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TAXATION 3rd SEMESTER MATERIAL

Q1.Meaning and objectives, characteristics of taxation?

What is a Tax?

Tax is one of the most important sources of revenue to every government. In the earlier days, payment of taxes was optional. A choice was given to the people to pay the tax and to avail the benefit of social amenities in the form of education, health and sanitation, utilities and recreation facilities. Naturally, everyone interested in availing social amenities used to evaluate the benefit derived by him in exchange for the tax to be paid by him. But the option in the payment of tax created lot of problems for the government in fulfilling their obligations to society. Hence, in modern times, option was withdrawn and tax became a compulsory contribution by every citizen to the government to enable the government to fulfill its commitments towards society.

Every Government imposes two kinds of taxes:

(1) Direct taxes, and

(2) Indirect taxes

A tax, in the modern times, therefore is a compulsory levy and those who are taxed have to pay the sums irrespective of corresponding return of services or goods by the government. It is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the government. The tax-payers do get many benefits from the government but no tax-payer has a right to any benefit from the public expenditure on the ground that he is paying a tax. The benefits of public expenditure may go to anyone irrespective of the taxes paid. Therefore, we may say that taxes are compulsory payments to government without expectation of direct return or benefit to the tax-payer.

Objectives of Taxation

Initially, governments impose taxes for three basic purposes: to cover the cost of administration, maintaining law and order in the country and for defense. But now government's expenditure pattern changed and gives service to the public more than these three basic purpose and it restore social justice in the society by providing social services such as public health, employment, pension, housing, sanitation and other public services. Therefore, governments need much amount of revenue than before. To generate more revenue a government imposes taxes on various types. In general objective of taxations are:

1. **Raising revenue***:* to render various economic and social activities, a government needs large amount of revenue and to meet this government imposes various types of taxes.
2. **Removal of inequalities in income and wealth***:* government adopts progressive tax system and stressed on canon of equality to remove inequalities in income and wealth of the people.
3. **Ensuring economic stability***:* taxation affects the general level of consumption and production. Hence, it can be used as effective tool for achieving economic stability. Governments use taxation to control inflation and deflation
4. **Reduction in regional imbalances***:* If there is regional imbalance with in the country, governments can use taxation to remove such imbalance by tax exemptions and tax concessions to investors who made investment in under developed regions.
5. **Capital accumulation**

Tax concession or tax rebates given for savings or investment in provident funds, life insurance, investment in shares and debentures lead to large amount of capital accumulation, which is essential for the promotion of industrial development.

6. **Creation of employment opportunities**

Governments might minimize unemployment in the country by giving tax concession or exemptions to small entrepreneurs and labor intensive industries.

7. **Preventing harmful consumptions**

Government can reduce harmful things on the society by levying heavy excise tax on cigarettes, alcohols and other products, which worsen people's health.

8. **Beneficial diversion of resources**

Governments impose heavy tax on non- essential and luxury goods to discourage producers of such goods and give tax rate reduction or exemption on most essential goods. This diverts produce's attention and enables the country utilize to utilize the limited resources for production of essential goods only.

9. Encouragement of exports

Governments enhance foreign exchange requirement through export-oriented strategy. These provide a certain tax exemption for those exporters and encourage them with arranging a free trade zones and by making a bilateral and multilateral agreement

10***.*** **Enhancement of standard of living**

The government also increases the living standard of people by giving tax concessions to certain essential goods.

Characteristics of a Good Tax System

(1) Tax is a Compulsory Contribution:

A tax is a compulsory payment from the person to the Government without expectation of any direct return. Every person has to pay direct as well as indirect taxes. As it is a compulsory contribution, no one can refuse to pay a tax on the ground that he or she does not get any benefit from certain public services the government provides.

(2) The Assesses will be required to pay Tax if is due from him:

No one can be forced by any authority to pay tax, if it is not due from him. Suppose, if there is a tax on liquor, the state can force an individual to pay the tax only when he drinks liquor. But, if he does not drink liquor, he cannot be forced to pay the tax on liquor. Similarly, if an individual's income is below the exemption limit, he cannot be forced to pay tax on income. For example individuals earning monthly salary below birr 150 cannot be forced to pay tax on income.

(3) Taxes are levied by the Government:

No one has the right to impose taxes. Only the government has the right to impose taxes and to collect tax proceeds from the people.

(4) Common Benefits to All:

The tax, so collected by the Government, is spent for the common benefit of all the people. In other words, when the government collects a tax, its proceeds are spent to extend common benefits to all the people. The Government incurs expenditure on the defense of the country, on maintenance of law and order, provision of social services such as education, health etc. Such benefits are given to all the people- whether they are tax-payers or non-taxpayers. These benefits satisfy social wants. But the Government also spends on subsidies to satisfy merit wants of poor people.

*(***5)** No Direct Benefit:

In the modern times, there is no direct relationship between the payment of tax and direct benefits. In other words, there is absence of any benefit for taxes paid to the Governmental authorities. The government compulsorily collects all types of taxes and does not give any direct benefit to tax-payers for taxes paid. For example, when taxable income is earned by an individual or a corporation, he or it simply pays the tax amount at the specified rate cannot demand any benefit against such payment.

(6) Certain Taxes Levied for Specific Objectives:

Though taxes are imposed for collecting revenue for the government to meet expenditure on social wants and merit wants, certain taxes are imposed to achieve specific objectives. For example, heavy taxes are imposed on luxury goods to reduce their consumption so that resources are directed to the production of essential goods, such as cheaper variety of cloth, less costly goods of mass consumption, etc. Thus, taxes are levied not only to earn revenue but also for diversion of resources or saving foreign exchange. Certain taxes are imposed to reduce inequalities of income and wealth.

(7) Attitude of the Tax-Payers:

The attitude of the tax-payers is an important variable determining the contents of a good tax system. It may be assumed that each tax-payer would like to be exempted from taxpaying, while he would not mind if other bears that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. In other words, it is essential that a good tax system should appear equitable to the tax-payers. Similarly, overall burden of the tax system is of equal importance. The attitudes of the tax-payers in this regard are

influenced by a host of other factors like the political situation such as war or peace, natural calamities like floods and droughts, economic situations like prosperity or depression and so on.

(8) Good tax system should be in harmony with national objectives:

A good tax system should run in harmony with important national objectives and if possible should assist the society in achieving them. It should try to accommodate the attitude and problems of tax payers and should also take into consideration the goals of social and economic justice. It should also yield adequate revenue for the treasury and should be flexible enough to move with the changing requirements of the State and the economy.

(9) Tax-system recognizes basic rights of tax-payers:

A good tax system recognizes the basic rights of the tax-payers. The tax-payer is expected to pay his taxes but not undergo harassment. In other words, the tax law should be simple in language and the tax liability should be determined with certainty. The mode and timings of payment should be convenient to the tax-payer. At the same time, a tax system should be equitable between tax-payers. It should be progressive and burden of taxation should be equitable on all the tax-payers.

Q2.Differences between Direct and Indirect Taxes?

The citizens of India cannot shy away from paying taxes. The Government of India imposes two types of taxes on its citizens – direct and indirect taxes. Before we delve into the details of differences between the two taxes, let's quickly recap the two types of taxes:

Direct taxes: These taxes have to be paid directly to the government and cannot be transferred to anyone else. Different acts govern these taxes.

Indirect taxes: These taxes are imposed on all the goods and services, and not on income and profits. It is collected by a retail store or an intermediary from the consumer or one bearing the ultimate burden of the tax.

Differences Between Direct and Indirect Taxes

CONTEXT	DIRECT TAX	INDIRECT TAX
Imposition	Imposed on income or profits	Imposed on goods and services
Taxpayer	Individuals, HUFs, firms and companies	End-consumer of the goods and services
Applicability	Applicable to the taxpayer alone	Applicable to every stage of the production-distribution chain
Tax burden	The burden falls directly on the individual	The burden is shifted to the consumer by the manufacturer or service provider
Transferability	Cannot be transferred to anyone else	Can be transferred from one taxpayer to the other
Coverage	Confined to an entity or individual taxpayer	Wide coverage because all the members of the society are taxed
Administrative cost	Higher administrative costs and many exemptions	Lesser administrative costs because of stable, convenient collections
Tax evasion	Possible	Not possible
Allocative effects	Have good allocative effects since they put less burden on the collection	Allocative effects not as good as those of direct taxes
Inflation	Helps in reducing inflation	Might help in increasing inflation
Orientation	Discourage investments, lessen savings	Growth-oriented, encourage savings
Mode of progress	Progressive, reduce inequalities	Regressive, enhance inequalities

CONTEXT	DIRECT TAX	INDIRECT TAX
Most common types (in India)	Income, Wealth, Corporate Tax	GST or Goods and Services Tax

Q3.write a short note on (a) flat rate of tax (b) tax avoidance

Definition: A flat tax, also called a proportional tax, is an income tax that enacts a constant proportional rate to all taxpayers regardless of income. In other words, all taxpayers would pay the same percentage of their income to the government irrespective of their total earnings.

Flat Tax Mean:-

The concept of a flat tax rate has been discussed as an option for the US tax code for many years it's an appealing and intriguing concept because it does away with the unfair and disproportionate progressive tax system that we have today. Under a flat system each taxpayer would pay the rate of tax on all of their income. There wouldn't be an incremental income bracket system. It simplifies all of the current brackets down to one.

