INTRODUCTION

Before one can embark on a study of the law of income-tax, it is absolutely vital to understand some of the expressions found under the Income-tax Act, 1961. The purpose of this Chapter is to enable the students to comprehend basic expressions. Therefore, all such basic terms are explained and suitable illustrations are provided to define their meaning and scope.

1. OBJECTIVES

- After going through this lesson you should be able to understand:
- Importance and History of Income Tax in India
- Meaning of Person and Assessee
- Definitions of various Terms used in Income Tax
- What is regarded as 'Income' under the Income-tax Act
- What is 'Gross Total Income'
- Concept of Assessment Year and Previous Year
- How to charge tax on income
- Income-tax rates

2. Importance , History, Present Act

IMPORATANCE

The Taxation Structure of the country can play a very important role in the working of our economy. Some time back the emphasis was on higher rates of Tax and more incentives. But recently, the emphasis has shifted to Decrease in rates of taxes and withdrawal of incentives. While designing the Taxation structure it has to be seen that it is in conformity with our economic and social objectives. It should not impair the incentives to personal savings and investment flow and on the other hand it should not result into decrease in revenue for the State.

In our present day economy structure Income Tax plays a vital role as a source of Revenue and a measure of removal economic disparity. Our Taxation structure provides for Two types of Taxes --- DIRECT and INDIRECT ; Income Tax , Wealth Tax and Gift Tax are Direct Taxes whereas Sales Tax and Excise Duties are Indirect Taxes.

HISTORY

The Income Tax was introduced in India for the first time in 1860 by British rulers following the mutiny of 1857. The period between 1860 and 1886 was a period of experiments in the context of Income Tax. This period ended in 1886 when first Income Tax Act came into existence. The pattern laid down in it for levying of Tax continues to operate even to-day though in some changed form. In 1918, another Act- Income Tax Act, 1918 was passed but it

was short lived and was replaced by Income Tax Act, 1922 and it remained in existence and operation till 31st. March, 1961.

PRESENT ACT

On the recommendation of Law Commission & Direct Taxes Enquiry Committee and in consultation with Law Ministry a Bill was framed. This Bill was referred to a select committee and finally passed in Sept. 1961. This Act came into force from 1st.April 1962 in whole of the country. Income Tax Act, 1961 is a comprehensive Act and consists of 298 Sections. Sub-Sections running into thousands Schedules, Rules, Sub-Rules, etc. and is supported by other Acts and Rules. This Act has been amended by several amending Acts since 1961. The Annual Finance Bills presented to Parliament along with Budget make far-reaching amendments in this Act every year.

3. MEANING OF "TAX MANAGEMENT"

"… A Business who stays aloof of tax matters cannot remain competitive. Tax laws are an economic reality in the Business world. A Tax Dollar is just as real one derived from other source."

Tax Management is now an integral part of business management. It involves not only due compliance of law in timely and regular manner, but also arranging the affairs in such a manner that it reduces the tax liability burden. Specifics are :

- Filling of Return
- Maintenance of Accounts
- Getting the Accounts Audited.
- Complying with the notices of Income Tax Department.
- Payment of Advance Tax
- Timely deduction of Tax at Source and its payment.

4. PERSON [Section 2(31)]

The word "Person" is a very wide term and embraces in itself the following :

- **Individual :** It refers to a natural human being whether Male or Female , Minor or Major.
- **Hindu Undivided Family (HUF) :** It is a relationship created due to operation of Hindu Law. The Manager of HUF is called " Karta" and its member are called 'Coparceners'.
- **Company :** It is an artificial person registered under Indian Companies Act 1956 or any other Law.
- **Firm :** It is an entity which comes into existence as a result of partnership agreement. The Income Tax accepts only these entities as Firms which are accessed as Firms under Section 184 of the Act.

- **Association of Persons (AOP) or Body of Individuals (BOI) :** Co-operative societies, MARKFED, NAFED, etc are the example of such persons. When persons combine together to carry on a joint enterprise and they do not constitute partnership under the ambit of law, they are assessable as an Association of Persons. An A.O.P. can have firms, companies, associations and individuals as its members. A Body of Individual (B.O.I.) cannot have non-individuals as its members. Only natural human being can be members of a Body of Individuals.
- **Local Authority :** Municipality, Panchayat, Cantonment Board, Port Trust etc. are called Local Authority.
- **Artificial Judicial Person :** Statutory Corporations like Life Insurance Corporation, a University etc. are called Artificial Judicial Persons.

These are seven categories of person chargeable to tax under the Act. The aforesaid definition is inclusive and not exhaustive . Therefore, any person, not falling in the above-mentioned seven categories, may still fall in the four corners of the term "Person" and accordingly may be liable to tax under Sec.4.

Example:

Determine the status of the following :

1. Delhi University
2. Microsoft Ltd.
3. Delhi Municipal Corporation
4. Swayam Education Pvt. Ltd.
5. Axsis Bank Limited.
6. ABC Group Housing Co-operative Society.
7. DC & Co., firm of Mr. Dust and Mr. Clean
8. A joint family of Mr.Dirty, Mrs. Dirty and their sons Mr. Dust and Mr. Clean
9. X and Y who are legal heirs of Z (Z died in 1995 and X and Y carry on his business without entering into partnership).

Solutions :

1. Artificial Judicial Person
2. a Company
3. a local authority
4. a company
5. a company
6. an association of person
7. a firm ;
8. a Hindu Undivided Family
9. an association of persons.

5. Assessee [Section 2(7)]

Assessee means a person by whom any tax or any other sum of money is payable under this Act and includes the following:

(i) Every person in respect of whom any proceeding under the Income-tax Act has been taken: a. for the assessment of his income or the income of any other person in respect of which he is assessable; or b. to determine the loss sustained by him or by such other person; or c. to determine the amount of refund due to him or to such other person.	(ii) A person who is deemed to be an assessee under any provisions of this Act i.e. a person who is treated as an assessee. This would include the legal representative of a deceased person or the legal guardian of minor if minor is taxable separately.	(iii) Every person who is deemed to be an assessee in default under any provisions of this Act. A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income-tax Act. For example: a person, paying interest to another person, is responsible for deducting tax at source on this amount and to deposit the tax with the Government. If he fails in either of these duties i.e., if he does not deduct the tax, or deducts the tax but does not deposit it with the Government, he shall be deemed to be an assessee in default.

1. *Every assessee is a 'person', but every person need not be an 'assessee'. For example, X, an individual has earned total income of Rs. 2,40,000 in the previous year. He is a person but not an assessee because his total income is less than the maximum exemption limit of Rs. 2,50,000 and no tax or any other sum is due from him.*
2. *A person may not have his own assessable income but may still be an assessee. For example, an assessee, who has earned an income of Rs. 1,45,000 in a previous year, fails to deduct the tax at source on salary paid by him, which he was required to do under the Act, shall be deemed to be an assessee in default. Although, he is not assessable in respect of his own income, as it is below the maximum exemption limit, but shall still be an assessee for not deducting the tax at source, which he was obliged to do.*

Example :

- Income of Mr. You (age : 30 years) is Rs. 1,45,000 for the assessment year 2018-19. he does not file his return of income because his income is not more than the amount of exempted slab. Income-Tax Department does not take any action against him. He is not an "assessee" because no tax or any other sum is due from him.
- Income of Mr. Me (age: 35 years) is Rs.1,60,000 for the assessment year 2018-19. He does not file his return of income. Since he is supposed to file his return of income (income being more than exempted slab of Rs.1,50,000) . he is an "Assessee".
- Income of Mr. S (age : 50 years) is Rs. 70,000 for the assessment year 2018-19. He files his return of income (even if his taxable income is less than Rs.1,50,000). Assessment order is passed by the Assessing Office without any adjustment. Mr.S is an " Assessee".
- Income of Mr. Ram (age : 25 years) is less than Rs.1,50,000 for the assessment year 2009-10. He files his return of income to claim Refund of Tax deducted by XYZ Ltd. on interest paid to him. B is an "Assessee".
- Income of MR. Clean (age : 30 years) is less than Rs.1,50,000 for the assessment year 1018-19. He does not file his return of income. During 2018-19 , he has paid salary of Rs.2,40,000 to an employee. Though he is supposed to deduct TDS (Tax deducted at Source), yet due to ignorance of law, no tax deducted by him. In this case, Mr. Clean is an "assessee" as he has failed to deduct tax at source. This rule is applicable even if his own taxable income is below Rs.1,50,000.

6. Meaning Of "INCOME" [Section 2(24)]

The Definition given u/s 2 (24) is inclusive and not exhaustive. According to English dictionary, the term "Income" means periodical monetary return coming in regularly from definite sources like one's business, Land, Work, Investments etc.".

It's nowhere mentioned that "Income" refers to only monetary return. It includes value of Benefits and Perquisites.

The term "Income" includes not only what is received by using the property but also the amount saved by using it himself. Any thing which is convertible into income can be regarded as source of accrual of income.

" Income includes " :

- **Profit and Gains :** For instance, Profit generated by a businessman is taxable as "Income".
- **Dividend** : For instance, "Dividend" declared/paid by a company to a shareholders is taxable as " income" in the hands of shareholders .
- **Voluntary contribution received by a Trust :** In the hands of a Trust, income includes voluntary contributions received by it. This rule is applicable in the following cases..
  - Such contribution is received by a trust created wholly or partly for charitable or religious purpose ; or
  - Such contribution is received by a scientific research association ; or
  - Such contribution is received by any fund or institution established for charitable purposes ; or
  - Such contribution is received by any university or other educational institutions or hospital.

Example :
ABC Trust is created for public charitable purposes. On Dec, 15, 2008 it receives a sum of Rs.2 Lakh as voluntary contribution from a business house . Rs. 2 Lakh would be included in the income of the Trust.

- The value of any Perquisites or Profit in lieu of Salary taxable in the hand of employee.

Example:
Mr. You is employed by XYZ Ltd. Apart from Salary , he has been provided a Rent-Free House by the employer . the value of perquisites is respect of the Rent-Free House is taxable as "Income" in the hands of Mr. You..

- Any Special Allowance or Benefit : All type of special allowance are given/allow to the assessee to meet the expenses exclusively, wholly and necessarily for the duties he performed for the office or employment is treated as "Income".

Example:
Mr. You is employed by XYZ Ltd. He gets Rs.5,000 per month as conveyance allowance other than Salary .Rs. 5,000 per month is treated as " Income".

- Value of any Benefit or Amenity, whether convertible into money or not.
- Any Capital Gain taxable u/s 45 is treated as "Income"

Example:
Mr. You owns a House Property. On its transfer, he generates a Capital Profit of Rs.1,20,000. it is treated as "Income" even if it is Capital Profit.

- Any winning from Lotteries (it included winning from prizes awarded) , Winning from Crossword Puzzles, winning from Races including Horse Race, winning from Card Games and other similar Games, winning from gambling or betting.

Example:
Mr. You wins a sum of Rs. 50,000 from gambling. Rs.50,000 is treated as " Income" of Mr. You.

- Any sum received by the assessee on account of his employer's contributions to any Provident Fund, Superannuation Fund or any other Fund for the welfare of such employees in the business.
- Amount exceeding Rs.50,000 by way of Gift.

FEATURES OF "INCOME'

The following features of income can help a person to understand the concept of income.

1. Definite Source : Income has been compared with a fruit of a tree or a crop from the field. Fruit comes from a tree and crop from fields. Thus the source of income is definite in both cases. The existence of a source for income is somewhat essential to bring a receipt under the charge of tax.
2. Income must come from Outside : No one can earn income from himself. There can be no income from transaction between head office and branch office. Contributions made by members for the mutual benefit and found surplus cannot be termed as income of such group.
3. Tainted Income : Income earned legally or illegally remains income and it will be taxed according to the provisions of the Act. Assessment of illegal income of a person does not grant him immunity from the applicability of the provisions of other Act. Any expenditure incurred to earn such illegal income is allowed to be deducted out of such income only.
4. Temporary or Permanent : Whether the income is permanent or temporary, it is immaterial from the tax point of view.
5. Voluntary Receipt : The receipts which do not arise from the exercise of a profession or business or do not amount to remuneration and are made for reasons purely of personal nature are not included in the scope of total income.
6. Dispute regarding the Title : In case a person is receiving some income but his title to such receipts is disputed, it will not free him from tax liability. The receipt of such income has to pay tax.

7. Income in Money or Money's worth : The income may be in Cash or in kind. It is taxable in both cases.

TAX TREATMENT OF "INCOME'

For the purposes of treatment of income for tax purposes it can be divided into 3 categories :

A. Taxable Income : These incomes form part of total income and are fully taxable. These are treated u/s 14 to 69 of the Act. These are Salaries, Rent, Business Profits, Professional Gain, Capital Gain, Interest, Dividend, Winning from Lotteries, Races etc.

B. Exempted Incomes : These incomes do not from part of total income either fully or partially . hence, No Tax is payable on such incomes. These incomes are given u/s 10(1) to 10(32) of the Act.

C. Rebateable (Tax Free) Incomes : These incomes form part of total income and are fully taxable. Tax is calculated on total income out of which a Rebate of Tax at average Rate is allowed . The Rebateable incomes given u/s 86 of the Act are :

- Share of income received by a member of an association of persons provided the total income of such AOP is assessed to tax at the rates applicable to an individual.
- Share of income received by a partner of a firm assessed as an association of persons (PFAOP) provided the total income of such PFAOP is assessed to tax at the rates applicable to an individual.

7. GROSS TOTAL INCOME (GTI) & TOTAL INCOME

U/s 14 the term "Gross Total Income" [GTI] means aggregate of incomes computed under the following Five heads :

- Income under the head "Salaries"
- Income under the head " House Property"
- Income under the head "Profit and Gains of Business or Profession".
- Income under the head "Capital Gain".
- Income under the head " Other Sources".

After aggregating income under various heads, losses are adjusted and the resultant figure is called " Gross Total Income" [GTI]
From Gross Total Income , Deductions u/s 80 are allowed. The resultant figure is called "Total Income " on which Rates of Taxes are applied

8 ASSESSMENT YEAR [Section 2 (9)]

" Assessment Year" means the period of 12 months commencing on the 1st used in to day of April every year.
In India, the Govt. maintains its accounts for a period of 12 months i.e. 1st April to 31st March every year. As such it is known as Financial Year. The Income Tax department has also selected same year for its Assessment procedure.

The Assessment Year is the Financial Year of the Govt. of India during which income a person relating to the relevant previous year is assessed to tax. Every person who is liable to pay tax under this Act, files Return of Income by prescribed dates. These Returns are processed by the Income Tax Department Officials and Officers. This processing is called Assessment. Under this Income Returned by the assessee is checked and verified.

Tax is calculated and compared with the amount paid and assessment order is issued. The year in which whole of this process is under taken is called Assessment Year.

At present the Assessment Year 2008-2009 (1-4-2018 to 31-3-2019) is going on.

Example-
Assessment year 2018-19 which will commence on April 1, 2018, will end on March 31, 2019.

Income of Previous Year of an assessee is taxed during the next following Assessment Year at the rates prescribed by the relevant Finance Act

9. PREVIOUS YEAR [Section 3]

As the word 'Previous' means 'coming before' , hence it can be simply said that the Previous Year is the Financial Year preceding the Assessment Year e.g. for Assessment Year 2008-2009 the Previous Year should be the Financial Year ending 31st March 2008.

- **Previous Year in case of a continuing Business :**

It is the Financial Year preceding the Assessment Year. As such for the assessment year 2008-2009, the Previous Year for continuing business is 2007-2008 i.e. 1-4-2007 to 31-3-2008.

- **Previous Year in case of newly set up Business :**

The Previous Year in case of newly started business shall be the period between commencement of business and 31st March next following . e.g. in case of a newly started business commencing its operations on Diwali 2007,

the Previous Year in relation to Assessment Year 2008-2009. shall be the period between Diwali 2007 to 31 March 2008.

