Taxation

Student Handbook
Class XII




CENTRAL BOARD OF SECONDARY EDUCATION
Shiksha Kendra, 2, Community Centre, Preet Vihar, Delhi-110092

TAXATION

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भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक सम्पूर्ण [1]प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य बनाने के लिए, तथा उसके समस्त नागरिकों को:

सामाजिक, आर्थिक और राजनैतिक न्याय,
विचार, अभिव्यक्ति, विश्वास, धर्म
और उपासना की स्वतंत्रता,
प्रतिष्ठा और अवसर की समता
प्राप्त कराने के लिए
तथा उन सब में व्यक्ति की गरिमा
[2]और राष्ट्र की एकता और अखंडता
सुनिश्चित करने वाली बंधुता बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवम्बर, 1949 ई॰ को एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "राष्ट्र की एकता" के स्थान पर प्रतिस्थापित।

भाग 4 क

मूल कर्त्तव्य

51 क. मूल कर्त्तव्य - भारत के प्रत्येक नागरिक का यह कर्त्तव्य होगा कि वह -

(क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;

(ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;

(ग) भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे;

(घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;

(ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभाव से परे हों, ऐसी प्रथाओं का त्याग करे जो स्त्रियों के सम्मान के विरुद्ध हैं;

(च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;

(छ) प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणी मात्र के प्रति दयाभाव रखे;

(ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;

(झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;

(ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई उंचाइयों को छू ले;

[1](ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य के लिये शिक्षा के अवसर प्रदान करे।

1. संविधान (छयासीवां संशोधन) अधिनियम, 2002 की धारा 4 द्वारा प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [1]**SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the[2] unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "unity of the Nation" (w.e.f. 3.1.1977)

THE CONSTITUTION OF INDIA

Chapter IV A

FUNDAMENTAL DUTIES

ARTICLE 51A

Fundamental Duties - It shall be the duty of every citizen of India-

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage of our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers, wild life and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

[1](k) to provide opportunities for education to his/her child or, as the case may be, ward between age of 6 and 14 years.

1. Subs. by the Constitution (Eighty - Sixth Amendment) Act, 2002

Preface

The economic and industrial development of any country depends upon the implementation of taxation policy that ensures sufficient availability of funds required for various activities. Tax is felt as one of the toughest concept to understand and work out in practical. Direct and indirect tax occupies an important position in the taxation policy of every nation.

In India Income tax is charged on the basis of the provisions and rules laid down by the Income Tax Act, 1961. Income tax is a direct tax. The ultimate burden of income tax cannot be shifted by one person to another whereas in case of indirect taxes it is shifted by one person to another and the ultimate tax liability has to be paid by the consumer only. This book on taxation for students of class XII is the outcome of the desires to present the provisions of taxation (Direct Taxes and Goods and Service Taxes) in a simple and easy way to comprehend language. All the relevant facts and provisions have been presented in such a way that students may easily understand the provisions of taxation. A special attempt has been made to make numerical questions easier to comprehend.

Chairperson, CBSE

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Contents

UNIT 1

DEDUCTION FROM GROSS TOTAL INCOME

Unit–1	DEDUCTION FROM GROSS TOTAL INCOME			
Location: Classroom	**SESSION 1: INTRODUCTION : BASIC RULES GOVERNING DEDUCTION & DEDUCTION IN RESPECT OF SOME PAYMENTS**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	1. Basic rules applicable to deductions.	1. What is gross total income? 2. Name the items from which deductions are not allowed.	1. What constitutes gross total income? 2. Name the deductions which are available only if income tax return is filed on or before the due date.	**Interactive Lecture:** Discussion related to deduction.
	2. Deduction in respect to certain payments.	1. Describe the various deductions available to an assessee regarding certain payments.	1. Discuss the deduction 80C to 80GGC.	**Interactive Lecture:** Discussion of deduction 80C to 80GGC with practical example.
	SESSION 2: BASIC OVERVIEW OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES & DEDUCTION 80QQB, 80RRB, 80TTA & 80U			
	1. Deduction in respect to certain incomes.	1. Describe the various deductions available to an assessee regarding certain incomes.	1. Discuss the deduction 80IA to 80P.	**Interactive Lecture:** Discussion of deduction 80IA to 80P.

	2. Deduction 80QQB, 80RRB, 80TTA & 80U.	1. Explain the deduction related to saving bank interest and royalty and patent. 2. Explain the deduction related to disability .	1. Discuss the provisions related to deduction 80QQB, 80RRB, 80TTA and 80U.	**Interactive Lecture:** Discussion of deduction related to disability, royalty , patents and saving bank account interest.

Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the type of deductions allowable from gross total income.
2. Know what the permissible deductions in respect of payments are.
3. Learn the permissible deductions in respect of incomes.
4. Understand the deductions allowable in the case of a person with disability.

SESSION 1

INTRODUCTION-BASIC RULES GOVERNING DEDUCTION & DEDUCTION IN RESPECT OF SOME PAYMENTS

Introduction

After computing the total income under each head and after giving effect to the provisions for clubbing of income and set off of losses, which gives the Gross Total Income, deductions described under this lesson are allowed i.e., deductions under section 80A to 80U of the Income Tax Act are allowed to assesses.

At the end of this lesson you will learn about all the deductions allowed to an assessee in respect of payments made and incomes received in the previous year.

You will also be able to calculate the total income by deducting all the deductions allowed to a particular assessee under section 80C to 80U from the Gross Total Income.

Basic Rules Governing Deductions (80C to 80 U)

- Gross Total Income means income from all the heads namely income from salary, house property, profits and gains from business or profession , capital gains and other sources combined together after giving effects to provisions of clubbing of income and set off of losses.
- Deductions from section 80C to 80U are deducted from Gross Total Income to arrive at total income of the assessee which is also known as taxable income.
- However deductions are not allowed from the following items although they form part of Gross Total Income:
  - a) Short term capital gain under sec 111A
  - b) Long term capital gain
  - c) Lotteries
  - d) Income under Sections 115A, 115AB, 115AC, 115ACA, 115AD, 115BBA, 115D.

Important Points:

1. Deductions from gross total income are available only to assessee when the gross total income is a positive figure. If however, the gross total income is nil or is a loss, the question of any deduction from the gross total income does not arise. In other words, the total aggregate of deductions cannot exceed the gross total income.

2. Deductions cannot be claimed twice in the same assessment year.
3. Deduction is allowed only to assessee.
4. Certain deductions like under 80-IA, 80-IAB, 80-IC, 80-ID, 80-IE can only be claimed when income tax return is furnished for assessment year on or before the due date specified under sec139(1).

Deductions in Respect of Certain Payments

- Allowed from sec 80C to 80GGC.

Deduction in Respect of Life Insurance Premium, Deferred Annuity, Contribution to Provident Fund, Etc. (Section 80C)

Eligible: 1) Individual 2) HUF

Quantum: Deduction from gross total income equivalent to investment made of Rs. 1,50,000 whichever is less.

Investment:

a) Life Insurance policy taken on the life of an individual assessee or spouse and any child of such individual and any member of the Hindu Undivided Family subjected to maximum limit of the premium paid on Life Insurance Policy if exceeds 10% of the capital sum assured. However, where the policy, issued on or after the 1st day of April, 2013, is for insurance on life of any person, who is :
   (i) A person with disability or a person with severe disability as referred to in section 80U, or
   (ii) Suffering from disease or ailment as specified in the rules made under section 80DDB. Deduction for premium shall be allowed only when such amount shall not exceed 15% of the capital sum assured.

b) Amounts paid to effect or to keep in force a contract for a non-cumulative deferred annuity not being an annuity plan referred to in clause (j) below on the life of in the case of an individual, the individual, spouse or any child of such individual and However, such contract should not contain a provision for exercise of an option by the insured to receive cash payment in lieu of the payment of the annuity.

c) Deduction from the salary payable by or on behalf of the Government to any individual, in accordance with the conditions of his service, for securing to him a deferred annuity or making provision for his wife or children, to the extent of one-fifth of salary.

d) Any contribution made by an individual towards statutory provident fund and recognized provident fund.

e) Contribution towards superannuation fund.

f) Subscription to the notified securities of the Central Government.

g) Any contribution to a PPF by individual or HUF.

h) Subscription to National Savings Certificates (VIII) issue and interest accrued deemed to be reinvested also qualifies.

i) Contributions for participation in the Unit-Linked Insurance Plan, 1971.

j) Contributions made in the name of an individual or HUF for participation in any notified Unit-Linked Insurance Plan of the LIC Mutual Fund.

k) Any contribution to effect or keep in force any notified annuity plan of the LIC or any other insurer.

l) Any subscription, to any units of any Mutual Fund or the Unit Trust of India under any notified plan formulated by the Central Government.

m) Any contribution to any pension fund set up by any Mutual Fund as notified by the Central Government.

n) Subscription to the notified deposit scheme of or contribution to any such pension fund set up by the National Housing Bank.

o) Only tuition fees (excluding any payment towards any development fees or donation or payment of similar nature), whether at the time of admission or thereafter, to any university, college, school or other educational institution situated within India for full time education and allowed only for 2 children of such individuals.

p) Any installment or part payment towards the cost of purchase/construction of a residential property to a housing board or co-operative society (or repayment of housing loan taken from government, bank, cooperative bank, LIC, National Housing Bank, assessor's employer where such employer is public company/public sector company/university/cooperative society).

q) Subscription to equity shares or debentures or units forming part of any eligible issue of capital i.e. issue made by a company registered in india or a public financial institution or an approved mutual fund for the purpose of developing, maintaining and operating an infrastructure facility for generation and distribution of power or for providing telecommunication services whether basic or cellular.

r) Fixed deposits for a minimum period of 5 years in any Scheduled Banks.

s) As subscription to such bonds issued by the National Bank for Agriculture and Rural Development, as the Central Government may, by notification in the Official Gazette specify in this behalf.

t) Amount deposited in account under the Senior Citizens Savings Scheme Rules, 2004.

u) Amount deposited in five year time deposit in an account under the Post Office Time Deposit Rules, 1981.

Important Points:

- If the amount is actually paid by the assessee, only then this deduction will be allowed.
- Item no. b, c, d, m, e are allowed to only individual assesses.

Question 1: Compute the net taxable income of Mr. Arvind from the following information submitted by him for the assessment year 2015-16:

Gross salary		4, 50,000
LIP on his own life (sum assured Rs. 4000) policy issued on 1-04-2013		1,200
LIP on the life of his dependent brother		400
LIP on his wife's life		400
Term deposit for 5 years with a scheduled bank		4,000
Contribution to ULIP		600
Amount deposited in PPF		13,000
Contribution to RPF		4,000
Amount incurred on education of: ◆ Child A Rs. 2,800 ◆ Child B Rs. 1,400 ◆ Child C Rs. 1,000		
5 year term deposit in post office	3,000	
Subscription to NSC	5,000	
Repayment of housing loan taken from LIC (principal)	10,600	
Amount Rs. 4600 and interest (Rs. 6000)		
Interest on fixed deposits with bank (gross)	2,600	
He took loan from LIC for a residential house property for self residence.		

Solution:

Income from salaries		4, 50,000
Income from House Property		
NAV	(NIL)	
Less: Deduction		
Interest on money borrowed	6,000	(6,000)
Income from other sources (fixed deposit)		2,600
GROSS TOTAL INCOME		4,46,600
Less: Deductions u/s Chapter VIA (NOTE 1)		(39,200)
NET TAXABLE INCOME		4, 07,400
NOTE 1: Deductions under 80C		
• LIP on his own life		400

• LIP on the life of his dependent brother	NIL
• LIP on his wife's life	400
• Term deposit for 5 years with a scheduled bank	4,000
• Contribution to ULIP	600
• Amount deposited in PPF	13,000
• Contribution to RPF	4,000
• Tuition fees for 2 children	4,200
• 5 year term deposit in post office	3,000
• Subscription to NSC	5,000
• Repayment of housing loan	4,600
	39,200

Question 2: Mr. X has gross total income Rs. 4,90,000 for the assessment year 2015-16 which include Rs. 3,90,000 as long term capital gain? He has deposited Rs. 1,40,000 in PPF during the year. Compute tax liability assuming (i) he is Less than 60 years of age; (ii) more than 60 years of age.

Solution:

(i)	Less than 60 years of age	
	Gross total income (excluding LTCG)	1,00,000
	Less: Deduction u/s 80C subjected to GTI	1,00,000
		NIL
	Tax on total income exclusive of long term capital gain	NIL
	(NIL+ Rs. 2,50,000 shifted from LTCG)	
	Tax on LTCG @ 20% on Rs. 1,40,000	28,000
	Less: Rebate under 87A	(2,000)
		26,000
	Add: Cess	780
(ii)	More than 60 years of age	26,780
	Gross total income (excluding LTCG)	1,00,000
	Less: Deduction u/s 80C subjected to GTI	1,00,000
		NIL

Tax on total income exclusive of long term capital gain (NIL+ Rs. 3,00,000 shifted from LTCG)	NIL
Tax on LTCG @ 20% on Rs. 90,000	18,000
Less: Rebate under 87A	(2,000)
	16,000
Add: Cess	480
	16,480

Deduction for Contribution to Pension Fund (Section 80CCC)

Eligible: 1) Individual

Quantum: Deduction from gross total income equivalent to investment made of Rs. 1,50,000 whichever is less.

Investment:

An individual who deposits out of his taxable income to any pension fund of the LIC or any insurer shall get a deduction from his gross total income of the amount so deposited subjected to the limit prescribed.

Important Points:

- Deduction is available to non-resident also.
- If this deduction is claimed here, deduction for payment made for annuity plan will not be given under 80C.

Deduction in Respect of Contribution to Pension Scheme of Central Government [Section 80CCD]

Eligible: 1) Individual employed by central government or self employed.

Quantum:

- **Contribution by Employer:** Deductible amount is contribution made by the employer to the employee during the year subjected to maximum of 10% of the salary of the employee.
- **Contribution by Employee:** Deductible amount is contribution made by the employee during the year subjected to maximum of 10% of the salary of the employee.

Important Points:

- Salary includes DA, if the terms of employment provide so, but excludes all other allowances and perquisites.
- The amount which has been accumulated in the pension account for which the assessee has claimed deduction will become taxable as the income of the year in

which the assessee get the said amount, or his nominee on closure of the account or for opting out of scheme.

- If amount is withdrawn from here to purchase an annuity plan, then it will not be taxable.
- If this deduction is claimed here, deduction for such contribution will not be given under 80C.

Question 3: Gross Total Income of R who is self employed is Rs. 8,90,000. He has deposited Rs. 1,20,000 in PPF and Rs. 1,10,000 in pension scheme of the central government. Compute his taxable income.

Solution:

Gross total income		8,90,000
Less: Deduction u/s 80C	(1,20,000)	
Deduction u/s 80CCD	(89,000)	
(Subjected to 10% of salary)		(1,50,000)
		7,40,000

Limit on Deductions Under Sections 80C, 80CCC and 80CCD (Section 80CCE)

The aggregate amount of deductions under Sections 80C, 80CCC and section 80CCD (excluding contribution of employer to pension scheme) shall not in any case, exceed Rs. 1, 50,000.

Deduction in Respect of Investment Made Under an Equity Savings Scheme (Section 80CCG)

Eligible: 1) Individual who is resident in india

Quantum:

- Deduction will be allowed (a) to the extent of 50% of the amount invested in such equity shares or units OR (b) Rs. 25,000 whichever is less.
- Deduction shall be allowed for 3 consecutive years starting from the year in which investment is made first.

Conditions:

- Assessee income should not exceed Rs. 12, 00,000 for the concerned relevant year.
- Investment to be made in notified scheme.
- Assessee is resident individual.
- Assessee is a new retail investor.
- Investment is locked in for a period of 3 years from the date of acquisition in accordance with a notified scheme.

Deduction in Respect of Medical Insurance Premia (Section 80D)

Eligible: 1) Individual 2) HUF

Quantum:

	Individual		
	Family	**Parents**	**HUF**
	Self, Spouse & Dependent Children	**Parents of Assessee (Dependent/ Independent)**	**Any Member of Family**
a) Medi-claim Insurance Premium	Available	Available	Available
b) Preventive Health Check-up	Available	Available	Not Available

Maximum Amount:

- For point "(a)" Rs. 15,000 maximum to family and Rs. 15,000 for parents.
- For point "(b)" Rs. 5,000 maximum on family/ parent/ parents.

Additional Deduction: Applicable only on Medi-claim insurance policy Additional Rs. 5,000 deduction in case of senior citizen (age 60 and above and resident in india).

Important Points:

- Allowed if paid to General Insurance Corporation (GIC) or any other insurer towards medical health insurance premium.
- Contribution by individual can also be made to Central Government Health Scheme.
- For health insurance premium, the payment shall be in mode other than cash.
- For preventive health check-up it can be in cash also.
- Health Insurance should be according to the scheme as given by GIC and approved by Central Government or any other insurer and approved by Insurance Regulatory and Development Authority (IRDA).

Question 4: Suraj, his wife and two sons are independently employed persons. Suraj and his wife is not senior citizens. Raj pays Medi-claim insurance of Rs 8,000 for self, Rs 12,000 for his wife, and Rs 8,000 each for both of his sons. He also pays Rs 13,000 for each of his parents who are senior citizens. Calculate the amount of deduction allowable u/s 80D.

Solution:

Amount of deduction u/s 80D	
Premium in respect of wife	Rs 12,000
Premium for himself	Rs. 8,000
Premium in respect of children (not dependent)	Nil
Total Rs 18,000 restricted to	Rs 15,000
Add: Premium in respect of parents	
(senior citizens) Rs 26,000 restricted to maximum	Rs 20,000
Deduction available u/s 80D	**Rs 35,000**

Deduction in Respect of Maintenance Including Medical Treatment of a Disabled Dependent (Section 80DD)

Eligible: 1) Resident Individual 2) Resident HUF

Quantum: Deduction from gross total income irrespective of actual expenditure:- Rs. 50,000 (1,00,000 in case of severe disability).

Important Points:

a) Deduction under 80DD can be claimed on expenditure made in the previous year for the medical treatment (including nursing), training and rehabilitation of a disabled dependent; dependent being:

- For individual: Spouse, any child, parent or sibling
- For HUF: Any member

  The disabled person for whose treatment or maintenance the deduction is claimed should be dependent on assessee for his/her support and should not have claimed deduction under 80U.

b) Deduction under 80DD can also be claimed when money is paid to LIC (Life Insurance Corporation of India), UTI (Unit Trust of India) or any other insurer for the purpose of buying insurance or any specified scheme for the purpose of maintenance of the above mentioned dependent in the previous year.

c) For claiming the deduction under this section, the assessee should furnish to the Assessing Officer a copy of the certificate issued by the medical authority; whenever asked for examining.

d) Where the condition of disability requires reassessment (when the medical certificate is issued for a specific period), a fresh certificate shall have to be obtained soon after the expiry of the period. No deduction shall be allowed if the medical certificate stands expired in the year preceding the assessment year.

e) Meaning of "Disability": "Disability" include autism, cerebral palsy and multiple disabilities as provided for in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

f) Meaning of "Medical Authority": "Medical Authority" means any hospital or institution specified for the purpose of this act by notification by the appropriate government.

g) Meaning with "Person with Disability": "Person with Disability" means a person suffering from not less than 40% of any disability as certified by the medical authority.

h) Meaning of "Person with Severe Disability": "Person with Severe Disability" means any person with 80% or more of one or more disabilities.

Deduction in Respect of Medical Treatment (Section 80DDB)

Eligible: 1) Resident Individual 2) Resident HUF

Quantum: Rs. 40,000 or amount actually paid (Rs. 60,000 in case of a senior citizen; person whose age is more than 60 years).

Important Points:

a) Deduction under 80DDB can be claimed on expenditure made in the previous year on medical treatment for specified disease or ailment as prescribed of assessee himself or of any person wholly/mainly dependent on him; dependent (for support and maintenance) being :

- For individual: Spouse, any child, parent or sibling (brothers and sisters)
- For HUF: Any member

b) For claiming the deduction under this section, the assessee should furnish to the Assessing officer a copy of the medical certificate in form no. 10-I from prescribed specialist working in government hospital; whenever asked for examining.

c) "Government Hospital" means a departmental dispensary whether full-time or Part-time established and run by a department of the government for medical attendance and treatment of a class or classes of government servants and members of their families, a hospital maintained by a local authority and any other hospital with which arrangements have been made by the government for the treatment of government servants.

Deduction in Respect of Interest Paid on Loan Taken for Pursuing Higher Education (Section 80E)

Eligible: 1) Individual only

Quantum: The amount of interest paid on education loan during the previous year

Important Points:

a) Deduction under 80E can be claimed on interest paid in the previous year on education loan taken for pursuing higher education; regular course after clearing Senior Secondary Examination; of Self or spouse or children or the student of whom the individual is the Legal Guardian from any financial institution or any approved charitable institution.

b) Deduction under this section is allowed to be claimed for a maximum period of 8 years or until the interest is repaid by the individual in full (whichever is earlier), starting from the assessment year in which the assess starts paying the interest on loan.

c) Meaning of Higher Education: Higher Education means any course of study pursued after passing the senior secondary examination or its equivalent from any school, board or university recognized by the Central Government or State Government or local authority or by any other authority by the Central Government or State Government or local authority to do so.

Question 5: Gross Total Income of "R" for assessment year 2015-16 is Rs. 10,45,000. He has taken a loan of Rs. 5,00,000 in 2014-15 from a bank for pursuing the LLB from national law university. He repaid the 1st installment of loan of Rs. 65,000 and interest of Rs. 80,000. Compute his total income for assessment year 2015-16.

