UNIT-1:- Capital gains

Meaning and kinds of capital asset.
Meaning of transfer, transactions not regar-ded as transfer, full value of consideration, cost of acquisition, cost of improvement, capital gains exempted from tax, deductions from capital gains U/s 54 - problems on computation of short term and long term capital gains.

UNIT:-2:- Income from other source

General income - specific incomes - Treatment of specific incomes - Deductions of tax at source with respect to interest, winning, prizes e.t.c. deductions U/s 57 - Amounts expressly disallowed U/s 58. Problems on computation of taxable income from other source.

UNIT:-3:- Aggregation of income and set off and carry forward of losses within head and outside head intrahead and inter head:-
carry forward losses including problems.

UNIT-4:- Deductions from gross total income and tax liability of individual

Deductions U/s 80 - (provisions relating to indiv-idual only) Qualified savings and rate of deduction U/s 80C - deduction in respect of health insurance premium U/s 80D - deductions regarding treatment of handicapped dependent relative U/s 80 DD - deduction regarding treatme-nt of dependent relative U/s 80DDB - deduction regarding payment of intrest on loan taken for higher studies u/s 80E - Donations given to charitable institutions - Notified funds u/s 80G - short problems on commputation of deductions u/s 80

Assessment of individuals - tax treatment of income received from different institutions - deductions in respect of certain payments - Tax rebate u/s 87 A - surcharge - Advance tax - Round off of total income and tax commputation including tax liability

UNIT-5: Income tax authorities, filing of returns and assessment procedure

Income tax authority - CBDT powers - powers of chief commissioner of income tax - powers of additional commissioner of income tax - powers of joint commissioner of income tax - powers of assessing officer - powers of income tax authorities relating to search and seizure u/s 132

Filing of returns - filing of returns u/s 139(1); due date for filing of returns, forms for returns of income, filing of return through computer media (E-filing) belated return, revised return and deffective return.

Assessment procedure - self assessment, assessment on the basis of returns filed, best judgement assessment and re-assessment

UNIT-1: Capital gains

Introduction:- profit/gain on account of transfer (sale) of capital asset is known as capital gain.

Following are the essential conditions to be satisfied by an assessee to charge an income as a capital gain

a) Assessee should be holding a capital asset
b) During the previous year relavant to the current assessment year the assessee has transferred the capital asset.
c) There must be profit (or) loss on transferring such capital asset.
d) Such capital gain is not exempted from u/s 54.

Meaning of capital asset:- section 2(14) defines capital asset as

a) property of any kind held by an assessee whether (or) not connected with his business (or) profession.
b) Any security held by a foreign institutional investor who has invested in such security in accordance with the regulations made under SEBI Act 1992.

Any asset (what we own whether used for business (or) not whether tangible (or) intangible asset includes land & building plant & machinery, vehicle, shares, security, jewellary, gold, silver, goodwill

Following assets are not capital assets:

1. Stock in trade (or) consumable raw material.
2. All personal ~~assets~~ effects except Jewellery call house articles

⇒ The term personal effects means all movable goods used for personal purpose such household goods, utensils e.t.c

→ In case any asset partly used for personal and partly used for business purpose it will not be capital asset to the extent it used for personal purpose

Note:- Jewellery means anything made of precious material whether studded precious stone (or) not.

3. National Gold Bonds 1980 and Gold deposit bond 1999
4. Special bearer bonds 1991
5. Rural agricultural land
6. Deposit certificates issued under gold monitization scheme 2015

From taxation point of view there are two types of capital asset

i) short term capital asset:- short term capital asset is that which is held by an assessee for less than 3 year/36 months immediately preceding the date of its transfer and in the case of financial asset the period of holding an asset is considered to be 1 year any gain (or) profit earned by an assessee on transfer of such capital asset is treated as short capital gain.

ii) Long term capital asset:- long term capital asset is that which is held by an assessee for more than 3 years/36 months immediately preceding the date of its transfer and in case of financial asset the period of holding an asset is considered to be more than 1 year. Any gain (or) loss earned by assessee on transfer of such capital asset is treated as long term capital gain.

The following are some of the imp ~~pts~~ points to be remembered while computing capital gains:

i) Long term capital gains are taxed at the flat rate of 20%.

ii) Cost of acquisition:- cost of acquisition means total of all the expenses incurred by the assessee for acquiring an asset i.e. purchase price and expenses incurred after purchase till its first use. Ex:- installation charges e.t.c.

iii) Index cost of acquisition:- It means showing inflated (or) increased cost price instead of actual price and increased price is justified on account of inflation.

iv) Cost of improvement:- It means expenditure of capital nature making any additionals (or) alterations to the capital asset. Ex:- Adding one more room (or) one more floor to the existing building.

NOTE:- If cost of improvement expenses are incurred before 1-4-2001 then ignore in the problem.

v) Important formula to be remembered while indexing:

1. If the asset is purchased before 1-4-2001 then

Index cost of acquisition = cost of the asset (or) Fair market value as on 1-4-2001 (whichever is higher) × previous year index / 100

COA × PYI / 100

2. If the asset is purchased after 1-4-2001 then

$$\text{Index cost of acquisition} = \text{cost of asset} \times \frac{\text{previous year index}}{\text{purchase year index}}$$

Note:- previous year index is always considered to be 272

3. Cost of improvement incurred after 1-4-2001

$$\text{Index cost of improvement} = \text{cost of improvement} \times \frac{\text{previous year index}}{\text{improvement year index}}$$

4. long term capital asset acquired by present seller after 1-4-2001 but was acquired by previous owner before 1-4-2001 then

Index cost of acquisition:

cost of Asset (or) Fair market value (whichever is higher) × previous year index / cost inflation index of the year in which the present seller became its owner.

Proforma for calculating capital gains:

Particulars	Amount	Amount
Sale proceeds		xxx
(-) selling expenses		xxx
		xxx
Net consideration		
(-) Index cost of acquisition	xxx	
(-) Index cost of improvement	xxx	xxx
		xxx
Long term capital gain before exemption		
(-) Exemption u/s 54		xxx
		xxx
Taxable long term capital gain		

Income of short term
sale proceeds — selling expenses
= Net consideration — cost of asset

1. Mr. saichand purchased gold ornaments for ₹ 2,05000 in the financial year 1992-1993. during the previous year he sold the ornaments for 12,20,000. transfer expenses incurred are 45000. cost inflation index for the year of sales is 272 compute capital gain

Sol: computation of capital gain of Mr. saichand for the current assessment year 2018-19

Particulars	Amount	Amount
sale proceeds		12,20,000
(-) Transfer expenses		45000
Net consideration		11,85000
(-) Index cost of acquisition		5,57600
Long term capital gain		6,27,400

working note:-1:-

since the asset is purchased before 1-4-2001 the purchase year index is taken as 100

Index cost of acquisition = $\frac{\text{cost of asset} \times \text{Previous year index}}{100}$

$2,05,000 \times \frac{272}{100}$

= 5,57 1600

2. Mr. chari sold his residential house for 26,50,000 on 10 august 2017 which he purchased on 5-11-1978 for ₹ 1,99,000. Fair market value as on 1-4-2001 is 2,28,000 selling expenses incurred are 2% compute income from capital gain & tax liability if income from other heads is nill