- **Previous Year in case of newly created source of income :**

In such case the Previous Year shall be the period between the day on which such source comes existence and 31st March next following.

Sl. No.	*Income*	*Section*	*Previous Year*
1.	Cash Credit	[68]	Financial Year in which found to be entered.
2.	Unexplained Investment	[69]	Financial Year preceding the Assessment Year
3.	Unexplained Bullion, Cash, Jewelley	[69A]	Financial Year in which found in the possession of the assessee.
4.	Partly explained Investment	[69B]	Financial Year in which Investment was made.
5.	Unexplained Expenditure	[69C]	Financial Year in which expenditure was incurred.
6.	Payment of Hundi, Money in Cash	[69D]	Financial Year in which such payment was made.

10. When Income Of Previous Year Is Not Taxable In The Immediately Following Assessment Year .

The rule that the income of the previous year is taxable as the income of the immediately following assessment year has certain exceptions. These are:

1. Income of non-residents from shipping business [Section 172] ;
In case a Non-Resident Shipping Company, which has no representative in India, earns income by carrying passengers, livestock, mail or goods loaded from any Indian Port, such Ship will have to pay Tax on such Income, otherwise the Ship will not be allowed to leave the Port till the tax on such income has been paid or alternative arrangements to pay tax are made. Such income will be assessed to paid tax at current year's rates.

2. Income of persons leaving India either permanently or for a long period of time [Section 174] ;
In case I.T.O. has the reasons to believe that an individual will leave India with having no intention of retuning to India during the current assessment year, the total income of such individual will be taxable in the current

assessment year for the period between the expiry of last previous year and till the date of his departure.

3. Income of a person trying to transfer his assets with a view to avoiding payment of tax. [Section 175]

4. Income of a discontinued business [Section 176]
In these cases, income will be taxed in the same year it is earned.

These exceptions have been incorporated in order to ensure smooth collection of income tax from the aforesaid taxpayers who may not be traceable if tax assessment procedure is postponed till the commencement of the normal assessment

On the basis of the aforesaid discussion, it can be said that a financial year plays a double role—it is a Previous Year as well as an Assessment Year.

11. What Are Different Heads Of Income According To Income Tax Act. ?

There are 5 different Income heads. The Income under each head will be charged to Income Tax. Thus the tax will be computed on the basis of total income.

1. Salaries including Allowances, value of Perquisites, Profits in lieu of salary and Pensions.
2. Income from House Property whether residential, commercial or let out.
3. Profits & Gains of Business / Profession.
4. Capital Gains - Short & Long Term.
5. Income from other Sources including Bank Interest, Interest on Securities, Lotteries, Cross word Puzzles, Races, Games, Gift received on or after 1-9-2004 in excess of Rs. 50,000 in cash etc. from unrelated persons.

12. Who All Have To Pay Income-Tax ?

a. Individual including Non-resident, Hindu Undivided Families (HUF), Bodies of Individuals (BOI), Association of Persons (AOP) & Artificial Juridical Persons (such as Deities of Temples) having taxable income exceeding Rs. 1.5 lakh (Rs. 1,80,000 for Resident Women assesses below 65 Years and Rs. 2,25,000 for Resident Senior Citizens.)
b. Societies & Charitable / Religious Trusts having taxable income exceeding Rs.1.5 lakh.
c. All Partnership Firms irrespective of their Income.
d. Co-Op. Societies irrespective of their Income.
e. All Companies irrespective of Income.

f. Local Authorities like, Panchayats, Municipal Corporation etc.

13. How Income-Tax Will Be Charged By The Income Tax Department ?

Income Tax is charged on 5 different heads. Aggregate of taxable income under each head of income is known as Gross Total Income and so
Taxable Income = Gross Total Income - Allowance Deductions.

Deduction of Expenditure :
In computing income under various heads, deduction is allowed towards expenditure incurred in relation to earning the income. However, no deduction shall be allowed in respect of expenditure incurred in relation to incomes exempt from tax.

Computation of Gross Total Income :
It is the aggregate of incomes under various heads of income calculated after set-off of unabsorbed depreciation/loss, carried forward from earlier years.

Set-off and Carry Forward :
Set-off means adjustment of certain losses against the income under other sources / heads. Carry forward implies carrying forward of certain losses for set-off in subsequent years.

Total / Taxable Income :
Total / Taxable Income is computed after deducting permissible deductions under section 80A to 80U, from the Gross Total Income.

Where the Gross Total Income of the Assesses includes Short-Term Capital Gains from transfer of equity shares / units of an equity oriented mutual fund subject to Securities Transaction Tax or any Long-Term Capital Gains, then no deduction shall be allowed against such Capital Gains.
On this Taxable Income, Income Tax will be calculated as per the applicable rates.

14. What Is Agricultural Income ?

Sec.10(1) exempts Agricultural Income from Income-Tax. Bu virtue of Sec.2(1)a the expression “Agricultural Income” means :

- Any Rent or Revenue derived from Land which is situated in India and is used for agricultural purposes. [Sec. 2(1A)(a)]
- Any income derived from such land :
  - Use for Agricultural purposes ; or
  - Used for agricultural operations means- irrigating and harvesting , sowing, weeding, digging, cutting etc. It involves

employment of some human skill, labour and energy to get some income from land. ; or

According to Sec. 2(1)(a) , if the following 3 conditions are satisfied, income derived from Land can be termed as “Agricultural Income”.

Condition-1 : Income derived from Land
It is essential that for any income to be termed as agricultural Land must be effective and immediate source of Income and not indirect and secondary.

As a result, interest on arrears of land revenue, dividend paid by a company out of its profits which included agricultural income also and salary paid to a manager for managing agricultural farms are not agricultural incomes because in all these cases land is not the effective and immediate source of income.

Condition-2 : Land is used for Agricultural Purposes
To term any income as agricultural income, it is necessary that income must be the result of agricultural operations performed on agricultural land. Agriculture means performance of some basic operations— irrigating and harvesting , sowing, weeding, digging, cutting etc. it involves employment of some human skill, labour and energy to get some income form land.

Condition-3 : Land is situated in India
To qualify the exemption u/s 10(1) of the Act, it is necessary that agricultural income must be derived from land situated in India. In case income is derived from agricultural land situated outside India or is from any non-agricultural land, it will not be exempted u/s 10(1). It is taxable income under the head “Income from other Sources”.

What is the Tax Treatment of Income which is partially Agricultural and partially from Business [Rules 7, 7A, 7B and 8]

For disintegrating a composite business income which is partly agriculture and partly non-agricultural, the following rules are applicable –

Type of Income	*Business Income*	*Agricultural Income*
• Tea Business	40%	60%
• Coffee Business	40%	60%
• Rubber Business	40%	65%

Example :
Mr. X owns a Flour Mill and some agricultural Land. During the year 2018-

2019 he has shown profit of Rs.25 lacs from the Business of Flour Mill. On scrutiny of accounts it was found that he has used 5,000 quintals of wheat produced in his own Farms and cost of this wheat has not been debited to P & L account. The market price of the wheat during the season was Rs.400 per quintal.. Find out his Agricultural and Business income.

[Hints : Agricultural income Rs.20,00,000 and Business income Rs. 5,00,000]

More ... Topics @ Taxation System	
▷	Basic Concepts on Tax Systems in India
▷	Basis of Charge (Residential Status)
▷	Capital & Revenue- A Distinction Between As Per Income Tax ACT. 1961
▷	Exempted Incomes : www.IncomeTaxManagement.Com
▷	Income Tax Rates / Tax Slabs (AY-2018-2019 & 2019-2020) : For Co-operative Society
▷	Income Tax Rates / Tax Slabs (AY-2018-2019 & 2019-2020) : For Company
▷	Income Tax Rates / Tax Slabs (AY-2018-2019 & 2019-2020) : For Minimum Alternate Tax [MAT]
▷	Income Tax Rates / Tax Slabs (AY-2018-2019 & 2019-2020) : For Partnership Firm
▷	Wealth Tax Rates for the (AY-2018-2019 & 2019-2020)
▷	Income Tax Rates / Tax Slabs (AY-2018-2019 & 2019-2020)
▷	Section-wise Other Income Tax Rates [AY-2018-2019 & 2019-2020] Specified In The Income Tax Act.
▷	Tax Rates applicable under Sections 115-O and 115QA during A.Y. 2019-20
▷	Tax Rates for Tax Collection at Source (TCS) U/s 206C during the A.Y. 2019-20
▷	Tax Rates for Tax Deduction at Source (TDS) during the A.Y. 2019-20
▷	Tax on Income distributed by UTI / Mutual Fund under section 115R during A.Y. 2019-20
▷	Tax Holiday - FREE TRADE ZONE (FTZ)[Section 10A]

▷	Tax Holiday : SPECIAL ECONOMIC ZONE [SECTION 10AA]
▷	Tax Holiday : 100% EXPORT ORIENTED UNDERTAKINS(100% E.O.U.) [Section-10B]
▷	Tax Holiday : INCOME FROM EXPORT OF ARTISTIC HANDMADE Wooden Articles[Section-10BA]
▷	Tax Holiday- Deduction (Sections 80-IA)
▷	Tax Holiday- Deduction (Sections -80-IAB)
▷	Tax Holiday- Deduction (Sections - 80IB)
▷	Tax Holiday- Deduction (Sections - 80IC)
▷	FREE TRADE ZONE (FTZ)[Section 10A] : Tax Holiday (Sections 10A, 10AA, 10B & 10BA)
▷	SPECIAL ECONOMIC ZONE [SECTION 10AA] : Tax Holiday (Sections 10A, 10AA, 10B & 10BA)
▷	100% EXPORT ORIENTED UNDERTAKINS(100% E.O.U.) : Tax Holiday (Sections 10A, 10AA, 10B & 10BA)
▷	INCOME FROM EXPORT OF ARTISTIC HANDMADE : Tax Holiday (Sections 10A, 10AA, 10B & 10BA)
▷	Taxation Systems in India

Residential Status of an Assessee

Need to determine Residential Status?

The total income is different in case of a person resident in India and a person non-resident in India. Further, in case of an individual and HUF being "not ordinarily resident in India", the meaning of total income shall be slightly different. Since the total income of an assessee varies according to his residential status in India, the incidence of tax shall also vary according to such residential status in India.

Tax is levied on total income of assessee. Under the provisions of Income-tax Act, 1961 the total income of each person is based upon his residential status. Section 6 of the Act divides the assessable persons into three categories

1. Ordinary Resident;
2. Resident but Not Ordinarily Resident; and
3. Non-Resident.

4.

Residential status is a term coined under Income Tax Act and has nothing to do with nationality or domicile of a person. An Indian, who is a citizen of India can be non-resident for Income-tax purposes, whereas an American who is a citizen of America can be resident of India for Income-tax purposes. Residential status of a person depends upon the territorial connections of the person with this country, i.e., for how many days he has physically stayed in India.

The residential status of different types of persons is determined differently. Similarly, the residential status of the assessee is to be determined each year with reference to the “previous year”. The residential status of the assessee may change from year to year. What is essential is the status during the previous year and not in the assessment year.

Important Points:

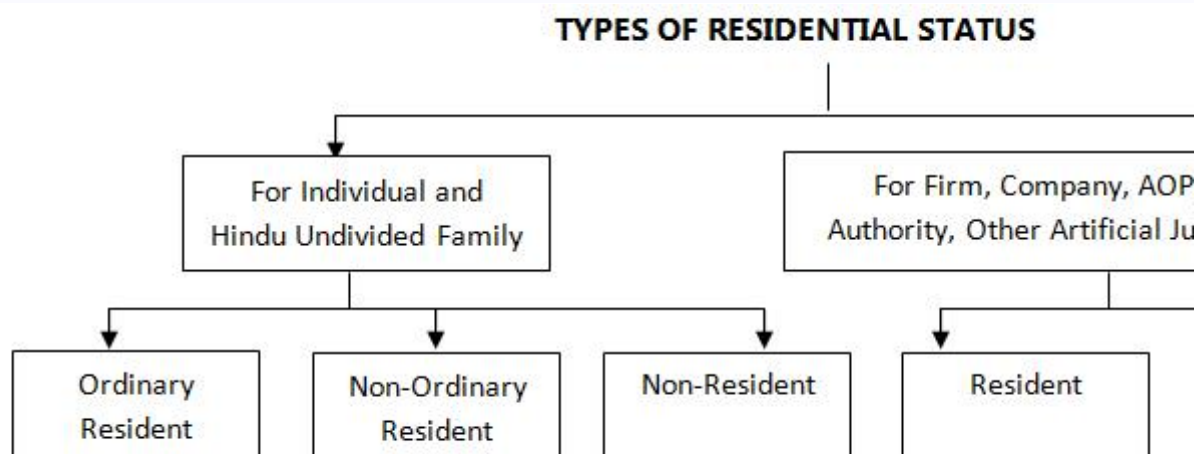
1. **Residential Status in a previous year.** Residential status is to be determined for each previous year.
   It implies that—
   a. Residential status of assessment year is not important.
   b. A person may be resident in one previous year and a non-resident in India in another previous year, e.g., Mr. A is resident in India in the previous year 2018-19 and in the very next year he becomes a non-resident in India.
2. **Duty of Assessee.** It is assessee' s duty to place relevent facts, evidence and material before the Income Tax Authorities supporting the determination of Residential status.
3. **Dual Residential Status is possible.** A person may be resident of one or more countries in a relevant previous year e.g., Mr. X may be resident of India during previous year 2018-19 and he may also be resident/non-resident in England in the same previous year. The emergence of such a situation depends upon the following
   a. the existence of the Residential status in countries under considerations
   b. the different set of rules having laid down for determination of residential status.

Determination of Residential status of different 'Persons' :

As we know that Income tax is charged on every person. The term 'Person' has been defined under section 2(31) includes :

i. An individual
ii. Hindu Undivided Family
iii. Firm
iv. Company
v. AOP/BOI
vi. Local authority
vii. Every other artificial juridical person not falling in preceding six sub-classes.

Therefore, it is essential to determine the residential status of above various types of persons and now we shall learn the calculation of residential status of each type of person.



Basic rules for determining Residential Status of an Assessee

The following basic rules must be kept in mind while determining the residential status:

- — Residential status is determined for each category of persons separately e.g. there are separate set of rules for determining the residential status of an individual and separate rules for companies, etc.
- — Residential status is always determined for the previous year because we have to determine the total income of the previous year only.
- — Residential status of a person is to be determined for every previous year because it may change from year to year. For example A, who is resident of India in the previous year 2017- 18, may become a non-resident in previous year 2018-19.

- — If a person is resident in India in a previous year relevant to an assessment year in respect of any source of income, he shall be deemed to be resident in India in the previous year relevant to the assessment year in respect of each of his other source of income. [Section 6(5)]
- — A person may be a resident of more than one country for any previous year. If Y is a resident in India for previous year 2017-18, it does not mean that he cannot be a resident of any other country for that previous year.
- — Citizenship of a country and residential status of that country are separate concepts. A person may be an Indian national/citizen, but may not be a resident in India. On the other hand, a person may be a foreign national/citizen, but may be a resident in India.
- — It is the duty of the assessee to place all material facts before the assessing officer to enable him to determine his correct residential status.