Solution:

Gross Total Income	10, 45,000
Less: Deduction u/s 80E	80,000
Total Income	9, 65,000

Deduction in Respect of Interest on Loan Taken for Residential House Property (Section 80EE)

Eligible: 1) Individual only

Quantum: The amount of interest paid on house loan during the previous year up to Rs. 1, 00,000 (the balance of the limit can even accrue in the next financial year).

Important Points:

a) Deduction under 80EE can be claimed on interest paid in the previous year on home loan taken up to Rs. 1, 00,000. If the amount of deduction so claimed is less than 1 lakhs, the balance can be claimed as deduction in the next year subject to that no such deduction is claimed under any other section.

b) Deduction under this section is allowed if the home loan is sanctioned in the previous year and is sanctioned for the acquisition of a residential house property not exceeding Rs. 40 lakhs; loan being of amount less than Rs. 25 lakhs.

c) The assessee should be the first time buyer of any house property and the loan should be sanctioned from any financial institution or any housing finance company.

d) The interest deduction will be allowed under section 24(b) in case of property let out under "Income from House Property".

e) Meaning of "Financial Institution": "Financial Institution" means banking company to which the Banking Regulation Act, 1949 act applies.

f) Meaning of "Housing Finance Company": "Housing Finance Company" means a public company formed or registered in india whose main object is providing long-term finance for construction or purchase of houses in india for residential purposes.

Question 6: Mr. Ram having salary income of Rs. 7,90,000, borrows from Indian Bank @ 10% on 01.04.2014 a sum of Rs. 25,00,000 and purchased a house property for Rs. 30,00,000 on 04.04.2014. Since its acquisition it has been used as residential property for self. On date of loan, He does not have any residential house property. He has made a total investment of Rs. 1,00,000 u/s 80C. Compute his total income.

Solution:

Income from salary		7,90,000
Less: Deduction u/s 80C	1,00,000	
Deduction u/s 80EE	1,00,000	(2,00,000)
Taxable Income		5,90,000
Interest = 25, 00,000*10/100*1		

Deduction in Respect of Donations to Certain Funds, Charitable Institutions, etc. (Section 80G)

Eligible: 1) All Assessee

Quantum: Aggregate of all the deductions permissible under:

1) 100% deduction without qualifying limit.
2) 50% deduction without qualifying limit.
3) 100% deduction with qualifying limit.
4) 50% deduction with qualifying limit.

Important Points:

a) Donation should be in cash or money but not in kind. Also, any donation exceeding Rs. 10,000 would be allowed as deduction if payment is made in any mode other than cash. Assessee has to produce the proof for claiming the deduction under this section, otherwise it will not be available.

b) Donation should be made only to specified institutions and funds.

c) List of deduction included in 80G:

(A) 100% Deduction without any qualifying limit:

i) National Defence fund.

ii) Prime Minister's National relief fund.

iii) Prime Minister's Earthquake relief fund.

iv) Africa fund.

v) National Trust for welfare of persons with autism, cerebral palsy, mental retardation and multiple disabilities.

vi) National cultural fund set up by the Central Government.

vii) The Chief Minister's relief fund or the lieutenant Governor's relief fund.

viii) National Illness assistance fund.

ix) The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996.

x) The Army/Air force Central welfare fund or the Indian Naval Benevolent fund.

xi) Any fund set up by a State Government to provide medical relief to poor.

xii) The National/State Blood transfusion Council.

xiii) Zila Saksharta Samiti constituted in any district.

xiv) Any fund set up by the State Government of Gujarat, exclusively for providing relief to the victims of earthquake in Gujarat.

xv) Maharashtra Chief Minister's Earthquake Relief Fund.

xvi) University/Educational Institute of National Eminence approved by the prescribed authority.

xvii) National foundation for communal harmony.

xviii) Fund for technology development and application, set up by the Central Government.

xix) National sports fund set up by the Central Government.

xx) National Children's Fund.

(B) 50% Deduction without any qualifying limit:

i) Jawaharlal Nehru Memorial Fund.

ii) Indira Gandhi Memorial Trust.

iii) Rajiv Gandhi Foundation.

iv) Prime Minister's Drought Relief Fund.

(C) 100% Deduction subject to qualifying limit:

i) Any sum to Government or any approved local authority, institution or association to be utilized for promoting family planning.

ii) Any sum paid by the assessee, being a company, in the previous year as donation to Indian Olympic Association or to any other Association established in India and notified by the Central Government for:

I. Development of infrastructure for sports and games or

II. Sponsorship of sports and games in india.

(D) 50% Deduction subject to qualifying limit:

i) Donation to Government or any approved Local Authority, Institution or Association to be utilized for any Charitable purpose other than promoting family planning.

ii) Any other Fund or Institution, which satisfies the conditions of Section 80G (5).

iii) Notified Temple, Mosque, Gurudwara, Church or any other place notified by the Central Government to be of historic, as chorological or artistic importance, for renovation or repair of such place.

iv) Any corporation established by the Central or State Government specified under Section 10(26BB) for promoting interests of the members of a minority community.

v) Any authority constituted in India by or under any law for satisfying the need for housing accommodation or for the purpose of planning development or improvement of cities, towns and villages or for both.

For applying qualifying limit, all donations made to funds/institutions covered under (C) and (D) above shall be aggregated and the aggregate amount shall be limited to 10% of adjusted Gross Total Income:

Gross Total Income

Less: Long term capital gain

Short term capital gain (u/s 111A)

All deduction except 80G

Question 7: Mr. Sujit, an Indian citizen, has following particulars:

Income from business	8,00,500
Winning from puzzles	1,00,800
Contribution u/s 80C	80,000
Donation to Jawaharlal Nehru Memorial fund	30,000

Donation to charitable institute (approved)	1,00,000
Donation to National Defence Fund	50,000
Donation to government for family planning	35,000
Calculate his net total income	

Solution:

Income from business	8,00,500
Winning from puzzles	1,00,800
Gross Total Income	9,01,300
Less: Deductions	
Contribution u/s 80C	80,000
Donation u/s 80G*	1,18,565
Net Total Income	7,02,735

*Calulation of Deduction U/S 80G

Adjusted Total Income = Gross Total Income – Deductions = 9,01,300- 80,000 = 7,21,300

Qualifying Amount = 10% of Adjusted total income

= 10% of 7, 21, 300

= 72,130

WITHOUT QUALIFYING LIMIT	
Donation to Jawaharlal Nehru Memorial fund (50%)	15,000
Donation to National Defence Fund (100%)	50,000
WITH QUALIFYING LIMIT	
Actual Donation made (35,000+ 1, 00,000 = 1, and 35,000)	
Donation to government for family planning	35,000
(100% with limit to Rs. 72,130)	
Donation to charitable institute (approved)	
(Balance Rs. 72,130- 35000 = 37, 130 @50%)	18,565
TOTAL	**1,18,565**

Deduction in Respect of Rent Paid (Section 80GG)

Eligible: Only to an individual (who is not entitled to House Rent Allowance).

Quantum:
i) Rent paid minus 10% of the adjusted total income,
ii) Rs. 2,000 per month, or
iii) 25% of the adjusted total income, whichever is less.

Important Points:

a) Deduction under 80GG can be claimed on the house rent paid in the previous year for his accommodation (furnished or unfurnished) on a condition that he or his spouse or any minor child or HUF of which he is a member does not own any house at the place of assessee's work or dwelling. If individual owns any residential accommodation at any place, other than the place of residence or work of the assessee, then such property should not be assessed in the hands of the individual as self-occupied property.

b) Deduction under this section is allowed to be claimed if the assesses is not entitled to House Rent Allowance from his employer and he should furnish a copy of the certificate in Form no. 10BA to the assessing Officer (whenever asked for examining).

a) "Adjusted total income" means

Gross Total Income
Less: Long term capital gain
Short term capital gain (u/s 111A)
All deduction except 80GG

Question 8: Mrs. Mohan, a businesswoman has following furnished information for previous year 2014-15:

Business Income	80,000
Income from house property	1,30,000
Capital Gain (long term)	40,000
Capital Gain (short term)	20,000
Income from other sources: interest from bank	15,000
Deposit in PPF	10,000

She pays Rs. 5000 p.m. as rent for his residential accommodation in Delhi. Assuming, she or her family has no other residential accommodation, calculate her total income for the relevant assessment year.

Solution:

Income from house property	1,30,000
Business income	80,000
Capital Gain (long term)	40,000
Capital Gain (short term)	20,000
Income from other sources: interest from bank	15,000
Gross Total Income	2,85,000
Less: Deductions u/s 80C to 80U	
80C 10,000	
80GG 24,000	34,000
Total Income	**2,51,000**

*Adjusted Total Income = Gross Total Income- Long term Capital Gain- Deductions

= 2,85,000 – 40,000 – 10,000

= 2,35,000

Deduction u/s 80G

(i)	Rent paid minus 10% of the adjusted total income	60,000-23,500 =	36,500
(ii)	Rs. 2,000 per month		24,000
(iii)	25% of the adjusted total income		58,750

Deduction in Respect of Certain Donations for Scientific Research or Rural Development (Section 80GGA)

Eligible: To an assessee who does not have income from business or profession.

Quantum: The amount of donation or contribution made (not more than Rs. 10,000 in cash) in the previous year.

Important Points:

a) Deduction under 80GGA can be claimed on donations made to an approved research association, university, college or other institution in the field of science, social science or statistics.

b) Deduction under this section is also allowed on donations made for any rural development program. Though the assessee should furnish a certificate to Assessing officer in this regard.

c) Donations in the form of cash, cheque or draft are allowed but not more than Rs. 10,000 in cash.

Deduction in Respect of Contribution to Political Party or Electoral Trust by an Indian Company (Section 80GGB)

Eligible: To an Indian Company.

Quantum: The amount of donation or contribution made in the previous year. (not made by cash).

Nature:

Deduction under 80GGB can be claimed on the contribution made by an Indian Company in the previous year to any political party or an electoral trust.

Deduction in Respect of Contribution to Political Party or Electoral Trust by any Person (Section 80GGC)

Eligible: Any person (except local authority and any artificial juridical person wholly or partly funded by the Government).

Quantum: The amount of donation or contribution made in the previous year. (not made in cash).

Nature:

Deduction under 80GGC can be claimed on the contribution made by any person (except local authority and any artificial juridical person wholly or partly funded by the Government) in the previous year to any political party or an electoral trust.

Exercise

1. Deduction under section 80E for interest on education loan taken for higher education can be claimed for a maximum period of :
   a) 8 years
   b) 9 years
   c) 10 years
   d) 12 years
2. The quantum of deduction allowed under section 80D in case of HUF shall be limited :
   a) Rs. 10,000
   b) Rs. 15,000
   c) Rs. 20,000
   d) Rs. 50,000
3. Maximum qualifying limit for deduction under section 80C is :
   a) Rs. 50,000
   b) Rs. 1,50,000
   c) Rs. 2,00,000
   d) Rs. 3,00,000
4. Deduction under 80G on account of donation is allowed to :
   a) A business assessee only
   b) Any assessee
   c) Individual or HUF only
   d) Individual only
5. Deduction under section 80EE is allowed on interest on home loan, subject to that the cost of the house property bought should not exceed :
   a) 25 lakhs
   b) 35 lakhs
   c) 40 lakhs
   d) 55 lakhs

Answer: 1. a, 2. b, 3. b, 4. b, 5. c

SESSION 2

BASIC OVERVIEW OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES & DEDUCTION 80QQB, 80RRB, 80TTA & 80U

Deductions in Respect of Certain Incomes

SECTION	WHO CAN CLAIM	NATURE OF DEDUCTION	AMOUNT OF DEDUCTION
80IA	All Assessee.	Profits and gains from undertakings or enterprises engaged in infrastructural development etc. a) Enterprise engaged in business of: i) Developing. ii) Operating and maintaining. iii) Developing, operating, and maintaining any infrastructure facility. b) An undertaking which is engaged in generation, transmission, distribution of power etc.	100% of such profit for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking engages in such business. Enterprise engaged in developing etc. of any infrastructural facility other than port, airport, inland waterway or inland port or navigation channel in the sea, the period of 15 years shall be replaced by 20 years.
80IAB	Special Economic Zone.	Profit and gain by an undertaking or enterprise engaged in development of SEZs.	100% of such profit for 10 consecutive assessment years out of 15 years beginning from the year SEZ has been notified by central government.

SECTION	WHO CAN CLAIM	NATURE OF DEDUCTION	AMOUNT OF DEDUCTION
80IB	All Assesses.	Profits and gains from individual undertakings other than infrastructure development undertaking.	*
*80IB (9)	Industrial undertaking producing or refining mineral oil in north eastern region or in any part of India.		100% for 7 assessment years commencing from initial assessment years.
80IB (11A)	Undertaking engaged in the business of processing, Preservation and packaging of fruits/ vegetables/ meat and meat products/ poultry/marine/dairy products. Or Integrated business of handling, storage and transport of food grains.		
Assessee	Period of deduction (commencing from initial AY).		Percentage of profit eligible for deduction.
a) Owned by a company	First 5 years. Next 5 years.		100 30
b) Owned by other assessee	First 5 years. Next 5 years.		100 25
80IC (11C)	Undertaking operating and maintaining a hospital located anywhere in india other than excluded area.		100% for 5 Assessment year consecutively.
80IC	All Assessee.	Profit and gain in respect of certain undertakings in certain special category of states: i) Production/ Operation of any article/thing in notified specified area in state of Himachal Pradesh/Uttarakhand. ii) Mention in schedule 14 in any area in said state.	100% of such profit for 5 assessment years and thereafter 25% of profit or gain (30% in case of company).

SECTION	WHO CAN CLAIM	NATURE OF DEDUCTION	AMOUNT OF DEDUCTION
80ID	All Assessee.	Profit in gains from business of hotels and reservation centres in specified areas.	100% of profit gain for 5 consecutive assessment year commencing with initial assessment year.
80IE	All Assessee.	Profit from certain undertaking in North Eastern States.	100% of such gain for 10 consecutive assessment years commencing with initial assessment year.
80JJA	All Assessee.	Profit or gains from the business of collecting and processing of biodegradable waste.	100% of such gain for 5 consecutive assessment year.
80JJAA	Indian Company.	Employment of new workmen.	30% of additional wages paid to new regular workmen.
80 LA	Offshore Banking Unit/ International financial services Centre.	Income from i) Offshore Banking Unit in SEZ. ii) Business with an undertaking located in SEZ. iii) Any Unit of ISC from its business.	100% of such income for 5 years, 50% such income for next 5 years.
80P	Co-operative society.	Specified Income AI) Profit attributable to certain specified activities : i) Banking / credit. ii) Cottage industry. iii) Marketing of agricultural produce grown by its members. iv) Fishing, allied activities. II) Profits of co-operative societies engaged in supplying milk, oil seeds, fruits, vegetables.	

SECTION	WHO CAN CLAIM	NATURE OF DEDUCTION	AMOUNT OF DEDUCTION
		III) Income from investment with other co-operative societies. IV) Income from letting of 'godowns'/ warehouse for storage, processing, etc. B (1) Engaged in other than those mentioned in (I) & (II) of (A). (2) Income by way of interest on securities / house property of gross total income of co-operative society does not exceed Rs. 20,000.	100% is allowed. 1) 1,00,000 (if concern is co-operative society). 2) 50,000 (other case) 100% is allowed in case of a co-operative society not being i) Housing society. ii) Urban consumer society. iii) Transport business. iv) Engaged in manufacturing business with aid of power, provided gross total income does not exceed 20,000.

Deduction in Respect of Royalty Income of Authors (Section 80QQB)

Eligible: To a Resident Author (or Joint Author).

Quantum: (1) 100% of such income; or

(2) Rs. 3, 00,000; whichever is less.

Important Points:

a) Deduction under 80QQB can be claimed on the royalty or copyright fees (payable in lump sum or otherwise) or lump sum consideration for transfer (or grant) of any interest in the copyright of the book authored by him which is work of literacy, artistic or scientific nature (excluding text-books for schools, tracts and other publications of similar nature, by whatever name called).

b) Deduction under this section is also allowed if the assessee furnishes a copy of the certificate in Form no. 10CCD to the Assessing Officer from the person responsible for paying the income (whenever asked for examining).

Deduction in Respect of Royalty Income on Patents (Section 80RRB)

Eligible: To a Resident Individual

Quantum: 1) 100% of such income; or

2) Rs. 3, 00,000; whichever is less.

Important Points:

a) Deduction under 80RRB can be claimed on the royalty received on respect of patent (he may be a co-owner of a patent) which is registered.

b) Deduction under this section is also allowed if the assessee furnishes a copy of the certificate in Form no. 10CCE to the Assessing officer from the person responsible for paying the income (whenever asked for examining).

c) When the eligible income is earned outside india, such income is brought into India in convertible foreign exchange on or before September 30 of the assessment year in order to avail deduction under this section. A certificate of foreign inward remittance should be taken in Form no. 10H from a prescribed authority (i.e., RBI or an authorized bank).

Deduction in Respect of Interest on Deposits in Savings Accounts (Section 80TTA)

Eligible: 1) Individual 2) HUF

Quantum: The total amount of interests on deposits in savings accounts maximum up to Rs. 10,000.

Important Points:

a) Deduction under 80TTA can be claimed on interest on deposits of savings accounts with a bank / co-operative bank / post office.

b) Interests on time deposits are not considered.

Deduction in the Case of a Person with Disability (Section 80U)

Eligible: Only to a Resident Individual with disability.

Quantum: Rs. 50,000 (1,00,000 in case of a person with severe disability).

Important Points:

a) Deduction under 80U can be claimed by a person with disability.

b) For claiming the deduction under this section, the assessee should furnish to the Assessing Officer a copy of the certificate issued by the medical authority; whenever asked for examining.

c) Where the condition of disability requires reassessment (when the medical certificate is issued for a specific period), a fresh certificate shall have to be obtained soon after the expiry of the period. No deduction shall be allowed if the medical certificate stands expired in the year preceding the assessment year.

Exercise

1. The maximum limit of deduction specified under section 80RRB for claim on the royalty received in respect of patent is :

    a) Rs. 50,000

    b) Rs. 1,50,000

    c) Rs. 2,00,000

    d) Rs. 3,00,000

2. Deduction available under section 80QQB in respect of royalty income of authors shall not exceed _________ in a previous year.

    a) Rs. 50,000

    b) Rs. 1,50,000

    c) Rs. 2,00,000

    d) Rs. 3,00,000

3. Deduction u/s 80-IC is allowed if the business of the assessee is situated:

    a) In any state

    b) In any Backward state

    c) In the states of Sikkim, Himachal Pradesh and Uttaranchal

    d) In the states of Himachal Pradesh or Uttaranchal

4. Mr. X receives Rs. 2,50,000 as royalty fees for writing a science book of class 8^{th} He is entitled to claim a deduction of Rs. 2,50,000 from his Gross Total Income.

5. Mr. M gets an interest of Rs. 10,855 as interest on his fixed deposits with a co-operative bank. He is entitled to get a deduction of Rs. 10,855 under section TTA.

Answer: 1. d, 2. d, 3. d, 4. True, 5. False

Question 9: Mr. V, being a 52 year old Indian citizen, provides us the following information for the year ending 31.03.2015

Income from salary	3,40,000
Income from house property	50,000
Long term capital gain	1,20,000
Short term capital loss	20,000
LIP on his own life (sum assured-5,000)	1,000
Amount incurred on education of younger child	1,200
5 year term deposit in post office	3,000
Premium of Medi-claim insurance taken for self	7,000
Payment for medical treatment of wife (60% disabled)	50,000
Interest on education loan taken (Loan taken for his elder son to pursue B.Tech)	90,000
Interest on home loan paid (Loan taken in April 2013) (Interest of 70,000 already claimed in 2014-15)	80,000
Deposited to PM's Relief fund	10,000

He also pays a premium on Medi-claim of his father of Rs. 21,000 who is 78 years of age. Calculate his total income for the relevant previous year.

Solution : According to the Particulars of Mr. V

Income from salary		3,40,000
Income from house property		50,000
Income from capital gains		
Long term gain	1,20,000	
less: Short term loss	(20,000)	1,00,000
GROSS TOTAL INCOME		4,90,000
Less: Deduction under section 80C		(4,700)
Less: Deduction under section 80D		(27,000)
Less: Deduction under section 80DD		(1,00,000)
Less: Deduction under section 80E		(90,000)
Less: Deduction under section 80EE		(30,000)
Less: Deduction under section 80G		(10,000)
TOTAL INCOME		2,28,300

Working Notes :

1.	Deduction u/s 80C :		
	LIP on his own life (10% of amount assured)		500
	Tuition fee of younger child		1,200
	5 year term deposit in Post Office	3,000	
	Total		4,700
2.	Deduction u/s 80D :		
	Premium paid on Medi-claim taken for self		7,000
	Medi-claim premium for senior citizen father		
	Rs. 21,000 restricted to maximum		20,000
	Total		27,000
3.	Deduction u/s 80DD :		
	In case of severe disability of wife flat 1, 00,000 deductions provided irrespective of the amount paid		
4.	Deduction u/s 80E :		
	Interest on education loan taken for higher studies		
5.	Deduction u/s 80EE :		
	Interest on home loan is already claimed in 2014-15 of Rs. 70,000, can be deducted up to 1, 00,000; the balance of 30,000 can be accrued. Therefore, Rs. 30,000 is still claimed.		
6.	Deduction u/s 80G :		
	Deposit to Prime Minister's relief fund, being a 100% without qualifying limit head is claimed fully.		