Many leading economists, financiers, and political figures view this system as a fairer taxing policy than the current one. Many also believe that a flat taxing system would be easier to comply with and more equitable for taxpayers.

The main argument against this system is that it disproportionately burdens the poor because they have less disposable income to pay the same rate at the rich.

A way to structure an income tax where everyone (or nearly everyone) pays the same marginal rate. For example, aflat tax may be set at 15%, and everyone will pay that rate regardless of ho w much they earn. This contrasts withprogressive

taxation, where the marginal tax rate increases with increased income. Proponents of a flat tax arguethat it provides an incentive for people to earn more (because they keep more of what th ey earn than under aprogressive tax system), which in turn spurs economicgrowth. Opponents contend that a flat tax deprives thegovernment of revenue and progressive taxation does not di sincentivize earning more because, even at higher rates,people keep more after taxes than they would have done if they earned less.

An income tax that has a single rate of taxation. For example, a taxing authority may levy a flat t ax of 3% against grossincome. See also graduated flat tax.

A flat tax, also known as a regressive tax, applies to everyone at the same rate, as a sales tax do e.

Advocates of a flat income tax for the United States say it's simpler and does away with the kind s of tax breaks that tend tofavor the wealthy. Opponents say that middle-income taxpayers would carry too large a proportion of the total tax bill.

Tax Avoidanc:-

What is Tax Avoidance

Tax avoidance is the use of legal methods to modify an individual's financial situation to lower the amount of income tax owed. This is generally accomplished by claiming the permissible deductions and credits. This practice differs from tax evasion, which uses illegal methods, such as underreporting income to avoid paying taxes.

BREAKING DOWN Tax Avoidance:

Most taxpayers use some form of tax avoidance. Even though it may seem negative, it really isn't. In fact, tax avoidance is a legal way for people or other entities to minimize their tax liability. These can be in the form of deductions or credits used to their advantage to lower their tax bills.

For example, individuals who contribute to employer-sponsored retirement plans with pre-tax funds are engaging in tax avoidance because the amount of taxes paid on the funds when they are withdrawn in retirement is usually less than the amount the individual would owe. Furthermore, retirement plans allow taxpayers to defer paying taxes until a much later date, which allows their savings to grow at a faster rate.

Tax Avoidance Is Encouraged:

Tax avoidance is built into the Internal Revenue Code (IRC), which spans more than 75,000 pages. Lawmakers have used the IRC to manipulate taxpayer behavior by offering tax credits, deductions and exemptions in various aspects of people's lives including healthcare, saving

and investing, education, energy use and other activities. The tax benefits available in qualified retirement plans are to promote self-sufficiency in retirement. The death benefit of a life insurance policy is exempted from taxes to encourage family protection. Capital gains are taxed at a lower rate to encourage more investments. Interest deductions on home mortgages foster more home ownership.

Tax Avoidance Complicates the Tax Code:

The expanding use of tax avoidance in the tax code has led to it becoming one of the most complex tax codes in the world. Taxpayers spend billions of hours each year filing tax returns with much of that time used looking for ways to avoid paying higher taxes. Because the tax code is always changing, families have a difficult time making decisions about retirement, savings and education. Businesses especially suffer the consequences of an ever-evolving tax code that affects their hiring decisions and growth strategies. Since 2006, nearly 4,500 federal tax rule changes have been made to the tax code, most having to do with tax avoidance provisions.

Tax avoidance is at the core of most proposals seeking to reform the tax code. The proposals that have been introduced over the last decade seek to simplify the tax code by flattening the tax rates and removing most tax avoidance provisions. Tax reform proposals assume a lower, flat tax rate would eliminate the need to pursue tax avoidance strategies.

Tax Avoidance vs. Tax Evasion:

Contrary to what you may believe, tax avoidance is encouraged and legal, despite any negative image it may conjure up. Tax evasion, on the other hand, is illegal. It happens when people underreport, or don't report at all, any income or revenue earned to a taxing authority. You can also evade taxes by not paying your taxes at all. Tax evasion is, in most places, a crime. If found guilty of committing tax evasion, the Internal Revenue Service (IRS) says people can serve jail time, pay a fine or both.

Q4.Definition of 'Assessment Year '&'Previous Year' under Income Tax?

Concept of Previous Year & Financial Year vis-a-vis Assessment Year is very confusing for layman. For better understanding of these concepts, let's look at the definitions thereof under the Income Tax Act

As a person we earn income in one financial year and it gets taxed in the next financial year. FY is the year in which income is earned and the year in which income is taxed is known as Assessment Year. Further, the rate of tax applicable will be the rate of assessment year.

Meaning of Financial Year (FY) – Financial year is the year in which you earn income. A Financial year starts from 1st April and ends at 31st March.

Meaning of Assessment Year (AY) – Assessment Year means the period of 12 months commencing from 1st April every year. AY is the year in which returns are filed for the income earned in the previous financial year ended.

Hence, income is earned in Financial year (FY) and such income is taxed in Assessment year (AY).

For Example:

Period	Financial Year (FY)	Assessment Year (AY)
1st April 2016- 31st March 2017	2016-17	2017-18
1st April 2017- 31st March 2018	2017-18	2018-19
1st April 2018- 31st March 2019	2018-19	2019-20

a) Meaning of Assessment Year: Section 2(9) Income Tax

As per S.2(9) of the Income Tax Act, 1961, unless the context otherwise requires, the term "assessment year" means the period of twelve months commencing on the 1st day of April every year.

Therefore, basically the Assessment year is considered to be a 12 months period starting from April 1, during which an assessee is required to file the return of income (ITR) for the previous year and the ITO has to initiate assessment proceedings for such returned income and tax

thereon. Since Income Tax is on income of a financial/ previous year or period, so tax filings and assessment can start thereafter. Probably, that's why it's called assessment year/ period. For example, Assessment Year 2017-18 is a period of 12 months starting from 1 Apr. 2017 and ending with 31 Mar. 2018.

b) Meaning of Previous Year: Section 2(34) & Section 3 Income Tax

As per S.2(34) of Income Tax Act, 1961, unless the context otherwise requires, the term "previous year" means the previous year as defined in section 3. In view of above, we need to visit Section 3 of Income Tax Act, 1961, which defines the term previous year as under:

'For the purposes of this Act, the term "previous year" means the financial year immediately preceding the assessment year. Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.'

Therefore, basically the Previous Year indicates the year/ period prior to another. Under Income Tax, the returns are filed by byassessees after end of the year/ period during which earnings are made and that period is called previous year/ financial year. However, when such earnings are subjected to assessment/ review by ITO in the subsequent period/ year, the same is called assessment year/ period.

For example, previous year corresponding to assessment year 2017-18 means the preceding financial year, i.e. 2016-17 (1 Apr. 2016 to 31 Mar. 2017), however the previous year will begin from a later date in the case of new business/ source of income. In case a new business is set-up on 1 Oct. 2016, then previous year will be 1 Oct. 2016 to 31 Mar. 2017, which is a part of financial year 2016-17.

c) Concept of Previous Year & Financial Year vis-a-vis Assessment Year

Understanding concept of previous year is very simple; it's basically a period of up to 12 months just preceding the assessment year. Since financial year is always a period of 12 months and income/ source of income may be of smaller span/ tenure than of 12 months, so

the concept/ term of previous year is used under Income Tax to cover income or source of income coming into existence after the commencement of financial year and to cover income or source of income coming to an end before completion of the financial year. Either way any income or source of income is not required to be spread to the whole of financial year, it may be part of the same and the same may be called a previous year.

Accordingly Previous Year in the case of a continuing business shall be the Financial Year immediately preceding the relevant Assessment Year, whereas Previous Year in the cases of newly set up business or for new source of income shall be the period commencing from the date of new business set up or source of income coming into existence to the forthcoming 31st March of that Financial Year immediately preceding the relevant Assessment Year.

It may not be out of place to mention that now even under Companies Act 2013 all the companies are required to have a uniform financial year. In other words, normally a period of up to 12 months ending on 31 March every year, however in the case of first accounting period, the same may be of less than 12 months and may extend up to 18 months with prior approval of the ROC

Section 2 of The Income Tax Act, 1961 has defined Assessment Year and Previous Year as follows:-

Section 2(9) defines Assessment Year as-

1. **Period starting from April 1 and ending on March 31 of the next year.**
2. **Income of previous year of an assesse is taxed during the next following assessment year.**
3. **It is always a period of 12 months.**

Section 2(34) defines Previous Year as-

1. **Previous year means the previous year as defined in section 3;**
2. **As per section 3 “previous year” means the financial year immediately preceding the assessment year.**
3. **Year in which income is earned is known as previous year.**
4. **All assessee required to follow financial year (i.e. April 1 to March 31) as the previous year.**

Previous Year in case of newly setup business and profession-

1. The first previous year commences on the date of setting up of the business/profession or the date on which the source of income newly comes into existence and ends on the immediately following March 31.
2. The first previous year is a period of 12 months or less than 12 months. It can never exceed 12 months.
3. The second and subsequent previous years are always of 12 months each (i.e. April to March.)

Q5.What is Agricultural Income?Calculate tax liability?