Residential Status In Nutshell

Ordinary Resident	***Resident But Not Ordinary Resident (NOR)***	***Non-Resident***
INDIVIDUAL (a) He was in India for a period or periods totaling in all to 182 days or more during relevant previous year OR *(b)* He was in India for a period or periods totaling in all to 60 days or more during relevant previous year and *365* days or more during four previous years preceding the relevant previous year. And Must be Resident in India in 2 out of 10 previous years preceding the relevant previous year And Must be in India for 730 days or more during 7 previous years prece- ding the relevant previous year.	(a) He was in India for a period or periods totaling in all to 182 days or more during relevant previous year OR *(b)* He was in India for a period or periods totaling in all to 60 days or more during relevant previous year and *365* days or more during four previous years preceding the relevant previous year. And U/s 6(6) was non resident in 9 or 10 previous years out of 10 previous years preceding relevant previous year ; OR was in India for less than 730 days during 7 previous years preceding the relevant previous year.	He fails to fulfill both the tests of section 6(1).
HUF, FIRM, AOP, BOI If control or management of HUF, FIRM, AOP, BOI was	This status is allowed only to HUF and others cannot claim it. HUF shall be NOR if its Karta can fulfill any	If control or management of such HUF, FIRM, AOP, BOI was wholly outside

wholly or partially in India during relevant previous year.	one of the two tests given u/s 6(6) for an individual.	India during relevant previous year.
COMPANY Every Indian compnay *[i.e.* which is incorporated under Indian Law or is deemed as company under any law of the country] is Resident company. In case of any other company, which is incorporated outside India but has its control or management in India during relevant previous year is also a resident company.	A company cannot enjoy this status.	Any company, which is incorporated outside India and has its control or management outside India during relevant previous year is non-resident company.
IN CASE OF EVERY OTHER PERSON In case of every other person, which has its control or management wholly in India during relevant previous year is resident.	Any other person cannot enjoy this status,	Any other person, which has its control or management wholly outside India during relevant previous year is non-resident.

Related Topics ...
Residential Status of an Assessee
Residential Status Of A ' Company '- [Section 6(3)]
Residential Status of an 'Individual' (Section-6)
Residential Status of Firm, Association of Persons (AOP), Body of Individuals (BOI) and of Other Persons (except Companies) [Sections 6(2) and 6(4)]
Residential Status Of HUF (Hindu Undivided Family) - [Section 6(2)]

unit—2

The five income heads under Income Tax Act

Updated: 09 Jul 2019, 12:07 PM IST

Getty Images

1/5

Income from salary

Income from salary includes wages, pension, annuity, gratuity, fees, commission, profits, leave encashment, annual accretion and transferred balance in recognised Provident Fund (PF) and contribution to employees pension account.

ThinkStock Photos

2/5

Rental incomes

Rental Income from properties owned by a person other than those which are occupied by him are charged as income from house property. If property is vacant then a notional income is included under this head.

3/5

Income from business/profession

Income from business or profession includes profit/loss from a business entity or a profession, any interest, salary or bonus to a partner of a firm.

Getty Images

4/5

Capital gains

Income from capital gains includes long term capital gains (LTCG) and short term capital gains (STCG) on sale of any capital assets.

ThinkStock Photos

5/5

Income from other sources

Income from other sources includes interest on bank deposits and securities, dividend, royalty income, winning on lotteries and races and gifts received among others.

(The content on this page is courtesy Centre for Investment Education and Learning (CIEL). Contributions by Girija Gadre, Arti Bhargava and Labdhi Mehta.)

---

five **income** heads under **Income** Tax Act. **Income from salary** includes **wages**, pension, annuity, gratuity, fees, commission, profits, leave encashment, annual accretion and transferred balance in recognised Provident Fund (PF) and contribution to employees pension account.Jul 9, 2019

Save Taxes for Salaried Individuals

Updated on Feb 28, 2020 - 03:04:51 PM

Read about the Union Budget 2020 highlights here.

As soon as the filing season begins, salaried class are in a frenzy about taxes they must shell out for the said financial year. It is important to understand your tax slab and what each of your salary breakup components means. This can help you figure out how to save on taxes. If you want to understand your salary components or want to learn how you can save tax on your salary income, this guide is for you.

#Budget2019

Middle class tax payers rejoice!*

- Standard deduction for salaried persons raised from Rs. 40,000 rupees to Rs. 50,000
- Individuals having taxable income upto Rs. 5,00,000 to get full rebate of the tax
- TDS threshold on interest on bank and post office deposits raised from Rs. 10,000 to Rs. 40,000 Rupees
- Section 54 Capital Gains exemption now available on purchase of two house properties (Once in a lifetime)

*Conditions apply

SECTION I – Understanding Your Payslip

1. Basic Salary
2. House Rent Allowance
3. Leave Travel Allowance
4. Bonus
5. Employee Contribution to Provident Fund (PF)
6. Standard Deduction
7. Professional Tax

SECTION II

1. Difference Between Take Home Salary and CTC

Section III – Retirement Benefits

1. Exemption of Leave Encashment
2. Relief Under Section 89(1)
3. Exemption on Receipts at the Time of Voluntary Retirement

4. Pension
5. Gratuity

SECTION IV – Basics of Income Tax

1. Income Chargeable to Tax
2. Tax Rates
3. TDS on Salary
4. Form 16
5. Form 26AS
6. Deductions
7. Frequently Asked Questions

SECTION I – Understanding Your Payslip

1. Basic Salary

This is a fixed component in your paycheck and forms the basis of other portions of your salary, hence the name. For instance, HRA is defined as a percentage (as per the company's discretion) of this basic salary. Your PF is deducted at 12% of your basic salary. It is usually a large portion of your total salary.

2. House Rent Allowance

Salaried individuals, who live in a rented house/apartment, can claim house rent allowance or HRA to lower tax outgo. This can be partially or completely exempt from taxes. The income tax laws have prescribed a method for computing the HRA that can be claimed as an exemption.

Read more about how to claim HRA exemption.

Also do note that, if you receive HRA and don't live on rent your HRA shall be fully taxable.

Case Study: Malvika works at an MNC in Bangalore. Her company provides her with a house rent allowance. But she doesn't live in a rented accommodation as she lives with her parents.

How can Malvika make use of this allowance?

Malvika can pay rent to her parents and claim the allowance provided they own the place they currently live in. All she has to do is enter into a rental agreement with her parents and transfer money to them every month. This way Malvika can make a nice gesture and give back to her parents, and two, save some taxes. But remember, Malvika's parents will have to show the rent she paid in their income tax returns.

3. Leave Travel Allowance

Salaried employees can avail exemption for a trip within India under LTA. The exemption is only for the shortest distance on a trip. This allowance can only be claimed for a trip taken with your spouse, children, and parents, but not with other relatives. This particular exemption is up to the actual expenses, therefore unless you actually take the trip and incur these expenses, you cannot claim it. Submit the bills to your employer to claim this exemption.

Read more about how to claim this exemption.

4. Bonus

The bonus is usually paid once or twice a year. Bonus, performance incentive, whatever may be its name, is 100% taxable. Performance bonus is usually linked to your appraisal ratings or your performance during a period and is based on the company policy.

5. Employee Contribution to Provident Fund (PF)

Provident Fund or PF is a social security initiative by the Government of India. Both employer and employee contribute a 12% equivalent of the employee's basic salary every month toward employee's pension and provident fund. An interest of about 8.65% from FY 2018-19 (earlier it was 8.55% for FY 2017-18) gets accrued on it. This is a retirement benefit that companies with over 20 employees must provide as per the EPF Act, 1952.

6. Standard Deduction

Standard Deduction has been reintroduced in the 2018 budget. This deduction has replaced the conveyance allowance and medical allowance. The employee can now claim a flat Rs. 50,000 (Prior to Budget 2019, it was Rs. 40,000) deduction from the total income, thereby reducing the tax outgo.

Easy and Accurate ITR Filing on ClearTax

File in 7 Mins | Minimal Data Entry | 100% Paperless

E-File ITR For FREE

Get CA Assisted Plan

7. Professional Tax

Professional tax or tax on employment is a tax levied by a state, just like income tax which is levied by the central government. The maximum amount of professional tax that can be levied by a state is Rs 2,500. It is usually deducted by the employer and deposited with the state government. In your income tax return, professional tax is allowed as a deduction from your salary income.

SECTION II

1. Difference Between Take Home Salary and CTC

Your job may entitle you to some benefits in the form of food coupons or a cab service apart from your salary. The total **cost to the company** is the sum of all the benefits offered plus your salary.

Below is an example of components of your CTC that is on your offer letter.

CTC	
Components	**Amount**
Basic salary	Rs 3,00,000
Special allowance	Rs 1,00,000
HRA	Rs 80,000
Medical insurance	Rs 5,000
PF (12% of basic)	Rs 36,000
Performance bonus	Rs 75,000
Total CTC	Rs 5,96,000

Whereas this is how your payslip will look for the CTC mentioned above.

Taxable Salary

Components	Amount
Basic salary	Rs 3,00,000
Special allowance	Rs 1,00,000
HRA	Rs 80,000
Bonus received	Rs 75,000
Total salary	Rs 5,55,000
Less: 12% PF	Rs 36,000
Less: Tax payable*	Rs 14,976
Take home salary	Rs 5,04,024

Broadly your CTC will include:

a. Salary received each month.

b. Retirement benefits such as PF and gratuity.

c. Non-monetary benefits such as an office cab service, medical insurance paid for by the company, or free meals at the office, a phone provided to you and bills reimbursed by your company.

Your take-home salary will include:

a. Gross salary received each month.

b. *Minus* allowable exemptions such as HRA, LTA, etc.

c. *Minus* income taxes payable (calculated after considering Section 80 deductions).

SECTION III – Retirement Benefits

1. Exemption of Leave Encashment

Check with your employer about their leave encashment policy. Some employers allow you to carry forward some amount of leave days and allow you to encash them while others prefer that you finish using them in the same year itself. The amount received as compensation for leave days accumulated is referred to as leave encashment and it is taxable as salary.

Exemption of leave encashment from tax:

It is fully exempt for Central and State government employees. For non-government employees, the least of the following three is exempt.

a. 10 months average salary preceding retirement or resignation (where average salary includes basic and DA and excludes perquisites and allowances)

b. Leave encashment actually received. (this is further subject to a limit of Rs 3,00,000 for retirements after 02.04.1998)

c. Amount equal to salary for the leave earned (where leave earned should not exceed 30 days for every year of service)

The amount chargeable to tax shall be the total leave encashment received minus exemption calculated as above. This is added to your income from salary.

2. Relief Under Section 89(1)

You are allowed tax relief under Section 89(1), when you have received a portion of your salary in arrears or in advance, or have received a family pension in arrears.

Calculate the Tax Relief Yourself

a. Calculate the tax payable on the total income, including additional salary in the year it is received.

b. Calculate the tax payable on the total income, excluding additional salary in the year it is received

c. Calculate the difference between Step 1 and Step 2

d. Calculate the tax payable on the total income of the year to which the arrears relate, excluding arrears

e. Calculate the tax payable on the total income of the year to which the arrears relate, including arrears

f. Calculate the difference between Step 4 and Step 5

g. The excess amount at Step 3 over Step 6 is the tax relief that shall be allowed.

Note that if the amount at Step 6 is more than the amount at Step 3, no relief shall be allowed.

3. Exemption on Receipts at the Time of Voluntary Retirement

Any compensation received on voluntary retirement or separation is exempt from tax as per the Section 10(10C). However, the following conditions must be fulfilled

a. Compensation received is towards voluntary retirement or separation

b. Maximum compensation received does not exceed Rs 5,00,000.

c. The recipient is an employee of an authority established under the Central or State Act, local authority, university, IIT, state government or central government, notified institute of management, or notified institute of importance throughout India or any state, PSU, company or a cooperative society.

d. The receipts are in compliance with Rule 2BA.

No exemption can be claimed under this section for the same AY or any other if relief under Section 89 has been taken by an employee for compensation of voluntary retirement or separation or termination of services.

Note: Exemption can only be claimed in the assessment year the compensation is received.

4. Pension

Pension is taxable under the head salaries in the income tax return. Pension is paid out periodically on a monthly basis usually. You may also choose to take pension as a lump sum (also called commuted pension) instead of a periodical payment. At the time of retirement, you may choose to receive a certain percentage of your pension in advance.

Such pension received in advance is called commuted pension. For e.g.- At the age of 60, you decide to receive in advance 10% of your monthly pension of the next 10 years of Rs 10,000. This will be paid to you as a lump sum. Therefore, Rs.10% of 10000x12x10 = 1,20,000 is your commuted pension. You will continue to receive Rs 9,000 (your uncommuted pension) for the next 10 years until you are 70 and post 70 years of age, you will be paid your full pension of Rs 10,000.

Uncommuted pension or any periodical payment of pension is fully taxable as salary. In the above case, Rs 9,000 received by you is fully taxable. Rs 10,000 starting the age of 70 years are fully taxable as well.

Commuted and Uncommuted Pension Commuted pension or lump sum received may be exempt in certain cases. For a government employee, commuted pension is fully exempt. Uncommuted pension or any periodical payment of pension is fully taxable as salary.

In the above case Rs 9,000 received by you is fully taxable. Rs 10,000 starting the age of 70 yrs are fully taxable as well. For a non-government employee, it is partially exempt.

If gratuity is also received with a pension – 1/3rd of the amount of pension that would have been received, if 100% of the pension was commuted, is exempt from commuted pension and remaining is taxed as salary. If only the pension is received, gratuity is not received then ½ of the amount of pension that would have been received, if 100% of the pension was commuted, is exempt.

Pension received by a family member though is taxed under '[Income from other sources](#)' in the income tax return. If this pension is commuted or is a lump sum payment it is not taxable. Uncommuted pension received by a family member is exempt to a certain extent. Rs 15,000 or 1/3rd of the uncommuted pension received – whichever is less is exempt from tax. Pension that is received from UNO by its employees or their family is exempt from tax.

Pension received by family members of Armed Forces is also exempt.

5. Gratuity

Gratuity is a retirement benefit that employers provide for their employees. The employee is entitled to receive gratuity when he completes five years of service at that company. It is, however, only paid on retirement or resignation. Gratuity received on retirement or death by a central, state or local government employee is fully exempt from tax for the employee or his family. The tax treatment of your gratuity is different, depending on whether your employer is covered by the Payment of Gratuity Act. Check with your company about its status, and then proceed to calculate.

If your employer is covered by the Payment of Gratuity Act, then the least of the following three is tax-exempt.

1. 15 days salary based on the salary last drawn for every completed year of service or part thereof in excess of 6 months.

   For simplicity sake, this is calculated as last drawn salary x number of years in employment x 15/26 (where last drawn salary is Basic salary and DA and number of years in service is rounded off to the nearest full year)

2. Rs 20,00,000
3. Gratuity actually received

If your employer is not covered under the Payment of Gratuity Act, the least of the following three is tax-exempt.

- Half month's salary for each completed year of service. While calculating completed years, any fraction of a year shall be ignored.

For example – if you have worked in an organization for 14 years and 9 months, the number of years of employment shall be considered to be 14 years. Here salary is taken as the average salary of the 10 months immediately before the month in which the person retires.

- Rs 20,00,000
- Gratuity actually received

SECTION IV – Basics of Income Tax

1. Income Chargeable to Tax

Your income is not equal to your salary. You could earn income from several other sources other than your salary income. Your total income, according to the Income Tax Department, could be from house property, profit or loss from selling stocks or from interest on a savings account or on fixed deposits.

All these numbers get added up to become your gross income.

Income from Salary	All the money you receive while rendering your job as a result of an em
Income from house property	Income from house property you own; property can be self-occupied or
Income from other sources	Income accrued from fixed deposits and savings account come under th
Income from capital gains	Income earned from the sale of a capital asset (mutual funds or house p
Income from business and profession	Income/loss arising as a result of carrying on a business or profession. F

2. Tax Rates

Add up all your income from the heads listed above. This is your gross total income. From your gross total income, deductions under Section 80 are allowed to be claimed. The resulting number is the income on which you have to pay tax.

ClearTax's app lets you determine your tax refund or dues for the year Download the app here.

Your tax is calculated as per the slabs mentioned below.

Income Tax Rates for taxpayers under 60 years of age in FY 2018-19, FY 2017-18 and FY 2016-17.

Tax Slab	FY 2018-19 FY 2017-18 Tax Rate	Tax Slab	FY 2016-17 Tax
Up to Rs 2,50,000	No tax	Up to Rs 2,50,000	No tax
Rs 2,50,000 – Rs 5,00,000	5%	Rs 2,50,000 – Rs 5,00,000	10%
Rs 5,00,000 – Rs 10,00,000	20%	Rs 5,00,000 – Rs 10,00,000	20%
Rs 10,00,000 and beyond	30%	Rs 10,00,000 and beyond	30%

Cess:

- For FY 2018-19 – Health and education cess is 4% on the sum of total income tax and surcharge.