Sol:- computation of capital gain of Mr. saichand for current assessment 2018-19

Particulars	Amount	Amount
sale proceeds		26,50,000
(-) ~~Tran~~ selling expenses		53000
Net consideration		2~~0~~5,97,000
(-) Index cost of acquisition		6,20,160
Longterm capital gain ~~before exemption~~ (LTCG)		19,76,840
~~(-) Exemption U/S 54 @ 20%~~		~~3,95,368~~
		~~15,81,472~~
~~(+) 3% education cess~~		~~47444~~
		~~16,28,916~~

working notes:-

~~Inde~~

since the building is purchased before 1-4-2001 the purchase year index is taken as 100

Index cost of acquisition = $\frac{\text{Cost of Asset (or) Fair market value} \times \text{previous year index}}{100}$

$2,28,000 \times \frac{272}{100}$

= 6,20,160

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Tax liability

20% of longterm capitalgain

$19,76,840 \times \frac{20}{100}$

3,95,368

(+) 3% education cess 11,861

Tax liability 4,07,229

3. From the following information compute capital gains for assessment year 2018-19

Particulars	House 1	House-2
Date of purchase	May 1996	December 1999
cost of acquisition	2,10,000	3,50,000
cost of additional construction in 2000	10,000	25000
Fair market value as on 1-4-2001	4,60,000	3,70,000
cost of additional construction in 2003-04	1,38,000	2,73,200
Sold the property in ~~2000~~ 2017-18	21,00,000	18,00,000

Cost inflation index (CII) are for year 2001-02 is 100, 2003-04 = 109 ~~200~~ 2017-18 = 272

computation of income from capital gain for assessment year 2018-19

Particulars	House-1	House-2
sale proceeds	21,00,000	18,00,000
(-) selling expenses	-	-
Net consideration	21,00,000	18,00,000
(-) Index cost of acquision	12,51200	10,06400
(-) Index cost of improvement	3,44,367	6,81,747
long-term capital gain before exemption	5,04,433	1,11,853

Working notes:

In the above problem the asset is purchased before 1-4-2001. Therefore, cost of asset is higher of following two amounts

i) orginal cost of asset

ii) fair market value (FMV) as on 1-4-2001

House-1
i) 2,10,000. (original CoA)
ii) $\boxed{4,60,000}$ (F.M.V) → COA

House: 2
i) 3,50,000 (original COA)
ii) $\boxed{3,70,000}$ (F.M.V) → COA

Tax liability

20% of long term capital gain

$19,76,840 \times \frac{20}{100}$

3,95,368

(+) 3% education cess 11,861

Tax liability 4,07,229

3. From the following information compute capital gains for assessment year 2018-19

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~~300~~ 2017-18 = 272

computation of income from capital gain for assessment year 2018-19

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(-) selling expenses	-	-
Net consideration	21,00,000	18,00,000
(-) Index cost of acquisition	12,51,200	10,06,400
(-) Index cost of improvement	3,44,367	6,81,747
long-term capital gain before exemption	5,04,433	1,11,853

Working notes:

In the above problem the asset is purchased before 1-4-2001. Therefore, COA of asset is higher of following two amounts

i) original cost of asset

ii) Fair market value (FMV) as on 1-4-2001

House-1
i) 2,10,000 (original C.O.A)
ii) $\boxed{4,60,000}$ (F.M.V)
COA

House-2
i) 3,50,000 (original COA)
ii) $\boxed{3,70,000}$ (F.M.V)
COA

Tax liability

20% of long term capital gain

$19{,}76{,}840 \times \frac{20}{100}$

3,95,368

(+) 3% education cess 11,861

Tax liability 4,07,229

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Particulars	House 1	House-2
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Computation of income from capital gain for assessment year 2018-19

Particulars	House-1	House-2
Sale proceeds	21,00,000	18,00,000
(-) Selling expenses	-	-
Net consideration	21,00,000	18,00,000
(-) Index cost of acquisition	12,51200	10,06400
(-) Index cost of improvement	3,44,367	6,81,747
Long-term capital gain before exemption	5,04,433	1,11,853

Working notes:

In the above problem the asset is purchased before 1-4-2001. Therefore, COA of asset is higher of following two amounts

i) original cost of asset =

ii) fair market value (FMV) as on 1-4-2001

House-1
i) 2,10,000. (original C.O.A)
ii) $\boxed{4,60,000}$ (F.M.V) → COA

House: 2
i) 3,50,000 (original COA)
ii) $\boxed{3,70,000}$ (F.M.V) → COA

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Index cost of acquisition

$$\text{cost of asset} \times \frac{\text{previous year index}}{100}$$

House:-1 $4{,}60{,}600 \times \frac{272}{100}$

12,51,200

House:-2: $3{,}70000 \times \frac{272}{100}$

10,06,400

ii) Cost of additional construction made during the year 2000 for house:-1 & house:-2 should be ignored in the problem.

Index cost of improvement:

$$\text{cost of improvement} \times \frac{\text{previous year index}}{\text{improvement year index}}$$

House:-1: $138{,}000 \times \frac{272}{109}$

= 3,44,367

House:-2: $2{,}73{,}200 \times \frac{272}{109}$

= 6,81,747

4. From the particulars given below compute taxable income of Mr. X for the assessment year 2018-19.

i) Sale price of shares of A limited acquired on 1-6-2016 and sold on 1-05-2017 — 2,00,000

Cost price of these shares 1,00,000

ii) Sale price of shares of B-Ltd acquired in 2004-05 (CII = 113) sold on 1-12-2017 (CII = 272) - 3,50,000

Cost price of shares of B-Ltd 1,50,000

iii) Sale price of Jewellery sold on 1-9-2017 = 1,80,000

Cost of Jewellery acquired in 2007-08 (CII = 129). value: 60,000

Soln

Computation of income from capital gain for assessment year 2018-19

Particulars	Amt	Amt
Sale proceeds		2,00,000
(-) selling expenses		—
Net consideration		2,00,000
(-) cost of shares		1,00,000
Short term capital gain		1,00,000

For short term capital asset index cost is not calculated. Indexing is only for long term asset

Computation of income from capital gain of B Ltd (ii) & (iii) for assessment year 2018-19

Particulars	(shares) Amt	(Jewellery) Amt
Sale proceeds	3,50,000	1,80,000
(-) selling expenses	-	-
Net consideration	3,50,000	1,80,000
(-) Index cost of acquisition	3,61,062	1,26,512
long term capital loss/gain	11,062	53,488

Working notes:-

→ Index cost of acquisition of shares

→ The asset is acquired on 2004-05

Index cost of acquisition =

cost of Asset × ~~272~~ P.Y. yr index / Purchase yr index

= 1,50,000 × 272 / 113

= 3,61,062

→ Index cost of acquisition of Jewellery

→ The asset acquired on 2007-08

Index cost of acquisition:-

cost of Asset × previous year index / purchase year index

= 60,000 × 272 / 129

1,26,512

Mr -Jayprakash purchased a sculpture on 25 June 2005 for ₹ 1,05,000 and sold it for 15,00,000 during the previous year calculate capital gain in the following 2 situations

Situation 1

If it is sold to Mr. Raviteja of haryana state

Situation -2:-

If it sold Jawaharlal nehru university delhi

The cost inflation index 2005-06 (117) and selling expenses incurred are 50,000

(Any sale to govt (or) university cannot treated as transfer and hence need no to calculate.

Particulars	Amt
Sale proceeds	15,00,000
(-) Selling expenses	50,000
Net consideration	14,50,000
(-) Index cost of acquisition	2,44,103
	12,05,897

Working notes

Index cost of acquisition

= Cost × F.Y. of index / Purchase of index

1,05,000 × 182/117

Situation - B

There are no capital gains in this situation because any sale/purchase made to/from educational institution or govt organization etc. are not considered as transfers according to the I.T. Act.

