

CLASS : II M.COM

SUBJECT NAME : INCOME TAX AND TAX PLANNING

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UNIT – I

INTRODUCTION TO INCOME TAX ACT

Income tax as a concept has been present in India for many years, but James Wilson who became India's first finance (British) member introduced the first modern Income Tax in 1860. "It was only for the good of his subjects that he collected taxes from them, just as the sun draws moisture from the Earth to give it back a thousand fold", wrote Kalidas in his epic poem Raghuvansh.

INCOME TAX ACT 1961

The Income Tax Act is a comprehensive statute that focuses on the different rules and regulations that govern taxation in the country. It provides for levying, administering, collecting and recovering income tax for the Indian government. It was enacted in 1961.

1. Salary
2. Income from house property
3. Capital gains
4. Profit and gains from business or profession
5. Income from other sources

EXPLAIN THE DIFFERENT OBJECTIVES OF TAXATION

Taxation is for revenue only and a so called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing power.

1. Objective of raising revenue
2. Regulatory objectives
3. Developmental objectives

4. Objectives of reducing inequality

Objective of raising revenue

The basic and primary objective of taxation is raising revenue. Enormous amounts needed by modern governments for National defence, creation of infrastructure and social upliftment schemes make regular and systematic.

Regulatory objectives

Regulating consumption

State can discourage consumption of harmful and undesirable goods by levying prohibitive rates of tax.

Regulating production

Production may be encouraged by exempting new industrial from tax ,reducing tax on capital goods, increasing tax on imported goods.

Regulating effects of inflation, depression etc..

Raising tax rates can reduce consumption of goods and the demand of good in general. High levels of taxation can reduce the purchasing power of people and the funds collected.

Development objectives

Economic development

Economic development is measured in terms of GNP (Gross National Product)

The output achieved in all major sector of the economy agriculture, industry, services. Taxation can be used a stimulated to any one or all the three sectors by judicious changes in the tax rates.

Capital formation

Indian household savings rate is around 26% one of the higher in the world. Savings can be channeled into investment avenues through appropriate policy measures.

Objectives of reducing inequality

Reduction in economic disparities

Income level of individual vary wildly in india. It is claimed that rich are becoming richer and the poor are becoming poorer year by year.

DEFINITION OF IMPORTANT TERM

Assessment

Assessment is the procedure by which the income of an assessment is determined by the assessing officer. Assessment may be 'Normal Assessment' or it may be also be reassessment of income.

Assessee (Sec.2 (7))

Every person in respect of whom any proceedings under this act has been taken for the assessment of his income. The income of any other person in respect of which he is assessable.

Ordinary assessee

Any person against whom proceedings under the income tax act are going on, irrespective of any tax or any amount payable by the person.

Person

A natural person or a human being is an individual. An individual may be male, female.

A family consists of all the members of the lineally descended from a common ancestor including their wives and unmarried daughters.

Income (Sec.2 (24)):

Income includes not only those things which the interpretation of declares that it shall includes, but all such things the word signifies tp its natural import.

Assessment year (Sec 2(9)):

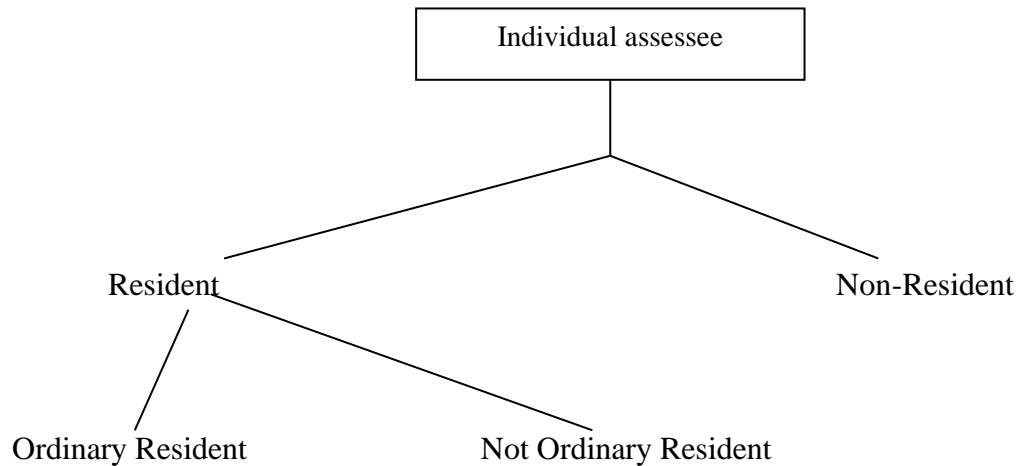
The taxpayer income of the previous year is assessed to tax in the assessment year at the rates prescribed in the financial act for the assessment year.