- For FY 2017-18 and 2016-17 Higher education and secondary cess is 3% on the sum of total income tax and surcharge.

Basic Exemption limit for senior citizens (age of 60 years or more but up to 80 years)

- For FY 2018-19 2017-18 and 2016-17 is Rs. 3,00,000

Basic Exemption limit for super senior citizens (age of 80 years or more)

- For FY 2018-19 2017-18 is Rs. 5,00,000

Rohit's total taxable income for FY 2018-19 is Rs 8,00,000. How will the tax slabs be applied to him?

Income up to Rs 2,50,000	Nil
Income between Rs 5,00,000 – Rs 2,50,000	5% of (Rs 5,00,000 – Rs 2,50,000) = Rs 12,500
Income between Rs 10,00,000 – Rs 5,00,000	20% of (Rs 8,00,000 – Rs 5,00,000) = Rs 60,000
Total	Rs 72,500
Education Cess (4% on the sum of total income tax)	Rs 2,900
Tax payable	Rs 75,400

Skip the steps and use our updated income tax calculator instead.

3. TDS on Salary

TDS is tax deducted at source. Your employer deducts a portion of your salary every month and pays it to the Income Tax Department on your behalf. Based on your total salary for the whole year and your investments in tax-saving products, your employer determines how much TDS has to be deducted from your salary each month.

For a salaried employee, TDS forms a major portion of an employee's income tax payment. Your employer will provide you with a TDS certificate called Form 16 typically around June or July showing you how much tax was deducted each month..

Understand your Form 16 better here.

Your bank may also deduct tax at source when you earn interest from a fixed deposit. The bank deducts TDS at 10% on FDs usually. A 20% TDS is deducted when the bank does not have your PAN information.

4. Form 16

Form 16 is a TDS certificate. Income Tax Department mandates all employers to deduct TDS on salary and deposit it with the government. The Form 16 certificate contains details about the salary you have earned during the year and the TDS amount deducted.

It has two parts – Part A with details about the employer and employee name, address, PAN and TAN details and TDS deductions.

Part B includes details of salary paid, other incomes, deductions allowed, tax payable.

Did you know that Form-16 is all you need to e-file your income tax returns on ClearTax?

5. Form 26AS

Form 26AS is a summary of taxes deducted on your behalf and taxes paid by you. This is provided by the Income Tax Department. It shows details of tax deducted on your behalf by deductors, details on tax deposited by taxpayers and tax refund received in the financial year. This form can be accessed from the IT Department's website.

6. Deductions

The lower your taxable income, the lower taxes you ought to pay. So be sure to claim all the tax deductions and benefits that apply to you. Section 80C of the Income Tax Act can reduce your gross income by Rs 1.5 lakhs. There are a bunch of other deductions under Section 80 such as 80D, 80E, 80GG, 80U etc. that reduce your tax liability.

7. Frequently Asked Questions

- **Does salary include all kinds of pension?**

  The definition of salary includes pension. However, pension is what is payable by an employer or previous employer to an employee. Where a pension policy is covered under a contract of employment i.e. say an employer bought it, then also it is taxed under salary. However, pension paid out of any policy with a life insurance company cannot be taxed as salary and will be taxable under the head "Other source"..

- **Do note that pension received from the United Nations Organization is exempt.**

  If a business operates from more than one state, then a separate GST registration is required for each state. For instance, If a sweet vendor sells in Karnataka and Tamil

Nadu, he has to apply for separate GST registration in Karnataka and TN respectively.

- **What are allowances? Are all allowances taxable?**

  The definition of salary includes pension. However, pension is what is payable by an employer or previous employer to an employee. Where a pension policy is covered under a contract of employment i.e. say an employer bought it, then also it is taxed under salary. However, pension paid out of any policy with a life insurance company cannot be taxed as salary and will be taxable under the head “Other source”..

- **What are perquisites? How are they taxed?**

  Employees, as a result of their official position, are given benefits which are called perquisites in income tax parlance. These are received over and above the salary or wages of the employee. eg. Provision of Rent Free Accommodation, vehicles to employees etc. These perquisites can be taxable or non-taxable depending upon their nature. The valuation of perquisites is provided under Rule 3 of the Income Tax Rules, 1962. No taxes have been deducted from my salary by my employer. Should he still issue a Form 16? Form 16 is a statement of taxes deducted by the employer on the employee’s salary income. If taxes have not been deducted, there is no mandate on the employer to issue a form 16. They can, however, issue a salary statement.

- **Are arrears of salary taxable?**

  Yes. Arrears of salary are taxable. However, one can claim relief under Section 89 in this regard.

- **I have losses from house property. I have incurred losses from my business too. Can I set off such losses against my salary income?**

  Losses from house property can be set off against salary income. However, business losses are not allowed to be set off against business income.

- **I have been employed under 2 employers during the same year. Can I claim a basic exemption of Rs 2.5 lakhs against each of the salary incomes?**

  Such basic exemption of Rs 2.5 lakhs is for your overall income for the year. You cannot claim this against various incomes separately. Therefore, you must sum up all your income during the year including the salary income from both your employers and then claim a basic exemption of Rs 2.5 lakhs from such income.

- **I have been employed with 2 employers during the same year and because my income did not cross the basic exemption limit under each of the employers, no TDS was done. Should I pay any income taxes on my own?**

  Even if TDS has not been made by any of your employers, in case you have a taxable income after claiming all deductions applicable to you, you will have to pay taxes yourself which is called**Self Assessment Tax**

- **Can I claim an HRA benefit if I enter into a rental agreement with my wife?**

  This is not an advisable tax planning measure. The intention of Section 10(13A) for claiming HRA as an exemption is to help employees who are forced to live closer to their workplace or sometimes in another city for employment. Where you get into an arrangement of paying rent to your wife and then claim HRA exemption, it cannot be said to be within the framework of law because a husband and a wife, typically, do not share a commercial relationship. If such an arrangement catches the eye of the income tax department, it is bound to be viewed as tax evasion.

ALL ARTICLES

1. **Sign-on bonus refunded to Employer cannot be Reduced from taxable salary: Case Law**

   When an employee receives a sign-on bonus and has to return it due to change of employer, should the bonus be taxable to the employee? Read this case law.

2. **Changed jobs? How to deal with multiple Form 16s**

   People tend to change jobs for a better pay scale or to acquire new skills, and when you do this within an FY, you will have more than one Form 16. Read more.

3. **Is an Interest-free Loan from Employer Taxable?**

   When an employee takes an interest-free loan from the employer, the interest-free component is taxable in the hands of the employee. Read more.

4. **Tax benefits on a car provided by the employer**

   Tax benefits on the car lease facility provided by the employer can be claimed depending on the ownership of the car and expenses incurred. Read more here.

5. **Leave Encashment**

   The concept of leave encashment is quite common among the salaried class. Read on to know more on meaning and taxability of leave encashment received by employees

6. **Form 12BA – Overview, Applicability, Format & Much More**

Form 12BA is a detailed statement showing particulars of perquisites, other fringe benefits and profits in lieu of salary that is issued by the employer along with Form 16

7. **What is Professional Tax – Meaning, Rates & Compliance's**

   Professional Tax is levied on all professions, trades, and employments and levied based on the income of such profession, trade or employment. Read more to know about rates, who should pay it, payment procedure & consequences of violation of Professional Tax Regulation.

8. **Transport Allowance for Salaried Employees – Meaning, Conditions & Exemption**

   Transport Allowance forms part of an employee's salary structure. This article discusses the meaning of Transport Allowance, Exemption available, conditions attached and changes in Budget 2018 in this regard.

9. **Income Tax Allowances and Deductions Allowed to Salaried Individuals**

   List of various allowances and deductions allowed to salaried individuals which helps reduce the tax burden and building capital in the long run.

10. **Union Budget 2018 – Amendments in the Employees Provident Fund Act**

    In the union budget 2018, the finance minister has proposed to reduce the EPF contribution rates of new female employees from 12% to 8%. It aims to boost female participation in the workforce.

11. **Standard Deduction for Salaried Individuals**

    Standard deduction of Rs 40,000 reintroduced in the Budget 2018. To replace transport and medical allowance. Learn how it would impact your income tax.

12. **HRA Exemption on a Rented Hotel Room**

    Can an employee claim exemption of HRA exemption on a rented hotel room ? Read this article to find out if it is possible.

13. **LTA – Leave Travel Allowance – Rules, Exemption for Claiming**

    Find out how can you claim LTA - Leave Travel Allowance. Check out the example given for better understanding of LTA rules and lta block.

14. **Taxation of Cashback**

    Check out the taxation of cashback and how you can deal with taxes applicable on Instant cashbacks and Deferred cashbacks or cashback referrals.

15. **Is Stipend Income Taxable?**

Are stipends taxable? Check out whether you should file income tax return or not. Know about TDS on stipend and deductions on expenses.

16. **Difference between Form 16 and Form 16A**

Find out the difference between Form 16 and Form 16A. Form 16 is for only salary income while Form 16A is applicable for TDS on Income Other than Salary.

17. **Are Pensions Taxable?**

Is Pension Taxable? Check out the example mentioned with calculations to find out when the pension is and when it is not taxable.

18. **What is Form 16 – Basics, Part A & Part B of Form 16, FAQs**

Find out what is form 16 and how to fill form 16? Know about form 16A and form 16B. Upload your Form 16 and start filing Tax retuns.

19. **Difference Between Assessment Year (AY) and Financial Year (FY)**

Find out what is AY - Assessment Year & FY - Financial Year. Know the difference between AY and FY. Check out the recent years under AY & FY.

20. **Income Tax Exemption on Gratuity**

Gratuity Exemption calculation. How much tax to pay on Gratuity. When is Gratuity applicable.

21. **Can I pay rent to my parents to save tax?**

'Claim HRA when living in parent's house. How to save tax on HRA by paying rent to parents. Download and prepare rent receipts from parents.'

22. **The ClearTax Guide on Excess TDS is Deducted by Employer**

File Income Tax Returns online with ClearTax. ClearTax is fast, safe and very easy to use. Save money. ClearTax handles all cases of Income from Salary, Interest Income, Capital Gains, House Property, Business and Profession. ClearTax maximize your deductions by handling all deductions under Section 80 like section 80C, 80D, 80CCF, 80G, 80E, 80U and the rest. You can use your digital signature to e-file. Our products are trusted by hundreds of CAs and corporations for filing taxes and TDS.

23. **Leave Travel Allowance**

File Income Tax Returns online with ClearTax. ClearTax is fast, safe and very easy to use. Save money. ClearTax handles all cases of Income from Salary, Interest Income, Capital Gains, House Property, Business and Profession. ClearTax maximize your

deductions by handling all deductions under Section 80 like section 80C, 80D, 80CCF, 80G, 80E, 80U and the rest. You can use your digital signature to e-file. Our products are trusted by hundreds of CAs and corporations for filing taxes and TDS.

24. How are Non-Tangible Employee Benefits Taxed

File Income Tax Returns online with ClearTax. ClearTax is fast, safe and very easy to use. Save money. ClearTax handles all cases of Income from Salary, Interest Income, Capital Gains, House Property, Business and Profession. ClearTax maximize your deductions by handling all deductions under Section 80 like section 80C, 80D, 80CCF, 80G, 80E, 80U and the rest. You can use your digital signature to e-file. Our products are trusted by hundreds of CAs and corporations for filing taxes and TDS.

25. Difference between Assessment Year and Financial Year

Clear up your confusion on this most commonly asked question!

26. Guide to Form 12BB

Form 12BB is a tax-saving declaration statement that employees have to submit to employers. Read more about Form 12BB and download it.

27. Understanding Form-16

All you need to know about Form 16. Upload your Form 16 and prepare income tax return automatically. Understand what is Part A & Part B of Form 16 with example. We support multiple Form 16.

28. How is take home different from CTC?

Your job may entitle you not only to a salary but also to some benefits in the form of food coupons or a cab service. The total cost to the company to hire you is the sum of all the benefits offered plus your salary

29. Is stipend income taxable?

Tax treatment of stipend income depends on whether it is considered a scholarship or a salary.

30. Understanding Your Form-16A

Guide to understanding your Form-16A. Form-16A also called the TDS Certificate contains information about the TDS deducted by a deductor on payments to you. Form-16A is on TDS for non-salary payments.

31. Difference between Form 16 and Form 16A

Form 16 is a TDS certificate for salary income you receive from the employer while Form 16A is applicable in cases where TDS is deducted on income other than salary

32. **Claiming Relief under Section 89(1) on Salary Arrears**

You can claim tax relief under Section 89(1) on salary arrears.

33. **Income Tax for Salaried Individuals**

A detailed guide to understanding your salary income & its tax implications

ClearTax

Income from salary is the income or remuneration received by an individual for services he is rendering or a contract undertaken by him. This clause essentially assimilates the remuneration received by a person for the services provided by him under the contract of employment.

This amount of remuneration will be considered as income for the purposes of Income Tax Act only if there is an Employer and employee relationship between the person who is making the payment and the person who is receiving the payment.

Employer and Employee Relationship – Any payment that is received by a person will be treated as Income under Income Tax Act if there exist an Employer and employee relationship between the payer and payee. For the purpose of qualifying income as income from salary, their relationship should be that of a master and servant.Where a master is a person who directs his employee that what is to be done and how it is to be done and servant is the person who is liable to conduct that work in the manner told by his employer.

Meaning of Salary

The salary for the purpose of calculation of income from salary includes:

- Wages;
- Pension;
- Annuity;
- Gratuity;
- Advance Salary paid;
- Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages;
- Annual accretion to the balance of Recognized Provident Fund;
- Leave Encashment;
- Transferred balance in Recognized Provident Fund;
- Contribution by Central Govt. or any other employer to Employees Pension A/c as referred in Sec. 80CCD.

What is CTC?

CTC is one of the generic term when a person talks about salary. CTC stands for Cost To Company. It is the amount that the company in spending on hiring and sustaining an employee.

CTC includes the salary as well as the other benefits provided to an employee which can be meal coupons, office space rent, **Provident Fund**, Medical Insurance, **House Rent Allowance(HRA)** and any other element that cost to the company.
It may be noted that CTC varies from the actual income from salary that a person receives as CTC also includes variables over and above the actual salary that a person is receiving.

Calculation of Income from salary

Particulars	Amount
Basic Salary	—
Add:	—
1. Fees, Commission and Bonus	—
2. Allowances	—
3. Perquisites	—
4. Retirement Benefits	—
5. Fees, Commission and Bonus	—
Gross Salary	—
Less: Deductions from Salary	—
1. Entertainment Allowance u/s 16	—
2. Professional Tax u/s 16	—

Particulars	Amount
Net Salary	—

Allowances

Fully Taxable allowances:

- **Dearness Allowance:** The allowance is paid to the employees to cope with inflation.
- **Entertainment Allowance:** This is an allowance that is provided to the employees to reimburse the expenses which are incurred on the hospitality.
- **Overtime Allowance:** Overtime allowance is the allowance which is paid to the employees for working above the regular work hours.
- **City Compensatory Allowance:** This allowance is paid to those employees who move to urban cities.
- **Project Allowance:** When an employer provides an allowance to the employees to meet the project expenses.
- **Tiffin/Meals Allowance:** Employees may be provided with meal allowances in some cases.
- **Cash Allowance:** Employer may also provide cash allowance in some cases like for marriage or holiday purposes.

Partly Taxable allowances:

- **House Rent Allowance:** It is the allowance that an employer pays to his employee for accommodation.
- **Entertainment allowance**
- **Special allowances** like allowance for travel, uniform, research allowance etc.
- **Special allowance to meet personal expenses** like children's education allowance, children hostel allowance etc.