Mr. Vijay constructed a building for 5,00,000 during the financial year 1977-78 and he spent 2,00,000 for adding one more floor in August 2002 and he sold the building for 48,02,000 during the previous year. Selling expenses incurred are 64,000 (CII for 2002-03 is 105) and fair market value (FMV) 6,60,000) calculate income from capital gains & tax liability if income from other head is 4,00,000

Particulars	Amt	Amt
Sale proceeds		48,02,000
(-) Selling expenses		64,000
Net consideration		47,38,000
(-) Index cost of acquisition		17,95,200
(-) Index cost of improvement		5,18,095
Tax on LTCG		24,24,705

Index cost of acquisition

F.M.V × Previous yr index / 100

= 6,60,000 × 272/100

Index cost of improvement

= Cost × Previous yr index / Improvement yr index

= 2,00,000 × 272/105

Tax liability

	~~54,24,705~~
(+)	~~7,90,000~~
	~~62,14,705~~
20% after	~~12,42,941~~
	~~49,71,764~~
(+)3% educat - ion cess	~~1,49,153~~
	~~51,20,917~~

Income from other source = 7,90,000

First 2,50,000 — NIL

2,50,000 – 5,00,000 — 5%

$$\frac{2,50,000 \times 5}{100} = 12500$$

5,00,000 – 7,90,000 — 20%

$$\frac{2,90,000 \times 20}{100} = 58000$$

12500 + 58000 = 70500

(+) Tax on LTCG	10,84,941
$\frac{54,24,705 \times 20}{100}$	11,55,441
(+) 3% education cess	34663
	11,90,104

Advance Money received and forfeighted:- If an assesee received any amount as advance (or) caution deposit in a sale transaction of any type of capital asset i.e.) buildings, plant & machinery, Jewellery e.t.c & if the amt is forfeighted for not completing the sale transaction, then from 1-4-2014 onwards forfeighted advance amount shall be treated as income from other source.

Rule:- If advance money is forfeighted before 1-4-2014 it should be deducted from cost of acquisition and if it is forfeighted on (or) after 1-4-2014 it should be taken under income from other source.

Mrs. Bhavani purchase a residential house for 4,50,000 during the year 2008-09 and in the year 2011-12 she constructed two rooms at the cost of ₹ 2,08000. On 15-5-2017 she entered into a contract with Mohan to sell the house for 60,00,000 and received 7,90,000 as advance later on Mohan decided not to purchase the house and the advance received was forfeighted. She sold the house for 55,00,000 on 12-12-2017. She sold the house for 55,00,000 and selling expenses are 8%. calculate income from capital gain when CII for 2008-09 is 137, CII for 2011-12 is 184 and CII for 2017-18 is 272

Sol: computation of income from capital gain of Mrs Bhavani for assessment year 2018-19

Particulars	Amount	Amount
sale proceeds		55,00,000
(-) selling expenses		1,10,000
Net consideration		53,90,000
(-) Index cost of acquisition		8,93,431
(-) Index cost of improvement		3,07,478
~~TAX~~ long term capital gain		41,89,091

Since the advance money received & forfeighted after 1-4-2014 the advance money is treated as income from other source.

Working note:
~~adv money received & forfeighted~~
~~since the contract made after 1-4-2014 and it was forfeighted for not completing sale transaction the advance money is treated as income from other source~~

Index cost of acquisition =

COA X $\frac{\text{previous year index}}{\text{purchase yr index}}$

$4,50,000 \times \frac{272}{137}$

8,93,431

cost of improvement = cost of improvement X $\frac{\text{Previous year index}}{\text{Improvement yr index}}$

$= 2,08,000 \times \frac{272}{184}$

3,07,478

During the previous year relevant to the current assessment year Mr. Quick purchased a house for ₹4,20,000 and after 2 months he sold the same for 4,80,000. Brokerage paid to purchase the house is ₹10,000 and to sell the house is ₹ 18000. calculate capital gain.

Sol: computation of income from capital gain of Mr. Quick for 2018-19

Particulars	Amount	Amount
sale proceeds		4,80,000
(-) selling expenses		18000
Net consideration		4,62,000
(-) cost of asset (4,20,000 + 10,000)		4,30,000
STCG		32000

Mr. Jimmy purchased the equity shares of a Ltd company on 14-12-2014 for ₹2,50,000 on 24-March-2018 he sold the same for ₹ 3,50,000. The cost inflation index for 2017-18 272. calculate capital gain.

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Computation of income from capital gain for Assessment Year 2018-19 of Mr. Jimmy

Particulars	Amount	Amount
Sale proceeds		3,50,000
(-) selling expenses		—
Net consideration		3,50,000
(-) cost of asset		280,000
STCG		70,000

Deepak agarwal purchased a machinery for business purpose whose written down value at the beginning of the previous year is ₹ 17,25,000 during the previous year it is sold for ₹ 21,40,000 and the selling expenses were 11200. calculate capital gain.

- Any asset used in business which is depreciable never calculate indexation.

Sale proceeds		21,40,000
(-) selling expenses		11200
Net consideration		21,28,800
(-) cost of asset		17,25,000
		4,03,800

An asset which is used in business and which is of depreciable in nature should always be treated short term capital asset & hence indexation is not required.

Q: Mr. harshvardhan is owning a house and use for residential purpose the house which was constructed for ₹ 1180,000 (40 years ago) on 11-7-1988 he entered in an agreement to sell the house to Mr. Abrahim for ₹ 5,00,000 and received 80,000 as advance. Mr. abrahim failed to pay the balance amount and consequently the advance amount is forfeited the house is sold during the previous year for ₹ 82,25,000 and selling expenses were 1%. FMV as on 1-4-2001 was 3,20,000. During the previous year 2004-05 1 more floor is added to the building at a cost of ₹ 4,28,000 (CII is 113) and during 2008-09 2,50,000 spend for repair and painting (CII 137) calculate income from capital gain?

PTO

Computation of income from capital gain for the assessment year 2017-18

Particulars	Amt	Amt
Sale proceeds		52,25,000
(-) selling expense		52,250
Net consideration		51,42,750
(-) Index cost of acquisition (W.N:-1)		6,52,800
(-) Index cost of improvement (W.N:-2)		10,30,230
(-) Index cost of improvement (W.N:-3)		4,96,350
L.T.C.G		50,96,3,330

Working notes:-

Index cost of acquisition = cost of asset / FMV × $\frac{\text{previous yr index}}{100}$

$3,20,000 - 50,000 \times \frac{272}{100}$

$= 6,52,800$

Since the asset purchased before 1-4-2001

2) Index cost of improvement = COI × $\frac{\text{previous yr index}}{CII}$

$= 4,28,000 \times \frac{272}{113}$

$= 10,30,230$

Since the asset purchased after 1-4-2001
CII = 113

3) Index cost of improvement
COI × $\frac{\text{previous yr index}}{\text{purchase yr index (CII)}}$

$2,50,000 \times \frac{272}{137}$

4,96,350

Since the asset is purchased on 2008-09 after 1-4-2001 CII (3)

During the previous yr relevant to current assessment yr Mrs. Swapana sold the following asset compute Income from capital gain

particulars	open land city	Gold
Date of purchase	1-5-1985	4-5-2010
Date of sale	13-1-2018	13-1-2018
purchase price	75000	35000
sale price	23,50,000	1,25,500
Transfer expenses	1%	2%
CII	100	167

Exemptions U/s 54

"In order to promote investment in priority & specified areas and to provide financial security of the individual, income tax act provides a relief to the assessee on transferring certain long term capital asset. The net result is a substantial reduction in the tax liability.