Assessment year means the period of twelve months beginning from the 1st april every year and ending on 31st march of the immediately.

SCOPE OF TOTAL INCOME

| Particulars | Residential status | | |
|---|--------------------|-------------------|--------------|
| | Resident resident | Ordinary resident | Non resident |
| 1. Income received or deemed to be received in India, irrespective of the being accrued or earned outside India. | Taxable | Taxable | Taxable |
| 2. Income accrued or earned or deemed to be accrued or earned in India, irrespective of the income being received in India or outside India. | Taxable | Taxable | Taxable |
| 3. Income received or accrued or earned outside India from business controlled from India. Irrespective of the income being remitted to India. | Taxable | Non Taxable | NonTaxable |
| 4. Income received or accrued of earned outside India from any other sources salary, house property, capital gain or income from other sources. | Taxable | Taxable | Non taxable |
| 5. Income received or accrued or earned outside India from any other sources salary, house property, capital gain or income from other sources | Taxable | Non taxable | Non taxable |
| 6. Income earned and received outside India during the preceding the previous year and remitted to India during the previous year. | Non taxable | Non taxable | Non taxable |

RESIDENTIAL STATUS OF AN INDIVIDUAL



Resident (Ordinary Resident) Sec. 6(1)

Basic conditions

An individual is in India during the relevant previous year for a period amounting in all to 182 days or more.

An individual is in India for a period or periods amounting in all to 365 days or more during the four years preceding the 'relevant previous year' and he is in India for a period of 60 days or more during the 'previous year'.

Additional conditions for Ordinary Resident

A resident individual becomes ordinary resident in India if he satisfied both the following additional conditions besides satisfying any one of the basic conditions

i).He has been resident in India at least *Two out of the Ten previous year* preceding the relevant previous year. The individual must have satisfied at least one of the basic conditions of 2 out of 10 preceding the previous year.

He has been in India for at least 730 days in all during the seven previous years preceding the relevant previous year.

UNIT-II

DEFINITION OF SALARY

Any remuneration received by an employees in consideration of services rendered to his employer is called salary. Salary includes monetary value of those benefits and facilities provided by the employer which are taxable.

DIFFERENT TERMS OF SALARY

1. Basic salary
2. Commission
3. Bonus
4. Allowances
5. Perquisites
6. Profit in lieu of salary and
7. Pension
8. Advance & Arrear of salary.

COMPUTATION OF TAXABLE SALARY

| Particulars | Rs |
|--|-------|
| Basic salary | xxx |
| Bonus | xxx |
| Commission | xxx |
| Cash allowances | xxx |
| Perquisites | xxx |
| Profit in lieu of salary and | xxx |
| Pension | xxx |
| Advance & Arrear of salary | xxx |
| Retirement benefits : Gratuity | |
| Leave encashment pension, commuted pension | xxx |
| | |
| Gross salary | |
| Less: deduction u/s 16: | xxx |
| Entertainment allowance | xxx |
| Professional tax 16(iii) | xxx |
| | |
| Salary | Xxx |

TYPES OF PROVIDENT FUND

1. Statutory provident fund
2. Recognised provident fund
3. Unrecognised provident fund
4. Public provident fund

ALLOWANCES

An allowance is a cash payment to the employee on a regular basis in addition to basic salary to meet certain expenses required to be incurred by him in connection with duties of his officer.

DIFFERENT TYPES OF ALLOWANCE

Fully taxable

Allowances to government employees rendering services outside India.

House rent allowance

Sumptuary allowance given to high court

Fully taxable

DA

CCA

Medical allowance

Lunch allowance

Servant allowance

Family allowance

Warden allowance

Project allowance

Dog allowance

Tiffin allowance

Partially taxable

HRA, Entertainment allowance

Education allowance

Helper allowance

Uniform allowance

Travelling allowance

INCOME FROM HOUSE PROPERTY

COMPUTATION OF INCOME FROM SELF OCCUPIED HOUSE

| Particulars | Rs |
|---------------------------|-----------|
| GAV | Xxx |
| Less: municipal value | Xxx |
| Net annual value | Xxx |
| Less; standard deduction | Xxx |
| Interest on capital | Xxx |
| | |
| Income from self occupied | xxx |