Non Taxable allowances:

- **Allowances that is paid to the Govt. servants abroad:** When the government employee of India are paid allowances when they are serving abroad.
- **Sumptuary allowances:** Sumptuary allowances which are paid to the judges of HC and SC are not taxed.
- **Allowance paid by UNO:** Allowances which is received by the employees of UNO are fully exempt from tax.
- **Compensatory allowance paid to judges:** When a judge receives a compensatory allowance, it is also not taxable.

It may be noted that a person can save tax on income from salary by getting the **Tax Saving Allowances**.

Perquisites

Perquisites are those payments which are received by an employee from the employer over and above the salary.

Perquisites that are taxable for all the employees:

- Rent free accommodation
- Club fee payments
- Movable assets
- Concession in accommodation rent
- Interest-free loans
- Educational expenses
- Insurance premium paid on behalf of employees

Perquisites that are taxable only to specified employees:

- Free gas, electricity etc. for domestic purpose
- Concessional transport facility
- Concessional educational expenses
- Payment made to gardener, sweeper and attendant.

Perquisites that are exempt from tax:

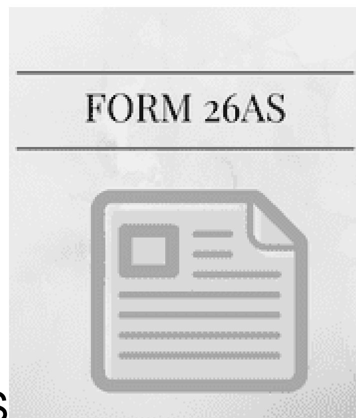
- Medical benefits
- Health Insurance Premium
- Leave travel concession
- Staff Welfare Scheme
- Car, laptop etc. for personal use.

FORM 16

Form 16 is a certificate, in which employer certifies the details about the salary and the **tax deducted at source** from the salary during the year. Form 16 is issued once in a financial year, **on or before 31st May** of the next year immediately following the financial year in which tax is deducted.Form 16 has two parts:

Part A- It contains the information of the employer & employee, like name & address, PAN and TAN details, a period of employment, details of TDS deducted & deposited with the government.

Part B- It contains the details of salary paid, other incomes, deductions allowed, tax payable etc.

FORM 26AS

Form 26AS is required to be issued Under Section 203AA of the Income-tax Act. It is a consolidated tax credit statement issued to a taxpayer and shows the Income tax that has been deposited with the government with respect to the taxpayer and Form 26AS
Form 26AS Contains all the details of the taxes paid and deposited with the Income Tax Department.

All the details uploaded on the form help an individual to check your tax liabilities and rectify any error before it is too late.

For any help on **ITR Filing** feel free to consult the tax experts at LegalRaasta. You can file ITR yourself via our **ITR software** or get CA's help on filing income tax return. You can also use the option of **Business Return**, **Bulk Return** or Revised Return Filing.

Income from House Property".

One important point to be kept in mind is that such a property should not have been used for personal business or profession. So even if you own a shop *(which is a building)* and given it on rent, than income from such shop will be taxed as "Income from House Property".

What is considered as House Property?

Let's understand what exactly house property means in order to understand the income from house property.

- House property consists of any building or land attached to that building. The land may be in the form of a courtyard or compound forming part of the building.
- An open plot of land is not considered as House property
- House property includes flats, shops, office space, factory sheds & farm houses.

- Further, house property includes all type of house properties, i.e., residential houses, godowns, cinema building, workshop building, hotel building, etc.

What conditions need to be met?

Now the income will be taxed as income from house property only if following conditions are satisfied:

- Assessee has to be the owner of the property
- The property is being used for any purpose other than for carrying out business & profession.

Income from House Property & Scenarios

Now there are two scenarios of income from house property:

1. **Income from self-occupied house property** is the property which you are using as your own residence throughout the year without letting it out or using it for another purpose and since you are using the property for your own purpose, there will not be any income from the same property. Thus your income from self-occupied house property will always be NIL.

2. **Income from let out house property**: In case if your property is let out, you will receive rent from your tenant(s). This rent income will be taxed as your income

from house property. In short rental income received by the owner from letting out the house property will be taxed under income from house property.

Rental income from subletting is not taxed as income from house property since in that case person receiving the rent income from subletting is not the owner of the property.

How to calculate Income from House property?

First we determine the Gross Annual Value. The gross annual value of a self-occupied house is zero. Whereas in case of Let out house, it is the rent collected.

How to calculate Income from House property?

First we determine the Gross Annual Value. The gross annual value of a self-occupied house is zero. Whereas in case of Let out house, it is the rent collected.

GROSS ANNUAL VALUE OF THE PROPERTY
Less: Municipal Taxes paid by owner
= Net Annual Value (*Gross Annual Value – Property Tax*)
Less: 30% standard deduction on NAV (under Section 24(a) of the Income Tax Act)
Less: Interest on home loan (*allowed under Section 24(b)*)
= Income from house property

Since the gross annual value of a *self-occupied house* is zero, 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 in the current *Assessment Year*. Losses that cannot be set off, shall be carried forward up to 8 assessment years.

Income Tax Benefits on home loan

Tax benefit u/s 80C

You can claim home loan interest on any number of homes you own. The home loan benefits can be categorised into two parts, principal repayment and interest payment. Benefits for principal repayment are available **u/s 80C** and the maximum deduction limit u/s 80C is Rs. 1,50,000.

Related Articles

1.

   How to save Tax on Rental Income in India?

   Tell me, who does not like to own a property that generates a steady rental...

2.

   6 Steps for Renting Commercial Property in India

   Renting a residential property pales in comparison to leasing commercial properties. It involves larger spaces,...

3.

[Revised GST Rates on Real Estate Properties | Latest GST Rates for Under-Construction Properties]

The GST Council today (24-Feb-2019) has announced a rate cut in the goods and services…

Tax deduction u/s 24

The benefits for home loan interest payments are available **u/s 24B and 80EE** of the income tax act. As per income tax act, you can have **two homes** as self-occupied *(from FY 2019-20 / AY 2020-21)* and for that, you can claim the home loan interest benefits u/s 24B up to Rs. 2,00,000.

- Tax benefit on loan repayment of **second house / Let-out property will be restricted to Rs 2 lakh per annum** only *(even if you have multiple house the limit is still going to be Rs 2 Lakh only and the ceiling limit is not per house property)*.
- The unclaimed loss if any will be carried forward to be set off against house property income of subsequent 8 years. In most of the cases, this can be treated as '**dead loss**'.
- I believe that this is a major blow to the investors who have bought multiple houses on home loan(s) with an intention to save taxes alone.
- As of now *(till FY 2016-17)*, interest paid on your housing loan is eligible for the following tax benefits ;
  - Municipal taxes paid, 30% of the net annual income *(standard deduction)* and interest paid on the loan taken for that house are allowed as deductions.
  - After these deductions, your rental income can be **NIL** or **NEGATIVE** and is called 'loss from house property' in the latter case.
  - Such loss is currently allowed to be set off against other heads of income like Income from Salary or Business etc. which helps you to lower you tax liability substantially.

Section 80EE

This was a new proposal which had been made in Budget 2016-17. The same will be continued in FY 2017-18 / AY 2018-19 too. First time Home Buyers can claim an additional Tax deduction of up to Rs 50,000 on home loan interest payments u/s 80EE. The below criteria has to be met for claiming tax deduction under section 80EE.

- The home loan should have been sanctioned during / after FY 2016-17.
- Loan amount should be less than Rs 35 Lakh.
- The value of the house should not be more than Rs 50 Lakh &
- The home buyer should not have any other existing residential house in his name.

New Section 80EEA for FY 2019-20 or AY 2020-21

Besides the tax deductions under Section 80C and 24b, an individual can now claim up to Rs 1.5 lakh under Section 80EE from FY 2019-20 or AY 2020-21 onwards, subject to below conditions;

- The home loan should have been sanctioned between 1st April, 2019 to 31st March 2020.
- The Stamp duty value of the property should not exceed 45 Lakhs.
- Taxpayer should not own any other residential property on the date of loan sanction.
- This tax benefit will be available from 1st April 2020 *(AY 2020-21)* and till the end of the home loan tenure *(closure)*.
- The total interest deduction is now Rs. 3.5 lakh *(Rs 2 Lakh + Rs 1.5 Lakh)*.

Kindly note that the deduction under Section 80EEA is available for home loans from banks and approved financial institutions only. Under Section 24, even interest paid on home loans from friends and relatives is eligible for tax benefit.

To claim tax benefit under Section 24, you should have received possession of your house *(interest paid before possession is eligible for deduction over the next 5 years in 5 equal installments)*. Section 80EE and 80EEA do not impose any requirement of possession or completion of construction. Therefore, Section 80EEA provides you immediate tax relief even if you have purchased an under-construction property.

Continue reading :

List of Incomes Classified under Profits and Gains of Business or Profession

The following incomes will be chargeable to income tax under the head “Profits and gains of business or profession”:

1. Protis and gains of any business which was carried on by the assessee at any time during the financial year
2. Any compensation or other payment due to or received by:
    - Any person in connection with termination/modification of an agreement for managing the whole or substantially the whole of affairs of an Indian company or any other company.
    - Any person holding an agency in India for any part of the activities relating to the business of any other person at or in connection with the termination or modification of the terms of the agency.
    - Any person for or in connection with the vesting in the Government, or in any corporation owned by or controlled by the Government, under any law for the time being imposed, of the management of any property or business.
3. Income derived by trade, professional or similar association from specific services performed for its members. This is an exception to the general principle that a surplus arising to a mutual association cannot be regarded as income chargeable to tax.
4. Export incentives which include:
    - Profits on sales of import licenses granted under Imports (Control) Order on account of exports.
    - Cash assistance, by whatever name called, received or receivable against export.
    - Duty drawbacks of Customs and Central Excise duties.
    - Any profit on the transfer of the Duty Entitlement Pass Book Scheme.
    - Any profit on the transfer of the Duty Free Replenishment Certificate.
5. Value of any benefit or perquisite, whether convertible into money or not, arising during the course of the carrying on of any business or profession.
6. Any interest, salary, bonus, commission or remuneration due to or received by a Partner of a Firm from the firm in which he is a partner.
7. Any sum received or receivable in cash or in kind under an agreement for:
    - Not carrying out activity in relation to any business or profession.
    - Not sharing any know-how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or services.
8. Any sum received under a Keyman Insurance Policy including the sum allocated by way of bonus on such policy.
9. Any sum whether received or receivable, in cash or kind, on account of any capital asset being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under Section 35AD.

Classifying Income Under Profits and Gains of Business or Profession

In case the taxpayer is not able to find a type of income under the list above, the following conditions can be used to verify if an income would fall under Profits and gains of business or profession. According to Section 28, the following are the main clause that requires an income to be charged under profits and gains of business or profession:

1. There should be a business or profession.
2. The business or profession should have been carried on by the assessee.

3. The business or profession should be carried on for some time during the financial year.
4. The charge is in respect of the profits and gains of the financial year of the business or profession.
5. The charge extends to any business or profession carried on by the assessee whether under the taxpayer's own name or otherwise.

Under Section 28, one of the main aspects on determining if an income must be classified under profits and gains of business or profession is that if a business was carried on by the assessee at any time during the financial year. It is, however, not necessary that the business is carried out throughout the financial year or till the end of the financial year.

Other Income Classified as Profits and Gains of Business

There are certain exceptions to the above rules. The following incomes must be classified under Profits and Gains of Business, even if a business was not carried on by the assessee during the previous year.

- Recovery against any loss, expenditure or trading liability earlier allowed as a deduction.
- Balancing charge in case of electricity companies.
- Sale of a capital asset which was used for scientific research.
- Recovery against bad debts.
- Any amount which is withdrawn from a Special Reserve.
- Receipt of discontinued business in the case of assessees who are making use of a cash system of accounting.

To know about the concept of Tax Audit Turnover in Income Tax, click **here**.

Other Related Guides

Income Tax Attachment & Recovery Income Tax Attachment & Recovery Attachment and recovery are legal proceedings initiated under Income Tax Law for failure to file returns and pay...

Profits and Gains from Business and Profession Profits and Gains from Business and Profession To file the income tax return for a company, partnership firm, LLP or a proprietorship concern, profit...

Know your PAN Card Know Your Pan Card The Income Tax Department has introduced a remedy for Pan Card losses or misplacement in the form of "Know your PAN", which provid...

Section 80D Deduction – Income Tax Section 80D Deduction - Income Tax Section 80D is a facility introduced in the Income Tax Act to allow taxpayers to claim a deduction for medical ins...

NIL Return Income TaxNIL Return Income Tax Nil return filing means communicating to the Income Tax Department that the taxpayer does not have any taxable income for a par...

Define … ‘Profits and Gains of Business or Profession’ and its Computation (Section 28)

1. *Business Incomes Taxable under the head of ‘Profit and Gains of Business or Profession’ (Section 28).*
2. *Business Income Not Taxable under the head ‘Profit and Gains of Business or Profession’*
3. *Mode of Taxation on Certain Incomes (Section 145B)*
4. *Basic Principles for Computing income Taxable under the head ‘Profit and Gains of Business or Profession’*

In view of Section 2(13), business includes any (a) trade, (b) commerce, (c) manufacture, or (d) any adventure or concern in the nature of trade, commerce or manufacture. It covers every facet of an occupation carried on by a person with a view to earning profit.

- The word “business” is one of large and indefinite import and connotes something which occupies attention and labour of a person for the purpose of profit.
- Business arises out of commercial transactions between two or more persons. One cannot enter into a business transaction with oneself.

As per section 2(36), profession includes vocation. As profits and gains of a business, profession or vocation are chargeable to tax under the head “Profits and gains of business or profession”, distinction between “business”, “profession” and “vocation” does not have any material significance while computing taxable income. What does not amount to “profession” may amount

to "business" and what does not amount to "business" may amount to "vocation".

1. Business Incomes Taxable under the head of 'Profit and Gains of Business or Profession' (Section 28).

Under section 28, the following income is chargeable to tax under the head "Profits and gains of business or profession":

i. profits and gains of any business or profession;
ii. any compensation or other payments due to or received by any person specified in section 28(ii);
iii. income derived by a trade, professional or similar association from specific services performed for its members;
iv. the value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession;
v. any profit on transfer of the Duty Entitlement Pass Book Scheme;
vi. any profit on the transfer of the duty free replenishment certificate;
vii. export incentive available to exporters;
viii. any interest, salary, bonus, commission or remuneration received by a partner from firm ;
ix. any sum received for not carrying out any activity in relation to any business or profession or not to share any know-how, patent, copyright, trademark, etc.;
x. fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset determined in the prescribed manner;
xi. any sum received under a Keyman insurance policy including bonus;
xii. any sum received (or receivable) in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under section 35AD; and
xiii. income from speculative transaction.

2. Business Income Not Taxable under the head 'Profit and Gains of Business or Profession'

In the following cases, income from trading or business is not taxable under section 28, under the head "Profits and gains of business or profession":

Rental income in the case of Dealer in Property :

Rent of house property is taxable under section 22 under the head "Income from house property", even if property constitutes stock-in-trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.

Dividend on Shares in the case of a Dealer-in-Shares :

Dividends on shares are taxable under section 56(2)(i), under the head "Income from case of a dealer-in-shares other sources", even if they are derived from shares held as stock-in-trade or the recipient of dividends is a dealer-in-shares. Dividend received from an Indian company is not chargeable to tax in the hands of shareholders (this rule is subject to a few exceptions‡).

Winnings from Lotteries, etc.

Winnings from lotteries, races, etc., are taxable under the head "Income from other sources" etc. (even if derived as a regular business activity).

Interest received on Compensation or Enhanced Compensation :

Such interest is always taxable in the year of receipt under the head "Income from other sources" (even if it pertains to a regular business activity). A deduction of 50 % is allowed and effectively only 50 % of such interest is taxable under the head "Income from other sources".

Profits derived from the aforesaid business activities are not taxable under section 28, under the head "Profits and gains of business or profession". Profits and gains of any other business are taxable under section 28, unless such profits are exempt under sections 10 to 13A.