The following are some of the important exemptions which an assessee can ~~assess~~ avail

i) Exemption U/s 54 – capital gain on transfer of long term residential house property.

According to sec 54 capital gain arising from the transfer of a house property used for residential purpose (let out (or) self occupied) exemption can be given which is least of the following two amounts.

i) cost of new asset + Amount deposited in capital gain account scheme

ii) LTCG before exemption.

Some imp pts to be remembered:

i) The assessee might have transferred a residential house property during the previous year.

ii) Investment should be made in purchase/constructi-on of 1 house only for residential purpose in india

iii) purchase of house with in one year before (or) two years after sale.

iv) construction of the new house within 3 years of the sale.

Exemption u/s 54B :-

Transfer of agricultural land during the previous year & purchase of agricultural land.

According to sec 54B capital gain arising from the transfer of agricultural land is allowed as exemption and the exemption amount is least of the following two

i) cost of new agricultural land + Amount deposited in capital gain account scheme

ii) LTCG before exemption.

Following are some imp pts

i) Transfer of agricultural land in rural area is not considered as capital asset & hence the question of capital gain does not arise.

ii) Transfer of agricultural land in an urban area – it is considered as capital asset and profit on sale or transfer is income from capital gain.

iii) Investment should be made in purchase of agricultural land either in rural or urban area.

iv) purchase of new agricultural land within 2 years from the date of transfer and the assessee should not transfer/sale new agricultural land for 3 years from date of transfer

Exemption u/s 54 D :-

capital gain on compulsory acquisition of land & building which are used for industrial undertaking long term or short term capital gains from compulsory acquisition of land & building which are used for industrial undertaking exemption can be given which is least of following two amounts

i) cost of new industrial undertaking + Amount deposited in capital gain account scheme in bank

ii) LTCG before exemption.

The following are some imp pts:-

i) land & building should be used for industrial purpose only.

ii) New land & building for industrial purpose should be invested within 3 years after receiving the compensation

iii) The assessee should not transfer/sell new land & building from the date of transfer within 3 years from the date of transfer.

Exemption u/s 54EC :-

long term capital gain on transfer of any capital asset and investment in specified assets (bonds). If the tone

If the long term capital asset is transferred during the previous year & if gain is their, the assessee can claim the exemption if investment is made in specified bonds within 6 months from the date of transfer and the amount of exemption is least of following two

i) Actual amount invested

ii) ₹ 50,00,000

(If nothing is mentioned about date then ... given CII is given ...)

1. Mr. Tushit sold his residential property for 54,36,000 before selling the house ₹ 75000 is spent for repairs & renovation advertisement is given in local news paper for sale of the house 26500 and other transfer expenses 1100 the cost of acquisition is ₹ 4,00,000 (CII – 105) he added one more floor in the year 2005-06 (CII – 117) with cost of ₹ 4,25000. After selling this building immediately he purchased a small house for ₹ 8,50,000 & deposited ₹ 1,00,000 in capital gain account scheme in the bank. Calculate income from capital gain & tax liability if income from other source ₹ 1,30,000.

Sol- Computation of income from capital gain of Mr. Tushit for current A.Y. 2018-19

Particulars	Amount
Sale proceeds	54,36,000
(–) Selling expenses	37500
Net consideration	53,98,500
Index cost of acquisition	12,30,476
Index cost of improvement	9,88,034
LTCG before exemption	31,79,990
(–) Exemption u/s 54	9,50,000
	22,29,990

Index COA = $\frac{\text{COA} \times \text{previous yr index}}{\text{purchase year index}}$

(COA + repairs) 4,75,000 × $\frac{272}{105}$

12,30,476

Index cost of improvement = cost of improvement × $\frac{\text{Previous yr index}}{\text{improvement yr index}}$

= $\frac{4,23,000 \times 272}{117}$

= 9,88,034

Exemption u/s 54

The assessee sold a residential house in the previous year & immediately invested in purchase of new residential house (within 2 years). Therefore, he can claim exemption u/s 54 which is least of the following two amounts.

i) cost of new residential house + Amount deposited in capital gain account scheme.

ii) LTCG before exemption.

i) 8,50,000 + 1,00,000
= $\boxed{9,50,000}$

ii) 31,79,990

Tax liability

Income from other source = 3,30,000

First 2,50,000 – NIL

2,50,000 – 5,00,000 = 5%

2,50,000 × $\frac{5}{100}$

= 12,500

5,00,000 - 8,30,000 - 20%.

3,30,1000 × $\frac{20}{100}$

66000

12500+66000

78500

Tax on capital gain 22,29,990 × 20%.

= 4,45,998

Total tax liability = 4,45998 + 78500

= 5,24,498

(+) 3% education cess 15735

Tax of Mr. Trushit 5,40,233

Mrs. Smita sold her residential house 24,136,000 The cost which 5 years back was 3,90,1000 (CII - 109) After selling the house within 2 months she had started constructing the house the amount spent on construction upto the last day of previous year ₹4,00,000 and she deposited ₹6,00,000 in the bank under capital gain account scheme 1988. calculate income from capital gain & tax liability if income from other source is 9,21,000

Particulars	Amount
Sale	24,136,000
(-) Selling expenses	-
Net consideration	24,136,000
Index cost of acquisition	9,73,211
LTCG before exemption	14,62,789
(-) Exemption u/s 54	10,00,000
	4,62,789

Index COA = COA × $\frac{\text{previous yr index}}{\text{purchase yr index}}$

= 3,90,000 × $\frac{272}{109}$

= 9,73,211

Income from other source = 9,21,000

First 2,50,000 - Nil

2,50,000 - 5,00,000 - 5%.

2,50,000 × $\frac{5}{100}$

= 12500

5,00,000 - 9,21,000 - 20%.

4,21,000 × $\frac{20}{100}$

84200

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96700

Tax on capital gain · 4,62,789 × 20%
92,558

Total tax liability 96700 + 92558
= 1,89,258

(+) 3% education cess · 5678

1,94,936

Exemption u/s 54

The assessee sold the residential house in the previous yr & immediately invested in purchase ~~Exemption~~ of new residential house (within 2 years

∴ He can claim exemption u/s 54 least of 2 amounts

i) cost of new residential house + Amount deposited in capital gain account scheme

41,00,000 + 6,00,000
= 10,00,000

ii) LTCG before exemption = 14,62,789

Mr. Chunilal of Bidar has been sold his 10 acres of agricultural land and the ~~rate~~ @ ₹ 5,00,000 per acre, which he acquired during the year 2010-11 (CII = 167) @ 15000 per acre. After 6 months he purchased another agricultural land for ₹ 40,00,000 calculate capital gain.

for assessment yr 18-

Computation of income from capital gain of Mr. Chunilal

Particulars	Amount	Amount
sale proceeds	5,00,000 × 10	50,00,000
(-) selling expenses		–
Net consideration		50,00,000
(-) Index cost of acquisition		2,44,311
LTCG before exemption		47,55,659
(-) Exemption u/s 54B		40,00,000
		7,55,659

–

Index cost of acquisition = COA × $\frac{\text{Previous yr index}}{\text{purchase yr index}}$