Computation of Gross annual value and income from deemed to be let out property

Of AY : XXX

| Particulars | Rs | Rs |
|---|-----------|-----------|
| Fair rental value | | Xxx |
| Municipal rental value | | Xxx |
| Standard rent | | Xxx |
| | | |
| Gross rental value (whichever is less) | | Xxx |
| Less: municipal value | | Xxx |
| | | |
| Net annual value | | Xxx |
| Less: deduction u/s 24: | | |
| Standard deduction | Xxx | |
| Interest on loan | xxx | Xxx |
| | | |
| Income from deemed to be let out property | | Xxx |
| | | |

UNIT-III

PROFESSIONAL INCOME

DEFINITION OF PROFESSIONAL

The term 'Professional' has been defined in section 2(36) of Income Tax Act, 1961 to include vocation. Both these definitions are neither exhaustive nor specific and clear.

Computation of professional income

Professional person do not prepare profit and loss a/c. they prepare receipt and payment a/c and income and expenditure a/c.

IN CASE OF CHARTERED ACCOUNTANT

**COMPUTATION OF INCOME FROM PROFESSIONAL OF.....PY:.....
AY.....**

| PARTICULARS | RS |
|--|------------|
| Professional income: | |
| Fees received by auditing | Xxx |
| Accounting work | Xxx |
| Fees received from institutes | Xxx |
| Examiner fees | Xxx |
| Gift and presents received from client | Xxx |
| Consultancy work | Xxx |
| Any other incidental receipt | Xxx |
| | |
| | Xxx |
| Less: professional expenses: | |
| Office expenses | Xxx |
| Subscription | Xxx |
| Stipend to trainees | Xxx |
| Institutes expenses | Xxx |
| Membership fees | Xxx |
| Car expenses | Xxx |
| | |
| Income /expenses from professional income | Xxx |
| | |

IN CASE OF DOCTOR OR MEDICAL PRACTITIONER

| Particulars | Rs |
|---------------------------------|-----------|
| Professional income: | |
| Fees received by consultation | Xxx |
| Fees by conducting Surgery | Xxx |
| Fees received by Visiting | Xxx |
| Sales of Medicines | Xxx |
| Gift and presents from patients | Xxx |

| | |
|--|------------|
| Examiner's fees | Xxx |
| Client, nursing home, and hospital | Xxx |
| | |
| | xxx |
| Less: professional expenses | |
| Client, hospital maintenance expenses | Xxx |
| Cost of medicines sold: | Xxx |
| (opening stock + purchase – closing stock) | |
| Depreciation of equipment | Xxx |
| Depreciation on books | Xxx |
| Motor vehicles expenses | Xxx |
| | |
| Income /expenses from professional income | Xxx |

IN CASE OF LAWYER OR ADVOCATE

| Particulars | Re |
|---|------------|
| Professional income: | |
| Legal fees | Xxx |
| Law practicing | Xxx |
| Special commission | Xxx |
| Presents from client | Xxx |
| Examiner remuneration | Xxx |
| Any other professional receipts | Xxx |
| | |
| Less: professional expenses: | |
| Staff salary | Xxx |
| Travelling expenses subscription to law journals | Xxx |
| Office expenses | Xxx |
| Depreciation on office equipment and book purchased | Xxx |
| Court fees | Xxx |
| Cost of stamp purchased | Xxx |
| | |
| Income /expenses from professional income | xxx |

INCOME FROM BUSINESS

DEFINITION OF BUSINESS

The business includes “any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce or manufacture”.

COMPUTATION OF BUSINESS INCOME FOR THE AY..... PY:.....

Balance as per P&L a/c **xxx**

Add: Inadmissible expenses: **xxx**

a). Personal expenses relating to the proprietor:

Salary paid to self or any other member of family for help, excess paid to relatives

Drawing by the proprietor

LIC premium

Legal expenses

Rent for residential portion

Rent paid to self

Any amt of invested in savings such as NSS, NSC, PPF etc....

Loss by theft from residence

Gift and presents

Personal exps

Pilgrimage expenses

b). All provisions and reserves:

Reserve for bad debts

Reserve for depreciation

Reserve for income tax

Reserve for losses

Employers contribution to RPF

c). Capital expenses:

All capital expenses except capital expenses on scientific research

All capital losses

Interest on capital

Past losses

Speculations losses

Cost of patent rights being capital expenditures

d). All taxes:

Income tax

Wealth taxes

Advance income taxes

Gift tax

e). Other expenses:

All charities and donations

Excess depreciations

All type of fine and penalty

Less: Expenditure allowed but not debited:

xxx

Under charging of depreciation

Actual bad debts not charging to P&L

Adjustment on account of stock:

Short term capital asset

Short term capital asset is that which is held by an assessee not more than 36 month immediately

Presenting the date of its transfer

In case of shares held in a company the period has been reduced to 12 months.