3. Mode of Taxation on Certain Incomes (Section 145B)

Section 145B has been inserted by the Finance Act, 2018. It is applicable from the assessment year 2017-18 onwards. It provides mode of taxation of the following incomes –

1. Interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received (however, it is taxable under section 56 under the head "Income from other sources").
2. The claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.
3. Assistance in the form of subsidy (or grant or cash incentive or duty drawback or waiver or concession or reimbursement) as referred to in section 2(24)(xviii) shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

4. Basic Principles for Computing income Taxable under the head 'Profit and Gains of Business or Profession'

1. ***Business or profession carried on by the assessee –***

   Business or profession should be carried on by the assessee.

2. ***Business or profession should be carried on during the previous year –***

   Income from business or profession is chargeable to tax under this head only if the business or profession is carried on by the assessee at any time during the previous year (not necessarily throughout the previous year). There are a few exceptions to this rule.

3. ***Income of previous year is taxable during the following assessment year –***

   Income of business or profession carried on by the assessee during the previous year is chargeable to tax in the next following assessment year. There are, however, certain exceptions to this rule.

4. ***Tax incidence arises in respect of all businesses or professions –***

   Profits and gains of different businesses or professions carried on by the assessee are not separately chargeable to tax. Tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. If, therefore, an assessee earns profit in one business and sustains loss in another business, income chargeable to tax is the net balance after setting off loss against income. However, profits and losses of a speculative business are kept separately.

5. ***Legal ownership vs. Beneficial ownership –***

Under section 28, it is not only the legal ownership but also the beneficial ownership that has to be considered. The courts can go into the question of beneficial ownership and decide who should be held liable for the tax after taking into account the question as to who is, in fact, in receipt of the income which is going to be taxed.

6. ***Real profit vs. Anticipated profit –***

Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at taxable income of a previous year. This rule is, however, subject to one exception: stock-in-trade may be valued on the basis of cost or market value, whichever is lower.

7. ***Real profit vs. Notional profit –***

The profits which are taxed under section 28 are the real profits and not notional profits. For instance, no person can make profit by trading with himself in another capacity.

8. ***Recovery of sum already allowed as deduction –***

Any sum recovered by the assessee during the previous year in respect of an amount or expenditure which was earlier allowed as deduction, is taxable as business income of the year in which it is recovered .

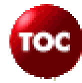
9. ***Mode of book entries not relevant –***

The mode or system of book-keeping cannot override the substantial character of a transaction.

10. ***Illegal business –***

The income-tax law is not concerned with the legality or illegality of a business or profession. It can, therefore, be said

that income of illegal business or profession is not exempt from tax.



Unit –3

tax that is levied on long term and short term gains starts from 10% and 15%, respectively. Capital gain can be defined as any profit that is received through the sale of a capital asset. The profit that is received falls under the income category. Therefore, a tax needs to be paid on the income that is received. The tax that is paid is called capital gains tax and it can either be long term or short term.

Under the Income Tax Act, capital gains tax in India need not be paid in case the individual inherits the property and there is no sale. However, if the person who has inherited the property decides to sell it, tax will have to be paid on the income that has been generated from the sale. Some of the **examples of capital assets** are jewellery, machinery, leasehold rights, trademarks, patents, vehicles, house property, building, and land.

Types of Capital Assets

The two types of capital assets are mentioned below:

- **long term capital asset:** In case individuals own an asset for a duration of more than 36 months, the asset is a long term capital asset. Debt-oriented mutual funds, jewellery, etc., that are held for a duration of more than 36 months will come under this category and there is no 24-month reduction period under such circumstances.
  The below-mentioned assets are considered as long term assets if they are held for a duration of more than 12 months:
  - Zero coupon bonds (not dependent on whether they are quoted or not)
  - Unit Trust of India (UTI) units (not dependent on whether they are quoted or not)
  - Equity-based mutual funds units (not dependent on whether they are quoted or not)
  - Securities that are listed on a stock exchange that is recognised in India. Examples of such securities are government securities, bonds, and debentures.
  - Preference shares or equities that are held in a company that is listed on a stock exchange that is recognised in India.
- **short term capital asset:** In case assets are held for a duration of 36 months or less, it can be defined as a short term capital asset. However, for immovable assets such as house property, building, and land, the duration has been reduced from 36 months to 24 months.

Therefore, if an individual wishes to sell a land or house after holding it for a duration of 24 months, the profit that the individual makes from it comes under long term capital gain.

In case the property has been inherited or given as a gift, the amount of time the property was held by the previous owner is also considered when determining whether the property can be considered as a short term capital asset or a long term capital asset.

The date on which the bonus shares were allotted is considered when determining the category under which bonus shares or right shares fall.

How to Calculate Capital Gains?

Depending on the amount of time that the asset has been held, the calculation of Capital Gains will vary. Some of the important points that individuals should know when calculating capital gains are mentioned below:

- **Cost of improvement:** If there are any expenses that have been incurred by the seller because of any alterations or additions that have been made to the property. However, any improvements made before 1 April 2001 cannot be considered.
- **Acquisition cost:** The amount of money that the seller paid in order to acquire the property.
- **Full value consideration:** The amount of money that the seller will receive because of the property transfer. Capital gains are charged from the year the transaction was made even if the money was not received in that particular year.

In certain cases where the capital asset is also the property of the taxpayer, the acquisition cost and the improvement cost of the previous owner will also be included.

How to Calculate Long Term Capital Gains?

The procedure to calculate long term Capital Gains is mentioned below:

- First, the individual must consider the full value of the asset.
- Next, the individual must make the below-mentioned deductions:
  - The costs that have been incurred due to the transfer.
  - The amount of money that is spent on the acquisition.
  - The amount of money that is spent on improvement.
- From the number that has been calculated by following the above steps, the individual must subtract any exemptions that are provided under Section 54B, Section 54F, Section 54EC, and Section 54.

Example to Calculate long term Capital Gains

Given below is an example to calculate long term Capital Gains:

Assumptions:

Price house was purchased for: Rs.30 lakh

Financial Year house was purchased: 2010-2011

Financial Year house was sold: 2018-2019

Amount house was sold for: Rs.50.5 lakh

Inflation adjusted cost: (280/167) x 30 = 50.29 lakh

long term Capital Gains: 50.50 lakh – 50.29 lakh = Rs.21,000 (approx)

How to Calculate Short Term Capital Gains?

The below-mentioned procedure must be followed by individuals in order to calculate short term capital gains:

- First, the individual must consider the full value of the property.
- Next, the below-mentioned points must be deducted:
  - Expenses that have been incurred for the improvement of the property.
  - The expenses incurred for acquiring the property.
  - Any expenses that have been incurred for the transfer of the property.
- The amount that is calculated after the deduction is the short term capital gain.

The formula for the calculation of short term capital gain is the full value consideration minus the expenses that have incurred for the transfer minus the cost for improving and acquiring the property.

Example for Calculation of short term Capital Gains

Given below is an example of how short term Capital Gains is calculated:

Assumptions:

Price the house was sold for: Rs.55 lakh

Expenses for brokerage, commissions etc: Rs.30,000

Net sale consideration: Rs.54,70,000

Price the house was bought for: Rs.35 lakh

Amount spend for the improvement of house: Rs.3 lakh

Gross short term Capital Gain: Rs.16,70,000

Tax exemptions under Sections 54, 54B, 54D, 54EC, 54ED, 54F, 54G: Nil

Net short term Capital Gain: Rs.16,70,000

Short Term Capital Gains: 30% of Rs.16,70,000: Rs.5,01.000

Long term Gain Tax Rate

Condition	Tax Rate
Sale of equity shares	10% of the amount which is more than Rs.1 lakh
Except for sale of equity shares	20%

Short Term Gains Tax Rate

Condition	Tax Rate
When the transaction tax is based on securities	15%

Condition	Tax Rate
When transaction tax is not based on securities	The gain is added to the income tax returns that must be filed, and the amount will be based on the income tax slab

Cost Inflation Index Number

Given in the table below is the CII Number from the financial year 2001-2002 to FY 2018-2019:

Financial Year	Assessment Year	CII Number
2001-2002	2002-2003	100
2002-2003	2003-2004	105
2003-2004	2004-2005	109
2004-2005	2005-2006	113
2005-2006	2006-2007	117
2006-2007	2007-2008	122
2007-2008	2008-2009	129
2008-2009	2009-2010	137
2009-2010	2010-2011	148
2010-2011	2011-2012	167
2011-2012	2012-2013	184
2012-2013	2013-2014	200

Financial Year	Assessment Year	CII Number
2013-2014	2014-2015	220
2014-2015	2015-2016	240
2015-2016	2016-2017	254
2016-2017	2017-2018	264
2017-2018	2018-2019	272
2018-2019	2019-2020	280

Indexed Cost of Improvement and Acquisition

The cost that is incurred on improvement and acquisition is indexed with the main aim of adjusting inflation for the number of years the property was held. This not only reduces capital gains but also increases the cost base.

Formula for calculation of indexed tax for improvement: The expenses incurred for improvement x Cost Inflation Index (CII) for the year the property was sold divided by the CII of the year the improvement occurred.

Formula for calculation of indexed tax for acquisition: The total expenses incurred for acquisition x CII of the year the property was sold divided by the CII of the year the property was initially acquired by the seller (or 2001-2002 whichever is later).

Capital Gains Tax FAQs

1. **What are the different types of income that are taxable under Capital Gains?**
   Under Capital Gains, any profit that is made from a capital asset transfer during the year is taxable.
2. **Why are capital gains classified into long-term and short-term?**
   Depending on the nature of the gain, the amount of tax that must be paid will vary. In order to determine the tax that must be paid, capital gains are differentiated into long-term capital gain and short-term capital gain. Therefore, the computation process varies for short-term capital gains and long-term capital gains.
3. **In the case of a short-term capital asset transfer, is there any indexation benefit when computing capital gain?**
   No, the benefit of indexation is provided for only long-term capital assets and not for short-term capital assets.
4. **In case I have sold a house that I had purchased 4 years ago, should I pay tax on any profits that I have earned?**
   If you sell a house, it comes under long-term capital assets. Therefore, any profit that is made is taxable under Capital Gains.
5. **Should I file any form in case I want to withdraw from the Capital Gain Account?**

Depending on the account you want to withdraw from, the form that must be filed will vary. In the case of Account-A, Form C must be deposited. In the case of Account-B, the amount must be transferred from Account-B to Account-A. This can be done by submitting Form B.

Income from Other Sources Tax

Understanding the head of Income from Other Sources is residuary in nature. It includes incomes which are not taxable in other heads of income.

Income from Other Sources is one of the heads of income chargeable to tax under the Income tax Act. 1961. Any income that is not covered in the other four heads of income is taxable under income from other sources, because of this, it is known as residuary head of income. All the incomes excluded from salary, capital gains, house property or business & profession (PGBP) are included in IFOS, except those which are exempt under the Income Tax Act.

Section 56- Incomes taxable only in Income from Other Sources are

1. Dividend Income;
2. Income earned from winning lotteries, crossword puzzles, races (including horse race), gambling or betting of any kind;
3. Money or movable/immovable property received without consideration or inadequate consideration during previous year;
4. Interest on compensation or enhanced compensation received;
5. Advance money received or money received in negotiation for transfer of a capital asset (only if the money is forfeited and it doesn't result in the transfer of such asset).

Incomes taxable under IFOS, only if not taxable under Profits and Gains of Business or Profession (PGBP):

1. Any sum contributed towards provident funds, ESI, etc. by employee to the employer, only if not deposited in the relevant fund;
2. Interest earned on Securities;
3. Income received from the letting of a plant, machinery or furniture, with or without building.

Incomes taxable under IFOS, only if not taxable under PGBP or Salaries:

1. Keyman Insurance Policy;
2. Salary of MP/MLA.

Income Computation and Disclosure Standards: Section 145 states that Income from Other Sources must be computed on the regular accounting methods followed by the assessee. It can be either cash or mercantile system of accounting. The Central Government has notified Income Computation and Disclosure Standards to be followed while computing the income.

Section 57- Expenditures allowed as deductions

- Expenses incurred for realisation of dividend or interest income;

- Deductions to the extent amount remitted within due date are authorised in respect to contribution towards funds for the welfare of employees;
- Family Pension- deduction is allowed to the extent of 33-1/3% of pension or Rs. 15000 whichever is less;
-
- Deductions for current repairs, insurance and depreciation, will be allowed for income earned by way of lease rental;
- A deduction equal to 50% will be allowed for interest received on compensation or enhanced compensation.

Section 56- Incomes taxable only in Income from Other Sources are

1. Dividend Income;
2. Income earned from winning lotteries, crossword puzzles, races (including horse race), gambling or betting of any kind;
3. Money or movable/immovable property received without consideration or inadequate consideration during previous year;
4. Interest on compensation or enhanced compensation received;
5. Advance money received or money received in negotiation for transfer of a capital asset (only if the money is forfeited and it doesn't result in the transfer of such asset).

Incomes taxable under IFOS, only if not taxable under Profits and Gains of Business or Profession (PGBP):

1. Any sum contributed towards provident funds, ESI, etc. by employee to the employer, only if not deposited in the relevant fund;
2. Interest earned on Securities;
3. Income received from the letting of a plant, machinery or furniture, with or without building.

Incomes taxable under IFOS, only if not taxable under PGBP or Salaries:

1. Keyman Insurance Policy;
2. Salary of MP/MLA.

Income Computation and Disclosure Standards: Section 145 states that Income from Other Sources must be computed on the regular accounting methods followed by the assessee. It can be either cash or mercantile system of accounting. The Central Government has notified Income Computation and Disclosure Standards to be followed while computing the income.

Section 57- Expenditures allowed as deductions

- Expenses incurred for realisation of dividend or interest income;
- Deductions to the extent amount remitted within due date are authorised in respect to contribution towards funds for the welfare of employees;
- Family Pension- deduction is allowed to the extent of 33-1/3% of pension or Rs. 15000 whichever is less;
-
- Deductions for current repairs, insurance and depreciation, will be allowed for income earned by way of lease rental;

- A deduction equal to 50% will be allowed for interest received on compensation or enhanced compensation.

Section 58- Sum not allowed as deductions while computing taxable income

- Personal expenditure;
- Interest or salary payable outside India without TDS deduction;
- Wealth tax;
- Expenditure concerning winnings from lotteries, crossword puzzles, races, and gambling, etc.; and
- Expenses specified in Section 40A.

a coin. Losses, of course, are hard to digest. However, the Income-tax law in India does provide taxpayers some benefits of incurring losses too. The law contains provisions for set-off and carry forward of losses which are discussed in detail in this article.

1. Set off of losses

2. Carry forward of losses

Set off of losses

Set off of losses means adjusting the losses against the profit or income of that particular year. Losses that are not set off against income in the same year can be carried forward to the subsequent years for set off against income of those years. A set-off could be an intra-head set-off or an inter-head set-off.

a. An intra-head set-off

b. An inter-head set-off

a. Intra-head Set Off

The losses from one source of income can be set off against income from another source under the same head of income.

For eg: Loss from Business A can be set off against profit from Business B, where Business A is one source and Business B is another source and the common head of income is “Business”.

Exceptions to an intra-head set off:

1. Losses from a Speculative business will only be set off against the profit of the speculative business. One cannot adjust the losses of speculative business with the income from any other business or profession.

2. Loss from an activity of owning and maintaining race-horses will be set off only against the profit from an activity of owning and maintaining race-horses.

3. Long-term capital loss will only be adjusted towards long-term capital gains. However, a short-term capital loss can be set off against both long-term capital gains and short-term capital gain.

4. Losses from a specified business will be set off only against profit of specified businesses. But the losses from any other businesses or profession can be set off against profits from the specified businesses.

b. Inter-head Set Off

After the intra-head adjustments, the taxpayers can set off remaining losses against income from other heads.