Question 10: Mr. X, being an author and a businessman, provides us the following information for the year ending 31.03.2015

Income from Business	4,20,000
Income from house property	80,000
Long term capital gain	2,10,000
Short term capital loss	70,000
LIP on his own life (sum assured-10,000)	1,000
LIP on his wife (sum assured-8,000)	400

Amount incurred on education of younger child	800
Deposit in PPF	13,000
Contribution to RPF	3,000
Premium of Medi-claim insurance taken for self 7,000	
Premium of Medi-claim insurance taken for child (Independent)	8,000
Premium of Medi-claim insurance taken for wife	9,000
Payment for medical treatment of child (40% disabled)	20,000
Interest on home loan paid (Loan taken in May 2013) (Interest of 1, 00,000 already claimed in 2014-15)	1,00,000
Deposited to Rajiv Gandhi Foundation	50,000
Royalty received on a novel written	50,000
Royalty received on a registered patent	3,20,000

Calculate his total income for the relevant previous year.

Solution : According to the Particulars of Mr. X

Income from business		4,20,000
Income from house property		80,000
Income from capital gains		
Long term gain	2,10,000	
less: Short term loss	(70,000)	1,40,000
GROSS TOTAL INCOME		6,40,000
Less: Deduction under section 80C		(18,200)
Less: Deduction under section 80D		(15,000)
Less: Deduction under section 80DD		(50,000)
Less: Deduction under section 80EE		NIL
Less: Deduction under section 80G		(25,000)
Less: Deduction under section 80QQB		(50,000)
Less: Deduction under section 80RRB		(3,00,000)
TOTAL INCOME		**2,28,300**

Working Notes:

1.	Deduction u/s 80C :	
	LIP on his own life	1,000
	LIP on his wife	400
	Tuition fee of younger child	800
	Deposit in PPF	13,000
	Deposit in RPF	3,000
	Total	18,200
2.	Deduction u/s 80D :	
	Premium paid on Medi-claim taken for self	7,000
	Medi-claim premium for independent child	NIL
	Premium paid on Medi-claim taken for wife	9,000
	Total	16,000
	But restricted to a maximum of Rs. 15,000	
3.	Deduction u/s 80DD :	
	In case of 40% disability of dependent child flat 50,000 deduction provided irrespective of the amount paid.	
4.	Deduction u/s 80EE :	
	1. Interest on home loan is already claimed in 2014-15 of	
	2. Rs. 1,00,000, can be deducted only up to 1,00,000 which is already claimed. Therefore no deduction is allowed in this year	
5.	Deduction u/s 80G :	
	1. Deposit to Rajiv Gandhi Foundation, being a 50% without qualifying limit head is claimed half i.e., 25,000 instead of 50,000	
6.	Deduction u/s QQB :	
	1. Royalty received in his work of literacy.	
7.	Deduction u/s RRB :	
	1. Royalty received in respect of patent Rs. 3,20,000 but it is subject to a maximum of Rs. 3, 00,000	

Keywords

1. **Disability :** Include autism, cerebral palsy and multiple disabilities as provided for in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.
2. **Medical Authority:** Means any hospital or institution specified for the purpose of this act by notification by the appropriate government.
3. **Person with Disability:** Means a person suffering from not less than 40% of any disability as certified by the medical authority.
4. **Person with Severe Disability:** Means any person with 80% or more of one or more disabilities.
5. **Financial Institution:** Means banking company to which the Banking Regulation Act, 1949 act applies.
6. **Housing Finance Company:** Means a public company formed or registered in India whose main object is providing long-term finance for construction or purchase of houses in india for residential purposes.

Summary

- **Section 80C:** Deduction on life insurance premia, contribution to provident fund, etc. available to individual/HUF for a maximum amount of Rs. 1,50,000.
- **Section 80CCC:** Deduction for contribution to pension fund – available to individual for maximum amount of Rs. 1,50,000.
- **Section 80CCD:** Deduction in respect of contribution to pension scheme of Central Government available to individual.
- **Section 80CCE:** Limit on deductions under Sections 80C, 80CCC and 80CCD –cannot exceed Rs. 1, 50,000.
- **Section 80CCG:** Deduction in respect of investment made under any equity saving scheme – available to resident individual subject to maximum of Rs. 25,000.
- **Section 80D:** Deduction in respect of medical insurance premia - available to individual/HUF.
- **Section 80DD:** Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability – available to resident individual/HUF for a fixed amount of Rs. 50, 000 and Rs. 1, 00,000.
- **Section 80DDB** read with **Rule 11DD:** Deduction in respect of medical treatment, etc. available to resident individual/resident HUF for maximum of Rs. 40,000.
- **Section 80E:** Deduction in respect of repayment of loan taken for higher education – available to individual.
- **Section 80G:** Deduction in respect of donations to certain funds, charitable institutions, etc. available to all assessee subject to maximum of 50% of qualifying amount, 100% as the case may be.

- **Section 80GG:** Deduction in respect of rent paid – available to individual for a maximum of Rs. 24,000.
- **Section 80GGA:** Deduction in respect of certain donations for scientific research or rural development.
- **Section 80GGB:** Deduction in respect of contributions given by companies to political parties.
- **Section 80GGC:** Deduction in respect of contributions given by any person to political parties.
- **Section 80QQB:** Deduction in respect of royalty income, etc., of authors of certain books other than text books – available to resident individual, for a maximum deduction of Rs. 3,00,000.
- **Section 80RRB:** Deduction in respect of royalty on patents – available to resident individual, maximum of Rs. 3,00,000.
- **Section 80TTA:** Deduction in respect of interest on deposits in savings account – available to individual/HUF up-to Rs.10,000.
- **Section 80U:** Deduction in case of a person with disability – available to Resident individual subject to maximum of Rs. 100,000.

Exercise

I. Short Answer Questions

1. What are the basic rules governing deduction 80C to 80U?
2. What is the aggregate amount of deductions under Sections 80C, 80CCC and section 80CCD?
3. Name any five investments in respect of Section 80C which can be claimed as deduction under this section.
4. State the quantum of deduction in respect of Section 80D.

II. Long Answer Questions

1. Write short notes on:
   a) Deduction u/s 80QQB in respect of royalty income of authors of certain books.
   b) Deduction u/s 80DDB in respect of medical treatment.
   c) Deduction u/s 80U in respect of a person with disability.
   d) Deduction u/s 80GG in respect of rent paid.
2. What are the provisions relating to deductions from Gross total income in respect of donations to certain funds, charitable institutions etc. under section 80G of Income Tax Act?
3. What is the deduction available in respect of 80-IA & 80-IB?
4. Explain the deduction in respect of royalty on patents under section 80RRB.

III. Numerical Questions

Question 1: Mr. Vyapak, being a 40 year old Indian citizen, provides us the following information for the year ending 31.03.2015

a.	Income from salary	3,40,000
b.	Income from house property	50,000
c.	Long term capital gain	1,20,000
d.	Short term capital gain	20,000
e.	Income from other sources	30,000
f.	LIP on his own life (sum assured-5,000)	1,000
g.	Amount incurred on education of younger child	1,000
h.	5 year term deposit in post office	3,000
i.	Contribution to PPF	4,000
j.	Contribution to RPF	6,000
k.	Premium of Medi-claim insurance (self)	10,000
l.	Payment for medical treatment of wife (40% disabled)	30,000
m.	Interest on education loan taken (Loan taken for his elder son to pursue MBA)	80,000
n.	Interest on home loan paid (Loan amount – 25 lakhs) (Cost of the house – 48 lakhs)	80,000
o.	Donation to government for family planning	15,000

He also pays a premium on Medi-claim of his father of Rs. 30,000 who is 68 years of age. Calculate his total income for the relevant previous year.

(Answer – Rs. 2,90,500)

Question 2: Mr. Aarav, being an author and a businessman, provides us the following information for the year ending 31.03.2015

a.	Income from business	5,20,000
b.	Income from house property	30,000
c.	Long term capital gain	2,10,000
d.	Short term capital loss	10,000
e.	Income from other sources	30,000
f.	LIP on his own life (sum assured-10,000)	1,000
g.	LIP on his wife (sum assured-8,000)	400

h.	Amount incurred on education of younger child	800
i.	Deposit in PPF	15,000
j.	Contribution to RPF	8,000
k.	Preventive medical check-up of self	4,000
l.	Preventive health check-up of independent child	2,000
m.	Premium of Medi-claim insurance taken for wife	9,000
n.	Payment for medical treatment of child (60% disabled)	20,000
o.	Interest on home loan paid (Loan amount being 30 lakhs) (Cost of house being 40 lakhs)	50,000
p.	Royalty received on a novel written	3,50,000
q.	Royalty received on a registered patent	20,000

Calculate his total income for the relevant previous year.

(Answer – Rs. 3,71,800)

Question 3: Mr. Siddhartha, being 42 years old resident, provides us the following information for the year ending 31.03.2015

a.	Income from salary	2,20,000
b.	Income from house property	28,000
c.	Interest on saving bank account	1,000
d.	Income from other sources	30,000
e.	LIP on his wife (sum assured-8,000)	900
f.	Amount spent on education of 3 children(each)	1000
g.	Deposit in PPF	18,000
h.	Contribution to RPF	5,000
i.	Preventive medical check-up of self	4,000
j.	Preventive health check-up of dependent child	2,000
k.	Premium of Medi-claim insurance taken for self	9,000
l.	Interest on home loan paid (Loan amount being 25 lakhs) (Cost of house being 40 lakhs)	50,000
m.	Donation to family planning	20000
n.	Donation to notified temple	15,000

Calculate his total income for the relevant previous year.

(Answer – Rs. 1,69,380)

UNIT – 2

COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL

Unit–2	**COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL**			
Location: Classroom	**SESSION 1: INTRODUCTION : CALCULATION OF TAX LIABILITY OF INDIVIDUAL**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	1. Basic rules related to computation of tax liablity.	1. How total taxable income and tax liability is calculated for an individual?	1. Write the basic steps to calculate tax liability. 2. List the rates of income tax for Assessment year 2015-16.	**Interactive Lecture:** Discussion related to rules related to computation of tax liability.
	2. Practical illustration.	1. Calculation of tax liability and taxable income.	1. Calculation of tax liability and taxable income.	**Interactive Lecture:** Discussion on Practical problems.

UNIT: COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL

Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the rules for computation of taxable income.
2. Calculate taxable income and tax liability of an individual.

SESSION 1

INTRODUCTION – CALCULATION OF TAX LIABILITY OF INDIVIDUAL

Introduction

An individual means a natural person i.e. human being. Individual includes a male, female, minor child and a lunatic or an idiot.

In case of male/female who is a major, income tax will be levied on his/her Total Taxable Income separately, unless the income is to be clubbed under provisions of section 60-64.

As regards a minor child, the income of a minor after giving exemption up to Rs. 1,500 per minor child will be clubbed with the income of that parent who's Total Income, before clubbing such income, is greater. However, there are certain incomes which are not to be clubbed. Such income of the minor, which is not to be clubbed, will be assessable in the hands of the representative assessee on behalf of the minor.

Income of a lunatic or an idiot will be assessed in the hands of the representative assessee.

- **An individual is liable to pay tax in respect of the following incomes :**

  i) **Income Earned By an Individual Himself:** i.e. income earned by an individual in his individual capacity.

  ii) **Income Earned as a Partner of a Firm or a Limited Liability Partnership:** Following types of incomes can be earned by an individual as partner of a firm or limited liability partnership:

    (a) **Share of Profit of the Firm or Limited Liability Partnership:** The share of profit from a partnership firm or a limited liability partnership, is exempt from tax at the time of individual assessment of the partner; [Section 10(2A)];

    (b) **Remuneration from a Firm:** The remuneration by way of salary, bonus, commission, etc., received by a partner, is taxable as business income in the hands of a partner [Section 28(v)];

    (c) **Interest on Capital or Loan:** Interest on capital or loan to a firm or limited liability partnership, in which he is a partner, is also assessed as income from business.

iii) **As a Member of an Association of Persons, Etc.:** Where an individual is member of an association of persons or body of individuals, his share of income from such AOP/ BOI shall be taxed as under:

a) **Where the Income of Association of Persons or Body of Individuals is Chargeable at Maximum Marginal Rate:** Share of income of a member from such AOP or BOI will not be included in his taxable income at all.

b) **Where the Income of AOP or BOI is Taxed at Normal Rates i.e. The Rates Applicable to an Individual:** Share of income of a member from such AOP or BOI will be included in the taxable income of the individual only for rate purposes and a relief under section 86 shall be allowed.

c) **Where No Income Tax is Chargeable on the Income of the AOP or BOI:** Share of income of a member from such AOP or BOI will be chargeable to tax as part of his total income.

iv) **Income of the Other Persons Included in the Income of the Individual [Section 60 to 65]:** as already discussed under the chapter on 'clubbing of income', the income of other persons will also be included in the individual's total income under respective heads of income.

◆ **Computation of total income and tax liability**

Step 1: Compute the income of an individual under 5 heads of income on the basis of his residential status.

Step 2: Income of any other person, if includible under section 60 to 64, will be included under respective heads.

Step 3: Set off of the losses if permissible, while aggregating the income under 5 heads of income.

Step 4: Carry forward and set off of the losses of the past years, if permissible, from such income.

Step 5: The income computed under step 1 to 4 is known as Gross Total Income from which deductions under section 80C to 80U (Chapter VIA) will be allowed. However, no deduction under these sections will be allowed from short term capital gain covered under section 111A, any long term capital gain and winning of lotteries etc., though these incomes are part of gross total income.

Step 6: The balance income after allowing the deductions is known as total income which will be rounded off to the nearest Rs. 10.

Step 7: Compute tax on such total income at the prescribed rates of tax.

Step 8: Add education cess and secondary and higher education cess @ 3%.

Step 9: Allow relief under section 89, if any.

Step 10: Deduct the TDS and advance tax paid for the relevant assessment year. The balance is the net tax payable which must be rounded off to the nearest

Rs. 10. This tax has to be paid as self-assessment tax before submitting the income tax return.

- **For the assessment year 2015-16 the following deductions are available to an individual under Chapter VIA**

Section	Nature of Deduction	To which individual allowed
80C	Deduction in respect of Life Insurance Premium, Provident Fund, etc.	Resident and Non-Resident
80CCC	Contribution to certain pension funds	Resident and Non-Resident
80CCD	Deduction in respect of contribution to pension scheme of Central Government	Individual employed by Central Government
80CCE	Limit on deduction under section 80C, 80CCC and 80CCD	
80CCG	Deduction in respect of investment made in an equity saving scheme	Resident individual
80D	Payment of Medical Insurance Premium	
80DD	Maintenance including medical treatment of a disabled dependent	Resident only
80DDB	Expenditure on medical treatment of certain diseases	
80E	Interest on loan taken for higher education	Resident and Non Resident
80EE	Interest on loan sanctioned not before the financial year 2013-14 for acquiring residential house property	Individuals only
80G	Donations to certain funds or charitable institutions etc.	
80GG	Deduction in respect of rent paid	
80GGA	Certain donations for scientific research or rural development	
80GGC	Deduction in respect of contribution given by any person to political parties	
80-IA	Profits and gains of new industrial undertakings, etc.	Resident and Non-Resident
80-IB	Profits and gains from certain industrial undertakings other than infrastructure development undertakings.	
80-IC	Deduction in respect of certain undertakings or enterprises in certain special category States	Resident and Non-Resident

Section	Nature of Deduction	To which individual allowed
80-ID	Deduction in respect of profits and gains from business of hotels and convention centers in specified area	
80-IE	Special provisions in respect of certain undertakings in North-Eastern States	
80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste	Resident and Non-Resident
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than text books	Resident Author
80TTA	Deduction in respect of interest on deposits in saving account	Individual or HUF whether resident or non-resident
80U	Deduction in case of a person with disability	Resident only

◆ Rates of income tax for assessment year 2015-16

	Particulars	Rate of Tax
i)	Winnings from lotteries, crossword puzzles or races including horse races or card games and other games of any sort or from gambling or betting of any form or nature whatsoever [section 115BB]	30%
ii)	Short term capital gains on equity shares in a company or units of an equity oriented fund where the transaction is chargeable to securities transaction tax [section 111A]	15%
iii)	Long term capital gains [section 112]	20%
iv)	The balance of total income in case of:-	
	a) An individual (man or woman), resident in India who is not more than 60 years of age, a non-resident individual, HUF, AOP/BOI (other than a co-operative society).	
	Up to Rs. 2, 50,000	Nil
	Rs. 2, 50,010 to Rs. 5, 00,000	10%
	Rs. 5, 00,010 to Rs. 10, 00,000	20%
	Above Rs. 10,00,000	30%

Particulars	Rate of Tax
b) An individual (man or woman), resident in India, who is of the age of 60 years or more at any time during the previous year, but less than 80 years of age.	
Up to Rs. 3, 00,000	Nil
Rs. 3, 00,010 to Rs. 5, 00,000	10%
Rs. 5, 00,010 to Rs. 10, 00,000	20%
Above Rs. 10, 00,000	30%
c) An individual (man or woman), resident in India who is of the age of 80 years or more at any time during the previous year.	
Up to Rs. 5, 00,000	Nil
Rs. 5, 00,010 to Rs. 10, 00,000	20%
Above Rs. 10, 00,000	30%

◆ **Rebate of maximum Rs. 2,000 for resident individuals having a total income up to Rs. 5 lakhs [section 87A] [W.e.f. assessment year 2014-15]**

With a view to provide tax relief to the individual tax payers who are in lower income bracket, the Act has provided rebate for the tax payable by an assessee, if the following conditions are satisfied:

i) The assessee is an individual,

ii) He is resident in India,

iii) His total income does not exceed Rs. 5, 00,000.

Quantum of Rebate: The rebate shall be equal to:

a) The amount of income tax payable on the total income for any assessment year, or,

b) Rs. 2,000,

Whichever is less.

◆ **Alternate Minimum Tax (AMT) on all persons other than companies [section 115JC to 115JF]**

Where the regular income tax payable for a previous year by a person (other than a company) is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income of such person and he shall be liable to pay income tax on such total income at the rate of 18.5%. [Section 115JC (1)]

Report from an accountant [section 115JC (3)]: Every person to whom this section applies shall obtain a report, in such form as may be prescribed, from an accountant, certifying that

the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report on or before the due date of furnishing of income tax return under section 139(1).

To whom AMT shall be applicable [section 115JEE (1)]:

The provisions of AMT shall apply to a person who has claimed any deduction under –

(a) Sections 80-IA to 80RRB other than section 80P; or

(b) Section 10AA.

To whom AMT shall not be applicable [section 115JEE (2)]:

The provisions of AMT under Chapter XII-BA shall not apply to –

(a) An individual; or

(b) A HUF; or

(c) An AOP or a BOI (whether incorporated or not); or

(d) An artificial juridical person referred to in section 2(31)(vii).

If the adjusted total income of such person does not exceed Rs. 20, 00,000.

Tax credit for AMT: Section 115JD provides the credit for tax (tax credit) paid by a person on account of AMT under Chapter XII-BA shall be allowed to the extent of the excess of the AMT paid over the regular income tax. This tax credit shall be allowed to be carried forward up to the tenth assessment year immediately succeeding the assessment year for which such credit becomes allowable. It shall be allowed to be set off for an assessment year in which the regular income tax exceeds the AMT to the extent of the excess of the regular income tax over the AMT.

No interest shall be payable on tax credit allowed under section 115JD.

With a view to enable an assessee who has paid AMT in any earlier previous year to claim credit of the same, in any subsequent year, the Act has inserted section 115JEE (3) so as to provide that the credit for tax paid under section 115JC shall be allowed in accordance with the provisions of section 115JD, notwithstanding the conditions mentioned in section 115JEE (1) or (2).

For this purpose*:*

(a) "Adjusted total income" shall be the total income before giving effect to provisions of sections 115JC to 115JF as increased by the deductions claimed under sections 80-IA to 80RRB other than section 80P included in Chapter VI-A and deduction claimed under section 10AA [section 115JC(2)].

(b) "Alternate minimum tax" shall be the amount of tax computed on adjusted total income at a rate of 18.5% [section 115JF(b)].

(c) "Regular income tax" shall be the income tax payable for a previous year by a person other than a company on his total income in accordance with the provisions of Chapter XII-BA (i.e. sections 115JC to 115JF). [Section 115JF (d)].

Exercise

1. Income tax is rounded off to :
   - a) Nearest ten rupees
   - b) Nearest one rupee
   - c) No rounding of tax
2. Education cess is leviable @ :
   - a) 2%
   - b) 3%
   - c) 5%
3. The maximum amount on which income tax is not chargeable for the assessment year 2015-16 in case of an individual who is of age 60 years or above but not resident of India is :
   - a) 2,00,000
   - b) 2,50,000
   - c) 5,00,000
4. Secondary and Higher Education Cess (SHEC) is leviable on :
   - a) Income tax,
   - b) Income tax, surcharge if applicable
   - c) Income tax, surcharge if applicable and education cess
5. Mrs. A, a resident of India, is 56 years old. Her total income for assessment year 2015-16 is Rs. 7,26,500. Her tax liability shall be :
   - a) Rs. 72,410
   - b) Rs. 74,210
   - c) Rs. 70,410

Answer: 1. a, 2. a, 3. b, 4. b, 5. a

Question 1: Mr. X, being a 64 year old Indian citizen, provides us the following information for the year ending 31.03.2015

a.	Basic Pay	3,40,000
b.	Education Allowance (Rs. 350 per month for a son and Rs. 400 per month each for 2 daughters)	13,800
c.	Transport Allowance (For journey between office and residence)	8,000
d.	Employer's contribution towards UPF	4,000
e.	Share of profit from a firm	50,000
f.	X's contribution towards UPF (Unrecognized Provident Fund)	8,900
g.	Premium of Medi-claim insurance policy	
	i) Self	15,000
	ii) Wife's	2,000
	Donations made to PM's relief fund	10,000
	Donations made to Rajiv Gandhi Foundation	8,000

He purchased a house of Rs. 30 lakhs, taking a loan of 20 lakhs. The interest paid during the year being Rs. 30,000. He does not own any other house property. Compute the total income of X.