$= 1,50,000 \times \frac{272}{167}$

= 2,44,311

Exemption u/s 54B

The assessee sold an agricultural land during the previous year & within 6 months he purchased another agricultural land for which he can claim exemption u/s 54B which is least of following two amounts

i) cost of new agriculture land + Amount deposited in capital gain account scheme

$\boxed{40,00,000}$

ii) LTCG before exemption 47,55,659

On 1 July 1998 Mr. Jagannath purchased an agriculture land in Kurnool for a price of ₹ 3,05,000. During the previous yr he sold the property for 36,00,000 and immediately he purchased agricultural land for ₹ 9,30,000 in a village, and a piece of land in hyderabad city for ₹ 9,00,000. Calculate taxable income under the head capital gain if FMV as on 1-4-2001 is ₹5,00,000

Sol: computation of income from capital gain of Mr. Jagannath

Particulars	Amount	Amount
Sale		36,00,000
(-) Selling expenses		—
Net consideration		36,00,000
Index cost of acquisition		13,60,000
LTCG		22,40,000
Exemption u/s 54B		9,30,000
Taxable LTCG		13,10,000

working notes:-

Index cost of acquisition

$$\text{COA (or) FMV (whichever is higher)} \times \frac{\text{Previous year index}}{100}$$

$$5,00,000 \times \frac{272}{100}$$

$$= 13,60,000$$

Exemption u/s 54B

The assessee sold agriculture land during the previous year & immediately he purchased another agriculture land to which he can claim exemption u/s 54B which is least of 2 amounts

i) cost of new agriculture land + Amount deposited in capital gain account scheme

9,30,000

ii) LTCG before exemption 22,40,000

Mr. Reddy is owning a building since 1-5-1972 and is using for industrial purpose. the cost of building is 72500. During the previous year the State govt acquired the building by passing an ordinance and paid ₹ 14,26,000 as compensation. Immediately he purchased an old building for industrial purpose for ₹ 5,30,000 and spent ₹ 50,000 for its renovation. calculate income from capital gain.

computation of income from capital gain of Mr. Reddy

Particulars	Amount	Amount
Sale compensation received		14,26,000
Net consideration		14,26,000
(-) Index cost of acquisition		(1,98,016)
LTCG		12,27,984
(-) Exemption u/s 54 D		5,80,000
		6,47,984

Index cost of acquisition

$$\frac{COA \times \text{previous yr index}}{100}$$

$$72800 \times \frac{272}{100}$$

$= 1,98,016$

Exemption u/s 54D

The assessee land was acquired by state govt he received the compensation and he immediately purchased an old building for industrial purpose. Hence the assessee can claim exemption u/s 54D least of the two amounts

1) cost of new industrial undertaking + Amount deposited in capital gain account scheme in bank

(cost of new industrial) (renovation)
5,301000 + 80,000 + 0

$\boxed{6,10,1000}$

2) LTCG before exemption

12,27,984

54EC

During the previous year Mr. giri sold this building situated in banglore for ₹ 14,301000. The cost of which is 41,00,000 (CII = 167). The asset was purchased in 2010-11. The brokerage paid to purchase is ₹ 101000 and registration expenses incurred are ₹ 401000. After selling the building within 3-months he invested ₹ 3,001000 in NABARD, which has been notified as specified securities u/s 54EC. Compute income from capital gain if the selling expenses are 80,000. 2014-15

Computation of income from capital gain of Mr. giri for

Particular	Amount	Amount
Sale proceeds		14,30,1000
(-) selling expenses		80 000
Net consideration		13,50,1000
(-) Index cost of acquisition		7,32,934
LTCG before exemption		6,17,066
Exemption u/s 54EC		3,00,000
Taxable LTCG		3,17,066

Index cost of acquisition

$$\frac{COA \times \text{previous yr index}}{\text{purchase yr index}}$$

(cost price) (Brokerage) (Registration)
COA = 41,00,000 + 101000 + 401000

= 41,50,1000

$$4,150,000 \times \frac{272}{167}$$

7,32,934

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The assessee can claim the exemption U/s 54EC as he has invested in the notified specified bonds within 6 months after the sales. Therefore the exemption is least of following 2 amounts

i) Actual amount invested $\boxed{3,00,000}$

ii) 50,00,000

Mr. Ramakrishna sold his gold ornaments to ₹ 800,000 during the previous year. The cost of which ₹ 1,20,000 2005-06 ((CII - 117). After selling the ornaments within two months he invested in bonds ₹ 7,00,000 of unit tesil chemicals & hydro power ltd mumbai. which are notified as specified securities U/s 54EC. Compute capital gain if the selling expenses are 1.5%.

Sol:- Computation of income from capital gain of Mr. Ramakrishna

Particular	Amount	Amount
Sale proceeds		8,00,000
(-) Selling expenses		12000
Net proceeds		7,88,000
(-) Index cost of acquisition		2,78,974
LTCG before exemption		5,09,1026
(-) Exemption U/s 54EC		5,09,1026
Taxable LTCG		0

Index cost of acquisition =

$$COA \times \frac{\text{previous yr index}}{\text{purchase yr index}}$$

$$1,20,000 \times \frac{272}{117}$$

2,78,974

Exemption

The assessee can claim the exemption U/s 54EC as he has invested in the notified specified bonds with in 6 months after sales. Therefore the exemption is least of following 2 amounts

i) Actual amount invested = $\boxed{7,00,000}$

(2) 50,00,000

→ Since we are getting negative value write 5,09,026 in exemption U/s 54EC.

Mr. Ramakanth a non resident indian holds the following assets calculate capital gain

Article	Yr of purchase	Cost price	C I I	Sale price	Use of asset
Motor car	2002-03	1,50,000	105	5,10,000	Personal
House-I	2003-04	1,65,000	109	6,00,000	Personal
House-II	1992-93	4,00,000	100	9,95,000	Commercial
T.V set	1993-94	6000	100	10,000	Personal
Gold ornaments	2013-14	1,25,000	200	9,30,000	Personal

Sol:-

Computation of income from capital gain of Mr Ramaraon

Particulars	House-I	House-II	Gold orna
Sale proceeds	6,00,000	2,25,000	9,30,000
(-) selling expenses	-	-	-
Net consideration	6,00,000	2,25,000	9,30,000
(-) Index cost of acquisition	4,11,743	10,88,000	1,70,000
Long term capital gain/loss before Exemption.	1,88,257	(8,63,000)	7,60,000

Index cost of acquisition = cost × $\frac{\text{Price index yr index}}{\text{purchase yr index}}$

House-I = 1,65,000 × $\frac{272}{109}$

4,11,743

House-II

= 4,00,000 × $\frac{272}{100}$

= 10,88,000

Gold ornaments

1,25,000 × $\frac{272}{200}$

= 1,70,000

Capital gain on financial assets:-

According to income tax act shares, debentures, bonds and units of mutual funds are known as financial assets. These financial assets may be listed (or) unlisted. If the securities are purchased (or) sold in a recognised stock exchange in india then the assessee has to pay security transaction tax on specified securities. If the securities are purchased (or) sold privately then assessee is not subject to payment of security transaction tax. If security transaction tax is paid in some situations the assessee will get the benefit of reducing tax liability.