Eg. Loss from house property can be set off against salary income

Given below are few more such instances of an inter-head set off of losses:

1. Loss from House property can be set off against income under any head

2. Business loss other than speculative business can be set off against any head of income except except income from salary.

One needs to also note that the following losses can’t be set off against any other head of income:

a. Speculative Business loss

b. Specified business loss

c. Capital Losses

d. Losses from an activity of owning and maintaining race-horses

Carry forward of losses

After making the appropriate and permissible intra-head and inter-head adjustments, there could still be unadjusted losses. These unadjusted losses can be carried forward to future years for adjustments against income of these years. The rules as regards carry forward differ slightly for different heads of income. These have been discussed here:

Losses from House Property :

- Can be carry forward up to next 8 assessment years from the assessment year in which the loss was incurred
- Can be adjusted only against Income from house property
- Can be carried forward even if the return of income for the loss year is belatedly filed.

Losses from Non-speculative Business (regular business) loss :

- Can be carry forward up to next 8 assessment years from the assessment year in which the loss was incurred
- Can be adjusted only against Income from business or profession
- Not necessary to continue the business at the time of set off in future years
- Cannot be carried forward if the return is not filed within the original due date.

Speculative Business Loss :

- Can be carry forward up to next 4 assessment years from the assessment year in which the loss was incurred
- Can be adjusted only against Income from speculative business
- Cannot be carried forward if the return is not filed within the original due date.
- Not necessary to continue the business at the time of set off in future years

Specified Business Loss under 35AD :

- No time limit to carry forward the losses from the specified business under 35AD
- Not necessary to continue the business at the time of set off in future years
- Cannot be carried forward if the return is not filed within the original due date
- Can be adjusted only against Income from specified business under 35AD

Capital Losses :

- Can be carry forward up to next 8 assessment years from the assessment year in which the loss was incurred
- Long-term capital losses can be adjusted only against long-term capital gains.
- Short-term capital losses can be set off against long-term capital gains as well as short-term capital gains
- Cannot be carried forward if the return is not filed within the original due date

Losses from owning and maintaining race-horses :

- Can be carry forward up to next 4 assessment years from the assessment year in which the loss was incurred
- Cannot be carried forward if the return is not filed within the original due date
- Can only be set off against income from owning and maintaining race-horses only

Points to note:

1.A taxpayer incurring a loss from a source, income from which is otherwise exempt from tax, cannot set off these losses against profit from any taxable source of Income

2. Losses cannot be set off against casual income i.e. crossword puzzles, winning from lotteries, races, card games, betting etc

Clubbing of Income Under Income Tax Act

'Its all in the family'. It may seem ordinary to invest money for a non earning spouse by way of fixed deposits, or other income earning assets or to set up bank accounts, mutual funds or other investments for children to provide for their needs in future. Usually, you are only taxed for your own income, but under certain special circumstances some incomes are 'clubbed' along with your income and you may be liable to pay tax on such clubbed income.

The intention here is to make sure there is no tax that escapes, in case an individual is moving assets or incomes in the family. In a situation where you have incurred a loss, such loss (wherever allowed to be adjusted against an income) is also not allowed to be transferred to anyone and will be 'clubbed' to your income.

Let's understand in what circumstances you may attract this 'clubbing' of income -

In the case of Assets Transfer to Anyone

Transfer of Income - no transfer of assets: When you retain the ownership of an asset but decide to transfer its income by doing an agreement or any other way, the Act will still consider that income as your income and it will be added to your total income for taxation purposes.

Transfer of Asset - which is revocable: When you transfer the ownership of an asset and make such transfer revocable, income from such an asset will continue to be added to your income.

Clubbing of Spouse's Income

Here are some situations when your spouse's income will get clubbed to your income and you'll have to pay tax on it-

(1) Your spouse **receives a salary** from a company or a firm in which you have a substantial interest, then such salary will be clubbed with your income. Substantial Interest means you alone or with your relatives (husband, wife, brother, sister or your lineal ascendant or descendant) hold equity or voting power of a company which is 20% or more. Or in case of a firm you are entitled to 20% or more of the profits. Also, if both of your receive an income from such a firm or company, it will get taxed in the hands of the person whose taxable income is higher. There is one exception to this - if your spouse receives the salary due to his/her application of technical or professional knowledge & experience then such salary will be taxed in the hands of the person receiving it and not clubbed.

(2) You **transfer an asset** to your spouse directly or indirectly without receiving adequate consideration (does not include where asset is transferred as part of a divorce settlement) - income from this asset will be clubbed with your income. For example – where the husband to reduce his tax liability transfers an asset worth Rs 1,00,000 to his wife for Rs 25,000 .3/4th of the income from this asset will be taxed in the hands of the husband. If he receives no consideration, in that case the entire income from this asset will be clubbed with the husband's income. Although the clubbing provisions here exclude house property - but in case you transfer a house property to your wife and do not receive adequate consideration, as per the Act, you will still be considered the 'deemed owner' and the income from the asset will be clubbed with your income.

(3) You **transfer an asset** to a person or an association of persons, directly or indirectly, without adequate consideration, so that the benefit arises to your spouse either now or on a deferred basis, income from such an asset will be clubbed with your income.

(4) Assume a situation where you **provide money** to your spouse (who is non working) and that money is invested by the spouse and a certain income is generated (from such money that you gave your spouse).The income that arises from such investment done by her can be clubbed to your income. However, if your spouse reinvests the income portion and earns further income then such income may not be clubbed with your taxable income.

Clubbing of Income of Minor Child (less than 18 years old)

(1) Some families make fixed deposits in the name of a minor child. Income of a minor is taxable in the hands of the parent whose total income is higher (before including the minor's income). If the parents are divorced it is clubbed with the person who is maintaining the child. There is one exception to this rule - if the minor has earned an income because of his own manual work, or used his talent or specialized knowledge & experience OR in case of a minor who is disabled (based on definition of disability in Section 80U) and earns an income, such income will not be clubbed.

(2) When your minor child's income is clubbed to your income - exemption is available up to Rs 1500 for each such minor child. Which means if clubbed income is more than Rs 1500, Rs 1500 is the maximum exemption, however if clubbed income is say Rs 800 (less than Rs 1500) exemption is limited up to such lesser amount, Rs 800 in this case.

Clubbing of Income of a Major Child (18 or more than 18 years old)

You may be giving over some money to your major child (who may not be earning), in this case if the major child invests that money - any income from these investments will not be taxable in your hands but will be taxed in the hands of the major child. So therefore, there will be no clubbing of income in case of a major child.

Clubbing of Income of a Son's Wife

You transfer an asset to your son's wife directly or indirectly without receiving adequate consideration – income from this asset will be clubbed with your income. Or you transfer an asset to a person or AOP, for the immediate or deferred benefit of your son's wife, without adequate consideration, directly or indirectly - income from this asset will be clubbed with your income

What about Gifts

On one hand are the clubbing provisions that club income that you may be trying to move within family and there are some provisions that allow certain gifts. Even though Gift Tax Act was abolished effective 1st October 1998, certain provisions in the Income Tax Act can tax the money or assets you gift. Read our next guide about the provisions that can tax the gifts that you may be giving or receiving . Keep watching out for more! And reach out to us if you have any queries.

What is Tax Deducted at Source (TDS)

Updated on Mar 09, 2020 - 11:19:20 AM

Read about the Union Budget 2020 highlights here.

TDS stands for tax deducted at source. As per the Income Tax Act, any company or person making a payment is required to deduct tax at source if the payment exceeds certain threshold limits. TDS has to be deducted at the rates prescribed by the tax department.

The company or person that makes the payment after deducting TDS is called a deductor and the company or person receiving the payment is called the deductee. It is the deductor’s responsibility to deduct TDS before making the payment and deposit the same with the government. TDS is deducted irrespective of the mode of payment–cash, cheque or credit–and is linked to the PAN of the deductor and deducted.

TDS is deducted on the following types of payments:

- Salaries
- Interest payments by banks
- Commission payments
- Rent payments
- Consultation fees
- Professional fees

However, individuals are not required to deduct TDS when they make rent payments or pay fees to professionals like lawyers and doctors.

TDS is one kind of advance tax. It is tax that is to be deposited with the government periodically and the onus of the doing the same on time lies with the deductor. For the deductee, the deducted TDS can be claimed in the form of a tax refund after they file their ITR.

What is TDS return?

A deductor has to deposit the deducted TDS to the government and the details of the same have to be filed in the form of a TDS return. A TDS return has to be filed quarterly. Different types of TDS deductions have to be filed using different TDS return forms.

Preparing TDS returns can be done easily using the ClearTDS software. Reach out to us if you need any help with your TDS returns.

Unit----4

Deductions under section 80C to 80U of Income Tax Act 1961 AY 2020-21 | FY 2019-20

Deductions under section 80C to 80U of Income Tax Act 1961 AY 2020-21 | FY 2019-20

Relevant deductions from gross total income under section 80 C to 80U [Chapter VI-A] of income tax are given below:

1	DEDUCTION IN RESPECT OF INVESTMENTS IN SPECIFIED ASSETS (SECTION 80C)

Section 80C provides for a deduction of savings in specified modes of Investments form gross total income. It is available only to an Individual or HUF. The Maximum permissible deduction is Rs.1.5 lakh along with deduction u/s 80CCC & 80CCD.

S.no.	Admissible Deductions

1	Premium paid on insurance on life of the Individual or HUF.
2	Sum paid under the contract for deferred on life of the Assessee or his/her spouse or children.
3	Sum deducted by the government from the salary of an employee for securing a deferred annuity for self, spouse or children.The sum so deducted should not exceed one-fifth of the salary.
4	Contribution to any Public Provident Fund governed by Provident Funds Act, 1925
5	Contribution by an employee to Recognized Provident Fund.
6	Contribution by an employee to an Approved Superannuation Fund.
7	Contribution made to any Public Provident Fund set up by the Central Government.
8	Subscription to any deposit scheme or contribution to any Pension fund set up by the National Housing Bank.
9	Payment of Tuition fees by an Individual Assessee at the time of admission to any university, college, school or other educational institutions within India for the purpose of full time education of any two children.
10	Subscription to deposit scheme of Public Sector, engaged in providing housing finance.
11	Principle repayment of Housing Loan.

12	Subscription to units of Mutual funds notified u/s 10(23D).
13	Sum deposited in Fixed Deposits (FDs) with tenure of five years.
14	Sum deposited in 5 yrs Post Office Time Deposit (POTD) scheme.

2	**DEDUCTION IN RESPECT OF CONTRIBUTION TO CERTAIN PENSION FUNDS (SECTION 80CCC)**

Deduction in respect of Payment of premium for annuity plan of LIC or any other Insurer is provided. The Premium must be deposited to keep in force a contract for annuity plan of LIC or any other insurer for receiving pension from the fund. For this purpose, the Interest or Bonus accrued or credited to the Assessee s Account shall not be reckoned as Contribution. The Maximum Deduction allowed is Rs.1.5 lakh.

3	**DEDUCTION IN RESPECT OF CONTRIBUTION TO PENSION SCHEME OF CENTRAL GOVERNMENT (SECTION 80CCD)**

Contribution towards NPS by Employee [80CCD(1)]: Tax payer is an individual and he is employed by the central government (on or after January 1, 2004), or employed by any other person or self employed. He has in the previous year deposited any amount in his account under NPS. Under this, Employee is to contribute 10% of their salary or more and deduction is available under section 80CCD(1) which is restricted to 10% of the salary and for person other than employee deduction is restricted to 10% of GTI.

80CCD(1B) Tax payer shall be allowed a deduction in computation of his total income of the whole of the amount paid or deposited in the previous year in his account under a pension scheme notified by the Central Government, which shall not exceed fifty thousand rupees.

Contribution towards NPS by Employer [80CCD(2)]:

Contribution by the employer to NPS is deductible under section 80CCD(2) in the hands of the concerned employee in the year in which contribution is made. However no deduction is available in respect of employer's contribution which is in excess of 10 percent of the salary of the employee.

Contributions to 'Atal Pension Yojana' are eligible for Tax Deduction under section 80CCD.

4	LIMIT ON DEDUCTION U/S 80C, 80CCC, 80CCD

The Limit for maximum deduction available u/s 80C, 80CCC, 80CCD (combined together) is **Rs.1.5 Lakh** only.

Assessee gets an additional deduction of 50,000 if he makes investment in NPS scheme notified by the Central Government. This means the Limit for maximum deduction available u/s 80C, 80CCC, 80CCD+80CCD(1B) is Rs. 2 Lakh.

5	DEDUCTION IN RESPECT OF MEDICAL INSURANCE PREMIUM (SECTION 80D)

This Section provides for a deduction of Rs. 25,000 in respect of premium paid towards a health insurance policy for the Assessee or his family (spouse and dependent children) or any contribution made to the Central Government Health Scheme in aggregate and a further deduction of **Rs. 25000** is allowed of premium paid in respect of health insurance policy for parents. An increased deduction of **Rs. 30000** is allowed in case any of the persons mentioned above are senior citizens (i.e. of age 60 years or above).

It has been amended by finance Act 2018 that the upper limit of this increased deduction should be raised to Rs. 50,000.

Further it is provided that for claiming such deduction u/s 80D the payment must be by any mode other than cash.

Further Deduction of Rs. 5000 shall be allowed in respect of payment made on Account of preventive health check-up of self, spouse, children or parents made during the previous year. For claiming this deduction payment can be by any mode including cash.

The Analysis of amendment is provided in the table given below:

Nature of amount spent	*Family Member*		*Parents*	
	Age below 60 years	*Age 60 years or more*	*Age below 60 years*	*Age 60 years or more*
Medical Insurance	25,000	50,000	25,000	50,000
CGHS	25,000	50,000	–	–
Health Check-up	5,000	5,000	5,000	5,000
Medical Expenditure	–	50,000	–	50,000
Maximum deduction	**25,000**	**50,000**	**25,000**	**50,000**

Deductions from gross total income under section 80C to 80U of Income Tax Act 1961

6	DEDUCTION IN RESPECT OF REHABILITATION OF HANDICAPPED DEPENDENT RELATIVE (SECTION 80DD)

It provides for a deduction to an Assessee being an individual or HUF who is a resident in India. Deduction of **Rs. 75,000** is available in respect of any Amount paid for the medical treatment (including nursing), training and rehabilitation of a dependent, or any amount paid or deposited under a scheme framed in this behalf.

In case of severe disability (i.e. a person with 80% or more disability), the deduction of **Rs. 1,25,000** shall be available.

To claim this deduction, you have to submit FORM NO. 10-IA**.**

FORM NO. 10-IA

[See sub-rule (2) of rule 11A]

Certificate of the medical authority for certifying 'person with disability', 'severe disability', 'autism', 'cerebral palsy' and 'multiple disability' for purposes of section 80DD and section 80U

Certificate No.

Date :

This is to certify that Shri/Smt./Ms.____________________________ son/daughter of Shri______________________________, age______ years___________male/female* residing at___________________________________, Registration No.__________is a person with disability/severe disability* suffering from autism/cerebral palsy/multiple disability*.

2. This condition is progressive/non-progressive/likely to improve/not likely to improve*.

3. Reassessment is recommended/not recommended after a period of__________months/years*.

Sd/-

(Neurologist/Pediatric Neurologist/Civil Surgeon/ Chief Medical Officer*)

STUDYCAFE.IN

Dependent means In the case of an Individual the spouse, children, parents, brothers, sisters, of the individual and in the case of HUF, any member who is wholly dependent on the assessee.

7	DEDUCTION IN RESPECT OF MEDICAL TREATMENT (SECTION 80DDB)

A deduction of Rs. 40000 or Amount actually paid whichever is less is allowed to an Assessee who is resident in India being an Individual or HUF. Deduction is allowed of any amount paid for the medical treatment of such disease or ailment as may be specified in the rules.

It has been amended that in case the amount is paid in respect of a senior citizen/very senior citizen then the deduction would be Rs.100,000 or the amount actually paid whichever is less.