Solution : According to the particulars of Mr. X -

Income from salary	3,51,400
Income from profession	Nil
GROSS TOTAL INCOME	3,51,400
Less: Deduction under section 80D	15,000
Less: Deduction under section 80G	14,000
Less: Deduction under section 80EE	30,000
TOTAL INCOME	2,92,400

Working Notes :

1.	Income from salary –		
	Basic Pay		3,40,000
	Education Allowance	13,800	
	Exempt: (100×2×12)	(2,400)	11,400
	Transport Allowance		Exempt
	(Exempted maximum up to 9,600)		
	Employer's contribution to UPF		Nil
	(Not taxable even if exceeds 12% of salary)		
	Total		**3,51,400**
2.	Income from profession/business – Profit from a firm is fully exempted.		
3.	Deduction u/s 80 D (15000+2000) subjected to a maximum of Rs. 15,000)		
4.	Deduction u/s 80G		
	a) PM relief fund (100%)		10,000
	b) Rajiv Gandhi Foundation (50%)		4,000

Question 2: Compute the total income of Mr. Varun from the following particulars for the assessment year 2015-16.

a.	Basic Pay	12,00,000
b.	Free watchman	80,000
c.	Free gardener	15,000
d.	Share of profit from a firm	12,000
e.	Winnings from horse race	12,000
f.	Royalty income from patent	30,000
g.	Contribution to PPF	30,000
h.	Donation to Indira Gandhi Memorial Trust	80,000
i.	Interest on Post Office saving account	20,000
j.	Loss from a business	50,000
k.	Purchase of a work of art from a friend for RS. 50,000; market value, however being Rs. 90,000	
l.	Expenditure incurred for the medical treatment of his elder dependent brother of Rs. 20,000; being a person with disability (80%).	

Solution : According to the particulars of Mr. Varun -

Income from salary	12,95,000
Income from house property	NIL
Income from profession/business	(50,000)
Income from capital gains	40,000
Income from other sources	62,000
GROSS TOTAL INCOME	13,47,000
Less: Deduction under section 80C to 80 U	2,10,000
NET TOTAL INCOME	11,37,000

Working Notes :

1.	Income from salary –	
	Basic Pay	12,00,000
	Free watchman	80,000
	Free gardener	15,000
		12,95,000
2.	Income from profession/business – Profit from a firm is fully exempted	
3.	Income from capital gains – Art work (90,000-50,000)	40,000
4.	Income from other sources –	
	Winnings from horse race	12,000
	Royalty income from patent	30,000
	Interest on Post Office saving account	20,000
5.	Deduction u/s 80C (PPF)	30,000
	Deduction u/s 80 G (50% W/O limit)	
	-Indira Gandhi Memorial Trust (80,000)	40,000
	Deduction u/s 80TTA (Rs. 20,000 subjected	
	To maximum of Rs. 10,000)	10,000
	Deduction u/s RRB	30,000
	Deduction u/s 80 U (disability 80%)	1,00,000
		2,10,000

Question 3: Mr. Harish, being an author and a businessman, aged 61 years, provides us the following information for the year ending 31.03.2014. Compute total taxable income.

a.	Income from business	3,20,000
b.	Income from house property (computed)	20,000
c.	Long term capital gain	2,40,000
d.	Short term capital loss	40,000
e.	Income from other sources	50,000
f.	LIP on his own life (sum assured-10,000)	2,000
g.	LIP on his wife (sum assured-8,000)	1,000
h.	Amount incurred on education of younger child	800
i.	Deposit in PPF	18,000
j.	Contribution to RPF	5,000
k.	Preventive medical check-up of self	5,000
l.	Preventive health check-up of independent child	3,000
m.	Payment for medical treatment of child (60% disabled)	20,000
n.	Interest on home loan paid (Loan amount being 30 lakhs) (Cost of house being 40 lakhs)	40,000

Solution : According to the particulars of Mr. Harish -

Income from business		3,20,000
Income from house property		20,000
Income from capital gains		2,00,000
Income from other sources		50,000
GROSS TOTAL INCOME		5,90,000
Less: Deduction under section 80C to 80U		80,600
NET TOTAL TAXABLE INCOME		5,09,400
TAX LIABILITY		
Tax on total income of Rs. 5, 09,400		
Up to 3, 00,000	NIL	NIL
3, 00,000 to 5, 00,000	10%	20,000
Balance 9,400	20%	1880
		21,880
Add: Education Cess @ 3%		656
		22,536
Amount rounded off total liability amounts to Rs. 22,540.		

Working Notes :

1.	Income from Capital Gains		
	LTCG	2,40,000	
	STCL	(40,000)	2,00,000
2.	Deduction u/s 80C to 80U		
	--- 80 C LIP on self		
	(Rs. 10,000 sum assured subjected		
	(Rs. 10,000 sum assured subjected		
	to maximum of 10% of sum assured)	1000	
	LIP on wife (sum Assured- Rs. 8000)	800	
	Amt on education of child	800	
	Contribution to PPF	18,000	
	Contribution to RPF	5,000	25,600
	--- 80 D Preventive health -check-up (Max. 5,000)		
	Self	5000	
	Independent child	NA	5,000
	--- 80 DD Payment for medical treatment of disable		
	(Irrespective of amt spent)		50,000
	--- 80 EE Payment of interest on house loan		
	(Amount of loan exceeds Rs. 25 lakhs)		NIL
			80,600

Question 4: Mr. Aarav, being an author and a businessman, provides us the following information for the year ending 31.03.2014.

a) Salary – Rs. 32,500 per month

b) D.A. – Rs. 8,000 per month

c) Commission on turnover achieved by him @ 5% of 20,00,000

d) He is provided a car of 1.8l engine capacity with chauffeur for his official and private purposes

e) Bonus – Rs. 20,000

f) He is provided a rent free furnished house and the employer pays Rs. 10,000 per month for the house and Rs. 5,000 per month for the furniture.

g) Premium of Medi-claim insurance taken for wife 9,000

h) Royalty received on a book written for school 3,50,000

Compute his total income taxable for the year.

Solution : According to the particulars of Mr. Aarav –

Income from salary	7,96,200
Income from other sources(royalty)	3,50,000
GROSS TOTAL INCOME	11,46,200
Less: Deduction under section 80D	9,000
Deduction under section 80QQB	
(maximum subjected limit)	3,00,000
TOTAL TAXABLE INCOME	8,37,200

Working Notes :

Income from salary –	
Basic salary	3,90,000
DA	96,000
Car facility with chauffeur	39,600
(2400 × 12 + 900 × 12)	
Commission on turnover	1,00,000
(5% of 20, 00,000)	
Bonus	20,000
Rent free accommodation	1,50,600
(15% of salary + rent of furniture)	
(Salary = basic + DA + comm. + bonus)	
Total	**7,96,200**

Question 5: Mr. J, a Government employee and a citizen of India, was sent to New Zealand on official duty, on 1.8.2014. He stayed there up to 28.2.2015. The salary and allowances drawn by him during this period are given below. Compute his total income for the assessment year 2015-16.

5 months' salary in India	4,50,000
7 months' salary in New Zealand	6,30,000
Overseas Allowance	5,00,000
Free residence in New Zealand	3,50,000
(Rent Rs. 50,000 per month for 7 months)	

He has a house property in Mumbai which is self-occupied. During his stay in New Zealand his wife and children were staying in this property throughout the previous year. The fair rental value of the house is Rs. 60,000. He has paid Rs. 8,000 as municipal taxes and Rs. 2,000 as ground rent during the year.

He received dividend from an Indian company amounting to Rs. 5,000.

He has donated a sum of Rs. 10,000 to National relief fund of Prime Minister as applicable under section 80G.

Solution : According to the particulars of Mr. J

Income from salary	10,80,000
Income from house property	Nil
income from other sources	Nil
GROSS TOTAL INCOME	10,80,000
Less: Deduction under section 80G	10,000
TOTAL INCOME	10,70,000

Working Notes :

1.	Income from salary –	
	Salary in India	4,50,000
	Salary in New Zealand	6,30,000
	Overseas Allowances (exempt)	Nil
	Value of free residence in New Zealand (exempt)	Nil
	Total	**10,80,000**
2.	Income from house property – Self-occupied house is not taxable	
3.	Income from other sources – Dividend from an Indian company is exempt from income tax	
4.	Deduction u/s 80G – 100% in respect of donation without qualifying limit	

Question 6: Mrs. Rati, being 55 years old resident, is employed with R Ltd. She furnishes us with the following details regarding the previous year. Compute her total income for the assessment year 2015-16.

a) Basic salary – Rs. 25,000 per month

b) D.A. (50% of which forms a part of salary for retirement purposes) – Rs. 8,000 per month

c) Medical bills reimbursement (out of which Rs. 20,000 is in respect of treatment in a Government hospital) – Rs. 40,000

d) Free electricity for personal use – Rs. 20,000

e) Free telephone at residence – Rs. 24,000

f) Free meals in office (Rs. 80 per day for 300 days) – Rs. 24,000

g) Medi-claim insurance premium reimbursed on spouse – Rs. 20,000

h) House rent allowance for 4 months – Rs. 10,000 per month

i) Rent paid for house in Mumbai – Rs. 15,000 per month

j) After 4 months he was provided rent free unfurnished house in Mumbai whose rent is Rs. 18,000 per month.

k) R Ltd. Spent Rs. 20,000 for repairs of the house.

l) Amount deposited in PPF – Rs. 50,000

m) Income from other sources – Rs. 1,20,000

Solution : According to the particulars of Mrs. Rati -

Income from salary	4,64,800
Income from other sources	1,20,000
GROSS TOTAL INCOME	5,84,800
Less: Deduction under section 80C	50,000
TOTAL TAXABLE INCOME	5,34,800

Working Notes :

1.	Income from salary –		
	Basic salary (25,000 × 12)		3, 00,000
	D.A. (8,000 × 12)		96,000
	Medical bills reimbursed		5,000
	(40,000 - 20,000 - 15,000)		
	Free electricity		20,000
	Free telephone at residence		Tax free
	Free meal (80-50=30; 30 × 300)		9,000
	H.R.A received	40,000	

Less: exempt (see note below)	(40,000)	Nil
Rent free unfurnished house		34,800
(See note below)		
Total		**4, 64,800**

◆ **Calculation of H.R.A:-**

1. Actual HRA received (10,000 × 4) 40,000
2. Rent paid-10% of salary (60,000-13,200) 46,800
3. 50% of salary (29,000 × 4) (Basic + 50% of DA) 1,16,000
   Whichever is less

◆ **Calculation of Rent free accommodation:-**

15% of salary, where salary is basic + 50% of DA

i.e. 15% of (29,000 x 8) 34,800

2. Deduction u/s 80C –
   Amount deposited to PPF 50,000

Question 7: Mr. Rahul in Mumbai High Court provides us with his Receipts and Payments A/c for the year ending 31.3.2015, which is as follows:

Balance B/d	2,350	Subscription and membership	6,000
Legal fees		Purchase of legal books	10,000
2014-15 4,20,000	5,70,000	Rent	36,000
2013-14 1,50,000		Car Expenses	20,000
Special commission	8,000	Office expenses	10,000
Exam remuneration	8,000		
Salary as part time lecturer	3,20,000	Electricity expenses	24,000
		Income tax	12,000
Interest on saving bank deposit	12,000	Domestic expenses	60,000
		Car purchased	6,40,000
Sale proceeds of residential property	3,20,000	Life insurance premium	80,000
Rent from house property	48,000		
Agricultural income	38,000	Balance C/f	4,28,350
	13,26,350		13,26,350

Following information is available:-

i) The rent and electric expenses are related to a house, of which two-third portion is used for self-residence and remaining one-third portion is used for office.

ii) Car is used for professional purposes.

iii) Outstanding legal fees is Rs. 20,000

iv) Rent has been paid for 6 months only.

v) Car was purchased on 31.12.2014. Law books purchased are annual publications out of which books of Rs. 5,000 were purchased on 2.8.2014 and the remaining on 25.10.2014.

vi) The house was purchased in January 1999 for Rs. 35,000 and sold on 1.6.2014

vii) Rent of the property which has been sold was Rs. 8,000 per month. The property was vacated by the tenant on 30.9.2014.

Solution:

	Income from salary			
	Salary as part of lecturer			3,20,000
	Income from House Property			
	(Gross Annual Value Rs. 8000 × 12 = 96,000			
	Proportionate for 6 months 96000x 6/12 =	48,000		
	(-) Municipal Taxes	nil		
	Net Annual Value	48,000		
	(-) Standard Deduction @ 30%	14,400		33,600
	Income from PGBP			
(1)	Legal Fees	5,70,000		
	Special Allowance	8,000	5,78,000	
(2)	Allowable Expenses			
	Subscription & membership	6,000		
	1/3 office rent	12,000		
	Car Expenses	20,000		
	1/3 Electric Charges	8,000		
	Office Expenses	10,000		
	Depreciation on Car (7.5%)			
	(less than 180 days)	48,000		
	Depreciation on books			

(100%+50%)			
(More than 180 days 100%)			
(less than 180 days 50%)	7,500	1,11,500	4,66,500
Income from Capital Gain			
Sales Consideration		3, 20,000	
(-) Indexed cost of acquisition			
35,000 ×1024/ 161		2, 22,609	97,391
Income from other sources			
Interest on saving bank		12,000	
Exam Remuneration		8,000	20,000
TOTAL TAXABLE INCOME			9,37,491
Tax on Rs. 7,50,100(excluding LTCG)			
2,50,000	NIL	Nil	
2,50,000 to 5, 00,000	10%	25,000	
2,50,100 balance	20%	50,200	
		75,020	
		19,478	
LTCG @ 20% Rs. 97,391		94,498	
Add: education cess @ 3%		2,835	
Total tax liability (rounded off)		97, 330	

Question 8: Mr. Xavier, submits the following particulars of income for assessment year 2015-16:

1.	Income from salary (computed)	2,50,000
2.	Income from house property (computed)	30,000
3.	Long term capital gain	40,000
4.	Short term capital loss	(15,000)
5.	Interest on securities (Gross)	11,000
6.	Interest on Bank Deposits	8,000
7.	LIP on his own life	2,000
8.	PPF	20,000
9.	Donation to National children fund	5,000
10.	Donations to PM's Relief Fund	6,000

11.	Donation to approved charitable institution		25,000
12.	Donation to Government for family planning		15,000
13.	Payment by cheque to GIC for incurring:		
	Health of his wife	9,000	
	Health of dependant son	9,000	
	Father not dependant who is 67 years old	25,000	
14.	Expenses on medical treatment of dependant being a disable		25,000
15.	Payment of interest on loan taken from charitable institution for the education of his daughter pursuing M. Tech.		30,000

Compute his total income & tax payable for mentioned assessment year.

Solution:

Income from salary			2,50,000
Income from House Property			30,000
Income from capital gain			
Long term capital gain	40,000		
Short term Capital gain	(15,000)		25,000
Income from other sources			
Interest on securities	11,000		
Interest on Bank Deposits	8,000		19,000
Gross Taxable Income			3,24,000
Less: Deduction u/s 80C and 90U			
80C (2,000+20,000)		22,000	
80D – Insurance on life	9,000		
-Insurance on dependent Son	9,000		
	18,000		
(Limited to Rs. 15,000)	15,000		
Insurance on father life Rs. 25,000			

But limited to Rs. 20,000		20,000	35,000	
U/s 80DD			50,000	
U/s 80E			30,000	
U/s 80G				
National Relief Fund (100%)		5,000		
PM's Relief Fung (100%)		6,000		
Approved charitable fund (Rs. 25,000)				
And Family Planning – Total Rs. 40,000				
but limited to 10% of Adjusted total				
income.i.e.				
(GTC--LTCG all deduction except 80G)				
(Rs. 3, 24,000 – Rs. 25,000 – 1,37,000 = 1, 62,000)				
Therefore Rs. 15,000 - 100%	15,000			
Balance Rs. 1200 – 50%	600	15,600		1,63,600
				1 60,400
Tax on Rs. 1,60,400 shall be				
On Long Term Capital Gain (Rs.25, 000 - Rs. 25,000)				NIL
On other income (Rs. 1,35,400 - Rs. 25,000) shifted from LTCG				NIL
Tax Liability				NIL

Question 9: Mr. Avijit, a business man submits the following details for the assessment year 2015-16.

Income from House Property (Computed)	8,000
Profit gain from personal business	25,000
Short term capital gain	68,000
Long term capital gain on sale of a building	17,000
The following items have been brought forward from the preceding assessment year:	
Business Loss	30,000
House Property Loss	10,000
Compute his gross total income & deals with carried forward losses.	

Solution:

Income from House Property	8,000	
(-) Loss of past year	(10,000)	NIL
To be carried forward	(2,000)	
Profit gains from personal business	25,000	
(-) Business Loss	(30,000)	NIL
	(5,000)	
Income under Head Capital Gain		
Short term capital gain		68,000
Long term capital gain		17,000
		85,000

1. Balance house property loss of Rs. 2,000 shall be carried forward & set off only against the income from House Property.
2. Brought forward business loss of Rs. 5,000 shall be carried forward and set off only against business income.

Keywords

1. **Individual:** A natural person i.e. human being. Individual includes a male, female, minor child and a lunatic or an idiot.

2. **Adjusted Total Income:** The total income before giving effect to provisions of sections 115JC to 115JF as increased by the deductions claimed under sections 80-IA to 80RRB other than section 80P included in Chapter VI-A and deduction claimed under section 10AA.

Summary

- The taxable income of an individual is calculated by adding incomes from all the 5 heads of income and income of any other person includible under Sec 60 to Sec 64 and then any loss is set off while calculating the aggregate income under 5 heads.
- Next, any carry forward loss of past year is settled if permissible and this gives us Gross Total Income.
- From Gross Total Income, deductions under chapter VI is done to arrive at total taxable income.
- Last, tax is computed on such total income at the prescribed rate. Education cess @ 3% is then charged.

Exercise

I. Short Answer Questions

1. Who is an individual according to Income tax Act?
2. When is an individual liable to pay tax?
3. State the tax rate slabs for Indian citizen aged (i) 45 years (ii) 65 years (iii) 89 years.

II. Long Answer Questions

1. How is the total income of an individual computed?
2. Discuss in brief, the deductions available to an individual from Gross Total Income.
3. State the incomes in respect of which an individual is liable to pay tax.

III. Numerical Questions

Question 1: Mr. Y, being a 61 year old Indian citizen, is an employee of M Ltd. Compute his total income for the assessment year 2015-2016 from the following particulars:

(a)	Basic Pay	8,00,000
(b)	Free meals in office (290 working days)	15,000
(c)	Contribution of Y to PPF	80,000
(d)	Income from interest on securities	50,000
(e)	Business Loss of Y	40,000
(f)	Payment of premium on Medi-claim	8,000
(g)	(Policy taken for independent son)	
(h)	Free car (1150cc) facility for Y's official and private purposes, cost to the employer being Rs. 28,000	
(i)	Y has taken a loan for the education of his major son. The loan was taken for pursuing BBS course from University of Uttarakhand. Amount of interest for the previous year 2014-15 is 30,000. However, he has paid Rs. 60,000 on account of interest, i.e. Rs. 30,000 for the current year and 30,000 for the previous year.	

Answer: (Rs. 6,76,900)

Question 2: Z, a lecturer (34 years) in Delhi University submits the following particulars of incomes and payments for the Assessment year 2015-16:

(a)	Basic salary :	32,500 per month
(b)	Dearness allowance :	8,000 per month
(c)	Examiner-ship remuneration –	Rs. 8,000
(d)	Royalty on books for school students textbook – Rs. 70,000	
(e)	Royalty on books of literature –	Rs. 50,000
(f)	Income from house property –	Rs. 18,000
	(Expenses being house tax of Rs. 12,000. He has received a sum of Rs. 40,000 being advance rent of April and May of the assessment year; municipal valuation – Rs. 1,80,000; fair rent – Rs. 1,84,000; unrealized rent – nil; house remained vacant for 2 months).	
(g)	Contribution to SPF – Rs. 20,000	
(h)	Contribution to PPF – Rs. 50,000	
(i)	Medical insurance premium on the health of spouse – Rs. 20,000	
(j)	Interest paid on education loan of daughter pursuing LLB – Rs. 50,000	
(k)	Medi-claim premium of father (aged: 52 years)– Rs. 18,000	
(l)	Donation to a research institute – Rs. 20,000	
(m)	Donation to government for family planning – Rs. 35,000	
	Compute his total taxable income and tax liability.	

Answer: (Rs. 4,76,600, Rs. 23,340)

Question 3: Mr. B provides us the following information for the year ending 31.03.2015. Compute his total income.