The basic income tax rates for different situations are as follows

S.No	Nature of capital gain	Method of tax rate	Basic income tax rate
1.	long term capital gain on listed equity shares & equity oriented units of mutual funds (If security transaction tax is paid)	Fully exempted from tax	NIL

2.	long term capital gain on listed securities (If security transaction tax is not paid) i.e., on equity shares, preference shares, Equity oriented units of mutual funds, Govt Bonds e.t.c	least of the following 2 amounts a) If indexation is opted b) If indexation is not opted	20%. 10%
3.	short term capital gain on listed securities (when security transaction tax is paid)	Flat rate	15%.
4.	Short term capital gain on listed securities (when security transaction tax is not paid)	Flat rate	20%.

1. On 15-6-2003 Mr. Vijay purchased 600 listed equity shares of a ltd company in bombay stock exchange @ ₹250 each (CII:- 109) calculate capital gain in the following situations

i) Situation:-1:- If the shares are sold on 11-7-2017 @ 720 per share in a recognized stock exchange in india

ii) Situation:-2:- If the shares are sold on 11-7-2017 @ 720 per share in an unrecognized stock exchange (or) sold privately

Sol:- 1) Notes

Situation:-1:- During the previous year the assessee sold the shares in a recognized stock exchange which was held by him for more than 1 year any long term capital gain incurred on such shares is treated as an exempted income.

Situation:-2:- If the shares are sold in unrecognised stock exchange (or) sold privately the assessee is given 2 options:

Option:-1:- To prefer indexation

Option:-2:- Not to prefer indexation.

In option:-1 the assessee is going to pay 20% tax rate

In option:-2 the assessee is going to pay 10% tax rate.

Particulars	Option-I (Indexation is preferred)	Option-II (Indexation is not preferred)
Sale proceeds (720x600)	4,32,1000	4,32,1000
(-) selling expenses	—	—
Net consideration	4,32,000	4,32,000
(-) Index cost of acquisition (600x250 = 1,50,000 → COA; COA x previous yr index / purchase yr index; 1,50,000 x 272/109)	3,74,312	1,50,000
	57688	2,821,000

Option:-1:- Tax liability:- 57688 x 20% = 11538

Option:-2:- Tax liability:- 2,821,000 x 10% = 28200

Unit :- 2 :- Income from Other Source

An income which cannot be included under any specific head is chargeable to tax under this head called as income from other sources. All incomes chargeable to tax under this head are divided into two categories

1) General income
2) Specific income.

General income U/s 56(1):

Agricultural income from land situated outside India

Receipts from a person other than employer

University remuneration (or) examinership fee

Salary received by MP/MLA/MLC

Family pension received by the members of the family of deceased employee

Interest on own contribution to URPF

Royalty for writing books

Income from subletting of the house and from the land

Agency commission received by agents of LIC, UTI, mutual fund & post office where it is not a regular profession

Directors fees

Remuneration received for delivering lectures

Remuneration received for writing articles by a non journalist

Remuneration received for rendering consultancy service

Gratuity received by a non-employee director

The following incomes are treated as specific incomes U/s 56(2)

i) Dividends: Dividends received on equity (or) preference shares of a company, units of UTI (or) share of a co-operative society.

Dividends declared by Indian company on (or) after 1-4-2003 is fully exempted from tax and interest (or) dividends on units of UTI (or) other mutual funds are also fully exempted

Dividends declared by a foreign company (Net dividend) is fully taxable.

ii) Letting of plant & machinery / furniture etc:

If an assessee has let out plant (or) machinery (or) any other asset then the rent received (or) hire charges will be treated as income from other source and any expenditure incurred to maintain such plant & machinery is allowed as deduction from the rent received.

iii) Family pension: After the death of the employee if the family pension is received by the legal heirs of the deceased it taxable under the head income from other source. The amount of deduction is least of following 2

i) $1/3^{rd}$ of pension received

ii) 15000

winning from lottery, horse race e.t.c.

The following is the summary table to calculate the taxable amount and for grossing up of the amount

Situation	Grossing up/ taxable amount
1. If winning from horse race (or) any other race is less than ₹5000	1. Received amount is treated as grossed up amount
2. If winning from horse race (or) any other race is more than ₹5000	2. Gross amount = Net amount × $\frac{100}{70}$
3. If winning from lottery is less than ₹10,000 (cross word puzzles, T.V shows, card games e.t.c.)	3. Received amount is treated as gross amount
4. If winning from lottery is more than ₹10,000 (cross word puzzles, T.V shows, card game e.t.c.)	4. Gross amount = Net amount × $\frac{100}{70}$

Essay:

Interest on securities:- From taxation point of view securities are classified into 3 types

i) Securities totally exempted from tax

ii) Securities which are tax free

iii) less tax securities

i) Securities totally exempted from tax:- tax due on these securities is fully exempted from tax as such the interest received by the assessee will not be included in the total income. These securities are issued by the govt. The following are some of the important securities

→ 12 years national plant savings, annuity certificates

→ Interest on national defense certificates.

→ Interest on treasury saving deposit certificates

→ Interest on post office cash saving certificate

→ Interest on national relief bonds

→ Interest on post office savings bank & cumulative time deposits

→ NRI bonds - 1998 issued by state bank of india.

→ Interest on national saving certificate II & III issued.

→ Interest on special bearer bonds

→ 10.5% tax free bonds issued by ~~Hudco~~ HUDCO

→ 9.25% tax free bonds issued by rural electrification co-operation limited.

→ Tax free ahmedabad muncipal cooperation bonds & Nagpur cooperation bonds

ii) Tax free security:-

Taxes payable by the holder of these securities is paid by the security issuing authority i.e., tax is paid by the govt in the case of tax free govt securities & companies in case of tax free commercial securities

Gross interest will be included in total income.

ii) Less tax securities :- of the total interest due to a security holder tax is deducted by the issuing authority i.e. payer of the interest. The interest received by the assessee will be treated as net interest and the same is grossed up in the total income. These securities can be issued by the govt & commercial authorities.

Under this category there are 2 models of problems

Model :-1 :- when interest rate is given for the securities

Model :-2 :- when interest received amt is given for all the securities.

The following is the summary table for grossing up of interest

Nature of securities	Grossing up
1. Tax free govt security	1. Interest received is gross interest.
2. Tax free commercial (listed, unlisted security)	2. Interest $\times \frac{100}{90}$
3. Less tax govt security	3. Interest received is gross interest
4. Less tax commercial (listed, unlisted)	4. Net interest $\times \frac{100}{90}$

NOTE: If the nature of security is not mentioned in the problem then the general assumption is that the security is of less tax and the security is held by assessee on the due dates of interest

Note:- In case of commercial securities if received amount is ₹5000 or less than 5000 then there is no need to gross it up.

Deductions u/s 57 :-

1. Interest on loan taken to purchase the securities is allowed as deduction

NOTE:- If loan is taken to purchase the exempted security then interest on loan taken cannot be allowed as deduction.