In India, agricultural income refers to income earned or revenue derived from sources that include farming land, buildings on or identified with an agricultural land and commercial produce from a horticultural land. Agricultural income is defined under section 2(1A) of the Income Tax Act, 1961. According to this Section, agricultural income generally means: (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce. (c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A). (d) Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

Section 54B of the Income Tax Act, 1961

Section 54B of the Income Tax Act, 1961, provides relief to taxpayers who sell their agricultural land and use the sale proceeds to acquire another agricultural land. To claim tax benefit under Section 54B of the Income Tax Act, the following conditions will have to be satisfied:

- **This benefit can only be claimed by an individual or a HUF**
- **The agricultural land should be used by the individual or his or her parents for agricultural purpose for at least two years immediately preceding the date on which the exchange of land occurred. In case of HUF, the land should be used by any member of HUF.**

- **The taxpayer should purchase another agricultural land within two years from the date of selling the old land. In case it is an incident of compulsory acquisition, the period of acquiring new agricultural land will be assessed from the date of receipt of compensation. It must be noted that under Section 10(37), capital gain shall not be chargeable to tax if agricultural land is compulsorily acquired under any law, and the consideration of which is approved by the central government or banking regulator and received on or after 01-04-2004.**

Examples of Agricultural Income

The following are some of the examples of agricultural income:

- **Income derived from sale of replanted trees.**
- **Income from sale of seeds.**
- **Rent received for agricultural land.**
- **Income from growing flowers and creepers.**
- **Profits received from a partner from a firm engaged in agricultural produce or activities.**
- **Interest on capital that a partner from a firm, engaged in agricultural operations, receives.**

Examples of Non-Agricultural Income

The following are some of the examples of non-agricultural income:

- **Income from poultry farming.**
- **Income from bee hiving.**
- **Any dividend that an organization pays from its agriculture income.**
- **Income from the sale of spontaneously grown trees.**
- **Income from dairy farming.**
- **Income from salt produced after the land has flooded with sea water.**
- **Purchase of standing crop.**
- **Royalty income from mines.**
- **Income from butter and cheese making.**
- **Receipts from TV serial shooting in farm house.**

There are certain points which should be kept in mind to evaluate whether the particular agriculture income is valid. These are as follows-:

- **Income should be from an existing piece of land.**
- **Income should be from a piece of land that is used for agricultural operations.**
- **Income should stem from products achieved after cultivation of the land.**
- **Income can be from a land that is not under the assessee's ownership.**

All Agricultural Land is Exempted from Tax Liability:

No, all agricultural land is not exempted. Agriculture income is included while computation, for the limited purpose of determining the tax rate, in computing the income tax liability if the net agricultural income exceeds Rs 5,000 for, say, Financial Year 2015 and total income, excluding net agricultural income, exceeds applicable basic income exemption of Rs 2,50,000. Currently, the basic income exemption for an individual of age between 60 and 80 years is Rs 3 lakh for Financial Year 2015 and the basic exemption for an individual above 80 years of age is Rs 5 lakh[5]

All the Agriculture Products come under the tax exemption:

Any preparing done on Agricultural create to make it marketable is a piece of agricultural operations and such sum recuperated will be dealt with as agriculture income only. Say for instance threshing of wheat, mustard, and so forth is a piece of agriculture operations and the sum recuperated will be dealt with as farming salary just regardless of preparing happens on the land itself or some other place.

Be that as it may, in specific cases like on account of tea, coffee, sugar stick where a noteworthy preparing (change of exceptional nature of the item) is being done, at that point some piece of the handled deliver (tea, coffee, and sugar) is taxed as non-farming pay and rest is absolved as rural salary.

Income earned from export of agricultural produce is exempt from income tax:

The conditions for considering the income as agricultural in nature have to be satisfied if the agricultural produce has to be exempt from income tax.

NOTE- Middlemen dealing in trade of agricultural produce are generally not entitled to exemption due to lack of satisfaction of the conditions.

Agriculture Income Tax How it is computed:

Although Agriculture income is completely excluded from tax, the Finance Act, 1973, introduced a scheme whereby agriculture income is incorporated with non-horticultural pay on account of non-corporate assessees who are at risk to pay tax at indicated section rates. The procedure for money impose calculation for such surveys is as per the following:

- **Income tax is first ascertained on the net horticultural salary in addition to the assessee's aggregate pay from non-farming sources.**
- **The tax is then ascertained on the fundamental exception section expanded by the assessee's net agrarian pay.**
- **The contrast amongst (a) and (b) is the measure of expense payable by the assessee.**

NOTE-The previously mentioned procedure of calculation is, be that as it may, took after just if the assessee's non-horticultural pay is an abundance of the essential exclusion section.

Q6.How to determine the residential status of an individual?

As an individual, it is important for you to assess your residential status. And the same goes for the income tax department as well. The rationale being, understanding the residential status is the first step towards a hassle-free tax filing season ahead.

To file Income Tax for Hindu Undivided Family (HUF), firstly one needs to determine the residential status of a HUF. The first step is to ascertain whether the HUF is resident or a non-resident.

As a matter of fact, most of the other steps of assessing taxes and filing returns are heavily dependent on the residential status of an individual. Without the proper residential status,

you might end up paying more taxes or even get into some unchartered territory that you don't necessarily want to be a part of.

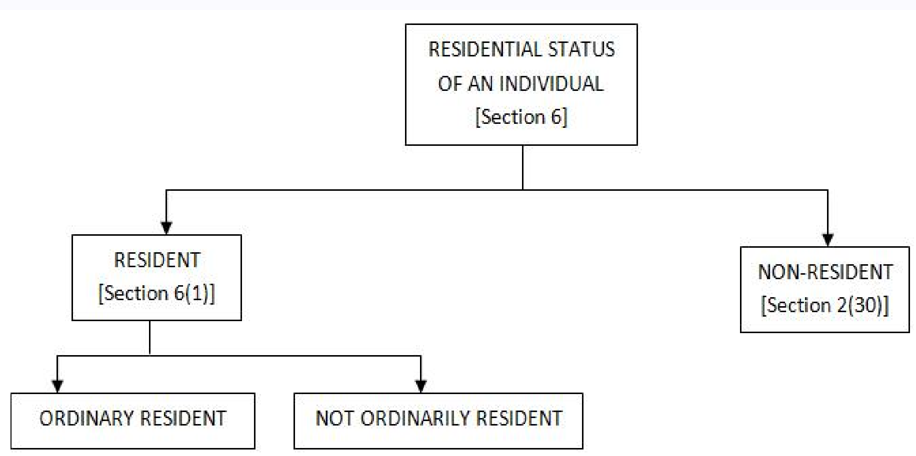
How can I find my residential status is a question that would definitely crop up. The income tax department has outlined a few categories of residential status based on the amount of time that an individual spends in the country.

If you want an answer to the question of how to check residential status, the following detailed steps will help you to determine your residential status. Once you determine what your residential status is, understanding the tax code and your tax liability becomes that much easier. Of course, depending on your residential status, the tax liability will also change.

If an individual qualifies as a resident of India, he/she will be taxed on their total global income in the country. This includes their income in the country as well as different sources of income abroad. However, if you have paid taxes in the respective countries, you might want to look for DTAA between India and the country in question.

However, if you qualify as a non-resident you would only need to pay taxes on your Indian income. Any source of income that you have outside the country does not affect your tax liability. Here is how you can find out your residential status.

Residential Status of an 'Individual' (Section-6) - under Income Tax Act.



To determine the residential status of an individual, the first step is to ascertain whether he is resident or non-resident. If he turns to be a resident, then the next step is to ascertain whether he is resident and ordinarily resident or is a resident but not ordinarily resident.

Step 1 given below will ascertain whether the individual is resident or non-resident and step 2 will ascertain whether he is ordinarily resident or not ordinarily resident. Step 2 is to be performed only if the individual turns to be a resident.

Step 1: Determining whether resident or non-resident

Under the Income-tax Law, an individual will be treated as a resident in India for a year if he satisfies any of the following conditions (i.e.may satisfy any one or may satisfy both the conditions):

(1) He is in India for a period of 182 days or more during the previous year ; or

(2) He is in India for a period of 60 days or more during the previous year and for a period of 365 days or more in 4 years immediately preceding the relevant previous year.

If an individual does not satisfy any of the above conditions he will be treated as non-resident in India.

Note : Condition given in (2) above will not apply to an Indian citizen leaving India for the purpose of employment or to an Indian citizen leaving India as a member of crew of Indian ship or to an Indian citizen/person of Indian origin coming on a visit to India. A person is said to be of Indian origin, if he or any of his parents or grandparents (maternal or paternal) were born in undivided India.

Note: With effect from Assessment Year 2015-16, in the case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the manner and subject to such conditions as may be prescribed.

Step 2: Determining whether resident and ordinarily resident or resident but not ordinarily resident

A resident individual will be treated as resident and ordinarily resident in India during the year if he satisfies following conditions:

(1) He is resident in India for at least 2 years out of 10 years immediately preceding the relevant year.

(2) His stay in India is for 730 days or more during 7 years immediately preceding the relevant year.

A resident individual who does not satisfy any of the aforesaid conditions or satisfies only one of the aforesaid conditions will be treated as resident but not ordinarily resident.

In short, following test will determine the residential status of an individual:

If the individual satisfy any one or both the conditions specified at step 1 and satisfies both the conditions specified at step 2, then he will become resident and ordinarily resident in India.

If the individual satisfy any one or both the conditions specified at step 1 and satisfies none or one condition specified at step 2, then he will become resident but not ordinarily resident in India.