(a)	Basic salary	6,00,000
(b)	Bonus	50,000
(c)	City Compensatory Allowance	30,000
(d)	Winnings from lotteries	50,000
(e)	Loss in betting	20,000
(f)	House Rent Allowance (House is at Hyderabad and rent actually paid amounts to Rs. 60,000)	25,000
(g)	Winning from horse races	70,000
(h)	Tuition fee of son	15,000
(i)	Contribution to RPF	20,000
(j)	Medical Insurance premium of self	30,000
(k)	Medical treatment of a child (80% disabled)	20,000
(l)	He owns a 1510 cc car which is used for personal and official purposes. Expenditure reimbursed by the employer – Rs. 2, 00,000 (Rs 1, 80,000 for official purposes).	
(m)	Donation of Rs. 50,000 given to a famous Gurudwara.	

Answer: (Rs. 6,70,000)

Question 4: Mrs. Z, 82 years of age, is a resident Indian working in private company as a Finance Head at Mumbai. She was appointed in the grade of Rs. 30,000 – 500 – 60,000 on April 1, 2010 (salary falls due on the last day of each month). Besides, she gets Rs. 8,000 per month as Dearness Allowance. She has been provided with the facility of a Gardner, watchman and driver who are paid by the employer at the rate of Rs. 800, Rs. 1,000 and Rs. 3,000 per month respectively. She owns a house property, which consists of 2 floors. One floor is used by Mrs. Z for private residential purpose and one floor is let out to a tenant for residential purpose at monthly rent of Rs. 15,000. Municipal valuation of the house property is Rs. 3, 00,000; fair rent is Rs. 2, 70,000 and the standard rent of the house is Rs. 3, 20,000. During the previous year, she contributes Rs. 80,000 to a RPF. She even donates Rs. 30,000 to Prime Minister's relief Fund. She even pays Rs. 800 per month as tuition fee of her son. Compute his total taxable income and tax liability.

Answer: (Rs. 5,98,000, Rs. 20,190)

Question 5: Mr. V (aged 62 years) provides us the following information for the year ending 31.03.2015. Compute his total taxable income and tax liability.

(a)	Basic salary	12,50,000
(b)	Commission on sales @ 5% on turnover of Rs. 20,00,000	
(c)	Advance salary of April and May	2,00,000
(d)	Rent free furnished house in Bhopal (rent of unfurnished house paid by employee – Rs. 90,000 and rent of furniture –	Rs. 30,000)
(e)	Free services of cook (Rs. 2,000 per month) and of watchman (Rs. 1,000 per month)	
(f)	Income from business	1,00,000
(g)	Winning of lottery(gross)	30,000
(h)	Long term capital gain	2,10,000
(i)	Short term capital loss	70,000
(j)	LIP on his own life (sum assured-10,000)	1,000
(k)	LIP on his wife (sum assured-8,000)	400
(l)	Amount incurred on education of younger child	800
(m)	Premium of Medi-claim insurance taken for child (Independent)	8,000
(n)	5 year term deposit in post office	3,000
(o)	Payment for medical treatment of wife (60% disabled)	50,000
(p)	Interest on education loan taken (Loan taken for his elder son to pursue B.Arch)	90,000
(q)	Deposited to PM's Relief fund	10,000

Answer: (Rs. 16,20,800, Rs. 3,01,010)

Question 6: Mr. K being a 45 year old Indian citizen, provides us the following information for the year ending 31.03.2015. Compute his total income and tax liability.

(a)	Income from salary	6,40,000
(b)	Income from house property (computed)	30,000
(c)	Long term capital gain	1,40,000
(d)	Short term capital gain	30,000
(e)	Income from other sources	40,000
(f)	LIP on his own life (sum assured-5,000)	2,000
(g)	Amount incurred on education of younger child	1,500
(h)	5 year term deposit in post office	5,000

(i)	Contribution to PPF	2,000
(j)	Contribution to RPF	5,000
(k)	Premium of Medi-claim insurance taken for self	12,000
(l)	Payment for medical treatment of wife (40% disabled)	20,000
(m)	Interest on education loan taken (Loan taken for his elder son to pursue MFC)	50,000
(n)	Interest on home loan paid (Loan amount – 25 lakhs) (Cost of the house – 48 lakhs)	80,000
(o)	Premium on Medi-claim of his father of Rs. 30,000 who is 68 years of age.	
(p)	Donation to Rajiv Gandhi Foundation	20,000

Answer: (Rs. 7,24,000, Rs. 71,900)

Question 7: Mr. Siddhartha (non govt. employee) being 25 years old resident provides us the following information for the year ending 31.03.2015. He lives in Delhi. Compute his taxable income.

(a) Salary – Rs. 30,000 per month

(b) Convergence allowance spent for official purpose – Rs. 800 per month.

(c) Entertainment allowance at Rs 1000 per month.

(d) Received HRA of Rs. 5000 per month. But he paid a rent of Rs. 6000 per month.

(e) Personal preventive health-check up of Rs 18000.

(f) Contribution to PPF 30,000.

(g) Interest on saving bank deposits received Rs. 15000.

(h) Donation paid to PM's Drought Relief Fund, Rs. 50,000

(i) LIP paid during the year – Rs. 8400

Answer: (Rs. 3,32,600)

Question 8: Mr. Utsav furnishes with the following information for the year ended 31.03.2015.

(a) Salary @ Rs. 40,000 p.m.

(b) Bonus equal to 3 month's salary

(c) Conveyance allowance Rs. 2,400 p.m. for travelling from residence to office and back.

(d) House rent allowance @ Rs. 12,000 p.m. He paid Rs. 20,000 p.m. as rent of the house where he resides.

(e) The employer reimbursed his personal medical bills of Rs. 10,000 and he also gave education allowance in respect of his four children @ Rs. 600 p.m.

(f) The employer contributed to Statutory Provident Fund @ 10%, whereas the assessee's contribution was 20%.

(g) Interest on Government securities Rs. 12,000

(h) Interest received on Bank fixed deposits Rs. 24,000

(i) Income from units of U.T.I. Rs. 8,000

(j) He paid premium of Rs. 16,000 on his life policy.

(k) He paid 1,000 as tax on employment.

Compute the total income of Mr. Utsav for the assessment year 2015-16.

Answer: (Rs. 5,55,000)

Question 9: R, General manager of a Private Ltd. Company retired on 31.3.2015 after 30 years of service. Compute his total for the assessment year 2015-16 on the basis of following information indicating clearly the amount of gratuity and leave salary, if any includible in salary income.

(a) Salary Rs. 7, 500 p.m. from 1.4.2014. House rent allowance Rs. 3500 p.m.
He lives in his own house.

(b) Medical expenses reimbursed by employer Rs. 11, 600.

(c) R went to his home town with his family and he was reimbursed Rs. 5,600
being the return fare by 1st class (train).

(d) A car of 1400cc is provided by the company for official and personal use and all expenses of its running and maintenance including drivers salary are borne by the Company.

(e) R contributes 20% of his salary to recognized provident fund which includes 8% additional voluntary contribution. The company matches his regular contribution, i.e. 12%.

(f) Reimbursement of personal club bills of R: Rs. 360.

(g) He has invested Rs. 30,000 in National Savings Certificate (VIII Issue) and Rs. 18,000 in Public Provident Fund Account.

(h) Deposit under National Savings Scheme, 1992 Rs. 20,000.

(i) He received Rs. 75,000 as gratuity.

(j) He received Rs. 75000 for encashment of 10 months accumulated leave.

Answer: (Rs. 78,760)

Question 10: R is a lawyer of Punjab high court. He keeps his account on cash basis. His receipts and payments A/c for the year ending 31.3.2014 is given below.

	Rs.		Rs.
Balance B/d	7,500	Subscription and membership	6,000
Legal fees		Purchase of legal books	9,000
		Rent	51,000
2014-15	1,80,000	Car Expenses	17,000
Special commission fees	7,000	Office expenses	7,500
Salary as part time lecturer	48,000	Electricity expenses	5,000
Exam salary	2,500	Income tax	9,000
		Donation to approved institution u/s 80G	3,000
Interest on saving bank deposit	6,000	Domestic expenses	27,000
		Car purchased	2,30,000
Sale proceeds of residential property	2,95,000	Life insurance premium	7,000
		Gift to daughter	15,000
Dividend from co-operative society	3,000		
Dividend received from the units of U.T.I.	6,000	Balance C/f	1,68,500
	5,55,000		5,55,000

Following information is available:

(a) The rent and electric expenses are related to a house, of which half portion is used for self-residence and remaining half portion is used for office.

(b) Car is used for professional purposes.

(c) Outstanding legal fees is Rs. 25,000

(d) Rent has been paid for 10 months only.

(e) Car was purchased on 25.9.2014. Law books purchased are annual publications out of which books of Rs. 3,000 were purchased on 5.5.2014 and the remaining on 3.12.2014.

(f) The house was purchased in January 1989 for Rs. 40,000 and sold on 1.8.2014

(g) Rent of the property which has been sold was Rs. 6,000 per month. The property was vacated by the tenant on 31.7.2014.

Compute his total income taxable for the concerned year and tax liability.

Answer: (Rs. 1,96,390, NIL)

Question 11: Mrs. M, a salaried employee, furnishes the following information in respect of the Previous year ending 31.3.2015:

(a) Salary income - Rs. 6,40,000

(b) Interest on debentures - Rs. 2,25,000

(c) Payment of medical insurance premium on the life of her grandfather - Rs. 4,000

(d) Donation to the Prime Minister's Drought Relief Fund - Rs. 1,00,000

(e) Donations to a public charitable institution - 1,50,000

(f) Other income - 40,000

Determine the net income of Mrs. M for the assessment year 2015-16, assuming that her income from long term capital gains is Rs. 25,00,000.

Answer: (Rs. 33, 09, 750)

Question 12: Mrs. Nika, 40 years old, is a Finance manager of a private company at Chennai. She was appointed in the grade of 34,000-1,000-50,000; on April 1, 2010(salary falls due on the last day of the month). Besides, she gets Rs. 6,000 p.m. as dearness pay which does not form part of salary. She had been provided with a rent free unfurnished house whose lease rental value is Rs. 70,000 per annum, which is taken on lease by the employer. She has also been provided with the facility of a gardener, watchman and personal attendant who are paid by the employer at the rate of Rs. 12,000, Rs. 15,000 and Rs. 18,000 per annum respectively. She uses company's car for official purposes. Mrs. Nika and her employer contribute 16% of salary towards the recognized provident fund. She gets prize of Rs. 90,000(being winning from camel race) and bank's interest of Rs. 4,00,000(i.e., fixed deposit interest: Rs. 3,71,500 + saving bank: Rs. 28,500) during the previous year 2014-15. On January 20, 2014, she transfers bonus equity in Tata chemicals (held since 1992) for Rs. 8, 23,000. Besides brokerage @1%, she pays securities transaction tax of Rs. 823. Determine the taxable income of Nika for the assessment year 2015-16.

Answer: (Rs. 10,66,680)

UNIT 3

TDS AND ADVANCE PAYMENT OF TAX

Unit – 3	TDS AND ADVANCE PAYMENT OF TAX			
Location: Classroom	**SESSION 1: TAX DEDUCTED AT SOURCE**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	1. Meaning of Tax Deducted at Source.	1. State various ways for collection and recovery of income-tax. 2. Explain the meaning of tax deducted at source. 3. Explain the significance of TDS to government and taxpayers.	1. Analyse the utility of TDS in the taxation system.	**Interactive Lecture:** Introduction of various ways for collection and recovery of income-tax and TDS.
	2. Provisions relating to deduction of tax at source in respect of various incomes.	1. State and explain various sections relating to deduction of tax at source in respect of different incomes.	1. Compare and differentiate between the provisions of sections 192 to 206 relating to deduction of tax at source in respect of various incomes.	**Interactive Lecture:** Discussion of the provisions relating to deduction of tax at source in respect of different incomes.

			2. State various rates of TDS applicable to different incomes. 3. State when the obligation to deduct TDS shall arise in respect of various incomes.	**Activity:** Collection and analysis of TDS returns of various taxpayers such as salaried employee, corporate assessee, etc.
	3. Other provisions related to tax deducted at source.	1. Explain the provisions related to lower or non-deduction of tax, deposition of TDS, credit of TDS, refund of TDS, requirement of E- TDS, etc. 2. State the form numbers of certificates of tax deducted and form numbers of various returns. 3. State the various duties of persons deducting tax at source and rights of tax payers.	1. State and explain the conditions for lower or non-deduction of tax, refund of tax, etc. 2. Explain the prosecution proceedings in case of defaults.	**Interactive Lecture:** Acquaint with various provisions related to lower or non-deduction, duties of persons deducting tax at source and rights of tax payers, possible defaults and prosecution proceedings, etc.

		4. State the possible defaults on part of persons deducting tax and tax payers.		
	SESSION 2: ADVANCE PAYMENT OF TAX			
	1. Meaning of Advance payment of tax.	1. Explain the meaning of advance payment of tax. 2. State the persons liable to pay and not liable to pay advance tax.	1. Differentiate between TDS and Advance Payment of Tax.	**Interactive Lecture:** Acquaint with the concept advance payment of tax.
	2. Provisions of Presumptive Taxation Scheme.	1. State the Provisions of Presumptive Taxation Scheme.	1. Explain and analyze the Presumptive Taxation Scheme. 2. Determine the applicability of Presumptive Taxation Scheme on a particular assessee.	**Interactive Lecture:** Discussion of provisions of Presumptive Taxation Scheme.

	3. Due dates for payment of Advance Tax.	1. State the various due dates for payment of advance tax for corporate and non-corporate assesses. 2. State the percentage of advance tax to be paid by the assesses on due dates.	1. Calculating the liability of Advance Tax on various due dates for different assessees.	**Interactive Lecture:** Discussion of method to calculate the liability of advance tax on due dates.
	4. Role of Assessing Officer in Relation to Advance Payment of Tax.	1. Explain the role of Assessing Officer in Relation to Advance Payment of Tax.	1. State under what condition AO can order payment of advance tax. 2. State when can AO revise his order.	**Interactive Lecture:** Discussion of the role of AO.

(Note: The location would depend upon the topic under discussion. Major portion of the unit will be covered in classroom. The students can visit different assesses to collect and analyze their TDS returns. The students may also visit the website www.incometaxindia.gov.in to collect various forms and certificates required by different assesses.)

Learning Objectives:

After reading this unit, the students will be able to:

1. State various ways for collection and recovery of income-tax.
2. Explain the meaning of tax deducted at source.
3. Describe the Sources and applications of cash.
4. Explain various provisions relating to deduction of tax at source in respect of various incomes.
5. Explain the meaning of advance payment of tax.
6. Explain the Presumptive Taxation Scheme.
7. Calculate the liability of advance tax on various due dates for different assesses.
8. Explain the meaning of certain keywords.

SESSION 1

TAX DEDUCTED AT SOURCE

The Income-tax Act provides for collection and recovery of income-tax in the following ways:

a) Advance Tax

b) Self Assessment Tax

c) Tax Deducted at Source (TDS)

d) Tax Collected at Source

e) Tax on Regular Assessment

The provisions relating to tax deduction at source and payment of tax in advance of assessment are discussed in this chapter.

meaning of Tax Deducted at Source

Tax deducted at source (TDS) means collection of tax at the very source of income. The concept of TDS requires that the person, on whom the responsibility has been cast by the Act, is to deduct tax at the appropriate rates, from payments of specific nature which are being made to a specified recipient. The person who deducts the amount of tax from the payment has the responsibility to deposit such deducted amount to the credit of the Central Government according to the prescribed rules and procedures. The recipient from whose income, the tax has been deducted at source, gets the credit of the amount deducted in his personal assessment on the basis of the certificate issued by the deductor.

Significance to Government

Its significance to the government lies in the fact that:

i) It pre-pones the collection of tax.

ii) Ensures a regular source of revenue to government.

iii) Provides for a greater reach and wider base for tax.

Significance to Tax Payer

It is also significant to the tax payer because:

i) It distributes the incidence of tax, and

ii) Provides for a simple and convenient mode of payment.

Provisions Related to Deduction of TDS

Sections 192 to 206 of the Income-tax Act lay down the provisions relating to deduction of tax at source. The provisions in respect of different incomes are as follows:

1. SALARY (Section 192)

1. This section casts an obligation on every person responsible for paying any income (employer) which is chargeable under the head 'salary', to deduct income tax on the amount payable.
2. The tax is required to be calculated at the average rate of income tax as computed on the basis of the rates in force for the relevant financial year in which the payment is made.
3. Average rate of income tax means the rate arrived at by dividing the amount of income tax calculated on total income, by such total income.
4. The salary shall be computed in the same manner as discussed under the head 'Salaries'.
5. Unlike the provisions of TDS, pertaining to payments other than salary where the obligation to deduct tax arises at the time of credit or payment, whichever is earlier, the responsibility to deduct tax from salaries arises only at the time of payment.
6. It is provided that the assessee (employee) may furnish the details of the losses under the head 'Income from House Property' to the employer who shall adjust such loss in the salary income for the purposes of computing the tax deductible from salaries. Thus, the TDS from salaries may be reduced in such a case. No other loss from any other income shall be adjusted to reduce the TDS deductible from the head salaries.
7. No tax will be required to be deducted at source in case the Gross Total income does not exceeds limits prescribed Finance Act of relevant financial year.
8. The employer shall issue a certificate of deduction of tax to the employee in Form No. 16. This certificate is to be furnished by the employee with his income tax return after which he gets the credit of the TDS in his personal income tax assessment.
9. The employer is required to furnish, to the employee, a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in prescribed form (Form 12BA) and manner.
10. Finally, the employer/deductor is required to prepare and file quarterly statements in Form No.24Q with the Income-tax Department showing:
    a) The name and address of every employee who is drawing such amount as may be prescribed;
    b) The amount of income so received by or so due to each such person; and
    c) The amount of tax deducted and deposited from the income of such person.

Question 1:

Mr. Ram Kishore has a salary of Rs. 70,000 per month. He has claimed deductions of Rs. 1,00,000 during the previous year 2015- 2016. Calculate the average rate of TDS payable on his salary and amount that would be deducted every month as TDS on salary.

Solution:

The normal tax rates for the Assessment Year 2016-17 applicable to an individual below the age of 60 years are as follows:

- Nil up to income of Rs. 2,50,000
- 10% for income above Rs. 2,50,000 but up to Rs. 5,00,000
- 20% for income above Rs. 5,00,000 but up to Rs. 10,00,000
- 30% for income above Rs. 10,00,000

Surcharge: 12% of the Income Tax, where taxable income is more than Rs. 1 crore (subject to marginal relief).

Education Cess: 3% of the total of Income Tax and Surcharge.

Calculation of TDS payable every month on salary

Monthly income	Rs. 70,000
Annual income	Rs. 8,40,000
Deductions	Rs. 1,00,000
Net Taxable Income	Rs. 7,40,000
Income Tax Rs. [25,000 + 20% of 7,30,000 – 5,00,000]	Rs. 73000
Surcharge	Nil
Education Cess	Rs. 1,460
Secondary and higher education cess	Rs. 730
Total Tax Liability	Rs. 75,190

Average Rate of Tax on Salary = Total tax payable* 100 ÷ Total Annual Income
= 75,190* 100 ÷ 8,40,000
= 8.95%

Therefore, in case of Mr. Ram Kishore, 8.95% of Rs. 70,000 = Rs. 6,265 would be deducted every month as TDS on salary.

2. Interest on Securities (Section 193)

1. Section 193 provides that the person responsible for paying to a resident any income by way of interest on securities shall deduct income-tax at the rates in force on the amount of the interest payable.

2. Such tax should be deducted at the time of:
   a) Payment thereof in cash or by issue of a cheque or draft or by any other mode, or
   b) Credit of such income to the account of the payee, or
   c) Transfer of such income to interest payable account or suspense account, whichever is earlier.
3. However, payments from certain categories of bonds, debentures etc. are exempt from TDS.
4. The rate of TDS on Interest on securities is 10%. The rate of TDS shall be 20% if PAN is not quoted by the payee. No education cess and SHEC shall be added to the rate from 1st October 2009.

3. Dividends (Section 194)

1. Where any amount is payable in the nature of "Dividends" by an Indian Company or a Company that has made arrangement for declaration and payment of dividend within India, the said company has to deduct tax at source as per rates in force.
2. The deduction has to be done
   a) Before the payment is made in cash or issue of cheque or dividend warrant or
   b) Before making any distribution or payment to the share holder of any dividend u/s 2(22).
3. Exemption:
   a) No such deduction shall be made in the case of a shareholder (being an individual, who is resident in India), of a company, if:
      i) The dividend is paid by such company by an account payee cheque.
      ii) The amount of dividend paid during the financial year by the company to the shareholder does not exceed Rs. 2,500.
   b) No such deduction shall be made in respect of any dividends referred to in Section 115-O.

4. Interest other than Interest on Securities (Section 194A)

1. Section 194 A casts the obligation on any person not being an individual or a H.U.F. who is responsible for paying to a resident any interest other than interest on securities amounting to more than rupees Rs. 5,000 or Rs. 10,000 as the case may be to deduct tax at source.
2. Payments made to non-residents are also covered under TDS mechanism, however, tax in such a case is to be deducted as per section 195.