Long term capital gain

The asset which are held by the assessee for period exceeding 36 months immediately presenting the date of transfer are called long term capital gain.

TYPES OF CAPITAL GAIN

Short term capital gain

Any gain on transfer of short term capital asset is called short term capital gain.

Calculations of short term capital gain

| Particulars | Rs |
|----------------------------|-------|
| Full sales consideration | Xxx |
| Less: expenses on transfer | Xxx |
| Net consideration | Xxx |
| Less: cost of acquisition | Xxx |
| Cost of improvement | Xxx |
| | |
| STCG | xxx |

Long term capital gain

Any gain on transfer of long term capital gain is called long term capital gain

Calculations of long term capital gain

| Particulars | Rs |
|-----------------------------------|-----|
| Full sales consideration | Xxx |
| Less: expenses on transfer | Xxx |
| Net consideration | Xxx |
| Less: Indexed cost of acquisition | Xxx |

| | |
|---|------------|
| Indexed Cost of improvement | Xxx |
| | |
| Long term capital gain | Xxx |
| Less: Exemptions u/s 54,54B, 54D, 54EC, 54EE, 54F, NN54G, 54GA and 54GB | Xxx |
| | |
| Net LTCG | xxx |

Assets acquisition after 1.4.200.

a). If transferred prior to 1.4.2001:

Cost or FMV * CII of year of sale /100

b). if transfer after 1.4 2001:

Cost / FMV * CII of the year of sale / CII of year of transfer by gift (or) cost of acquisition

UNIT - IV

INCOME FROM OTHER SOURCES

COMPUTATION OF INCOME FROM OTHER SOURCES

| PARTICULARS | RS | RS |
|--|-------|-----|
| a). Dividends Income: | | |
| Dividends from foreign companies | Xxx | |
| Dividends from co-operatives | Xxx | |
| | | |
| | Xxx | |
| Less collection charges on above divided | Xxx | |
| | | |
| (B)Casual Income; | Xxx | |
| Lottery winning (Net amt * 100/100-tax rate) | Xxx | |
| (Or) | | |
| Rece winning | | |
| Rece winning | Xxx | |
| Crossword puzzle winnings | Xxx | |
| Gambling, betting | Xxx | Xxx |

| | | |
|--|-------|-----|
| | | |
| | Xxx | |
| C). interest on securities: | | |
| interest on govt securities | Xxx | |
| interest on Non govt securities | Xxx | |
| | | |
| less: collection charges | Xxx | |
| interest on borrowing for investment | Xxx | Xxx |
| | | |
| d). interest on bank deposit | | Xxx |
| family pension received | Xxx | |
| less: standard deduction @ | Xxx | |
| 1/3 of pension or 15,000, whichever is less | | |
| f). income by letting out of furniture, plant & machinery along with building | | |
| less: expenses : depreciation, repairs, insurance | | |
| g). Royalty Incomes: | | |
| less: expenses Incurred | | |
| (h)Income by subletting of house property | | |
| Less:expenses: rent paid | | |
| Repairs | | |
| local taxes | | |
| (g) Income by maintenance of horses | | |
| Less: expenses | | |
| i). Other incomes: | | |
| income from agriculture land situated outside India | | |
| salary received by MP, MLA | | |
| gift received in excess of Rs. 50, 000 from persons other than relatives | | |
| directors fees | | |
| Examinership remuneration received by teacher | | |
| Ground rent received | | |
| Income received by leasing out of non agriculture land | | |

| | | |
|---|--|--|
| Deemed incomes | | |
| Income from undisclosed sources | | |
| Interest on compensation or enhanced compensation | | |
| Advance money received and forfeited | | |
| During negotiations to sell capital assets. | | |
| Any Income not taxed under other heads | | |
| Total income from other sources | | |