If the individual satisfy no conditions satisfied at step one, then he will become non-resident.

The above steps should help you identify how to determine residential status. And determining the residential status is the first step. You are then liable to pay taxes as per the income tax slab. If income in India of an NRI is less than 2,50,000 he is not required to file return in India. For an Indian resident it is compulsory to file return of income if his global income has exceeded 2,50,000.

You can avail various exceptions and deductions to reduce your tax liability. These include short term and long term investments, tax credits, health insurance etc. Your tax liability is then calculated on the net taxable income and you must pay the same for the fiscal year in question. You can pay taxes either as TDS (Tax Deducted at Source, Advance Tax or Self Assessment Tax).

At the end of a fiscal year, you are required to file a tax return for the fiscal year, which essentially documents all the details such as the source of income, deductions, taxes paid etc.

If the HUF turns to be a resident, then the next step is to ascertain whether it is resident and ordinarily resident or is resident but not ordinarily resident.

Step 1 given below will ascertain whether the HUF is resident or non-resident and step 2 will ascertain whether the HUF is ordinarily resident or not ordinarily resident. Step 2 is to be performed only if the HUF turns to be a resident.

Residential Status in India:

1. **Income Receipt: To levy Income Tax, it is of utmost importance that you save the first receipt. If a certain amount of money received outside India is subsequently dispatched to India, it will be considered a foreign receipt. Merely because there is an issue of remittance involved, does not make the amount an income received in India.**
2. **Citizenship Vs Residential Status: There is an enormous difference between the two notions. A citizen may not be a resident in the same country. In comparison with this, an individual being a citizen of a foreign country may still be an Indian citizen.**
3. **Stay Period Calculation: Calculating an individual's period of stay is essential to the concept of residential status. It is important to note here that the stay does not necessarily have to be ongoing in nature. Elements such as the total number of days spent at a time are important for computation. The individual's stay can be at any location, and not necessarily in the same place.**

Any salaried or self-employed individual residing in India will be subjected to the age-old Income Tax based on their residential status. At the time of Income Tax return filing, it is very important to

determine the residential status of a person, since it is the most important component in the realm of taxation.

Multiple taxpayers are subjected to a wide range of taxable incomes. Let us look at them in detail with the help of the following table:

Q7.What is provident fund? Explain the different types of provident funds?

Provident Fund is a part of your salary, which is deducted every month and deposited on your behalf. If you work in a private firm then the company pays the same amount as it is deducted from your account and when you leave the firm you can apply and withdraw the amount saved.

As compulsory, government-managed retirement savings scheme, Provident Fund enables employees to contribute a part of their savings each month towards their pension fund. Over time, this amount gets accrued and can be accessed as a lump sum amount, at the end of their employment or at retirement. The Provident Fund money is a huge amount that helps you grow your retirement corpus.

There are mainly three different types of PFs, which include the following:

Types of Provident Fund

Employees' provident fund is classified into 4 categories: Statutory Provident Fund, Recognized Provident Fund, Unrecognized Provident Fund and Public Provident Fund. Let us have a brief look on the types of funds and tax imposed on these funds.

Statutory Provident Fund

It is set up under the provisions of the Provident Funds Act, 1925 maintained by the Government and Semi-Government organisations, local authorities, railways, universities and educational institutions.

Tax on Statutory Provident Fund

Tax is exempted on employer's contribution towards provident fund but deducted on employee's contribution. Interest credited to the provident fund and the retirement payment are tax exempt.

Recognized Provident Fund

Any establishment which is recognized by the Commissioner of Income Tax is called as recognized provident fund. To be recognized, an organization of 20 or more members shall invest funds as per the guidelines of PF Act, 1952, and can get an approval from the PF Commissioner of Income-tax.

Tax on Recognized Provident Fund

An employer's contribution towards provident fund is taxable when it exceeds 12%. Tax is deducted from employee's contribution towards provident fund.

If the rate of interest credited to the provident fund is more than 9.5%, tax will be deducted. The retirement payment shall be tax exempt under the following circumstances:

1. If the employer rendered a continuous service of 5 or more years.
2. If the employee has been terminated due to certain reasons such as health issues, discontinuation of business by the employer, etc.
3. If the employee resigns and then later rejoins in an another organization.
4. If the entire balance standing to the credit of the employee is transferred to his/her account under a pension scheme in **section 80CCD.**

Unrecognized Provident Fund

The provident fund that is not recognized by Commissioner of Income Tax is known as an unrecognized provident fund.

Tax on Unrecognized Provident Fund

An employer's contribution towards provident fund is tax exempt. The retirement payment is taxable under the following conditions:

1. Payment received in respect of employer's contribution and interest is taxable *under the head Salaries*.
2. Payment received in respect of interest on employee's contribution is taxable *under the head Income from other sources*.
3. Payment received in respect of employee's contribution is not chargeable to tax.

Public Provident Fund

The Central Government has established the public provident fund where any member, either salaried employee or a business employed person shall participate by opening a PF account at the State Bank of India or other nationalized banks.

Any amount subjected to a minimum of Rs.500 and maximum of Rs.1,50,000 per annum may be deposited under this PF account, on which a certain sum of Interest is credited every year, which could be repayable after 15 years.

Tax on Public Provident Fund

An employer's contribution towards provident fund is taxable. The interest credited to the provident fund and the retirement payment are tax free.

- **The General Provident Fund is a type of PF which is maintained by governmental bodies, including local authorities, the Railways and other such bodies. Thus, these types of PFs are mainly defined by the government bodies.**
- **The Recognized Provident Fund is the one which applies to all privately-owned organizations that contain more than 20 employees. Moreover, holding a rightful claim to the PF associated with your organization, you will be given a UAN or Universal Account Number. This enables you to transfer your PF funds from one employer to another whenever you move from one occupation to another.**
- **The Public Provident Fund is defined by the voluntary nature of investment on the part of the employee. The PPF is also associated with a minimum deposit of INR 50 and a maximum amount of Rs. 1.5 lakhs. This PF also comes with a pre-determined maturity period of 15 years, only after which any form of withdrawal can be done from the account.**

While Provident Funds are low-risk investment avenues that can help you grow your money easily, it is important to invest the PF funds in smarter investment avenues that enable you to grow yourfunds furthermore. Bajaj Finance Fixed Depositis a preferred investment avenue for setting aside your funds, to multiply them

Q8.Define allowance? Explain the type allowances

Allowances Meaning:-

Allowance is a fixed monetary amount paid by the employer to the employee for meeting some particular expenses, whether personal or for the performance of his duties. These allowances are generally taxable and are to be included in the gross salary unless a specific exemption has been provided in respect of any such allowance. Specific exemptions in respect of allowances are provided under the following sections:

1. **House Rent Allowance — Section 10(13A)**
2. **Prescribed special allowances — Section 10(14)**

House Rent Allowance HRA

An employer includes certain allowance in the remuneration of the employee termed as **House Rent Allowance or HRA**. This allowance is used by the employee to meet the rental expenses for his/ her accommodation.

The reason why HRA has gained so much importance in the recent years is because according to the Income Tax Act, Section 10 (13A) and Rule 2A of the Income tax rules, the employee is exempted from paying tax on HRA.

There are several procedures in place to check if the employee is actually staying on a rented apartment not owned by him. The exemption of HRA will be the minimum of the below 3 options:

1. **Actual house rent allowance received from the employer**
2. **Actual house rent paid – 10% of the basic salary**
3. **IF one lives in a metro, then 50% of basic salary**

HRA or House Rent Allowance is a component of the salary provided by the employer to his/her employee. If you receive HRA as part of your salary and you live in a rented accommodation, then you can claim full or partial HRA exemption u/s 10. However, HRA is fully taxable if you don’t live in a rented accommodation.

Prescribed Allowances which are Exempt to a certain extent [Section 10(14)] :

Prescribed allowances which are exempt under section 10(14) are of the following two types:

A. **Special allowances for performance of official duties: These allowances are not in the nature of a perquisite within the meaning of section 17(2) and are specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of duties of an office or employment of profit. These allowances will be exempt the extent such expenses are actually incurred for that purpose. [Section 10(14)(i)].**

B. **Allowances to meet personal expenses: These allowances are granted to the employee to meet his personal expenses either at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides. These allowances are exempt to the extent prescribed. [Section 10(14)(ii)].**

Special Allowances which are Exempt to the extent of actual amount received

These allowances are:

1. **Travelling allowance: Any allowance granted to meet the cost of travel on tour or on transfer of duty. "Allowance granted to meet the cost of travel on transfer" includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.**
2. **Daily allowance: Any allowance, whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty;**
3. **Conveyance allowance: Any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit, provided that free conveyance is not provided by the employer. Expenditure incurred on journey from residence to office and back to residence shall not be treated as expenditure incurred on conveyance in performance of official duties;**

4. **Helper allowance:** Any allowance, by whatever name called, granted to meet the expenditure incurred on a helper where such helper is engaged for the performance of the duties of an office or employment of profit;
5. **Academic allowance:** Any allowance, by whatever name called, granted for encouraging academic, research and training pursuits in educational and research institutions;
6. **Uniform allowance:** Any allowance, by whatever name called, granted to meet the expenditure incurred on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of profit.