3. The obligation to deduct TDS shall arise at the time of:
    a) Credit of such income to the account of the payee, or
    b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
    c) Transfer of such income to interest payable account or suspense account; whichever is earlier.
4. With effect from 1.6.2002, individuals and HUF covered under Section 44AB (a) and (b) i.e. whose gross turnover of the business in the immediately preceding financial year exceeds Rs. 1 crore (or receipts from the profession Rs. 25 Lakhs), are also required to deduct tax at source.
5. Rate of Tax:
    i) 10% plus education cess. No surcharge, education cess or SHEC shall be added.
    ii) When the payee does not furnish his PAN to deductor, tax will be deducted 1st April 2010 @ 20%.
6. The obligation to deduct tax shall arise only if aggregate interest during the financial year, does not exceed Rs. 5000 (Rs. 10,000 in case of banking company, a co-operative society engaged in the business of banking or a post office).

5. Winning from Lotteries or Crossword Puzzles (Section 194B)

1. Under Section 194B, winnings from lottery or crossword puzzle or card game and other game of any sort exceeding Rs. 10,000 are also subject to deduction of tax at source as per rates in force.
2. The deduction is to be done at the time of payment of the winnings.
3. Rate of Tax: The prescribed rate is 30%. No surcharge, education cess or SHEC shall be added.
4. When the prize is given partly in cash and partly in kind, income-tax will be deducted from cash prize with reference to the aggregate amount of the cash prize and the value of the prize in kind.
5. No income tax will be deducted from the prize given only in kind.
6. When the prize is given in installments, the tax will be deducted only at the time of actual payment of each installment.

6. Winning from Horse Races (Section 194BB)

1. Section 194BB casts the obligation on the following persons to deduct tax at source-
    i) A book maker, or
    ii) A person to whom a license has been granted by the Government under any law for the time being in force;

a) For horse racing in any race course or;

b) For arranging for wagering or betting in any race course.

2. The obligation to deduct tax at source arises when the above mentioned persons make payments by way of winnings from horse races in excess of Rs. 5,000.

3. Rate of Tax: The prescribed rate is 30%. No surcharge, education cess or SHEC shall be added from 1st October 2009. When the payee does not furnish his PAN to deductor, tax will be deducted with effect from 1st April 2010 @ 30%.

7. Insurance Commission (Section 194D)

1. Section 194BB casts the obligation on any person responsible for paying to a resident any income by way of commission or otherwise for soliciting or procuring insurance business (including continuance or renewal of policies).

2. Such person shall deduct income tax, at the time of crediting the account of the payee or at the time of payment thereof, whichever is earlier.

3. No deduction shall be made from the amount of any sum credited or paid to, if such sum does not exceed Rs. 20,000.

4. Rate of Tax:

   a) The prescribed rate is 10%. No surcharge, education cess or SHEC shall be added.

   b) When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

8. Payment in Respect of Deposits Under National Savings Scheme Etc. (Section 194EE)

1. Where any payment is made by a person of an amount referred to in clause (a) of sub section (2) of sec 80CCA, then such person is required to deduct tax @20% there on.

2. Tax is to be deducted at the time of making such payment.

3. The amount standing to the credit of an assessee under National Saving Scheme, 1987 and the interest accrued thereon is covered under this provision. However, in following cases no tax is deductible:

   a) Where amount so payable in a financial year is less than Rs. 2500/- or

   b) Where payment is made to heirs of a deceased assessee.

4. Rate of Tax:

   a) The prescribed rate is 20%. No surcharge, education cess or SHEC shall be added.

   b) When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

9. Commssion, Etc. on Sale of Lottery Tickets (Section 194G)

1. The person responsible for paying any income by way of commission, remuneration or prize on lottery ticket has to deduct tax @ 10%.
2. Tax shall be deducted at the time of:
   a) Credit of such income to the account of the payee, or
   b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
   c) Transfer of such income to suspense account, whichever is earlier.
3. However, no tax is to be deducted, if the amount does not exceed Rs.1000.
4. Rate of Tax:
   a) The prescribed rate is 10%. No surcharge, education cess or SHEC shall be added.
   b) When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

10. Commission or Brokerage (Section 194H)

1. Any person, not being an individual or a Hindu Undivided Family, who is responsible for paying, to a resident any income by way of commission (not being insurance commission referred to in Section 194D) or brokerage, shall deduct income-tax thereon.
2. The obligation to deduct TDS shall arise at the time of:
   a) Credit of such income to the account of the payee, or
   b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
   c) Transfer of such income to suspense account, whichever is earlier.
3. Rate of Tax:
   a) The prescribed rate is 10%. No surcharge, education cess or SHEC shall be added.
   b) When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

11. Rent (Section 194-I)

1. Any person not being an individual / HUF responsible for paying to a resident any income by way of rent, has to deduct tax at source.
2. The obligation to deduct TDS shall arise at the time of:
   a) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
   b) Credit of such income to the account of the payee, or

c) Transfer of such income to suspense account, whichever is earlier.

3. The obligation to deduct TDS shall arise only if the amount paid as rent exceeds Rs.1,80,000.

4. Essential features of rent are following :

    a) Payment is made under any lease, sub-lease tenancy, or any other agreement or arrangement.

    b) Payment is made either for use of land or building (including factory building) (together or separately) with or without furniture, fittings & land appurtenant thereto.

    c) Immaterial whether land or not of such building is owned by the person to whom rent is paid.

5. Individuals and HUF covered under Section 44AB (a) and (b) i.e. whose gross turnover of the business in the immediately preceding financial year exceeds Rs. 1 crore (or receipts from the profession Rs. 25,00,000), are also required to deduct tax at source.

6. Rate of Tax:

    a) TDS has to be deducted at the following rates:

        i) 2% for the use of any machinery, plant or equipment.

        ii) 10% for use of any land or building (including factory building) or land appurtenant to a building (including factory building or furniture or fittings).

b) No surcharge, education cess or SHEC shall be added. When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

12. Professional and Technical Fees (Section 194J)

1. Any person other than an individual or a HUF is required to deduct tax @ 10% on professional or technical fees or on any remuneration or fees or commission by whatever name called, other than those on which tax is deductible under section 192, to a director of a company, or royalty, or any sum referred to in clause (va) of section 28 .

2. The obligation to deduct TDS shall arise at the time of payment or credit whichever is earlier.

3. This obligation shall arise if the aggregate of such fees given to a person exceeds Rs. 30,000 in a financial year.

4. Rate of Tax:

    a) The prescribed rate is 10%. No surcharge, education cess or SHEC shall be added.

    b) When the payee does not furnish his PAN to deductor, tax will be deducted @ 20%.

13. Interest or Dividend or any Sum Payable to Government / RBI / Certain Corporations (Sec. 196)

1. Section 196 provides that no deduction of tax is to be done from interest or Dividend or any sum payable to :
   a) Government or
   b) RBI or
   c) A Corporation established by or under any Central Act which is exempt from income-tax on its income
   d) A Mutual Fund specified under Section 10(23D).
2. Where such sum is payable by way of interest or any other income accruing or arising to it or as dividend in respect of securities or shares owned by it or in which it has full beneficial interest.
3. With effect from 1st January 2013, no tax shall be deducted on the following payments made by a person to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934, excluding a foreign bank;
   a) Bank guarantee commission;
   b) Cash management service charges;
   c) Depository charges on maintenance of DEMAT accounts;
   d) Charges for warehousing services for commodities;
   e) Underwriting service charges;
   f) Clearing charges (MICR charges);
   g) Credit card or debit card commission for transaction between the merchant establishment and acquirer bank.

14. Payments of other Sums to Non- Residents (Section 195)

1. Any person responsible for paying to a non-resident or foreign company any interest or any other sum chargeable to income-tax in India, shall at the time of payment, deduct tax at the rates in force. This sum should not be in nature of salaries.
2. Tax is to be deducted at the time of actual payment or at the time of credit to A/c of payee, interest payable a/c or suspense a/c, whichever is earlier.
3. In case of interest of mutual fund payable by Govt / public sector bank or in financial institution, TDS is to be done only at the time of payment in cash or issue of cheque/draft or any other mode.
4. No tax to be deducted in case of payment of dividend referred in Sec 115(O).

Question 2:

Mukesh Enterprises, a partnership firm took a loan of Rs. 9,60,000 from a non-resident. Interest on loan for the financial year 2015-16 amounted to Rs. 96,000. Should the firm deduct tax at source from the interest?

Solution

Tax is to be deducted under section 194A on interest (other than interest on securities) if the interest is paid to a resident. In this case, the firm has paid interest (other than interest on securities) to a non-resident and hence, the firm is not liable to deduct tax at source under section 194A. However, section 195 requires deduction of tax at source from payment made to a non-resident. Hence, the firm is not required to deduct tax at source under section 194A but it is required to deduct tax at source under section 195.

Lower Deduction/ Non- Deduction of Tax

Section 197 gives a right to the assessee to apply to the Assessing Officer for obtaining a certificate that tax may not be deducted or be deducted at a lower rate in case of any sum payable under Sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K,194LA, and 195.

1. For issue of a certificate u/s 197 the assessing officer should be satisfied that the non-deduction/deduction of tax at a lower rate in the hands of recipient is justified.
2. The application u/s 197 has to be made in form No. 13 enclosing the documents and furnishing particulars specified therein.
3. Where the Assessing Officer is satisfied that existing and estimated tax liability of the person justifies the deduction of tax at lower rate or no deduction of tax, as the case may be, he shall issue a certificate for deduction of tax at such lower rate or no deduction of tax.

Deposition of Tax

Where tax has been deducted under Sections 193,194,194A,194B,194BB, 194C, 194D, 194E, 194EE, 194F, 194G, 194H, 194I, 194J, 194K, 195, 196A, 196B, 196C and 196D (these sections relate to cases other than salary), it is duty of the person deducting tax at source to deposit the amount of tax so deducted within the prescribed time in any branch of Reserve Bank of India or State Bank of India or any authorised bank accompanied by prescribed Income-tax challans as per the time limit and mode specified in Rule 30.

Credit of TDS

Where taxes have been deducted at source from any payment of income receivable by an assessee, the amount of tax deducted at source would be included in the income of the assessee while computing the income of the assessee and would be deemed to be the income received (Section.198). Further credit will be given to the assessee while calculating the net tax payable by him and the tax deducted at source will be treated as a payment of tax on his behalf (Section 199).

Certificate of Tax Deducted (Section 203)

The person who deducts tax has to issue a certificate in the prescribed form to the person from whose payments deduction has been made, showing therein the particulars of payment,

the date of tax deducted at source and the date of its credit to the Central Government. It is on the basis of this certificate that the payee can claim credit for tax paid on his behalf and can claim refund, if any, due to him on the basis of tax liability for the relevant year.

Following certificates have to be issued:

a) Form No. 16, if the deduction or payment of tax is under section 192 (case of salary); and

b) Form No. 16A if the deduction is under any other provision of Chapter XVII-B (cases other than salary).

The deductor is also required to specify the following in Form No. 16:

a) Valid Permanent account number (PAN) of the deductee;

b) Valid tax deduction and collection account number (TAN) of the deductor;

c) (i) Book identification number or numbers where deposit of tax deducted is without production of challan in case of an office of the Government.

(ii) Challan identification number or numbers in case of payment through bank.

d) (i) Receipt number of the relevant quarterly statement of tax deducted at source which is furnished in accordance with the provisions of rule 31A;

(ii) Receipt numbers of all the relevant quarterly statements in case the statement referred to in clause(i) is for tax deducted at source from income chargeable under the head "Salaries".

Refund of TDS

In case of excess deduction of tax at source, claim of refund of such excess TDS can be made by the deductor in prescribed format. The difference between the actual payment made by the deductor and the tax deductible at source will be treated as the excess payment made.

E-TDS Return

E-TDS implies, filing of the TDS return in electronic media as per prescribed data structure in either a floppy or a CD ROM. The aforesaid requirement is essentially a part of the process of automation of collection, compilation and processing of TDS returns. Preparation of returns in electronic forms or e-TDS will eventually be beneficial to the deductor by cutting down the return preparation time, reducing the volume of documentation and thereby economizing the compliance cost. At the same time, it will also facilitate the Government in better co-relation of taxes deducted with the taxes finally deposited in the banks and credits of TDS claimed by the deductees.

The following points should be considered with respect to E-TDS:

1. E-TDS return is prepared in the form Nos. 24Q, 26Q or 27Q in electronic media as per prescribed data structure either in a floppy or in a CD-ROM. The floppy or CD-ROM

prepared should be accompanied by Form No. 27A should be signed and verified in the prescribed manner.

2. The CBDT has appointed the Director General of Income Tax (Systems) as e-filing administrator for the purpose of electronic filing of returns of TDS Scheme, 2003.
3. CBDT has also appointed National Securities Depository Limited (NSDL) as e-TDS intermediary.
4. E-TDS return can be filed at any of the TIN Facilitation Centres (TIN FCs) opened by the e-TDS intermediary for this purpose.
5. E-Filing of quarterly statement of TDS is mandatory for the deductors where;
   a) The deductor is an office of the Government.
   b) The deductor is the principal officer of a company.
   c) The deductor is a person required to get his accounts audited under section 44AB in the immediately preceding financial year, or
   d) The number of deductees records in a quarterly statement for any quarter of the financial year are twenty or more.
6. However, for other deductors filing of e-TDS return is optional.

Tax Deduction and Collection Account Number (TAN)

A person who deducts tax at source, if not already allotted a TAN (or a tax collection account number) should apply for allotment of TAN. The application has to be made in Form No. 49B in duplicate to the Assessing Officer (AO) or to any particular Assessing Officer where this duty is assigned by the Chief Commissioner or the Commissioner to that A.O. The assessee has to file the application within one month from the end of the month in which the tax is deducted for the first time

Duties of Persons Deducting Tax at Source

1. **Deduct Tax at Correct Rate and Deposit in Government Account (Sec. 200) :** Every person responsible for deducting tax at source shall at the time of payment or credit of income, whichever is earlier, must deduct such tax as per the prescribed rates and deposit such tax deducted in the Central Government Account within the prescribed time as specified in Rule 30.
2. **Issue a TDS Certificate :** Further, such person is required to issue a certificate of tax deduction at source u/s 203 to the person from whose income the TDS has been done, in the prescribed form, i.e., Form No.16A or 16 within prescribed time (as discussed earlier).
3. **File Prescribed Return/Quarterly Statement :** A return of TDS is a comprehensive statement containing details of payments made and taxes deducted thereon along with other prescribed details. W.E.F. 01.04.2005, only Quarterly statements of T.D.S. (and not annual returns) are to be submitted in form 26Q by the deductors.

4. **Filing of Return on Computer Readable Media :** Section 206(2) states that the deductor may file the statement of TDS on computer readable media. However, the Finance Act 2003 has provided that w.e.f. 01.06.2003, a statement in computer readable media is to be filed only in accordance with such scheme and manner, as may be specified by the Board.

Rights of Tax Payer

1. **Credit of TDS :** The person from whose income (payment) the tax has been deducted i.e. Payee or assessee shall not be asked upon to pay the tax himself to the extent tax has been deducted (Sec.205). Moreover such tax deducted at source shall be treated as payment of tax on behalf of the payee (assessee).
2. **TDS Certificate :** U/s 203 payee (tax payer) is entitled to obtain a certificate from the payer (tax deductor) in Form 16-A specifying the amount of tax deducted and other prescribed particulars. This has been discussed in detail earlier.
3. **Form 26 AS :** As per section 203AA the prescribed income tax authority or the person authorized by such authority will be required to deliver to the person from whose income the tax has been deducted/ paid, a statement of deduction of tax in the prescribed form (Form no.26AS) by the 31st July following the financial year during which the taxes were deducted/ paid.

Penalties and Prosecution

Any default in compliance of various provisions of TDS can attract, levy of interest, penalty and in certain cases initiation of prosecution proceedings. The possible defaults and the consequential proceedings are as follows:

1. **Failure to deduct tax :** Where the employer has failed to deduct tax or when short deduction of tax has been done, following statutory provisions are attracted:-

    a) **Interest u/s 201(1A) :** The deductor is treated to be 'assessee in default' in respect of the short deduction/non deduction of tax. He is liable to pay simple interest @ 1% for every month or part of a month on the amount of tax in arrear from the date on which such tax was deductible to the date on which such tax is actually deducted. Further such interest shall be paid before furnishing the quarterly statement of each quarter.

Charging of interest u/s 201(1A) is mandatory and there is no provision for its waiver.

    b) **Penalty**

        i) **Penalty u/s 221 :** The assessee in default is liable to imposition of penalty where the assessing officer is satisfied that the defaulter has failed to deduct tax as required without good and sufficient reason. The quantum of penalty is not to exceed the amount of tax in arrear. Besides, a reasonable opportunity of being heard is to be given to the assessee.

ii) **Penalty u/s 271C :** A penalty equivalent to the amount of tax the deductor has failed to deduct, is leviable u/s 271C. Such penalty is however, only leviable by a Joint Commissioner of Income Tax.

2. **Failure to deposit tax in govt. account after deduction :** Where the employer has deducted the tax at source but failed to deposit wholly or partly, the tax so deducted in government account, the following statutory provisions are attracted:-

   a) **Interest u/s 201(1A) :** The deductor is treated as an assessee in default and interest u/s 201(1A) is leviable @ 1.5% for every month or part of the month on the amount of such tax from the date on which such tax was deducted to the date on which such tax is actually paid. Further, the tax along with the simple interest u/s 201(1A) becomes a charge upon all the assets of the deductor.

   b) **Penalty u/s 221 :** Penalty to the extent of tax not deposited is leviable by the A.O. as discussed earlier.

   c) **Prosecution Proceedings u/s 276 B :** Where the deductor has failed to deposit tax deducted at source, in Government account without a reasonable cause then he is punishable with rigorous imprisonment for a term extends from 3 months to 7 years and with fine.

3. **Failure to apply for T.A.N or to quote T.A.N. (tax deduction and collection account number) :** Where a person who is responsible to deduct tax at source has failed, without reasonable cause:-

   a) To apply for T.A.N. within prescribed period or,

   b) After allotment, failed to quote such TAN in challans for payment of tax or TDS certificate or returns of TDS, then a penalty of a sum of Rs.10,000 and is imposable by the assessing officer. However, a reasonable opportunity of hearing must be given to the employer/ deductor.

4. **Failure to furnish TDS certificate or returns/ statement of tax deduction at source (penalty u/s 272A(2)) :** Where the employer has failed to issue TDS certificate (form 16) within one month of the end of financial year(by 31st of May of the next F.Y. for F.Y. 2010-11 onwards) or has failed to furnish the quarterly statement of tax in form 24Q, within the time prescribed u/s 200(3) (rule 31A), then a penalty of Rs. 100 is leviable for each day during the period for which default continues. The quantum of penalty is not to exceed the tax deductible and it is to be levied only by a Joint Commissioner or Joint D.I.T. after giving the assessee an opportunity of being heard.

5. **Prosecution u/s 277 :** Where a person, who is required to furnish statement u/s 200(3) (quarterly statements) makes a false statement in verification or, delivers an account or statement which is false and which the person knows or believes to be false, then he is punishable with rigorous imprisonment for a term which shall not be less than 3 months but which may extend to 7 years along with fine. Where the amount of tax, which would have been evaded if the statement or account had been

accepted as true, is 1 lakh rupees or less, then rigorous imprisonment may be from 3 months to three years and with fine.

Exercise

1. Under Payment in respect of Deposits under National Savings Scheme, Section 194EE, deduction shall not be made if the amount of payment or the aggregate of payment to the payee during the financial year is less than_________.
   a) Rs. 1,500
   b) Rs. 2,500
   c) Rs. 3,500
   d) Rs. 4,500
2. The obligation to deduct TDS shall arise only if the amount paid as rent exceeds
   a) Rs. 60,000
   b) Rs. 90,000
   c) Rs. 1,20,000
   d) Rs. 1,80,000
3. Which of the following does not relate to the meaning of ‘rent’?
   a) Payment under lease
   b) Payment under purchase
   c) Payment under sub-lease
   d) Payment under tenancy
4. The responsibility to deduct tax from source arises only at the time of payment in which of the following case:
   a) Salary
   b) Dividends
   c) Insurance commission
   d) Interest other than securities
5. Which of the following has been appointed as e-filing administrator for the purpose of electronic filing of returns of TDS Scheme, 2003
   a) CBDT
   b) Director General of Income Tax
   c) National Securities Depository Limited
   d) Central Government

6. Which of the following form is used, if the deduction or payment of tax is under section 192 :

   a) Form 16

   b) Form 16A

   c) Form 24Q

   d) Form 26Q

Answers: 1. b, 2. d, 3. b, 4. a, 5. b, 6. a

SESSION 2

ADVANCE PAYMENT OF TAX

Section 207-219 of the Income Tax Act deals with the issues relating to advance payment of tax. Advance tax payment is the payment of tax liability by an assessee before the end of the financial year. As the name suggests, advance tax refers to paying a part of the taxes before the end of the financial year. Also called 'pay-as-you-earn' scheme, it should be paid in the year in which the income is received. It is kind of mandatory payment of tax, assessed by the assessee himself on income before completion of the Financial Year. For instance: if the advance tax liability of the assessee for the financial year 2015-16 is Rs. 70,000, he is expected to pay it in FY15-16 itself.

Advance tax receipts help the government to get a constant flow of income throughout the year so that expenses can be incurred rather than receiving all tax payments at the end of the year.

Liability of Assessee to Pay Advance Tax

As per section 208, every person whose estimated tax liability for the year is Rs. 10,000 or more, shall pay his tax in advance, in the form of "advance tax".

Person Not Liable to Pay Advance Tax

Certain persons are not liable to pay advance tax even if their tax liability is Rs. 10,000 or more:

1. A resident assessee 60 years or more, not having any income from business or profession, need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax, and
2. An assessee who has opted for the Presumptive Taxation Scheme under section 44AD on at the rate of 8 per cent of turnover, shall be exempted from payment of advance tax related to such business w.e.f. from the assessment year 2011- 12.