Collection charges - Actual amount paid will be allowed as deduction

$\boxed{B-18}$ (Xerox paper)

1. Computation of interest of securities of Mrs. Vani for current assessment year 2018-19

Particular	Amt	Amt
30000; 15% Haryana Govt loan	$30000 \times \frac{15}{100}$	4500
23000; 12.5% Muncipal bonds	$23000 \times \frac{12.5}{100}$	2875
30,000; 8% NRI bonds of SBI		Exempted
90,000; 16% secured debentures of a limited company	$90000 \times \frac{16}{100}$	14400
40000; 16% cumulative preference shares of a ltd company	~~40000×16/100~~	Not treated as security
Gross interest		21775
(-) Deductions u/s 57		
i) Interest on loan ~~taken to purchase~~	1250	
ii) Collection charges	180	1430
Interest on securities		20345

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2. computation of interest on security of Mr. Nanu as on 1-4-2017

Particulars	Amount	Amount
• 88000; 16% Karnataka state development loan	$88000 \times \frac{16}{100}$	14080
• 96000; 15.5% convertible debentures of T.S. Co. Ltd	$96000 \times \frac{15.5}{100}$	14880
• 1,00,000; 16% Tax-free debentures of X company ltd ($1,00,000 \times \frac{16}{100} \times \frac{100}{90} = 17,778$)		17,778
• 16000; 14% Tax free bonds of Maharastra Govt	$16000 \times \frac{14}{100}$	2240
• 20,000; 6% post office national saving certificate		Exempted
• 50,000; 11% Tax free debentures of cairn india limited (listed) ($50,000 \times \frac{11}{100} \times \frac{100}{90}$)		6111
• 40,000; 12.5% secured debentures of Essar oil co. ltd.	$40,000 \times \frac{12.5}{100}$	5000
• 20000; 16% calcutta development authority bonds	$20,000 \times \frac{16}{100} \times \frac{6}{12}$	1600
Gross interest		61689
Deductions u/s 57		
1. Interest on loan	$12000 \times \frac{18}{100} \times \frac{6}{12}$	1080
2. collection charges		150
Interest on securities		60459

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3. computation of interest on security of Mr. Vasudevan for current assessments 2018-19

Particulars	Amount	Amount
1,00,000; 8.25% Tax free kerala govt securities	1,00,000	8250
7,20,000; 14% Tax free debentures of wipro co. ltd ($7,20,000 \times \frac{14}{100} \times \frac{100}{90}$)		1,12,000
1,50,000; 10.5% Tax free bonds issued by HUDCO		Exempted
2,00,000; 14% secured debentures of tata motors ltd (unlisted)	$2,00,000 \times \frac{14}{100}$	28000
4,00,000; 15% Mundra port Trust bonds (interest is payable on 1st jan and 1st july every year)	$4,00,000 \times \frac{15}{100}$	60,000
50,000; 13% Harayana state Govt loan (interest is payable on 30th June & 31st december)	$50,000 \times \frac{13}{100}$	6500
75000; 12% Fixed deposit in mahesh co-operative urban bank		Exempted
1,00,000; 14% Tax free debenture of R co. ltd (listed)	$1,00,000 \times \frac{14}{100}$ NI 14000 G.I = $14000 \times \frac{100}{90}$	15556
Gross interest		2,30,306
(-) Deductions u/s 57		
collection charges		(2303)
Interest on loan		(3000)
Interest on securities		225003

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B-19

4. computation of intrest on securities of Mr. Amar singh for current assessment year 2018-19

Particular	Amount	Amount
60000; 16% bonds of muncipal corporation.	$60,000 \times \frac{16}{100}$	9600
80,000; 18% tax free debentures of Flex, to ltd	$80,000 \times \frac{18}{100}$ Net intrest = 14400 Gross intrest = $14400 \times \frac{100}{90}$	16000
20,000; 17% convertible debentures of ITC co ltd	$20,000 \times \frac{17}{100}$ = 3400 $3400 \times \frac{6}{12}$ (since he sold the debentures)	1700
50,000; 18% Tax free debentures of Tata company (listed) (only 6 months).	$50,000 \times \frac{18}{100} \times \frac{6}{12}$ N.I = 4500 G.I = $4500 \times \frac{100}{90}$	5000
35000; 15% tax free Govt of west bengal loan	$35000 \times \frac{15}{100}$ = 5250	5250
90,000; 15.5% tax free debentures of Kiran Karvy co ltd (unlisted)	N.I $90,000 \times 15.5\%$ = 13950 G.I = $13950 \times \frac{100}{90}$	15500
75000; 12% Tax free debentures of titan industries (listed)	N.I = $75000 \times 12\%$ N.I = 9000 G.I = $9000 \times \frac{100}{90}$	10,000
42,000; 10% Tax free bonds of Jharkand Govt (listed)	$42000 \times \frac{10}{100}$	4200

Particular	Amount	Amount
Gross intrest		67250
(-) Deductions U/S 57		
Intrest on loan (50,000 - 22000)		1867
$28000 \times \frac{16}{100} \times \frac{5}{12}$		
collection charges		500
		64883
Intrest on securities		

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1. computation of income from other source of Sri Sirsha for current assessment year 2018-19

Particulars	Amount	Amount
Dividends:-		
Dividend of toyota co. Ltd Japan	13500	
Dividend of shares of american co ltd	18200	
Interim dividends received on share of non-indian company	4900	
	36,600	
(-) Deduction U/S 57		
i) collection charges 75		
ii) Intrest paid on loan 1300	1375	35225
~~Income from letting of plant~~		
Income from letting of plant	21300	
(-) Expenses		
Repairs 4800		
Depreciation 6000	10800	10500
Intrest:-		
Intrest on income tax refund	4200	
Intrest on fixed deposit	15300	
Intrest on recurring deposit	1000	
Intrest on U.K Govt bonds	16000	
Intrest on money lent	9000	
		45500

winning from horse race (gross)		12500
Groundrent from openland	4800	4800
(-) Municipal tax	500	4300
Income from other source		1,08,025

-: Question Bank :-

UNIT :- 1

1. Explain the term capital asset and what do you mean by short term capital gain & long term capital gain.
2. state the meaning of transfer. list out any 10 transactions which are not regarded as transfer.
3. Explain the term cost of acquisition and Index cost of acquisition with regard to capital gains.
4. Explain the rules / deductions from capital gains U/S 54, 54B, 54D, 54EC.

UNIT :- 2

1. list out any 15 incomes which are chargeable to tax under the head income from other source.
2. list out any 10 incomes which are treated as general incomes U/S 56(i)
3. Explain any 10 specific incomes which are taxable U/S 56(ii)
4. Explain any 10 exempted from tax securities.

In short
5. Bond washing transaction
6. Types of securities
7. Deduction U/S 57

pattern

I a) problem from capital gains (10M)

(or)

1b) Theory 5M
1c) Theory 5M } capital gains theory.

2a) Theory from income from other source (10M)

(or)

2b) problem on interest on securities (10M)

3a) problem from capital gains (5M)

3b) problem from securities (5M)

(or)

3c) Theory from income from other source (10M) set off of losses means deducting loss from taxable income - If loss adjacen adjustment against taxable income is permitted then it will reduce the total income resulting in decrease in the tax liability of an assessee income tax is levied on the total income of an assessee earned in the relevant previous year

From taxation point of view ~~they~~ there are two types of set off

1) Intra head set off
2) Inter head set off

Intra head set off:- If an assessee is having two types of business i.e. taxable say for ex:- ₹ 70,000. This loss can be set off against profits from petroleum which is ₹ 2,00,000. After setting off his business has net total income would be ₹ 1,30,000

Inter head set off:- If loss from one source is set off against profit from another source of income is said to be inter head set off

If there is loss from house property of ₹ 60,000 it can set off against income from salary which is ₹ 3,00,000 & net income would be ₹ 2,40,000.

The following are various provisions relating to Intra head set off

Head of income	provisions under Act
Income from salary	There cannot be negative income. hence the question of set off does not arise
Income from house property	The loss from one house can be set off against the income of other house
profit from business (or) profession	a) loss from speculative business can be set off against profit from other speculative business only b) loss from non-speculative business can be set off against profit of speculative business and also non speculative business. c) loss from specified business cannot be set off from the profits of other business. It can be set off from the profit of another specified business
capital gain	a) short term capital losses can be set off from both short term capital gain & long term capital gain. b) long term capital losses can be set off only against long term capital gain.