The above allowances shall be exempt to the extent of minimum of the following:

A. Actual Allowance Received.
B. Actual amount spent for the purposes of duties of office or employment.

Allowances to meet Personal Expenses:

These allowances can be of the following two types:

Allowances which are Exempt to the extent of amount received or the limit specified, whichever is less:-

(a) Children Education Allowance: Exempt upto actual amount received per child or ₹100 p.m. per child upto a maximum of 2 children, whichever is less.

(b) Hostel Expenditure Allowance: Exempt upto actual amount received per child or ₹300 p.m. per child upto a maximum of two children, whichever is less.

(c) Tribal area, Scheduled Area/Agency area allowance: Exempt upto actual amount received or ₹200 per month, whichever is less.

*(d) Special compensatory hilly area allowance or high altitude allowance etc.:*Exemption varies from ₹300 to ₹7,000 per month.

(e) Border area, remote area allowance, disturbed area allowance, etc.: (as per given later): Exemption varies from ₹200 p.m. to ₹1,300 p.m.

(f) Compensatory field area allowance: Exempt to the extent of ₹2,600 p.m.

(g) ***Compensatory, modified field area allowance:*** **Exempt to the extent of ₹1,000 p.m.**

(h) ***Counter insurgency allowance granted to members of armed forces:*** **Exempt to the extent of ₹3,900 p.m.**

(i) **Transport allowance*:* Any transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty, to the extent of ₹1,600 per month. However, such transport allowance granted to an employee, who is blind or deaf and dumb or orthopedically handicapped with disability of lower extremities, is exempt to the extent of ₹3,200 p.m. instead of ₹1,600.**

(j) **Underground allowance*:* Any underground allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines shall be exempt to the extent of ₹800 p.m.**

(k) **High altitude (uncongenial climate) allowance*:* Given to the member of the armed forces for altitude of 9000 ft to 15000 ft ₹1,060 p.m. and for altitude above 15000 ft ₹1,600 p.m.**

(l) **Special compensatory highly active field area allowance granted to members of armed forces: Exempt to the extent of ₹4,200 p.m.**

(m) **Island (duty) allowance: Given to the member of the armed forces in the Andaman & Nicobar and Lakshadweep Group of Islands exempt to the extent of ₹3,250 p.m.**

Allowances which are fully taxable

All other allowances excepting those discussed in preceding paras, are fully taxable. Some of such allowances are enumerated as under:

1. **Dearness Allowance (DA)**
2. **City Compensatory Allowance (CCA)**
3. **Medical Allowance: Fully taxable, irrespective of whether any amount has been spent on medical treatment or not.**
4. **Lunch Allowance/Tiffin allowance**
5. **Overtime Allowance**
6. **Servant Allowance**

7. **Warden Allowance**
8. **Non-practising Allowance**
9. **Family Allowance**

Q9.What is perquisite? Explain the different types of perquisites?

The term 'perquisite' indicates some extra benefit in addition to the normal salary provided to the employees. These may be provided free of cost or at concessional rates to the employees.

Some examples of perquisites are rent-free accommodation, provision of a motor car for personal use, use of health club, refreshment during office hours, etc. The questions that arise from a tax point of view is

- **Whether such perks are taxable?**
- **If yes, how do we value the benefit received?**
- **Whether there are any exemptions available?**

Perquisites may be fully taxable, partially taxable or fully exempt.

Fully and Partially Taxable Perquisites

The following perquisites are fully taxable in the hands of all employees receiving such perquisites:

1. Rent free accommodation:

The rent free accommodation provided to employees by their employer is taxable. Since the employees are provided rent free accommodation, the amount of income accruing to them cannot be determined by them. Accordingly, there is prescribed manner for calculating income chargeable to tax as perquisite.

2. Concession in rent:

Some employers provide the employees with accommodation at rates lower than normal market rates. This reduction in rates is known as concession in rent.

The income chargeable to tax as perquisite as concession shall be determined as:

(i) Amount of Income chargeable to tax as above

(ii) Less: Amount of rent payable/ paid to the employer.

3. Amount of any Contribution to an approved superannuation fund:

Employer's contribution to superannuation fund is a perquisite.

The tax treatment for approved superannuation fund is as follow:

Employer's Contribution to Superannuation Fund: Upto Rs. 1,50,000/- exempt in the hands of the employee.

4. Valuation of benefit of provision of domestic servants

If the employee or any member of his household are provided with domestic servants such as sweeper, gardener, watchman or personal assistant then the benefits so received by the employee are taxable as perquisites in the hands of the employee.

5. Utility such as gas, electricity or water supplied by employer

If the employer pays to the utility provider on behalf of the employee or if the employer himself provides such utilities then the benefits so received by the employee are taxable as perquisites in the hands of the employee.

6. Gifts or Vouchers

Gift or vouchers received by employees or by member of his household on ceremonies or occasions are taxable perquisites in the hands of the employees. However, if the value of such gifts in totality do not exceed Rs. 5,000/- then such gifts are not taxable as perquisite in the hands of the employees.

7. Use of movable assets

If movable assets such as laptops are provided by the employer to the employee then the benefits so received by the employees are not taxable in the hands of the employee. However, other movable assets such as furniture, car etc are provided by the employer to the

employee than the the benefits so received by the employee are taxable as perquisites in the hands of the employee.

Tax Free Perquisites

Perquisites provided by an employer to an employee are taxable under the head of Salaries. However, some types of perquisites are tax free in the hands of the employee. For effective tax planning and reduction of tax liability, the employer and employee must be aware of such tax free perquisites. In this article, we look at a list of all tax free perquisites under the Income Tax Act.

1. Medical Facilities & Reimbursements

The value of medical treatment provided to an employee or any member of his/her family in a hospital, dispensary or a nursing home maintained by the employer will be a tax free perquisite. Also, any money paid by the employe for expenditure incurred by the employee on his/her medical treatment or treatment of any member of his family subject to a maximum of Rs.15,000 in the previous year will be treated as a tax free perquisite.

2. Recreational Facilities

Any recreational facility provided to a group of employees by the employer is not taxable. Thus, health club, sports and similar facilities provided uniformly to all employees by the employer is a tax free perquisite.

3. Training

Any cost incurred by the employer for providing training to the employees or by way of payment of fees or refresher courses attended by the employees can be treated as tax free perquisite.

4. Telephone& Laptops

Expenses incurred by an employer on a telephone, mobile phone or use by the employee or any member of his household, a laptop or computer belonging to the employer can be treated as a tax free perquisite.

5. Education for Children

Any amount given by an employer to an employees child as scholarship is a tax free perquisite. Also, if an educational facility is maintained and owned by the employer and free educational facilities are provided to the children of the employee or where such free educational facilities are provided in any institution by reason of his/her being in employment of that employer, then the value of benefit provided can be treated as a tax free perquisite, if the amount does not exceed Rs.1000 per child per month.

6. Food and Beverage

Free food and non-alcoholic beverages provided by an employer to an employee during working hours at an office premises or through paid voucher that are not transferable and usable only at select places is a tax free perquisite, provided the value of such a mean is upto Rs.50 per meal.

7. Loan to Employees

ANy loan of an amount of less than Rs.20,000 provided as a loan to an employee can be treated as a tax free perquisite. Also, the loan provided by an employer for medical treatment in respect of diseases specified in Rule 3A of the Income Tax Rules is tax free.

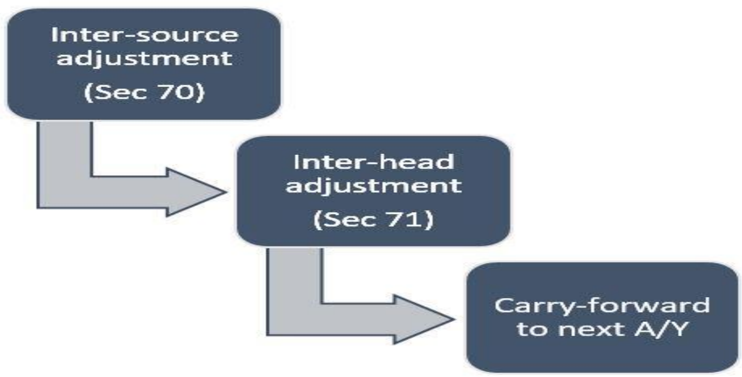
8. Insurance Premium & Pension Contributions

Insurance premium paid by an employer on an accident policy taken out for the employee is a tax free perquisite. Also, employers contribution to superannuation fund of the employee, provided such contribution does not exceed Rs.1,50,000 per employee per year can be treated as a tax free perquisite.

Q10. Set off carry forwared of losses clubbing incomes?

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

1. Set off of losses
2. Carry forward of losses



Set off of losses

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

a. An intra-head set-off

b. An inter-head set-off

a. Intra-head Set Off

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

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

Exceptions to an intra-head set off:

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

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

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

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

b. Inter-head Set Off

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

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

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

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

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

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

a. Speculative Business loss

b. Specified business loss

c. Capital Losses

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

Carry forward of losses

After making the appropriate and permissible intra-head and inter-head adjustments, there could still be unadjusted losses. These unadjusted losses can be carried forward to future

years for adjustments against income of these years. The rules as regards carry forward differ slightly for different heads of income. These have been discussed here:

Losses from House Property:

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

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

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

Speculative Business Loss:

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

Specified Business Loss under 35AD:

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

Capital Losses:

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

Losses from owning and maintaining race-horses:

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

Points to note:

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

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

Q11.Explain EXEMPTED incomes u/s 10?