Notes:

1. The scheme of section 44AD, commonly known as CC small taxpayers engaged in a business (other than the business of plying, hiring or leasing of goods carriages referred to in section 44AE).
2. A taxpayer adopting these provisions will not be required to maintain the regular books of account and is also exempt from getting the books of account audited.

3. This scheme can be opted for by the eligible assessee who is engaged in a business (except the business of plying, hiring or leasing goods carriages referred to in section 44AE), whose turnover or gross receipts from such business do not exceed the limit prescribed (i.e., Rs. 1,00,00,000 from the previous year 2012-13).
4. The provisions of section 44AD are applicable to resident assessee who is an Individual, Hindu Undivided Family and Partnership Firm but not an LLP.
5. The Presumptive Taxation Scheme under section 44AD cannot be adopted by an assessee who is engaged in any profession as prescribed under section 44AA or is carrying on an agency business or is earning income in the nature of commission or brokerage.
6. If an assessee adopts this scheme, his income will be computed on an estimated basis. The rate of computation of income on an estimated basis is 8% of turnover or gross receipts of the eligible business for the previous year.

Adjustment of Advance Tax

Section 219 states that the total advance tax paid by an assessee other than for interest is to be adjusted against the total tax liability computed under regular assessment.

If an assessee, who is liable to pay advance tax, under Section 208 has failed to pay such tax or where the advance tax paid under Section 210 is less than 90% of the assessed tax, he shall be liable to pay interest @ 1% for every month or part of the month.

Question 3: Mr. Pandey is running a departmental store. The turnover of the store for the financial year 2015-16 amounted to Rs. 75,00,000. He wants to declare income under section 44AD at 8% of the turnover. He does not have any other source of income. Is he liable to pay advance tax?

Solution :

As Mr. Pandey satisfies the criteria of section 44AD in respect of departmental store business, so he can opt for the provisions of section 44AD and declare income at 8% of the turnover.

An assessee who is adopting the provisions of section 44AD will not be liable to pay advance tax in respect of business covered under section 44AD. Thus, if Mr. Pandey adopts the scheme of section 44AD, he will not be liable to pay advance tax in respect of income generated from business of departmental store.

Question 4: Mr. Gupta (age 45 years) is running an interior decoration business. His turnover for the financial year 2015-16 amounted to Rs. 60,00,000. He has not adopted the presumptive taxation scheme of section 44AD and has maintained the books of accounts. The accounts revealed a net profit of Rs 6,00,000. Is he liable to pay advance tax?

Solution

Mr. Gupta has not adopted the provisions of section 44AD. Therefore, he will be liable to pay advance tax in respect of income generated from his business if his estimated tax liability for the financial year comes out to Rs. 10,000 or more.

The taxable income of Mr. Gupta is Rs. 6,00,000. His tax will be Rs. 46,350 which is more than Rs. 10,00. Thus, Mr. Gupta will be liable to pay advance tax.

The normal tax rates for the Assessment Year 2016-17 applicable to an individual below the age of 60 years are as follows:

- Nil up to income of Rs. 2,50,000
- 10% for income above Rs. 2,50,000 but up to Rs. 5,00,000
- 20% for income above Rs. 5,00,000 but up to Rs. 10,00,000
- 30% for income above Rs. 10,00,000.

Surcharge: 12% of the Income Tax, where taxable income is more than Rs. 1 crore (subject to marginal relief).

Education Cess: 3% of the total of Income Tax and Surcharge.

Due Dates for Payment of Advance Tax

Status	By 15th June of the previous year	By 15th September of the previous year	By 15th December of the previous year	By 15th March of the previous year
Corporate	Upto 15% of advance tax due	Upto 45% of advance tax due as reduced by amount paid in earlier installments	Upto 75% of advance tax due as reduced by amount paid in earlier installments	Upto 100%of advance tax due as reduced by amount paid in earlier installments
Non-Corporate	Nil	Upto 30% of the advance tax payable	Upto 60% of the advance tax payable as reduced by amount paid in earlier installments	Upto 100% of the advance tax payable as reduced by amount paid in earlier installments

NOTES:

1. Any payment of advance tax payable made before March 31 shall be treated as advance tax paid during the financial year.

2. In case of public holiday or bank holiday, date of payment automatically falls in the next working day. Interest is not charged for that delay.
3. Tax is to be computed at the prevailing rate on the current income of the assessee, in a financial year.

Question 5: Mr. Khanna is a architect. His estimated tax liability for the financial year 2015-16 amounted to Rs. 2,00,000. By which dates he should pay advance tax and how much?

Solution

Installments	Due date	Amount due to be paid	Amount paid
First installment	15th September, 2015	Upto 30% of the advance tax payable	Rs. 60,000
Second installment	15th December, 2015	Upto 60% of the advance tax payable as reduced by amount paid in earlier installments, i.e., Rs. 1,20,000 – Rs. 60,000	Rs. 60,000
Third installment	15th March, 2016	Upto 100% of the advance tax payable as reduced by amount paid in earlier installments	Rs. 80,000

Mode of Payment of Advance Tax

It is mandatory for a corporate taxpayer (i.e., a company) and a tax payer under section 44AB to pay taxes through the electronic payment mode using the internet banking facility of the authorised banks.

Other taxpayers can pay tax either by electronic mode or by physical mode i.e. by depositing the challan at the receiving bank.

Change in Tax Liability after Making Payment of First or Second Installment

If, after paying first or second installment of advance tax, there is a change in the tax liability, then the taxpayer can revise the amount of advance tax in the remaining installments and pay the tax according to revised tax liabilty.

Question 6: Mr. Sohan is a lawyer. His estimated tax liability for the year 2015-16 amounts to Rs. 2,00,000. He has paid advance tax of Rs. 60,000 by 15th September. In late September, a client paid him a fee of Rs. 3,60,000 after deducting tax at source of Rs. 40,000 (Such fees of Rs. 3,60,000 was considered at earlier occasion for estimating the tax liability of taxpayer). In this case how much of advance tax he is required to pay in the remaining installments?

Solution :

First installment

The first installment becomes due on 15th September when Mr. Sohan has to pay 30% of his estimated tax liability (30% of Rs. 2,00,000 = Rs. 60,000).

Second installment

The taxpayer can adjust the TDS from his income while computing the advance tax liability. In this case, at the time of estimate of first installment there was no TDS credit with Mr. Sohan. His estimated tax liability without TDS amounted to Rs. 2,00,000. But in late September he received Rs. 3,60,000 after deduction of tax of Rs. 40,000 for which he can get a TDS credit of Rs. 40,000. Therefore, his tax liability will decrease after granting the credit of TDS to Rs. 1,60,000.

In second installment, i.e., by 15th December he has to pay up to 60% of his revised tax liability. Thus, he should pay up to Rs. 96,000 (i.e., 60% of Rs. 1,60,000) by 15th December. But he has already paid Rs. 60,000 by 15th September and, hence, he will have to pay only the balance of Rs. 36,000 by 15th December.

Third installment

In third installment, i.e., by 15th March he he has to pay 100% of his estimated tax liability. Thus, he should pay Rs. 1,60,000 by 15th March. He has already paid Rs. 96,000 till 15th December. Therefore, he has to pay balance of Rs. 64,000 by 15th March (i.e., Rs. 1,60,000 – Rs. 96,000).

Role of Assessing Officer in Relation to Advance Payment of Tax

1. An Assessing Officer (AO) can order payment of advance tax if following conditions are satisfied:
   a) The assessee has already been assessed by way of regular assessment in respect of total income of any previous year.
   b) The assesse has failed to pay such tax.
   c) The AO is of the opinion that such person is liable to pay advance tax on current year's income.
   d) The order must specify the amount of advance tax and installments in which advance tax has to be paid.
   e) The order must be made in writing.
   f) Such order may be passed during the previous year but not later than last day of February.
2. The assessee can pay advance tax at a rate lower than assessment made by the AO, after submitting his own estimate of income in Form No. 28A. However, for higher estimate made by the assessee, Form 28A is not required to be furnished.

3. The AO will find out the current income of the assessee on the following basis:
   a) Total income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment.
   b) The total income returned by the assessee for any previous year subsequent to the previous year for which regular assessment is made, whichever is higher.
4. Section 210(4) provides that AO can revise his order issued to the taxpayer to pay advance tax (as discussed above), if subsequent to the passing of an order to pay advance tax but before 1st March of the relevant financial year, (i) a return of income in respect of any later year has been furnished by the taxpayer or (ii) any assessment for any later year has been completed, at a higher figure.

   On receipt of such order, the procedure to be followed by the taxpayer will be same as discussed earlier.

Exercise

State whether the following statements are true or false:

1. If a person responsible for deduction of tax at source fails to deduct the appropriate tax, or after making the due deduction fails to deposit it into the Government treasury, he is liable to prosecution.
2. It is obligatory for an assessee to pay advance tax where the amount of tax payable is Rs. 5000 or more.
3. Presumptive Taxation Scheme is incorporated to give relief to a resident assessee of 60 years or more.
4. If an assessee, who is liable to pay advance tax, under Section 208 has failed to pay such tax, he shall be liable to pay interest @ 5% for every month or part of the month.
5. It is mandatory for every assessee to pay taxes through the electronic payment mode.
6. A corporate tax payer must pay 15% of the advance tax due by 15th June of the previous year.

Answers : 1. False, 2. False, 3. False, 4. False, 5. False, 6. True

Keywords

1. **TDS :** Tax deducted at source (TDS) means collection of tax at the very source of income.
2. **E-TDS :** E-TDS implies, filing of the TDS return in electronic media as per prescribed data structure in either a floppy or a CD ROM.
3. **TAN :** It is Tax Deduction and Collection Account Number. It is mandatory for every person who deducts tax at source, to have a TAN.
4. **Advance Payment of Tax :** Advance tax payment is the payment of tax liability by an assessee before the end of the financial year.

5. **Presumptive Taxation Scheme :** An assessee who has opted for the Presumptive Taxation Scheme under section 44AD on at the rate of 8 per cent of turnover, shall be exempted from payment of advance tax related to such business w.e.f. from the assessment year 2011-12.

Summary

- The Income-tax Act provides for collection and recovery of income-tax in the following ways, namely :
  - Deduction of tax at source in respect of income by way of salaries, interest on securities, interest other than interest on securities, winnings from lotteries and crossword puzzles, winnings from horse-race, insurance commission, dividends, payment to contractors or subcontractors and payments to non-residents.
  - Advance payment of income-tax before the assessment by the assessee himself.
  - Direct payment of income-tax by the assessee on self-assessment.
  - After the assessment is made by the Assessing Officer.
  - Tax collected at source.
- Sections 192 to 206 of the Income-tax Act lay down the provisions relating to deduction of tax at source.
- Section 197 gives a right to the assessee to apply to the Assessing Officer for obtaining a certificate that tax may not be deducted or be deducted at a lower rate in case of any sum payable under Sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K,194LA, and 195.
- Certificate of tax deducted at source is to be issued by the person deducting TDS to the assessee so that the latter can claim credit for tax paid on his behalf and can claim refund, if any, due to him on the basis of tax liability for the relevant year.
- E-TDS implies, filing of the TDS return in electronic media as per prescribed data structure in either a floppy or a CD ROM.
- Section 207-219 of the Income Tax Act deals with the issues relating to advance payment of tax. In advance payment of tax, the assessee has to pay tax in a financial year under estimated income which is to be taxed in the subsequent assessment year. It follows the doctrine known as pay as you earn scheme.
- It is obligatory for an assessee to pay advance tax where the advance tax payable is Rs. 10,000 or more (Section 208).

Exercise

I. Short Answer Questions

1. What is Tax deducted at Source?
2. What is E- TDS? For which persons is e-filing of TDS mandatory?

3. What is Advance Tax payment? Which persons are not liable to pay advance tax?
4. Differentiate between TDS and Advance Tax Payment.
5. Explain the benefits of tax deducted at source to government.
6. What is TAN? Which form is required to apply for TAN?
7. State which forms have to be issued as certificate of tax deducted at source.

II. Long Answer Questions

1. Explain the provisions of section 197 regarding lower deduction/non-deduction of tax.
2. Explain the various duties of persons deducting tax at source and the rights of taxpayers.
3. Explain the Presumptive Taxation Scheme under section 44AD.
4. Explain the role of Assessing Officer in relation to Advance Payment of Tax.
5. Explain the possible defaults in compliance of provisions of TDS and the consequential proceedings.
6. State the provisions regarding deduction of tax at source in respect of the following incomes:
   a) Rent
   b) Dividends
   c) Professional or technical fees
   d) Winning from horse races

III. Numerical Questions

1. Mr. Sharma is an architect. His estimated tax liability for the year 2016-17 amounts to Rs. 3,00,000. He has paid advance tax of Rs. 90,000 by 15th September. On 26th November, 2016, he got a contract after which the, his income for the year increased and his revised tax liability for the year amounted to Rs. 4,00,000. In this case, how much advance tax he is required to pay in subsequent installments?

   (**Answer:** 15th December- Rs. 1,50,000; 15th March- Rs. 1,60,000)

2. Mr. Tondon (age 45 years) runs a furniture business. The turnover of the business for the financial year 2015-16 amounted to Rs. 50,00,000. He has not adopted the provisions of section 44AD and has maintained the regular books of account as per the provisions of section 44AA. The accounts revealed a net profit of Rs. 2,64,000. Will he be liable to pay advance tax?

   (**Answer:** No)

3. Sheela Enterprises, a partnership firm took a loan of Rs. 10,00,000 from a person resident in India. Interest on loan for the financial year 2015-16 amounted to Rs. 10,000. Should the firm deduct tax at source from the interest?

(**Answer:** Yes, under section 194A)

4. Mr. Umesh Kumar has a monthly salary of Rs. 80,000. Deductions claimed by him are Rs. 50,000 during the previous year 2015- 2016. Calculate the average rate of TDS payable on his salary and amount that would be deducted every month as TDS on salary.

*(***Answer:** Total tax liability- Rs. 110210, Average Tax Rate- Rs. 11.48%, Rs.9184 would be deducted every month)

Annexure 1

List of forms of certificates to be issued and necessary form to be filed with Assessing Officer by the persons deducting the tax at source.

Categories of payment	Form No. of Certificate	Form No. of return to be filed with Assessing Officer
1. Salaries	12BA, 16, 16AA	24Q
2. Interest on Securities (Government)	16A	26Q
3. Interest on Securities (Others)	16A	26Q
4. Interest other than Interest on Securities	16A	26Q
5. Dividends	16A	26Q
6. Winnings from Lotteries/Crossword puzzles	16A	26Q
7. Winnings from Horse Races	16A	26Q
8. Insurance commission	16A	26Q
9. National Savings Scheme etc.	16A	26Q
10. Payment to non-resident 16A 27Q	16A	27Q
11. Rent	16A	26Q
12. Commission (not being insurance commission) or brokerage		26Q
13. Fee for professional or technical services	16A	26Q

UNIT 4

GOODS AND SERVICE TAX (GST)

Unit-4	Goods and Service Tax (GST)			
Location:	**Meaning of Direct Tax and GST**			
Classroom	**Learning Outcome**	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	1. Meaning of Direct and Indirect Taxes.	1. Explain the meaning of Direct and Indirect Taxes.	1. Differentiate between Direct and Indirect Taxes. 2. Identify various taxes into Direct and Indirect tax.	**Interactive Lecture:** Introduction of various types of Indirect Taxes prior to coming of GST on 01/07/2017
SESSION 2: INTRODUCTION TO GST				
	1. Previous (upto 30/06/2017) Indirect Tax Structure and its difficulties.	1. Explain the previous indirect system of VAT, Central Excise & Service Tax. 2. Describe the difficulties of previous system.	1. Understand the multiplicity of taxes and other difficulties in the previous taxation regime.	**Interactive Lecture:** Discussion on the various taxes and tax rates under the pre - GST system.
	1. Meaning of GST & why GST.	1. Explain the concept of GST.	1. Analyze the meaning of GST as an Indirect Tax.	**Interactive Lecture:** Discussion on meaning and objectives of GST.

Classroom	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
			2. Understand the importance of Constitutional Amendment for introduction of GST & constitution of GST Council.	
	1. Features of GST	1. Explain the features of GST (CGST/SGST/ UTGST/ IGST) 2. State the advantages and challenges of introducing GST regime.	1. Analyze the features of GST. 2. Understand the difference between GST and previous system of indirect taxation. 3. Explain the advantages and challenges of introducing GST.	**Interactive Lecture:** 1. Discussion of various features of GST Law (CGST Act & SGST Act of any state). 2. Discussion on the advantages and the challenges of GST.
		1. Method of computing GST liability in case of intra-state and inter-state supplies. 2. Registration in GST. 3. Filling of GST Returns.	1. Solve the problems of calculating GST liability in different situations. 2. Solve are explain due date of registration and discussion on dates/eligibility prescribed for Registration under Section 22 & 24 of CGST Act, 2017. 3. Dates for Filing of GST Returns.	**Interactive Lecture:** ● Discussion on the dual GST and IGST calculation. ● Discussion on various types of Returns in GST.

(Note: The location for discussion will be the classroom for the theoretical interactions, the student will be required to visit registered and unregistered dealers and also the websites of tax department of respective states like http://www.gstindia.com/, http://finmin.nic.in, http://dor.gov.in/, http://www.cbec.gov.in/ and websites of respective states)

Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the difference between direct taxes and Indirect taxes.
2. Explain the present indirect tax structure.
3. Explain the meaning of GST.
4. Explain the features of GST.
5. Identify the difference between GST and previous taxation system (VAT/Central Excise & Service Tax).
6. Describe the advantages and disadvantages of GST.

SESSION 1

MEANING OF DIRECT TAX AND GST TAX

A **Direct tax** is the tax whose burden is directly borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others. It is deducted at source from the income of person who is taxed. For example: Income tax is a direct tax because the person, whose income is taxed, is liable to pay the tax directly to the Government and bear the burden of the tax himself. Other examples of direct tax are:

i) **Corporation Tax**: It is levied on profit of corporations and companies.

ii) **Wealth Tax**: It is imposed on property of individuals depending upon the value of property.

iii) **Gift Tax**: It is paid to the Government by the recipient of gift depending on value of gift.

iv) **Estate Duty**: It is charged from successor of inherited property.

It is not desirable to avoid payment of taxes. They are levied directly on income and property of persons, who pay directly to the Government.

On the other hand when (i) liability to pay a tax is on one person and (ii) the burden of that tax shifts on some other person, this type of tax is called an **indirect tax**. Thus, Indirect Tax is a tax whose burden can be shifted to others. For example:

i) **Sales Tax or VAT [up to 30/06/2017]**

It is an indirect tax on sale of goods because liability to collect tax is that of shopkeeper but the burden of that tax falls on the customer. The shopkeeper realizes the tax amount from the customer by including it in the price of the commodity that he sells.,

ii) **Central Excise duty:**

It is paid by the producer (manufacturer) of goods, who recovers it from wholesalers and retailers.

iii) **Service Tax:**

It is raised on provision of Service.

SESSION 2

INTRODUCTION TO GST

PREVIOUS (upto 30/06/2017) INDIRECT TAX STRUCTURE AND ITS DIFFICULTIES

The history of Indian taxation goes back to ancient period. According to Arthashastra, the book written by Kautilya, in ancient time taxes were levied and collected in both cash and kind. The modern history of Indirect taxes starts from the early 20th century when Central Excise Duty was imposed on Salt, Sugar, Motor Spirit, etc. Gradually the base of Excise duties was widened. At the time of independence, the system of Central Excise Duty at the national level and the Sales Tax at the State level was prevailing. After prolonged efforts and amendments, VAT was introduced first in Indian State of Haryana in 2003 and thereafter in 24 States/UTs including Punjab, Chandigarh, HP, J&K and Delhi in 2005. If the VAT was a major improvement over the pre-existing Sales Tax regime , then the Goods and Services Tax (GST) is indeed an remarkable improvement and the next logical step towards realising perfection in taxation system in the country. Initially, it was proposed that there would be a single and national level GST. However, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it was made clear that there would be a "Dual GST" in India, i.e., the taxation power will be in the hands of the Centre and the States (both) to levy the taxes on the Goods and Services. Again, the decision to introduce GST kept on getting delayed due to political, technical and administrative causes. However, the GST tax regime has been finally implemented from 1st July, 2017 across India. Thus there is a economic union of the country with ONE TAX, ONE MARKET AND ONE NATION.

Central Excise Duty (Central Govt.)
VAT/Sales Tax (State Govt.)

CENVAT (Central Govt.)
State VAT (State Govt.)

CGST (Central Govt.)
SGST (State Govt.)/UTGST
IGST

EVOLUTION OF TAXATION SYSTEM IN INDIA

Previously, the powers to levy tax between the Centre and the States were clearly divided in the Constitution with almost no overlap between the respective domains. The Constitution empowered the Central Government to impose:

- Excise Duty on manufacture and production (except alcoholic liquor for human consumption, opium, narcotics etc.), and
- Service Tax on the provision of services.

Further, constitution empowered the State Governments to impose sales tax or value added tax (VAT) on the sale of goods.