[Earlier the limit was Rs. 60,000 for Senior Citizen & Rs. 80,000 for very senior citizen.]

8	FIRST TIME HOME BUYERS CAN CLAIM AN ADDITIONAL TAX DEDUCTION ON HOME LOAN INTEREST PAYMENTS

ADDITIONAL TAX DEDUCTION OF UP TO RS 50,000 ON HOME LOAN INTEREST PAYMENTS

THE BELOW CRITERIA HAS TO BE MET FOR CLAIMING TAX DEDUCTION UNDER SECTION 80EE.

1.) The home loan should have been sanctioned during FY 2016-17.

2.) Loan amount should be less than Rs 35 Lakh.

3.) The value of the house should not be more than Rs 50 Lakh &

4.) The home buyer should not have any other existing residential house in his name.

THE BELOW CRITERIA HAS TO BE MET FOR CLAIMING TAX DEDUCTION UNDER SECTION 80EEA.

ADDITIONAL TAX DEDUCTION OF UP TO RS 1,50,000 ON HOME LOAN INTEREST PAYMENTS

1.) The home loan should have been sanctioned during FY 2019-20.

2.) The value of the house should not be more than Rs 45 Lakh &

3.) The home buyer should not have any other existing residential house in his name.

Kindly note that the deduction under Section 80EEA is available for home loans from banks and approved financial institutions only. Under Section 24, even interest paid on home loans from friends and relatives is eligible for tax benefit.

To claim tax benefit under Section 24, you should have received possession of your house *(interest paid before possession is eligible for deduction over the next 5 years in 5 equal installments)*. Section 80EE and 80EEA do not impose any requirement of possession or completion of construction. Therefore, Section 80EEA provides you immediate tax relief even if you have purchased an under-construction property.

Both resident Indians and non-resident Indians (NRIs) can claim the deduction u.s 80EEA.

9	DEDUCTION IN RESPECT OF PURCHASE OF ELECTRIC VEHICLE

ADDITIONAL TAX DEDUCTION OF UP TO RS 1,50,000 ON LOAN OF PURCHASE OF ELECTRIC VEHICLE

The home loan should have been sanctioned during during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.

10	LOAN FOR HIGHER STUDIES

If you take any loan for higher studies *(after completing Senior Secondary Exam)*, tax deduction can be claimed under Section 80E for interest that you pay towards your Education Loan. This loan should have been taken for higher education for you, your spouse or your children or for a student for whom you are a legal guardian. Principal Repayment on educational loan cannot be claimed as tax deduction.

There is no limit on the amount of interest you can claim as deduction under section 80E. The deduction is available for a maximum of 8 years or till the interest is paid, whichever is earlier.

11	CONTRIBUTIONS MADE TO CERTAIN RELIEF FUNDS AND CHARITABLE INSTITUTIONS:

Contributions made to certain relief funds and charitable institutions can be claimed as a deduction under Section 80G of the Income Tax Act. This deduction can only be claimed when the contribution has been made via cheque or draft or in cash. In-kind contributions such as food material, clothes, medicines etc do not qualify for deduction under section 80G.
The donations made to any Political party can be claimed under section 80GGC.

W.e.f F.Y. 2017-18, the limit of deduction under section 80G / 80GGC for donations made in cash is reduced from current Rs 10,000 to Rs 2,000 only.

12	**SECTION 80GG: APPLICABLE FOR ALL THOSE INDIVIDUALS WHO DO NOT OWN A RESIDENTIAL HOUSE & DO NOT RECEIVE HRA**

The Tax Deduction amount under 80GG is Rs 60,000 per annum. Section 80GG is applicable for all those individuals who do not own a residential house & do not receive HRA *(House Rent Allowance)*.

The extent of tax deduction will be limited to the least amount of the following;

1.) Rent paid minus 10 percent the adjusted total income.

2.) Rs 5,000 per month.

3.) 25 % of the total income.

*(If you are claiming **HRA** (House Rent Allowance) of more than Rs 50,000 per month (or) paying rent which is more than Rs 50,000 then the tenant has to deduct TDS @ 5%. Tax could be deducted at the time of credit of rent for the last month of the tax year or last month of tenancy, as applicable.)*

13	**DEDUCTION IN RESPECT OF DONATIONS FOR SCIENTIFIC RESEARCH AND RURAL DEVELOPMENT (SECTION 80GGA)**

Admissible Deduction from Gross Total Income:-

Any sum paid by the Assessee to the Research Association which has, as its object, the undertaking of scientific research

Any sum paid to an Association or Institution which has, as its object, the undertaking of any programme of Rural Development to be used for carrying for carrying out any programme of Rural Development.

Any sum paid to Research Association which has, as its object the undertaking of research in Social Science or Statistical Research.

Any sum paid to Public Sector company or a local authority for carrying out any eligible project or scheme.

Any sum paid to Rural Development fund.

Any sum paid to National Urban Poverty Education Fund (NUPEF).

Sub-section (2A) has been inserted which provides that no deduction shall be allowed in respect of donation of any sum exceeding Rs. 10000 unless such sum is paid by any mode other than cash.

Click here to know information on Tax Exempted Institutions

14	**DEDUCTION IN RESPECT OF CONTRIBUTIONS GIVEN BY COMPANIES TO POLITICAL PARTIES (SECTION 80GGB)**

This provides of deduction of any sum contributed in the Previous Year by an Indian Company to any Political Party or an Electoral Trust. From assessment year 2014-15, no deduction shall be allowed in respect of any sum contributed by way of cash.

15	**DEDUCTION IN RESPECT OF CONTRIBUTIONS GIVEN BY ANY PERSON TO POLITICAL PARTIES (SECTION 80GGC)**

This provides for Deduction from Gross Total Income of any sum contributed in the Previous Year by any Person to a Political Party or an Electoral Trust. It will not be available to a Local Authority and an Artificial Judicial Person. No deduction shall be allowed in respect of any sum contributed by way of cash.

16	**SAVING INTEREST**

Deduction from gross total income of an individual or HUF, up to a maximum of Rs. 10,000/-, in respect of interest on deposits in savings account with a bank, co-operative society or post office can be claimed

under this section. Section 80TTA deduction is not available on interest income from fixed deposits.

A new provision to allow deduction of up to Rs. 50,000 to the senior citizen who has earned interest income from deposits with banks or post office or co-operative banks has been inserted by Finance Act 2018. Interest earned on saving deposits and fixed deposits both shall be eligible for deduction under this provision.

Deduction under Section 80TTA shall not be available to senior citizens in respect of interest on saving deposits.

17	STANDARD DEDUCTION ON SALARY INCOME

A standard deduction upto Rs 40,000/- or the amount of salary received, whichever is less has been allowed as Deduction from Gross Total Income by Finance Act 2018. Consequently the present exemption in respect of Transport Allowance (except in case of differently abled persons) [Rs 1600*12=Rs 19200] and reimbursement of medical expenses [Rs 15000] is proposed to be withdrawn.

18	NEW DEDUCTION INTRODUCED FOR FARM PRODUCER COMPANIES

To promote agricultural activities a new section 80PA has been inserted. This new provision proposes 100% deductions of profits for a period of 5 years to farm producer companies who have total turnover of up to Rs. 100 crores during the financial year.

For claiming this deduction the gross total income of producer companies should include income from:

a	The marketing of agricultural produce grown by its members.
b	The purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members.
c	The processing of the agricultural produce of its members.

19	80-JJAA : INCENTIVE FOR EMPLOYMENT GENERATION

Deduction of 30% is allowed in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year. However, the minimum period of employment is relaxed to 150 days in the case of apparel industry**, the same has been extend to footwear and leather industry.**

Manufacturers are often denied the deduction if an employee is employed in 1st year for a period of less than 240 days/150 days, but continues to remain employed for more than 240 days/150 days in the 2nd year. To overcome this difficulty, the requirement of period of employment has been proposed to be relaxed. **Now as per the new provision the deductions shall be allowed to the manufacturer in respect of an employee hired in 1st year, if he continues to remain in employment in current year(2nd year) for more than 240/150 days, as the case may be.**

20	SECTION 24 (B) (LOSS UNDER THE HEAD INCOME FROM HOUSE PROPERTY)

From FY 2017-18, the Tax benefit on loan repayment of second house is **restricted to Rs 2 lakh per annum** only *(even if you have multiple houses the limit is still going to be Rs 2 Lakh only and the ceiling limit is not per house property)*.

The unclaimed loss if any will be carried forward to be set off against house property income of subsequent 8 years. In most of the cases, this can be treated as '**dead loss**'.

I believe that this is a major blow to the investors who have bought multiple houses on home loan(s) with an intention to save taxes alone.

Until FY 2016-17, interest paid on your housing loan is eligible for the following tax benefits ;

Municipal taxes paid, 30% of the net annual income *(standard deduction)* and interest paid on the loan taken for that house are allowed as deductions.

After these deductions, your rental income can be **NIL** or **NEGATIVE** and is called 'loss from house property' in the latter case.

Such loss is currently allowed to be set off against other heads of income like Income from Salary or Business etc. which helps you to lower you tax liability substantially.

Computation of Income from House Property				
Particulars	Amount	Total	Old Rule	Restriction by Finance Act 2017
Rent	400000			
Municipal Taxes	1000			
NAV		399000		
Less : Standard Deduction	119700	279300		
Less : Interest @ 30%	500000	-220700	-220700	-200000

Whole Rs. 220700 can be set off as Loss U/H House Property

Rs. 200000 can be set off as Loss U/H House Property. Rs. 20,700 will be carried forward for next year

Studycafe.in

Deductions under section 80C to 80 U of Income Tax Act 1961 AY 2020-21 | FY 2019-20

Currently (FY 2018-19), income tax on notional rent is payable if one has more than one self-occupied house. No tax on notional rent on **Second Self-occupied house** has been proposed. So, you can now hold 2 Self-occupied properties and don't have to show the rental income from second SoP as notional rent. This is with effective from FY 2019-20.

Tax rebate of Rs 12,500 for individuals with **taxable income of up to Rs 5 Lakh** is allowed in FY 2019-20-18 / AY 2020-21.

- Only Individual Assesses earning net taxable income up to Rs 5 lakhs are eligible to enjoy tax rebate u/s 87A.
- **For Example** : Suppose your yearly pay comes to Rs 6,50,000 and you claim Rs 1,50,000 u/s 80C. The total net income in your case comes to Rs 5,00,000 which makes you eligible to claim tax rebate of Rs 12,500.
- The amount of tax rebate u/s 87A is restricted to maximum of Rs 12,500. In case the computed tax payable is less than Rs 12,500, say Rs 10,000 the tax rebate shall be limited to that lower amount i.e. Rs 10,000 only.
- The Tax Assesse is first required to add all incomes i.e. salary, house income, capital gains, business or profession income and income from other sources and then deduct the eligible tax deduction amounts u/s 80C to 80U and under section 24(b) *(Home Loan Interest)* to come up with the net taxable income.
- If the above net taxable income happens to be less than Rs 5 lakhs then the tax rebate of Rs 12,500 comes in to the picture and should be deducted from the calculated total income tax payable.

Concept of Rebate U/S 87A

Particulars		Situation 1	Situation 2
Income		500000	500100
Computation of Income			
Slab	Tax Rate		
0-250000	0%	0	0
250000-500000	5%	12500	12500
500000-500100	20%	0	20
Rebate U/S 87A		-12500	0
Net Tax		**0**	**12520**
Add : Cess @ 4%		0	501
Net Tax Liability		**0**	**13021**

Studycafe.in

Deductions under section 80C to 80 U of Income Tax Act 1961 AY 2020-21 | FY 2019-20

22	SECTION 54

The benefit of rollover of capital gains under section 54 of the Income Tax Act will be increased from investment in one residential house to two residential houses for a tax payer having capital gains up to Rs 2 crore. This benefit can be availed once in a life time.

Under Section 54GB(5) of the Income Tax Act, 1961, long term capital gains on the sale of residential property will be exempt if the sale proceeds are invested in a eligible startup, provided such transfer took place prior to March 31, 2019. This has now been extended to March 2021.

Click Here to Buy CA INTER/IPCC Pendrive Classes at Discounted Rate

Tags : Income Tax, Income Tax Deduction, Deduction from Gross Total Income

For

Expenses that can help you in Saving Income Tax [Income Tax Deductions]

by studycafe4 months ago4 months ago

-
-

Every assessee, who earns income beyond the basic exemption limit in a Financial Year (FY), must file a statement containing details of his income, deductions, and other related information. This is called the Income Tax Return (ITR). Once you as a taxpayer file the

income returns, the Income Tax Department will process it. There are occasions where, based on set parameters by the Central Board of Direct Taxes (CBDT), the return of an assessee gets picked for an assessment.

The various forms of assessment are as follows:

1. Self Assessment
2. Summary Assessment
3. Regular Assessment
4. Best Judgement Assessment
5. Income Escaping Assessment

1. Self Assessment

The assessee himself determines the income tax payable. The tax department has made available various forms for filing income tax return. The assessee consolidates his income from various sources and adjusts the same against losses or deductions or various exemptions if any, available to him during the year. The total income of the assessee is then arrived at. The assessee reduces the TDS and Advance Tax from that amount to determine the tax payable on such income. Tax, if still payable by him, is called self assessment tax and must be paid by him before he files his return of income. This process is known as Self Assessment.

2. Summary Assessment

It is a type of assessment carried out without any human intervention. In this type of assessment, the information submitted by the assessee in his return of income is cross-checked against the information that the income tax department has access to. In the process, the reasonableness and correctness of the return are verified by the department. The return gets processed online, and adjustment for arithmetical errors, incorrect claims, and disallowances are automatically done. Example, credit for TDS claimed by the taxpayer is found to be higher than what is available against his PAN as per department records. Making an adjustment in this regard can increase the tax liability of the taxpayer.

After making the aforementioned adjustments, if the assessee is required to pay tax, he will be sent an intimation under Section 143(1). The assessee must respond to this intimation accordingly. Here you can read a more detailed article on Section 143(1).

3. Regular Assessment

The income tax department authorizes the Assessing Officer or Income Tax authority, not below the rank of an income tax officer, to conduct this assessment. The purpose is to ensure that the assessee has neither understated his income or overstated any expense or loss or underpaid any tax.

The CBDT has set certain parameters based on which a taxpayer's case gets picked for a scrutiny assessment.

a. If an assessee is subject to a scrutiny assessment, the Department will send a notice well in advance. However, such notice cannot be served after the expiry of 6 months from the end of the Financial year, in which return is filed.

b. The assessee will be asked to produce the books of accounts, and other evidence to validate the income he has stated in his return. After verifying all the details available, the assessing officer passes an order either confirming the return of income filed or makes additions. This raises an income tax demand, which the assessee must respond to accordingly.

4. Best Judgement Assessment

This assessment gets invoked in the following scenarios:

a. If the assessee fails to respond to a notice issued by the department instructs him to produce certain information or books of accounts

b. If he/she fails to comply with a Special Audit ordered by the Income tax authorities

c. The assessee fails to file the return within due date or such extended time limit as allowed by the CBDT

d. The assessee fails to comply with the terms as contained in the notice issued under Summary Assessment

After providing an opportunity to hear the assessee's argument, the assessing officer passes an order based on all the relevant materials and evidence available to him. This is known as Best Judgement Assessment.

5. Income Escaping Assessment

When the assessing officer has sufficient reasons to believe that any taxable income has escaped assessment, he has the authority to assess or reassess the assessee's income. The time limit for issuing a notice to reopen an assessment is 4 years from the end of the relevant assessment Year. Some scenarios where reassessment gets triggered are given below.

a. The assessee has taxable income but has not yet filed his return.

b. The assessee, after filing the income tax return, is found to have either understated his income or claimed excess allowances or deductions.

c. The assessee has failed to furnish reports on international transactions, where he is required to do so.

Assessment could close quickly for some taxpayers, while it could prove to be quite gruelling for others. If you are not comfortable dealing with income tax officers, it is suggested that you take the help of a Chartered Accountant to help you with your case