The following are 17 important items of income, which are fully exempt from income tax and which a resident individual Indian assessee can use with profit for the purpose of tax planning.

1. Agricultural income

Under the provisions of Section 10(1) of the Income Tax Act, agricultural income is fully exempt from income tax.
However, for individuals or HUFs when agricultural income is in excess of Rs 5,000, it is aggregated with the total income for the purposes of computing tax on the total income in a

manner which results into "no" tax on agricultural income but an increased income tax on the other income.

Agricultural income which fulfils the above conditions is completely exempt from tax. The manner of calculating tax on total income and agricultural income, is explained in the following illustration:

2. Receipts from Hindu Undivided Family (HUF)

Any sum received by an individual as a member of a Hindu Undivided Family, where the said sum has been paid out of the income of the family, or, in the case of an impartible estate, where such sum has been paid out of the income of the estate belonging to the family, is completely exempt from income tax in the hands of an individual member of the family under Section 10(2).

3. Share from a partnership firm

Under the provisions of Section 10(2A), in the case of a person being a partner of a firm which is separately assessed as such, his share in the total income of the firm is completely exempt from income tax since AY 1993-94.

For this purpose, the share of a partner in the total income of a firm separately assessed as such would be an amount which bears to the total income of the firm the same share as the amount of the share in the profits of the firm in accordance with the partnership deed bears to such profits.

4. Allowance for Foreign Service

Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India, rendering service outside India, are completely exempt from tax under Section 10(7). This provision can be taken advantage of by the citizens of India who are in government service so that they can accumulate tax-free perquisites and allowances received outside India.

5. Gratuities

Under the provisions of Section 10(10) of the IT Act, any death-cum-retirement gratuity of a government servant is completely exempt from income tax. However, in respect of private sector employees gratuity received on retirement or on becoming incapacitated or on termination or any gratuity received by his widow, children or dependants on his death is exempt subject to certain conditions.

The maximum amount of exemption is Rs. 3,50,000;. Of course, this is further subject to certain other limits like the one half-month's salary for each year of completed service, calculated on the basis of average salary for the 10 months immediately preceding the year in which the gratuity is paid or 20 months' salary as calculated. Thus, the least of these items is exempt from income tax under Section 10(10).

6. Commutation of pension

The entire amount of any payment in commutation of pension by a government servant or any payment in commutation of pension from LIC pension fund is exempt from income tax under Section 10(10A) of IT Act.

However, in respect of private sector employees, only the following amount of commuted pension is exempt, namely: (a) Where the employee received any gratuity, the commuted value of one-third of the pension which he is normally entitled to receive; and (b) In any other case, the commuted value of half of such pension.

It may be noted here that the monthly pension receivable by a pensioner is liable to full income tax like any other item of salary or income and no standard deduction is now available in respect of pension received by a tax payer.

of money received at such VR which is so exempt is Rs. 500,000.

7. Leave salary of central government employees

Under Section 10(10AA) the maximum amount receivable by the employees of central government as cash equivalent to the leave salary in respect of earned leave at their credit upto 10 months' leave at the time of their retirement, whether on superannuation or otherwise, would be Rs. 3,00,000.

8. Voluntary retirement or separation payment

Under the provisions of Section 10(10C), any amount received by an employee of a public sector company or of any other company or of a local authority or a statutory authority or a cooperative society or university or IIT or IIM at the time of his voluntary retirement (VR) or voluntary separation in accordance with any scheme or schemes of VR as per Rule 2BA, is completely exempt from tax. The maximum amount

9. Life insurance receipts

Under Section 10(10D), any sum received under a Life Insurance Policy (LIP), including the sum allocated by way of bonus on such policy, other than u/s 80DDA or under a Keyman Insurance Policy, or under an insurance policy issued on or after 1.4.2003 in respect of which the premium payable for any of the years during the term of the policy exceeds 20 per cent of the actual capital sum assured, is fully exempt from tax.

However, all moneys received on death of the insured are fully exempt from tax Thus, generally moneys received from life insurance policies whether from the Life Insurance Corporation or any other private insurance company would be exempt from income tax.

10. Payment received from provident funds

Under the provisions of Sections 10(11), (12) and (13) any payment from a government or recognized provident fund (PF) or approved superannuation fund, or PPF is exempt from income tax.

11. Certain types of interest payment

There are certain types of interest payments which are fully exempt from income tax u/s 10 (15). These are described below:

(i) Income by way of interest, premium on redemption or other payment on such securities, bonds, annuity certificates, savings certificates, other certificates issued by the Central Government and deposits as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(iia) In the case of an individual or a Hindu Undivided Family, interest on such capital investment bonds as the Central Government may, by notification in the Official Gazette, specify in this behalf (i.e. 7 Capital Investment Bonds);

(iib) In the case of an individual or a Hindu Undivided Family, interest on such Relief Bonds as the Central Government may, by notification in the Official Gazette, specify in this behalf (i.e., 9 per cent or 8.5 per cent or 8 per cent or 7 per cent Relief Bonds); (iid) Interest on NRI bonds;

(iiia) Interest on securities held by the issue department of the Central Bank of Ceylon constituted under the Ceylon Monetary Law Act, 1949;

(iiib) Interest payable to any bank incorporated in a country outside India and authorized to perform central banking functions in that country on any deposits made by it, with the approval of the Reserve Bank of India or with any scheduled bank;

(iv) Certain interest payable by Government or a local authority on moneys borrowed by it, including hedging charges on currency fluctuation (from the AY 2000-2001), etc.;

(v) Interest on Gold Deposit Bonds;

(vi) Interest on certain deposits are: Bhopal Gas victims;

(vii) Interest on bonds of local authorities as notified,

(viii) Interest on 6.5 per cent Savings Bonds [Exempt] issued by the RBI, and

(ix) Stipulated new tax free bonds to be notified from time to time.

12. Scholarship and awards, etc

Any kind of scholarship granted to meet the cost of education is exempt from tax under Section 10(16). Similarly, certain awards and rewards, etc. are completely exempt from tax under Section 10(17A), for example, LakhotiaPuraskar of Rs 100,000 awarded to the best Rajasthani author, every year under Notification No. 199/28/95-IT (A-I) dated 22-4-1996. Any daily allowance received by a Member of Parliament or by an MLA or any member of any Committee of Parliament or State legislature is also exempt from tax under Section 10(17).

13. Gallantry awards, etc. -- Section 10(18)

The Finance Act, 1999 has, with effect from AY 2000-2001, provided for complete exemption for the pension and family pension of Gallantry Award Winners like Paramvir Chakra, Mahavir Chakra, and Vir Chakra and also other Gallantry Award winners notified by the Central Government.

14. Dividends on shares and units -- Section 10(34) & (35)

With effect from the Assessment Year 2004-05, the dividend income and income of units of mutual funds received by the assessee completely exempt from income tax.

15. Long-term capital gains of transfer of securities -- Section 10(38)

With effect from FY 2004-05, any income arising to a taxpayer on account of sale of long-term capital asset being securities is completely outside the purview of tax liability especially when the transaction has been subjected to Securities Transaction Tax (STT).

Thus, if the shares of any company listed in the stock exchange are sold after holding it for a minimum period of one year then there will be no liability to payment of capital gains. This provision would even apply for the old shares which are held by an assessee and are sold after the Finance (No.2) Act, 2004 came into force.

16. Amount received by way of gift, etc -- Section 10(39)

As per the Finance (No. 2) Act, 2004, gift, etc. received after 1-9-2004 by an individual or an HUF whether in cash or by way of credit, etc. is being subjected to tax if the same is not received from a stipulated relative. Section 10(39) provides that the amount received to the extent of Rs 50,000 will, however, be exempt from the purview of tax payment.

Similarly, amount received on the occasion of marriage from non-relatives, etc. would also be exempted. It may be noted that the gift from relatives, as specified in the section can be received without any upper limit.

17. Tax exemption regarding reverse mortgage scheme -- sections 2(47) and 47(x)

Any transfer of a capital asset in a transaction of reverse mortgage for senior citizens under a scheme made and notified by the Central Government would not be regarded as a transfer and therefore would not attract capital gains tax. The loan amount would also be exempt from tax. These amendments by the Finance Bill, 2008 apply from FY 2007-08 onwards.

Q12.Explain any 10 Deductions from Gross total income under section 80?

Deductions on Section 80C, 80CCC, 80CCD & 80D

1. Section 80C

Deductions on Investments

You can claim a deduction of Rs 1.5 lakh your total income under section 80C. In simple terms, you can reduce up to Rs 1,50,000 from your total taxable income, and it is available for individuals and HUFs.

2. Section 80CCC – Insurance Premium

Deduction for Premium Paid for Annuity Plan of LIC or Other Insurer

Section 80CCC provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer. The plan must be for receiving a pension from a fund referred to in Section 10(23AAB). Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable in the year of receipt.

3. Section 80CCD – Pension Contribution

Deduction for Contribution to Pension Account

a. Employee’s contribution under Section 80CCD (1)

You can claim this if you deposit in your pension account. Maximum deduction you can avail is 10% of salary (in case the taxpayer is an employee) or 20% of gross total income (in case the taxpayer being self-employed) or Rs 1.5 lakh – whichever is less.