SET OF LOSS AND CARRY FORWARD

| Particulars | Rs | Rs | | Rs | Rs |
|---|---------------|---------------------------|-------|-------------------------|-------|
| Income under the Head salary | xxx | | | | |
| Income under the head House property | | | | House property loss B/F | |
| Income from HP | Xxx | | | House property Income | -xxx |
| Loss from HP: | | 1. House property loss | -xxx | HP loss/Income | Xxx |
| Self occupied | -Xxx | Net salary or other heads | Xxx | Business loss | Xxx |
| Let out | -xxx | income | | B/F | |
| Deemed to be let out | -xxx | (or) | | Speculation | |
| Income (or) Loss | Xxx -xxx | HP loss | Xxx | (or) | Xxx |
| Income under the head Business & professional | | | | Non speculation | |
| Business income | | 2. Business loss | | Business income | |
| Business loss | Xxx | HP income | -xxx | Unabsorbed Depreciation | Xxx |
| Depreciation | -Xxx | STCG | Xxx | Business income | |
| Income (or) Speculation business income | -xxx | LTCL | Xxx | HP income | Xxx |
| Speculation loss | Xxx | Income from other sources | Xxx | STCG | |
| Income | | (Except salary income) | xxx | LTCL | Xxx |
| Speculation loss C/F | -xxx | Loss from other sources | | | |
| Income under the head Capital gain: | | Salary income | | | |
| STCG | Xxx | Income under other heads | -xxx | | |
| STCL | -Xxx | | | | |
| STCG | Xxx | | | | |
| STCG | Xxx | | Xxx | | |

| | | | | | |
|------------------------------|-------|-------------------------|-----|---------------|-------|
| STCL | -Xxx | STCG | Xxx | Income from | Xxx |
| LTCG | Xxx | LTCG | xxx | other sources | Xxx |
| STCL C/F | Xxx | Loss from other sources | | Business loss | Xxx |
| LTCG | Xxx | | | | Xxx |
| STCL | -Xxx | | | | |
| LTCG | Xxx | | | | xxx |
| LTCL C/F | -Xxx | | | | |
| Income from other sources | | | | | |
| Income | Xxx | | | | |
| Loss | Xxx | | | | |
| Loss | -xxx | | | | |
| Loss on maintenance of Horse | -xxx | | | | |
| Stake money | Xxx | | | | |
| Casual income | Xxx | | | | |
| | | | | | |
| Gross total income | xxx | | | | |

UNIT-V

DEDUCTIONS FROM GROSS TOTAL INCOME

| Particulars | Rs |
|--|-------|
| Income under five heads: | |
| Income under the head salary | XXX |
| Income under the head house property | XXX |
| Income under the head business of profession | XXX |
| Income under the head Capital Gain | XXX |
| Income under the head Other Sources | XXX |
| Gross Total Income | |
| Less: Deductions: | |
| 1.80C | |
| 2.80CCC | |
| 3.80CCD | |
| 4.80D | |
| 5.80DD | |
| 6.80DDB | |

| | |
|-------------------|---------------------|
| 7.80E | |
| 8.80EE | |
| 9.80G | |
| 10.80GGC | |
| 11.80GG | |
| 12.80GGA | |
| 13.80TTA | |
| 14.80U | |
| NET INCOME | XXX |

ASSESSMENT OF INDIVIDUAL

The term 'Individual' as such has nowhere been defined in the Income-Tax Act Sec2(31) however states that 'Person' inter alia, includes as individual. In the common usage the term 'individual' means a human being or a Single Person.

COMPUTATION OF TAX LIABILITY

Net income of an individual is chargeable to tax at the rates given below.

| Amount of net Income | Tax rates |
|-----------------------------|---|
| Upto Rs 2,50,000 | Nil |
| Rs.2,50,000-Rs.5,00,000 | 5% |
| Rs.5,00,000-Rs 10,00,000 | Rs.12,500+20% of income exceeding Rs.5,00,000 |
| Above Rs.10,00,000 | Rs.1,12,500+30% of income exceeding Rs. 10,00,000 |

For Senior citizens (Women as well as men of 60 yrs or above of age but less than 80 yrs)

| Taxable income range | Rs |
|---|---|
| Up to Rs.3,00,000 | Nil |
| Rs. 3,00,000 – 5,00,000 | 5% of income exceeding Rs.2,50,000 |
| Rs. 5,00,000 – 10,00,000 | 10,000+20% of income exceeding Rs.5,00,000 |
| If total income exceeding Rs. 10,00,000 | 1,10,000+30% of income exceeding Rs.10,00,000 |

For Super Citizens (Women as well as men of 80 years or above of age)

| Particulars | Rs |
|--------------------------|--|
| Upto Rs. 5,00,000 | Nil |
| Rs. 5,00,000 – 10,00,000 | 20% |
| Above Rs.10,00,000 | Rs.1,00,000+30% of income exceeding Rs.10,00,000 |

