn income in the form of fees, commissions, or remuneration for their expertise. Here's an overview of professional expenses and incomes:

Professional Income of a Chartered Accountant

Professional receipts/incomes		
Audit fee	xxx	
Fee from financial consultancy	xxx	
Examiner's fee	xxx	
Gifts from clients	xxx	
Fees for Accountancy works	xxx	
Any other receipts of professional nature	xxx	xxx
Less : **Professional payments / expenses**		
Office expenses	xxx	
Printing and stationery	xxx	
Books and journals	xxx	
Depreciation on office equipment	xxx	
Salaries to staff	xxx	
Travelling	xxx	
Membership subscription	xxx	
Postage and telegrams	xxx	
Stipend to trainees	xxx	
Any other expenditure	xxx	xxx
Professional Income		xxx

Professional Expenses:

1. **Office Rent**: Rent paid for office space used for professional practice.
2. **Office Utilities**: Expenses related to utilities such as electricity, water, telephone, internet, etc., used in the office.
3. **Office Maintenance**: Costs associated with maintaining the office premises, including repairs, renovations, cleaning, etc.
4. **Office Supplies**: Expenses for stationery, printing, office equipment, and other supplies necessary for conducting business.
5. **Professional Fees**: Fees paid to other professionals for services such as legal, accounting, consultancy, etc., required for the profession.
6. **Professional Development**: Expenses incurred for continuing education, training programs, seminars, workshops, conferences, etc., to enhance professional skills and knowledge.
7. **Travel Expenses**: Travel costs related to business trips, client meetings, site visits, etc., including transportation, lodging, and meals.
8. **Marketing and Advertising**: Expenses for promoting the professional services, including advertising, marketing materials, website development, etc.
9. **Insurance Premiums**: Premiums paid for professional liability insurance, malpractice insurance, or other business-related insurance policies.

10. **Professional Memberships and Subscriptions**: Fees paid for memberships in professional organizations, subscriptions to professional journals, magazines, online resources, etc.
11. **Software and Technology Expenses**: Costs associated with software licenses, subscriptions to professional software tools, computer hardware, etc., necessary for the profession.
12. **Legal and Regulatory Compliance**: Expenses for compliance with legal and regulatory requirements applicable to the profession, such as licensing fees, certification costs, professional indemnity fees, etc.

Professional Incomes:

1. **Fees for Professional Services**: Income earned from providing professional services to clients, including fees for consultation, advisory, analysis, design, drafting, etc.
2. **Commission and Referral Fees**: Income earned from commissions, referral fees, or finder's fees for recommending or referring clients to other professionals or businesses.
3. **Retainers and Retainer Fees**: Income received as retainers or retainer fees for providing ongoing professional services or maintaining a client relationship.
4. **Project-based Income**: Income earned from projects or assignments completed for clients, including project fees, milestone payments, etc.
5. **Royalties and Licensing Fees**: Income earned from royalties, licensing fees, or usage fees for intellectual property such as patents, trademarks, copyrights, etc.
6. **Expert Witness Fees**: Income earned for providing expert testimony or expert witness services in legal proceedings, arbitrations, court cases, etc.
7. **Speaking Engagements and Workshops**: Income earned from speaking engagements, workshops, training sessions, etc., conducted for professional or educational purposes.
8. **Sales of Products or Merchandise**: Income earned from the sale of products, merchandise, publications, software, or other goods related to the profession.
9. **Consulting and Advisory Fees**: Income earned from providing consulting, advisory, or advisory services to individuals, businesses, organizations, or government agencies.
10. **Performance-based Fees**: Income earned based on performance metrics, results achieved, or success fees for achieving specific objectives or outcomes for clients.

These are some of the common professional expenses and incomes encountered by individuals engaged in various professions.

Depreciation under Section 32 of the Income Tax Act, 1961, allows businesses to claim a deduction for the wear and tear, obsolescence, or deterioration of tangible assets used for business or profession purposes. Depreciation is considered as a legitimate business expense and is allowed as a deduction to reduce the taxable income. Here's an overview of the key aspects of depreciation under Section 32:

1. **Types of Assets Covered**: Section 32 allows depreciation on tangible assets such as buildings, machinery, plant, furniture, vehicles, computers, etc., used for business or profession purposes. Intangible assets like patents, trademarks, copyrights, etc., are not eligible for depreciation under Section 32 but may be eligible for amortization under other provisions of the Income Tax Act.
2. **Block of Assets**: Assets are grouped into blocks based on their nature and the rates of depreciation prescribed under the Income Tax Rules. Each block of assets has a specified rate of depreciation applicable to it. For example, plant and machinery may be one block, buildings may be another block, etc.
3. **Rate of Depreciation**: The rate of depreciation for each block of assets is prescribed by the Income Tax Rules. The rates vary depending on the nature of the asset and its estimated useful life. Different rates are specified for different types of assets, such as machinery, buildings, furniture, etc.
4. **Depreciation Calculation**: Depreciation is calculated based on the cost of the asset, which includes the purchase price, installation charges, and any other expenses directly attributable to bringing the asset into its working condition. The depreciation amount is calculated as per the prescribed rate for the relevant block of assets.
5. **Useful Life**: Assets are assumed to have a certain useful life over which they are expected to generate income for the business. Depreciation is allowed over this useful life, which is determined based on factors such as the nature of the asset, its wear and tear, technological advancements, etc.
6. **Method of Depreciation**: Depreciation can be calculated using the Straight Line Method (SLM) or the Written Down Value (WDV) method. Under the SLM, depreciation is calculated at a fixed rate each year on the original cost of the asset. Under the WDV method, depreciation is calculated on the reducing balance of the asset's cost each year.
7. **Additional Depreciation**: In certain cases, additional depreciation may be allowed for new machinery or plant acquired and installed after a specified date. This is provided to encourage investment in new assets and boost economic growth.

8. **Restrictions and Conditions**: Depreciation is allowed only if the asset is used for business or profession purposes. It is not allowed for assets used for personal purposes. Also, depreciation is not allowed on assets for which the entire cost is claimed as an expense in the year of acquisition under certain provisions.

Depreciation under Section 32 is an important tax benefit for businesses as it helps in reducing the taxable income and thereby lowering the tax liability. Proper calculation and documentation of depreciation expenses are essential for tax compliance and ensuring accurate reporting of business income.

Unit-IV

Income from Capital Gains

Income from capital gains refers to the profit earned from the sale of capital assets such as real estate, stocks, mutual funds, gold, bonds, etc. in India. Capital gains are categorized as either short-term capital gains (STCG) or long-term capital gains (LTCG) based on the period of holding of the capital asset. Here's an overview of how income from capital gains is taxed in India:

1. **Short-Term Capital Gains (STCG)**:
    - STCG arises when a capital asset is sold within three years of its acquisition (one year in the case of certain assets like equity shares, equity-oriented mutual funds, etc.).
    - STCG from the sale of listed equity shares, equity-oriented mutual funds, and units of business trusts are taxed at a flat rate of 15% (plus applicable cess and surcharge).
    - For other assets, STCG is taxed at the applicable slab rates based on the taxpayer's total income.

... and long-term capital gain is as follows.

Computation of Short-term Capital Gains of Mr............ for the A.Y. 2022-23

Full value of sale consideration		xxx
Less : Transfer expenses		xxx
Net sale consideration		xxx
Less : (*i*) cost of acquisition	xxx	
(*ii*) cost of improvement	xxx	xxx
Taxable Short-term Capital Gain		xxx

2. **Long-Term Capital Gains (LTCG)**:

- LTCG arises when a capital asset is held for more than three years (more than one year in the case of certain assets like listed equity shares, equity-oriented mutual funds, etc.).
- LTCG on listed equity shares, equity-oriented mutual funds, and units of business trusts exceeding Rs. 1 lakh in a financial year are taxed at a rate of 10% (plus applicable cess and surcharge) without the benefit of indexation.
- LTCG on other assets like real estate, gold, bonds, etc., are taxed at 20% with the benefit of indexation. Indexation adjusts the purchase price of the asset for inflation, reducing the taxable gain.
- However, LTCG on certain specified assets like agricultural land in rural areas, government securities, etc., may be exempt from tax.

3. **Exemptions and Deductions**:
    - Certain investments like investments in specified government bonds, capital gains bonds (like NHAI or REC bonds), and investments in specified small savings schemes may be eligible for exemption from LTCG tax under Section 54EC.
    - Exemption is available under Section 54F if LTCG is invested in specified residential property within the prescribed time limits.
    - Deductions are allowed under Section 80C for investments in certain specified instruments.
4. **Capital Losses**:
    - Capital losses can be set off against capital gains in the same year. If there is any unadjusted loss, it can be carried forward for up to eight assessment years and set off against capital gains in subsequent years.