Until FY 2016-17, maximum deduction allowed was 10% of gross total income for self-employed individuals.

b. Deduction for self-contribution to NPS – section 80CCD (1B) A new section 80CCD (1B) has been introduced for an additional deduction of up to Rs 50,000 for the amount deposited by a taxpayer to their NPS account. Contributions to Atal Pension Yojana are also eligible.

c. Employer’s contribution to NPS – Section 80CCD (2) Claim additional deduction on your contribution to employee’s pension account for up to 10% of your salary. There is no monetary ceiling on this deduction.

4. Section 80 TTA – Interest on Savings Account

Deduction from Gross Total Income for Interest on Savings Bank Account

If you are an individual or an HUF, you may claim a deduction of maximum Rs 10,000 against interest income from your savings account with a bank, co-operative society, or post office. Do include the interest from savings bank account in other income.

Section 80TTA deduction is not available on interest income from fixed deposits, recurring deposits, or interest income from corporate bonds.

5. Section 80GG – House Rent Paid

Deduction for House Rent Paid Where HRA is not received

a. Section 80GG deduction is available for rent paid when HRA is not received. The taxpayer, spouse or minor child should not own residential accommodation at the place of employment

b. The taxpayer should not have self-occupied residential property in any other place

c. The taxpayer must be living on rent and paying rent

d. The deduction is available to all individuals

6. Section 80E – Interest on Education Loan

Deduction for Interest on Education Loan for Higher Studies

A deduction is allowed to an individual for interest on loans taken for pursuing higher education. This loan may have been taken for the taxpayer, spouse or children or for a student for whom the taxpayer is a legal guardian.

80E deduction is available for a maximum of 8 years (beginning the year in which the interest starts getting repaid) or till the entire interest is repaid, whichever is earlier. There is no restriction on the amount that can be claimed.

7. Section 80EE – Interset on Home Loan

Deductions on Home Loan Interest for First Time Home Owners

FY 2017-18 and FY 2016-17 This deduction is available in FY 2017-18 if the loan has been taken in FY 2016-17. The deduction under section 80EE is available only to home-owners (individuals) having only one house property on the date of sanction of the loan. The value of the property must be less than Rs 50 lakh and the home loan must be less than Rs 35 lakh.

8. Section 80CCG – RGESS

Rajiv Gandhi Equity Saving Scheme (RGESS)

The deduction under this section 80CCG is available to a resident individual, whose gross total income is less than Rs.12 lakh. To avail the benefits under this section the following conditions should be met:

a. The assessee should be a new retail investor as per the requirement specified under the notified scheme.

b. The investment should be made in such listed investor as per the requirement specified under the notified scheme.

c. The minimum lock in period in respect of such investment is three years from the date of acquisition in accordance with the notified scheme.

9. Section 80D – Medical Insurance

Deduction for the premium paid for Medical Insurance

You (as an individual or HUF) can claim a deduction of Rs.25,000 under section 80D on insurance for self, spouse and dependent children. An additional deduction for insurance of parents is available up to Rs 25,000, if they are less than 60 years of age. If the parents are aged above 60, the deduction amount is Rs 50,000, which has been increased in Budget 2018 from Rs 30,000.

In case, both taxpayer and parent(s) are 60 years or above, the maximum deduction available under this section is up to Rs.1 lakh.

10. Section 80DD – Disabled Dependent

Deduction for Rehabilitation of Handicapped Dependent Relative

Section 80DD deduction is available to a resident individual or a HUF and is available on:

a. Expenditure incurred on medical treatment (including nursing), training and rehabilitation of handicapped dependent relative

b. Payment or deposit to specified scheme for maintenance of handicapped dependent relative.

11. Section 80DDB – Medical Expenditure

Deduction for Medical Expenditure on Self or Dependent Relative

a. For individuals and HUFs below age 60

A deduction up to Rs.40,000 is available to a resident individual or a HUF. It is available with respect to any expense incurred towards treatment of specified medical diseases or ailments for himself or any of his dependents.

b. For senior citizens and super senior citizens

In case the individual on behalf of whom such expenses are incurred is a senior citizen, the individual or HUF taxpayer can claim a deduction up to Rs 1 lakh. Until FY 2017-18, the deduction that could be claimed for a senior citizen and a super senior citizen was Rs 60,000 and Rs 80,000 respectively. This has now become a common deduction available uptoRs 1 lakh for all senior citizens (including super senior citizens) unlike earlier.

c. For reimbursement claims

Any reimbursement of medical expenses by an insurer or employer shall be reduced from the quantum of deduction the taxpayer can claim under this section.

Also remember that you need to get a prescription for such medical treatment from the concerned specialist in order to claim such deduction. Read our detailed article on Section 80DDB.

12. Section 80U – Physical Disability

Deduction for Person suffering from Physical Disability

A deduction of Rs.75,000 is available to a resident individual who suffers from a physical disability (including blindness) or mental retardation. In case of severe disability, one can claim a deduction of Rs 1,25,000.

From FY 2015-16 – Section 80U deduction limit of Rs 50,000 has been raised to Rs 75,000 and Rs 1,00,000 has been raised to Rs 1,25,000.

13. Section 80G – Donations

Deduction for donations towards Social Causes

The various donations specified in u/s 80G are eligible for deduction up to either 100% or 50% with or without restriction. From FY 2017-18 any donations made in cash exceeding Rs 2,000 will not be allowed as deduction. The donations above Rs 2000 should be made in any mode other than cash to qualify for 80G deduction.

a. Donations with 100% deduction without any qualifying limit

National Defence Fund set up by the Central Government

Prime Minister's National Relief Fund

National Foundation for Communal Harmony

b. Donations with 50% deduction without any qualifying limit

Jawaharlal Nehru Memorial Fund

Prime Minister's Drought Relief Fund

Indira Gandhi Memorial Trust

The Rajiv Gandhi Foundation

16. Section 80RRB – Royalty of a Patent

Deduction with respect to any Income by way of Royalty of a Patent

80RRB Deduction for any income by way of royalty for a patent, registered on or after 1 April 2003 under the Patents Act 1970, shall be available for up to Rs.3 lakh or the income received, whichever is less. The taxpayer must be an individual patentee and an Indian resident. The taxpayer must furnish a certificate in the prescribed form duly signed by the prescribed authority.

17. Section 80 TTB – Interest Income

Deduction of Interest on Deposits for Senior Citizens

A new section 80TTB has been inserted vide Budget 2018 in which deductions with respect to interest income from deposits held by senior citizens will be allowed. The limit for this deduction is Rs.50,000.

No further deduction under section 80TTA shall be allowed. In addition to section 80 TTB, section 194A of the Act will also be amended so as to increase the threshold limit for TDS on interest income payable to senior citizens. The earlier limit was Rs 10,000, which was increased to Rs 50,000 as per the latest Budget.

SHORT ANSWER QUESTIONS

Tax

The government needs funds to carry out public expenditures or conduct government activities. In other words, it needs financial contribution from the public for running the country. For this sake, the government imposes a tax in the form of a compulsory financial contribution on the income, profits, occupation, property, etc. to keep its ship sailing.

In India: Taxes can be levied by the Central or State Government or Local Bodies. They have to be in accordance with the laws passed by the State Legislature and Parliament.

Tax Rates in India

Income Tax Slabs -Tax Rate for Individual & HUF Below the Age Of 60 Years

Up to ₹2,50,000* - Nil

₹2,50,001 to ₹5,00,000 - 5% of total income exceeding ₹2,50,000

₹5,00,001 to ₹10,00,000 -₹12,500 + 20% of total income exceeding ₹5,00,000

Above ₹10,00,000 - ₹1,12,500 + 30% of total income exceeding ₹10,00,000

Blanket Rate method

A blanket rate is a single rate that is applied to a number of different insurance products or offerings. For example, a property insurance company may offer a blanket rate to a chain restaurant for coverage of all of its properties in a certain area.

Offering a blanket rate can make the underwriting process simpler when multiple properties are involved.

Income tax

Income tax **refers to annual taxes levied by the federal government and most state governments on individual and business income. By law, businesses and individuals must file federal and state income tax returns every year to determine whether they owe taxes. Governments use the taxes they collect to fund their activities.**

Features of tax

When the Government levies taxes on the direct income of its citizens within their jurisdiction, this amount payable is commonly known as Income Tax. Income tax in India comes with a plethora of complexities, hindrances, issues and features. Even though the entire process may seem a little difficult, sometimes proper handling of the matter might also have repercussions on the citizens of the country.

Income tax is a medium through which the Government ensures that activities for the community are taken care of and public duties are catered to effectively and in a timely manner. Income tax law in India allows every salaried as well as self-employed citizen of the country to file an income tax return on a yearly basis to compute whether taxes are owed or whether they are eligible for a tax refund.

Direct tax

Direct Taxes are the taxes that are levied on the income of individuals or organisations. Income tax, corporate tax, inheritance tax are some instances of direct taxation. Income tax is the tax levied on individual income from various sources like salaries, investments, interest etc. Corporate tax is the tax paid by companies or firms on the incomes they earn.

Indirect tax

Indirect taxes are those paid by consumers when they buy goods and services. These include excise and customs duties. Customs duty is the charge levied when goods are imported into the country, and is paid by the importer or exporter. Excise duty is a levy paid by the manufacturer on items manufactured within the country. Usually, these charges are passed on to the consumer.

Agricultural income

Agricultural income in India is categorized as a valid source and essentially incorporates income from sources that include farming area, structures on or identified with a rural land and business deliver from a horticultural land. This income is considered for rate purposes while ascertaining the income tax liability of an individual.