This division of fiscal powers on goods and services had led to a multiplicity of indirect taxes in the country with variable compliance system & rates etc. In case of inter-State sales, the Centre had the power to impose a tax (the Central Sales Tax). However the tax was collected and retained entirely by the consuming states where the goods were sold. Further, many States imposed an entry tax / octroi on the entry/sale of goods in local areas. This had resulted in the following difficulties:

- This multiplicity of taxes at the State and Central levels had resulted in a complex indirect tax structure in the country with hidden costs for the trade and industry. Also, there was no uniformity in various taxes and tax rates across States.
- Secondly, there was cascading effect of taxes due to 'tax on tax'. No credit of excise duty and service tax paid at the stage of manufacture/ provision of service was available to the consumers while paying the State level sales tax or VAT and vice-versa.
- Further, no credit of taxes paid in one State could be availed in other States. Hence, the prices of goods and services used to get inflated.

MEANING OF GOODS AND SERVICE TAX

GST is a destination based indirect tax on consumption of goods and services, i.e., the tax would accrue to the taxing authority (State/Union Territory) which has jurisdiction over the place of consumption, which is termed as place of supply. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the GST. It is imposed at all stages right from manufacture/supply of services up to final consumption with credit of input taxes paid at each stage available as setoff in the subsequent stage of taxation . In short, only value addition will be taxed and burden of tax is to be borne by the final consumer.

SALIENT FEATURES OF GST UNDER MODEL GST LAW

GST Council

GST council is the main decision making body, which is formed to finalized the design of Goods and Service Tax. It is a Governing body and Union Finance Minister is the chairman of this council, it also includes the Minister of State (Revenue) and the State Finance / Taxation Ministers. The GST council will make recommendation on:

- Taxes, cusses and surcharges to be subsumed under GST;
- Goods and services, which may be taxed to, or exempt from GST;
- The threshold limit of turnover for application of GST;
- Rates of GST;
- Model GST laws, principles of levy, apportionment if IGST and principles that governs;
- The place of supply;
- Rates including floor rates with bands of GST;

- Special provisions with respect to the Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and other related matters.

1. Supply Based Tax

GST is applicable on "supply" of goods or services as against the previous concept of tax on the manufacture of goods or on sale of goods or on provision of services**.**

2. Destination- Based Consumption Tax

GST is a destination-based tax. This implies that all SGST (or UTGST) collected will ordinarily accrue to the State (or Union Territory) where the consumer of the goods or services receives supply.

3. Dual GST

Both Centre and States simultaneously have the power to impose GST across the entire supply chain. Centre would levy and collect Central Goods and Services Tax (CGST) and States would levy and collect the State Goods and Services Tax (SGST) on all supplies within a State. (Intra-state supply).

Example:

Suppose Vikas, a dealer in Haryana sold goods to Anand in Haryana worth Rs. 10,000. If GST rate applicable on those goods is 18%, it would comprise of of CGST 9% and SGST 9%. In such a case, the dealer collects Rs. 1800 of which Rs. 900 will go to the Central Government and Rs. 900 will go to the Government of Haryana.

4. INTER-STATE SUPPLIES AND IGST MECHANISM

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on:

- All inter-State supply of goods and services in India.
- Inter-state stock transfers of goods.
- Import of goods / services.
- Export of goods / services.

The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State supplier would pay IGST on the supply of his goods and/or services to the Central Government, which will be collected by the Central Government as IGST.

The importing consumer(dealer/manufacturer) will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. Centre will transfer to the importing State the credit of IGST used in payment of GST.

5. REPLACEMENT OF EXISTING TAXES

The following taxes from previous taxation system have been subsumed under GST:

Central Taxes subsumed under CGST or IGST

i. Central Excise Duty.

ii. Additional Excise Duty.

iii. Excise Duty levied under the Medicinal and Toiletries Preparation Act.

iv. Service Tax.

v. Additional Customs Duty, commonly known as Countervailing Duty (CVD).

vi. Special Additional Duty of Customs (SAD).

vii. Cesses and surcharges in so far as they relate to supply of goods and services.

State Taxes to be subsumed under SGST-

i. VAT/Sales Tax.

ii. Central Sales Tax (levied by the Centre and collected by the States).

iii. Entertainment Tax (Except those levied by local bodies like Panchayat).

iv. Octroi and Entry Tax (all forms).

v. Purchase Tax.

vi. Luxury Tax.

vii. Taxes on lottery, betting and gambling.

viii. State cesses and surcharges in so far as they relate to supply of goods.

6. SCOPE OF GST

GST applies to all supplies of goods / services (as against manufacture, sale or provision of service) made for a consideration except:

a. An agriculturist.

b. Exempted goods / services (0% tax).

c. Transactions below threshold limits (20 Laks or 10 Laks).

d. Goods / services outside the purview of GST - the taxes imposed on the following products will continue as per the structure before GST implementation.

- Petroleum crude and four petroleum products (it will come in GST fold later).
- Electricity.
- Alcoholic liquor for human consumption.

7. TAX SLABS OF GST

GST rates will be uniform across the country. Initially, the Government categorised 1211 items under five tax slabs, i.e., 0%, 5%, 12%, 18% and 28%. The list is not exhaustive. Some of the items also attract Cess in addition to GST at the applicable rates.

8. EXPORTS (Zero Rated)

Zero Rating means that the tax payable on supply of a commodity is fixed at 0%. Though apparently, it looks similar to an exempted transaction, there is a significant difference between the two. While in an exempted transaction, the tax paid on input lapses i.e. it cannot be set off, while under the Zero rated supplies, prior stage tax is allowed to be set off and effectively the entire tax paid on inputs used in export is eligible for refund. Thus, 'Zero Rating' is advantageous to the exporter as compared to 'exempting' of other supplies. Generally, export are zero rated and thereby, exporters are granted refund of taxes paid by them on their inputs. Exporters gain significantly due to the 'Zero Rating'. Supply to SEZ/EOU are also zero-rated.

9. COMPOSITION SCHEME (Section 10)

Small taxpayers including start ups and many Small and Medium Enterprises may find it difficult to have resources and expertise to meet the increased tax compliances under GST regime. Thus, a taxpayer with an aggregate turnover in a financial year up to Rs. One crore may register under composition scheme. (75 lakhs in case of seven special category states). A dealer registered under composition scheme is not required to maintain detailed records as in the case of a normal taxpayer and shall pay tax as a percentage of his turnover during the year without the benefit of ITC (Input Tax Credit). Such a dealer cannot issue a tax invoice as well. A buyer from composition dealer will not be able to claim input tax on such goods. A Composition dealer shall not collect any tax from his customers. Tax payers making inter- state supplies or paying tax on reverse charge basis shall not be eligible for composition scheme.

The rates for this scheme are as follows:

<table>
<tr><th>Category of Registered Person</th><th>Rate of CGST</th><th>Rate of SGST</th><th>Total</th></tr>
<tr><td>Manufacturer (other than manufacturers of notified goods)</td><td>1%</td><td>1%</td><td>2%</td></tr>
<tr><td>Supplier of food and drinks for human consumption (except alcohol)</td><td>2.5%</td><td>2.5%</td><td>5%</td></tr>
<tr><td>Other supplies like traders</td><td>0.5%</td><td>0.5%</td><td>1%</td></tr>
<tr><td>Service Providers (other than restaurants)</td><td colspan="3">Not eligible for composition scheme</td></tr>
</table>

10. Threshold Limit

Threshold exemption is built into a tax regime to free the small suppliers from compliance cost and effort. Thus, suppliers below the threshold limit are not required to register or pay tax. Moreover, it is difficult to administer small traders (suppliers) and cost of administering of such traders (suppliers) is very high in comparison to the tax paid by them.

Under VAT regime, the threshold limits varied from state to state. Under the system of GST, the threshold limit is Rs. 20 lakh (Rs. 10 lakh for north eastern states, Uttarakhand, Sikkim and Himachal Pradesh).

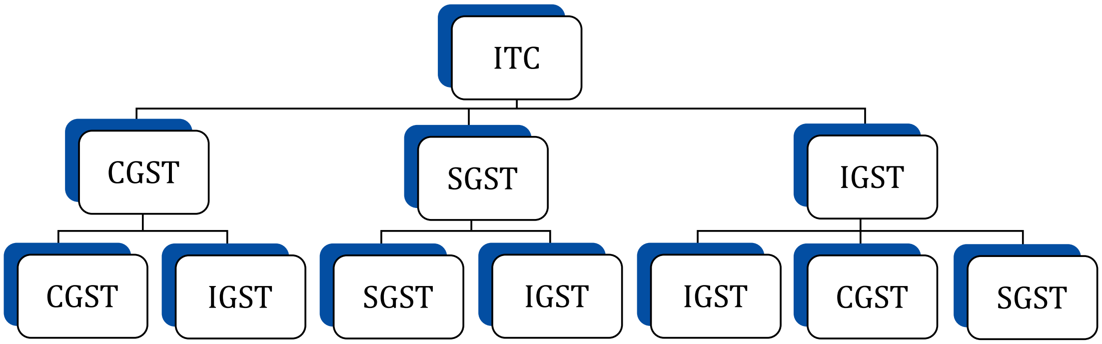
11. Input Tax Credit

The basic concept of GST is based on providing the set-off for the tax paid on the inputs used and this is given effect through the concept of input tax credit. This input tax credit means setting off the amount of input tax by a registered dealer against the amount of his output tax. The GST is based on the value addition to the goods and the related tax liability of the dealer can be arrived at by the supplier by discharging input tax credit from tax collected on supplies during the payment period.

The credit would be permitted to be utilized in the following manner:

- ITC of CGST allowed for payment of CGST & IGST in that order.
- ITC of SGST allowed for payment of SGST & IGST in that order.
- ITC of IGST allowed for payment of IGST, CGST & SGST in that order.

ITC of CGST cannot be used for payment of SGST and vice versa.



HIERARCHY OF UTILISATION OF INPUT TAX CREDIT (ITC)

Accounts would be settled periodically between the Centre and the States to ensure that the credit of SGST used for discharge of IGST is transferred to the consumer state. Similarly the IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further the SGST portion of IGST collected on B2C supplies would also be transferred by the Centre to the destination State. The transfer of funds would be carried out on the basis of information contained in the Returns filed by the taxpayers.

ITC cannot be availed on invoices more than one year old. The ITC of tax paid on goods and/or services used for making taxable supplies by a taxable person (receiver) will be allowed subject to four conditions:

- He is in possession of tax invoice.
- He has received the goods or services.
- Tax has been actually paid by supplier to Government.

◆ The valid return is filed under section 39.

Illustration 1

Suppose goods worth Rs. 1,000 are sold with in Uttar Pradesh. The VAT applicable on goods is 12% while CGST, SGST, or IGST applicable under the new regime are 6%, 6% or 12% respectively.

Solution

Particulars	Under VAT	Under GST
Product sold within U.P	1,000	1,000
VAT- 10% CGST- 6% SGST- 6%	100	 60 60
Product value	1,100	1,120
Profit	1,000	1,000
Selling Price	2,100	2,120
CST- 12% GST- 12%(already levied above)	252	-
Final price of product	2,352	2,120

Note: Either IGST @ 12% will be applicable or CGST @6% and SGST 6% will be applicable.

Advantages of Introducing GST

(A) For Government and Economy

1. Dual GST

The introduction of GST has marked an end to the scheme of distribution of fiscal powers envisaged in the Constitution. The dual GST considers taxation of the same taxable event, i.e., supply of goods and/or services, simultaneously by both the Centre and the States. Therefore, both Centre and States will have the power to impose GST across the supply chain from the stage of manufacture/ provision of service (supply) to consumption.

2. Effective Administration of Taxation

GST will simplify and harmonise the indirect tax regime in the country. The complexity of the tax structure due to multiplicity of taxes and tax rates will be reduced to a great extent. This will help in effective administration of taxation system in the country.

3. Increase in Competitiveness of Indian Industry

It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. It is also expected that introduction of GST will foster a common or seamless Indian market and contribute significantly to the growth of the economy.

4. Broaden Tax Base

GST will broaden the tax base, and result in better tax compliance due to a robust IT and online infrastructure, seamless transfer of input tax credit from one stage to another in the entire supply chain of value addition and decline in number of tax on goods and services.

(B) FOR TRADERS AND MANUFACTURERS

1. Easy Compliance

A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as Registrations, Returns, Payments, etc. would be available to the taxpayers online, which would also make compliance easy and transparent.

2. Uniformity of Tax Rates and Structures

GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

3. Removal of Cascading

A system of seamless tax-credits throughout the entire supply chain, and across boundaries of States, would ensure that there is no cascading of taxes. This would reduce hidden costs of doing business.

4. Increase in Competitiveness

The new regime would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

(C) For Consumers

1. Reduction in Overall Tax Burden

From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods and services.

2. Simpler Tax System

Life for a common man will get simpler as GST will replace a number of indirect tax levies. Complexity of taxation will be reduced to a great extent and tax compliance will become easier and cheaper.

3. Reduction in Prices of Goods & Services due to Elimination of Cascading

In the GST system, taxes for both Centre and State will be collected at the point of supplies. Both will be charged on the manufacturing cost or service provision cost. Also, the credit of GST paid on inputs at every stage of supply chain would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no 'tax on tax' in the country.

4. Uniform Prices

Tackling with the problem of multiplicity of tax rates will help to approach uniform prices throughout the country.

5. Transparency in Taxation System

Computerisation of the processes of Registration, Payment and Return to tax payers and maintenance of electronic cash ledger and electronic ITC ledger will ensure transparency in the taxation system.

6. Increase in Employment Opportunities

Augmentation of human resource in the field of accountancy, taxation and information technology will lead to an increase in employment opportunities.

7. Returns

A return is a document, which is filed by the taxpayer according to law with the tax Administrative authorities. Under Goods and Service Tax law a normal taxpayer will be required to furnish three returns monthly and one annual return. Similarly, there are separate returns for a taxpayer who have opted the composition scheme, taxpayer registered as an Input Service Distributor, a person's is liable to deduct or collect the (TDS/TCS).

Type of Return or Form No.	Persons Liable to File	Due Date
***GSTR-1** (Outward supply of taxable goods and/or services)	Registered Taxable Person	10^{th} of Next Month
GSTR-2 (Inward supply of taxable goods and/or services)	Registered Taxable Person	15^{th} of Next Month
GSTR-3 (Monthly Return)	Registered Taxable Person	20^{th} of Next Month
GSTR-9 (Annual Return)	Registered Taxable Person	31^{st} December of next financial year

Type of Return or Form No.	Persons Liable to File	Due Date
GSTR-4 (Quarterly Return for compounding taxable person)	Composition Supplier	18^{th} of Month succeeding quarter
GSTR-5 (Return for Non-Resident foreign taxable person)	Non-Resident Taxable Person	20^{th} of Next Month
GSTR-6 (Return for Input Service Distributor)	Input Service Distributor	13^{th} of the next month
GSTR-7 (Returns for authorities deducted Tax at Source)	Tax Deductor	10^{th} of Next month
GSTR-8 (Details of supplies effected through e-commerce operator)	E-commerce operator	10^{th} of Next month
GSTR-10 (Final Return)	Taxable Person whose registration has been surrendered or cancelled	Within three months of the date of cancellation or date of order of cancellation, whichever is later.

CHALLENGES

1. Establishment and upgradation of IT framework

The number of taxpayers is likely to go up significantly. Also, the process of tracking inter (or intra) State transactions will be online. The type of clearing house mechanism through GSTN considered in the dual model GST will handle large volumes of data.

For this purpose, the Goods and Service Tax Network (GSTN) has been set up by the Government to create enabling environment for smooth introduction and implementation of GST

2. Meeting Implementation Challenges

The implementation of GST systems and procedures would not be very lengthy and complex process in a long run. A GST implementation Advisory Committee has been constituted within CBEC for overall supervision and monitoring of progress towards implementation of GST.

3. Tax Administration

The Central Board of Excise and Customs (CBEC) and the State Tax Administrations will be responsible for implementing CGST and SGST respectively. For implementing dual GST, a robust and integrated tax administration is required to efficiently track supply of goods and services across the country as also to precisely account for the taxes. Putting in risk management system will give meaningful results only when there will be an efficient tax administration.

4. Effective Coordination between Centre & State Tax Administrations

The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by them. For it to be effective, such a mechanism also needs to have Constitutional force. There is a need of harmonization of processes & procedures between CGST / SGST & IGST Law.

5. Training of Officials and Trade & Industry

Until the people from trade and industry are adequately educated about the laws and procedures related to GST, there is possibility of non-compliance and tax evasion. Training / Familiarisation of trade industry on a large scale will also be required.

6. Spreading Accounting and IT Literacy

Augmentation of human resources would be necessary to handle large taxpayers base in GST scattered all over the country. Capacity building, particularly in the field of Accountancy and Information Technology, for the departmental officers has to be taken up in a big way.

7. Reorganisation of Audit Procedures

The various rules and procedures of conducting audit will have to be modified in tune with the GST laws as against the earlier systems of VAT / Central Excise/Service Tax.

Exercise

State whether the following statements are true or false:

1. Goods and Service tax is a direct tax.
2. The threshold limit for tax exemption is Rs. 10 lacks across India.
3. GST is an origin based tax.
4. Under GST regime, Constitution confers concurrent powers to both parliament and state legislatures to make laws with respect to tax on intra state sales.
5. IGST will be levied by State Governments for the sales made in their states.
6. A taxpayer registered in Himachal Pradesh with an aggregate turnover of Rs. 75 lacks in a financial year is eligible to get registered under composition scheme.
7. ITC of CGST shall first be utilized for payment of CGST and then for payment of IGST.

Answers: 1. False, 2. False, 3. False, 4. True, 5. False, 6. True, 7. True

Key Words

1. **Direct Tax:** A direct tax is the tax whose burden is borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others.
2. **Indirect Tax:** An indirect tax is a tax wherein (i) liability to pay a tax is on one person and (ii) the burden of that tax falls on some other person.

3. **Input Tax:** Input tax means when a consumer / dealer buys goods or services from another supplier, tax discharged on the initial supply is available for discharge of output tax as Input Tax Credit.
4. **Output Tax:** Means when the supplier supplies its goods or services, it discharges tax on supply, which is output tax.
5. **CGST:** Central GST (CGST) is the tax levied by Central Government on intra-State supplies of goods / services in India.
6. **SGST:** State GST (SGST) is the tax levied by State Government on intra-State supplies of goods / services in India.
7. **IGST:** IGST is levied & collected by the Centre and is applicable to :
   - Inter-State supplies of goods / services in India.
   - Inter-state stock transfers of goods.
   - Import of goods / services.
   - Export of goods / services (whenever applicable).
8. **Destination Based Tax:** This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services consumed resides.
9. **Zero- rating:** Exports will be treated as zero rated supplies. No tax normally will be payable on exports of goods or services. However credit of input tax credit used in the export product will be available and same will be available as refund to the exporters. Also goods / services may be supplied without levy of GST (here IGST).
10. **Inter-state Sales:** Means supplies made between two or more states.
11. **Intra-state Sales:** Means supplies made within a state.

Summary

- A direct tax is the tax whose burden is borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others. On the other hand when (i) liability to pay a tax is on one person and (ii) the burden of that tax falls on some other person, the tax is called an indirect tax.
- GST is a destination based indirect tax on consumption of goods and services. Under the GST, goods and services attract the same rate of tax. Practically, value addition is tax taxed and burden of tax is to be borne by the final consumer.
- Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. (Intra state supplies).
- The Centre would levy and collect the Integrated Goods and Services Tax (IGST). A part of IGST will be transferred to the State/UT, where the goods / services are consumed / supplied.

- Small taxpayers with an aggregate turnover in a financial year up to Rs. One Crore (Rs. 75 lakhs for North-Eastern states, Himachal Pradesh and Sikkim) shall be eligible for composition levy.
- GST will be payable by a taxable person only when his turnover crosses the threshold exemption limit, i.e. Rs.20 lakhs (Rs.10 lakhs for NE States, Sikkim, Uttarakhand & Himachal Pradesh.
- ITC of CGST will be allowed for payment of CGST & IGST in that order; ITC of SGST will be allowed for payment of SGST & IGST in that order and ITC of IGST will be allowed for payment of IGST, CGST & SGST in that order. ITC of CGST cannot be used for payment of SGST and vice versa.

Exercise Questions

I. Short Answer Questions

1. Who is liable to pay GST under the proposed GST regime?
2. What is the concept of destination based tax on consumption?
3. What are the benefits available to small tax payers under the GST regime?
4. How will imports be taxed under GST?
5. How will Exports be treated under GST?
6. What is the taxable event under GST?
7. Which taxes have been subsumed under GST?

II. Long Answer Questions

1. Discuss the features of GST.
2. Why did introduction of GST require a Constitutional Amendment?
3. What are the benefits that will accrue to the country from GST?
4. What is the scope of composition scheme under GST? Whether the composition scheme will be optional or compulsory?
5. Discuss the importance of Input Tax Credit.
6. Explain the challenges of introducing GST.

III. Numerical Question

1. A retailer or supplier in Tamil Nadu sold goods to a consumer within the state worth Rs. 15,000. The GST rate applicable on these goods is 18%- CGST @ 9% and SGST @ 9%. Calculate the total GST paid by the retailer and the tax collected by Tamil Nadu Government and the centre.

(Answer: Total tax payable- Rs. 2,700, SGST- Rs. 1,350, CGST- Rs. 1,350).

Suggested Readings

1. Dr. V.K. Singhania: Students Guide to Income-Tax Taxmann Publications Pvt. Ltd., New Delhi
2. Girish Ahuja and Ravi Gupta: Systematic Approach to Income-tax and Sales-tax; Bharat Law House, New Delhi.
3. Dr. V.K. Singhania & direct Taxes Law & Practice; Taxmann Publications Pvt. Ltd. Dr. Kapil Singhania, New Delhi

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