Taxation of capital gains in India is subject to various provisions and conditions specified under the Income Tax Act, and it's advisable to consult with a tax professional for personalized guidance based on individual circumstances.

Full value of sale consideration		xxx
Less : selling expenses		xxx
Net sale consideration		xxx
Less : (*i*) indexed cost of acquisition	xxx	
(*ii*) indexed cost of improvement	xxx	xxx
Long-term capital gain		xxx
Less : exemption U/s, 54, 54B, 54D, 54EC, 54EE, 54F, 54G & 54GA & 54GB		xxx
Taxable long-term Capital Gains		xxx

Exemptions under Capital Gains:

(*a*)	Capital gain arising on sale of residential house Exemption U/s 54	It is exempt from tax if a residential house is purchased within one year or two years after sale or constructed with in 3 years after sale and the property so purchased/constructed is not sold within 3 years.
(*b*)	Capital gain arising on sale of agricultural land Exemption U/s 54B	It is exempt from tax if agricultural land was being used by the assessee or his parents and purchased another agricultural land within two years after sale.
(*c*)	Compulsory acquisition of Capital assets Exemption U/s 54D	It is exempt from tax if capital gains are used for the purpose of purchasing land and building for industrial undertakings within a period of 3 years. The new asset so acquired cannot be sold for a period of 3 years.
(*d*)	Sale of long-term capital asset (being land or building or both) and purchasing the specified bonds Exemption U/s 54EC	It is exempt from tax if capital gain is invested in specified assets within 6 months
(*e*)	Sale of any long-term capital asset and purchase of residential house - Exemption U/s 54F	Where a long-term asset (other than residential house) is transferred and net consideration is re-invested in construction or purchase of residential house within the specified period, a proportionate amount is exempted.
(*f*)	Transfer of asset due to shifting of factory from urban to non-urban area Exemption U/s 54G	It is exempt from tax if the assessee has within the stipulated period purchased a new machinery/ plant for the purposes of industrial undertaking in an area to which the said undertaking is shifted
(*g*)	Transfer of asset due to shifting of industrial undertaking from Urban Area to any SEZ Exemption U/s 54 GA	It is exempt from tax if the assessee has within the stipulated period purchased a new machinery/ plant for the purposes of industrial undertkaing in an area to which the said undertaking is shifted.
(*h*)	Sale of Residential House Exemption U/s 54GB	It is exempt from tax if the assessee has within a stipulated period has purchased equity shares of an eligible company or an eligible start-up.

Illustration :

On 30th April, 2021, Mr. Hari sold agricultural land within the Municipal limits of Delhi for ₹ 1,55,28,373 and selling expenses were ₹ 38,605. He purchased this land for a price of ₹ 20,00,000 during the previous year 1989-90. On 15th June, 2021, he purchased a piece of agricultural land situated in Vizag town municipal limits for ₹ 20,00,000 and in Rajahmundry for ₹ 10,00,000. Compute capital gain for the Assessment Year 2022-23 (CII for the year 2021-22 is 317).

Solution :

Computation of Mr. Hari's Income from Capital Gains for the Assessment Year 2022-23

	₹
1. For the land situated in Delhi city	
Sale consideration	1,55,28,373
Less : Sale expenses	38,605
Net Consideration	1,54,89,768
Less : Indexed cost of acquisition = $\frac{₹\ 20,00,000 \times 317}{100}$	63,40,000
Long-term capital gain	91,49,768
Less : Exemption u/s 54B (20,00,000 + 10,00,000)	30,00,000
Taxable Long-term Capital Gain	**61,49,768**

Income from other Sources :

Income from other sources refers to any income that doesn't fall under the heads of salary, house property, business or profession, or capital gains. It encompasses a wide range of earnings that don't fit into specific categories but are still taxable under the Income Tax Act, 1961. Here's an overview of income from other sources:

1. **Interest Income**: Interest earned from savings accounts, fixed deposits, recurring deposits, loans given, or any other financial instruments is considered income from other sources.
2. **Dividend Income**: Income received as dividends from shares or mutual funds is classified as income from other sources. Dividend income from domestic companies is tax-free in the hands of the recipient.
3. **Income from Lottery, Gambling, or Betting**: Winnings from lotteries, crossword puzzles, races (including horse races), card games, or any other games of chance or gambling are taxable under this head.
4. **Gifts**: Any sum of money or property received as a gift, including gifts received during weddings or other occasions, is taxable as income from other sources if the total value exceeds Rs. 50,000 in a financial year.
5. **Annuity Income**: Periodic payments received under an annuity plan or insurance policy, including pension received from the employer, are considered income from other sources.
6. **Rental Income from Machinery, Plant, Furniture, or Other Assets**: Rent received from leasing out machinery, plant, furniture, or any other assets not covered under the head of house property is treated as income from other sources.
7. **Royalty Income**: Income received by authors, artists, or inventors for allowing the use of their intellectual property rights, such as copyrights, patents, or trademarks, is taxable under this head.
8. **Commission or Brokerage Income**: Earnings received as commission, brokerage, or fees for services rendered, excluding those falling under the head of business or profession, are categorized as income from other sources.
9. **Family Pension**: Pension received by family members of a deceased employee is considered income from other sources.
10. **Interest on Income Tax Refunds**: Interest earned on income tax refunds is taxable under this head.
11. **Bonus Income**: Any bonus received, including performance bonuses or incentives, is classified as income from other sources.
12. **Any Other Income**: Any income not covered under the above heads but taxable under the Income Tax Act is categorized as income from other sources.

It's important to note that while income from other sources is taxable, certain exemptions, deductions, and provisions may apply, and it's advisable to consult with a tax professional for personalized advice based on individual circumstances.

Mr. Anil holds the following securities on April 1st, 2021:

₹ 1,00,000 - 5% UP Government Loan (Date of payment of interest : January 1st)

₹ 40,000 - 6% Unlisted debentures of ABC Ltd. (Date of payment of interest: June 1st)

₹ 25,000- 8% Debentures of Z Ltd. (Date of payment of interest: June 30th–December 31st)

On December 1st, 2021 he sells 25,000, 8% debenture of Z Ltd. Calculate the taxable income of Mr. Anil for the Assessment Year 2022-23. Business Income is ₹ 64,000 and collection charges ₹ 1,000.

Solution :

Computation of Mr. Anil's Income from Other Sources for the Assessment Year 2022-23

	₹
1,00,000 - 5% UP Government Loan	5,000
40,000 - 6% Debentures of ABC Ltd.	2,400
25,000 - 8% Debentures of Z Ltd. (₹ 2000 × 1/2)	1,000
Gross Interest	8,400
Less : Deductions : Collection charges	1,000
Interest on securities	7,400
Add : Income from Business	64,000
Net Taxable Income	**71,400**

Important questions

Unit I (Only Theory)

Short Questions

1. Person VS Assessse

2. PAN

3. Direct Taxes

4. Indirect Taxes

5. Assessment Year

Essay Questions

6. Explain the exempted income from tax under section 10 of income tax Act 1961

7. Define Tax. What are the characteristic and objectives of Tax?

8. How will you determine residential status of an Individual?

9. Define Agriculture Income and explain its features

Unit II

Short Questions

10. Allowances

11. Perquisites

12. HRA

13. Rent Free Accommodation

14.Deduction u/s 16

Essay Questions:

15. Define Salary Briefly explain the income that are chargeable under the head salary

16. Define Salary Explain its salary methods

17. Explain the salary performer in detail

18. All problems

Unit III

Short Questions

19. GAV

20. FRV

21. Deduction u/s 24

22. Unrealised rent

23. Self-occupied House

Essay Questions

24. What is House property? Under what conditions treated as Income from House property? State the exempted income from house property incomes

25. Explain in detail determination of (computation method) of annual value for let out house property

26. What are the provisions of Income Tax Act regarding a house which is let out for part of the year and self-occupied for remaining period?

27. All Problems

Let-out property problems

Self-occupied property problems

Unit IV

Short Questions

28. Business

29. Professions

30. Capital Receipts

31. Deemed Profit

32. Block of Assets

Essay Questions

33. Differentiate between revenue expenditure and capital expenditure

34. How are revenue losses differentiated with capital losses, illustrate with examples

35. What is the difference between capital receipts and Revenue Receipts?

36. All Problems

Unit V

Short question

37. Cost of Acquisition

38. ICOA (Indexed cost of Acquisition)

39. Indexed cost of Improvement

40. LTCG (Long Term Capital Gain)

41. STCG (Short Term Capital Gain)

42. Classification of Securities

Essay Questions

43. Define Capital Gain and explain the methods of computing the income under this head

44. What is the meaning of the term “cost of acquisition” as used under the head capital gain?

45. Explain the difference kinds of income chargeable to tax under the head “Income from other Sources”

46. What is meant by Income from other Sources? Give ten examples of income chargeable to tax under this head

47. All Problems