Gross total income

Gross Total Income is a cumulative income which is computed under the five heads of income, i.e. salary, house property, business or profession, capital gain and other sources. Gross total income is calculated after the clubbing provisions and making adjustments of set-off and carry forward of losses. In this article, we look at transactions covered under Section 68 to 69D of the Income Tax Act, 1961 which must be included in Gross Total Income.

Indian income

The income tax department says that for any company or individual (resident or non-resident) who also has business in geographical locations outside India, only the part of income which can be reasonably attributed to have been earned in operations happening in India will be considered for calculation of Income tax.

Assessment year

Assessment Year is the year in which one file income tax returns of the year prior to it (i.e. Financial Year). It is the year in which the income that one has earned in the financial year that is just ended is evaluated.

E.g. For Financial Year **2016-17 the** Assessment Year **will be 2017-18.**

Previous year

Previous year is a period in respect of which a person has to pay tax. In income tax act the previous year is a period of 12 months beginning from April 1 to March 31. Assessment year is

a 12 months period following the previous year during which the assessee has to file his return of income.

Dearness Allowance (DA)

The Dearness Allowance (DA) is a cost of living adjustment allowance paid to Government employees, Public sector employees (PSE)and pensioners in India, Bangladesh and Pakistan Dearness Allowance is calculated as a percentage of an Indian citizen's basic salary to mitigate the impact of inflation on people. Indian citizens may receive a basic salary or pension that is then supplemented by a housing or a dearness allowance, or both. The guidelines that govern the DA vary according to where one lives. DA is a fully taxable allowance.. Two types: 1) DA given under terms of employment 2) DA not given under the terms of employment

Pension

A pension is a fund into which a sum of money is added during an employee's employment years, and from which payments are drawn to support the person's retirement from work in the form of periodic payments. A pension may be a "defined benefit plan" where a fixed sum is paid regularly to a person, or a "defined contribution plan" under which a fixed sum is invested and then becomes available at retirement age.

Types of provident funds

1. Statutory Provident Fund or General Provident Fund (SPF/GPF)

2. Recognized Provident Fund (RPF)

3. Unrecognized Provident Fund (UPF)

4. Public Provident Fund (PPF)

Perquisites

U/s 17(1) 'Salary' includes the value of any perquisite allowed or amenity provided by employer to employee. The world 'perquisite' has not been defined under Income-tax Act 1961. Perquisite simply means any casual emolument attached to an office.*Perquisite as "any casual emolument, fee or profit attached to an office or position, in addition to salary or wages* ". Perquisites may be given in a variety of forms. If the perquisite does not accrue to the employee it will not be taxable.

Business and profession

Business means to earn profit by supplying goods and services, whereas profession is an advice or service rendered by one or a group of persons which does not include manufacturing or selling of goods.

Under Section 80D

Health Insurance or Mediclaim insurance is a must-have for all. Considering the rate at which medical costs are rising, it is very important to have sufficient medical insurance coverage. Absence of health insurance may wipe out your savings. Having sufficient coverage will safeguard you and your dependents from getting into financial crisis during hospitalization or critical illnesses' treatments or accidents. In case a taxpayer claims deduction for self, spouse and dependent children and no family member has reached the age of 60, a maximum deduction of Rs.25000 can be claimed under Section 80D.

Capital gain

Simply put, any profit or gain that arises from the sale of a 'capital asset' is a capital gain. This gain or profit is considered as income and hence charged to tax in the year in which the transfer of the capital asset takes place. This is called capital gains tax, which can be short-term or long-term.

Deductions under Section 24

There are 2 types of deductions under Section 24 of the Income Tax Act:

Standard deduction: This is an exemption allowed to every taxpayer, where a sum equal to 30% of the net annual value does not come under the tax limit. This is not applicable if you are occupying the only house you own.

Interest on loan: If you have taken a home loan for purchase, construction or renovation of the house, whatever interest you pay on the principal amount of the loan is exempted from tax payment.

Rent Free Accommodation

Income tax is applicable on rent-free accommodation received by an employee, as it is reckoned under perquisites. A perquisite received by an employee is also taxable under the Income Tax Act. In the case of a rent-free accommodation, determining the value of rent-free accommodation provided becomes important, as it is included under the head of salaries. In this article, we look at the applicability of income tax on rent-free accommodation.

Long-Term Capital Gain or Loss

A long-term capital gain or loss is the gain or loss stemming from the sale of a qualifying investment that has been owned for longer than 12 months .The long-term capital gain or loss amount is determined by the difference in value between the sale price and the purchase price. This figure is either the net profit or loss that the investor experienced when selling the asset.

Short – term capital gains or loss

Short – term capital gains refer to profits made on your investments in the short – term, usually up to 3 years. In the following sections, we will discuss how the definition of "short – term" varies in case of 3 popular investment routes – equity funds, non-equity funds and real estate as well as the taxation rules governing them.

Permanent Account Number (PAN)

Permanent Account Number (PAN) is a code that acts as an identification for individuals, families and corporates (Indian and Foreign as well), especially those who pay Income Tax.

It is a unique, 10-character alpha-numeric identifier, issued to all judicial entities identifiable under the Indian Income Tax Act, 1961. The Income Tax PAN code and its linked card are issued under Section 139A of the Income Tax Act. It is issued by the Indian Income Tax Department under the supervision of the Central Board for Direct Taxes (CBDT) and it also serves as an important proof of identification.

What is Cess

Cess /sɛs/ is a tax. The term is a shortened form of "assess". The spelling is due to a mistaken connection with *census*.

It was the official term used in Ireland when it was part of the United Kingdom of Great Britain and Ireland, but has been superseded by "rate". The term was formerly particularly applied to local taxation.

In colonial India it was applied, with a qualifying prefix, to any taxation, such as irrigation-cess, educational-cess, and the like. They are collectively referred to as "cesses" in government censuses, e.g. "land revenue and cesses".

What is a 'Surcharge'

A surcharge is a fee, charge, or tax added to the cost of a good or service. A surcharge is typically added to an existing tax and may not be included in the stated price of the good or service. It may be a temporary measure to defray the cost of increased commodity pricing, such as with a fuel surcharge, or it may be permanent.

Fair Rental Value

The amount an individual could reasonably expect to receive from a stranger for lodging. Fair rental value includes rent or taxes, interest, depreciation, pain, insurance, utilities, or the cost of furniture and appliances. In some cases, fair rental value may be equal to the rent paid.

Income From Other Sources

Income from other sources is a residual category used to classify income that is not classified taxed under any other head of income. Income from other sources must be calculated by the taxpayer based on the mercantile system used by the taxpayer, i.e cash basis or accrual basis. In this article, we look at income from other sources in detail along with list of allowed deductions.

Gross Annual Value (GAV)

Gross annual value (GAV) also called the annual value is the income that can be earned from a property irrespective of whether it is let-out or not on a yearly basis. Under Income Tax, the word property includes buildings such as residential houses, factories, commercial buildings, godowns and land thereof. In this article, we look at the procedure for calculating Gross Annual value of a property.

'Self Assessment'

The term 'Self Assessment' actually refers to the fact it's the individual's - or company's - responsibility to work out how much tax he or she should pay. The Self Assessment tax return is usually just called a tax return.

Rent Free Accommodation

Income tax is applicable on rent-free accommodation received by an employee, as it is reckoned under perquisites. Perquisites received by an employee is also taxable under the Income Tax Act. In the case of a rent-free accommodation, determining the value of rent-free accommodation provided becomes important, as it is included under the head of salaries. In this article, we look at the applicability of income tax on rent-free accommodation.

Types of Capital Assets

1. Short term capital asset:

An asset which is held for a period of 36 months or less is a short-term capital asset. The criteria of 36 months have been reduced to 24 months in the case of Unlisted Shares, immovable property being land, building, and house property, from FY 2017-18.

However, following assets held for *not* more than 12 months shall be treated as short-term capital assets:

- **Equity or preference shares in a company which are listed in any recognized stock exchange in India;**
- **Other listed securities;**
- **Units of UTI;**
- **Units of equity oriented funds; or**
- **Zero Coupon Bonds.**

2. Long term capital asset:

Capital Asset that is held for more than 36 months or 24 months or 12 months, as the case may be, immediately preceding the date of transfer is treated as long-term capital asset.

Tax Deducted at Source (TDS)

Tax Deducted at Source (TDS) is a system introduced by Income Tax Department, where person responsible for making specified payments such as salary, commission, professional fees, interest, rent, etc. is liable to deduct a certain percentage of tax before making payment in full to the receiver of the payment. As the name suggests, the concept of TDS is to deduct tax at its source. Let us take an example of TDS assuming the nature of payment is professional fees on which specified rate is 10%

MODEL QUESTION PAPER

SECTION-I

Answer ALL questions - SHORT QUESTIONS (5X2-10)

5 SHORT QUESTIONS EACH QUESTION 2 MARKS

SECTION-II

Answer FIVE questions - ESSAY AND SUMS (5X10=50)

1. **Theory question**
2. **Sum - INCOME FROM SALARY**
3. **Theory question**
4. **Sum – INCOME FROM HOUSE PROPERITY**
5. **Theory question**
6. **Sum – INCOME FROM BUSINESS OR PROFESSION**
7. **Theory question**
8. **Sum – CALCULATE TOTAL INCOME**