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Income from other source a) Interest on securities	a) The loss from this source can be set off against other source of income such as royalty received commission received etc
b) other incomes such as income from hiring cycle	b) There cannot be any negative income hence the question of set off doesn't arise
c) loss from the activity of owing & maintaining race horses	c) This loss cannot be set off against any income under the head income from other source
d) loss from lottery or cross word puzzle, card games and race etc.	d) This loss cannot be set off against any income under the head income from other source.

Provision under IT Act for setting off inter head loss

Head of the income	provision under the act
Income from salary	There cannot be negative income hence the question of set off does not arise
loss from let out and self occupied houses	These loss can be set off against other heads of income such as salary business income, capital gains, and other source.
	NOTE:- From the assessment year 2018-19. The maximum loss of house property that can be set off is ₹200,000
Income from business/ profession a) loss from speculation business	a) This loss cannot be set off from the income of other head
b) Loss from non speculation business/ profession	b) This loss can be set off against income from house property, capital gains & income from other source only i.e., this loss cannot be set off against income from salary.
Income from capital gain short term capital loss & long term capital loss	This loss cannot be set off from the income of other heads
Income from other source a) loss from ~~interest~~ ~~ratio~~ Interest on securities	a) This loss can be set off against income from other heads.
b) loss from owing & maintaining race horces	b) This loss cannot be set off against the income of other heads

c) loss from lottery, cross word puzzle card games, races etc.	c) This loss cannot be set off against the income of other heads.
d) loss from other incomes like hire (or) let out of machinery, bank deposits	d) There cannot be negative income hence the question of set off doesn't arise

Note: losses of under any head of income cannot be set off from the casual income like winning from lottery, card games etc.

carry forward of losses:

If a loss cannot be set off either under the same head (or) under other heads in an assessment year it may be carried forward and set off against the future incomes. According to the provisions of income tax act loss from house property, loss in non speculation business, short term capital loss and long term capital loss can be carried forward for next 8 assessment years to be set off.

loss in speculation business and loss from activity of owning & maintaining race horses can be carried forward for 4 years

loss from specified business can be carried forward for any no. of years until it is fully set off

sequence of carry forward & set off

The business profits of an year are not sufficient to adjust the unabsorbed depreciation investment allowance etc. the sequence (i.e.) order of set off is as under

1. current year expenditure on scientific research
2. current year depreciation
3. Brought forward business loss losses of earlier years,
4. unabsorbed depreciation.
5. unabsorbed scientific research expenditure
6. unabsorbed development rebate
7. unabsorbed development allowance
8. unabsorbed investment allowance

C-25

II. computation of total income of Smt. sangeetha chopra for current assessment year 2018-19

Particulars	Amount	Amount
Income from let out house property	2,80,000	
(-) loss from self occupied house property	36000	2,44,000
short term capital gain		3,89,000
Long term capital loss (can be carried forward for 8 years assessment)	(1,20,000)	
		6,33,000

Tax liability

6,33000

First 2,50,000 - NIL

2,50,000 - 5,00,000 - 5%

~~5000~~

2,50,000 x 5%

= 12500

5,00,000 – 6,33,000 – 20%

1,33,000 x 20%

= 26600

(∵ 12500+26600 = 39100)

39100

(+) 3% educat-ion cess 1173

Tax liability 40273

$\boxed{C\text{-}25}$

(II) Computation of total income of Smt Latadevi for current assesment year 2018-19.

particulars	Amount	Amount
Income from house property		
Income from let out house (urban)	3,65,000	
Income from let out house (rural)	78000	
	4,43,000	
(–) loss from self occupied house	44000	3,99,000
Income from non speculation business		
Income from manufacturing business	7,20,000	
(–) loss from car distribution business	3,45,000	3,75000
Capital gain		
Short term capital gain		1,20,000
long term capital gain		72000
Total income		9,66,000

Tax liability

9,66,000 – 72000

= 8,94,000

(Because the long term capital gain are taxed at a rate of 20%. Therefore deduct it from total income & calculate tax liability)

First 2,50,000 – NIL

2,50,000 – 5,00,000 – 5%

2,50,000 x $\frac{5}{100}$

= 12500

5,00,000 – 8,94,000 – 20%

3,94,000

= 78800

91300

~~(+) 3% education~~

(+) 20% of LTCG (72000 x 20%) 14400

1,05,700

(+) 3% education cess 3171

1,08871

C-25

iv) computation of total income of Mr. ... for current assessment year 2018-19

Particulars	Amount	Amount
profit from toys business		8,10,000
profit from petrol bunk		6,81,000
speculation business (silver) profit	80,000	
(-) speculation business (gold) loss	1,00,000	
	(20,000)	
(to be carried forward to next 4 years)		
Income from other source		4,24,600
Total income		18,15,600

Tax liability (super senior citizen)

18,15,600

First 5,00,000 - Exempted

5,00,000 - 10,00,000 - 20%

5,00,000 × 20%

= 1,00,000

10,00,000 - 18,15,600 - 30%

8,15,600 - 30%

3,44,680

3,44,680

(+) 3% education cess 10,340

3,55,020 → Tax liability

C-26

v) computation of total income of ... for current assessment year 2018-19

Particulars	Amount	Amount
Income from house property		
Income from let out house	2,07,000	
(-) loss from self occupied house	28,000	1,79,000
profit from ... business		11,02,100
profit in speculation business		8,52,700
Total income		21,33,800

Working notes:-

long term capital loss of ₹2,10,560 cannot be set off against any other head of income. It should be set off from long term capital gain only. And therefore it should be carried forward for next 8 assessment years.

- Tax liability

21,33,800 (61 years)

First 3,00,000 - Exempted

3,00,000 - 5,00,000 - 5%

2,00,000×5%
= 10,000

5,00,000 – 10,00,000 – 20%

5,00,000×20%
= 1,00,000

10,00,000 – 21,33,800 – 30%

11,33,800×30%
= 3,40,140

	= ~~4,50,140~~		4,50,040
(–) TDS	~~1,28,000~~	(+) 3% education cess	13,504
	~~3,22,140~~		4,63,544
(–) Adv tax	~~260000~~	(–) TDS	128000
	~~62140~~		3,35,544
(+) 3% education cess	~~1864~~	(–) Adv ance tax	2,60,000
	~~64,004~~		75,544

Tax

C-25

vi) computation of total income of Mr Govind for assessment year 2018-19 (situation-1)

particular	Amount	Amount
Capital gains:-		
long term capital gain	10,00,000	
(–) short term capital loss	5,00,000	5,00,000
profit from non-speculation business		60000
Total income		5,60,000

NOTE:-
loss from speculation business should be set off against speculation business profit only. It cannot be setoff against any other heads of income. Therefore it has to be carried forward for 4 years.

computation of total income of Mr Govind for assessment year 2018-19 (situation-2)

Particular	Amount	Amount
short term capital gain		10,00,000
~~profit~~ long term capital loss (carried forward for 8 years)	(500,000)	
profit from speculation business	60,000	
(–) loss from non speculation business	50000	10,000
Total income		10,10,000

[illegible] long term capital loss [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] long term capital gain [illegible]

[illegible]

Situation - II

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Tax liability

Situation - I

long term capital gain [illegible]

[illegible]

[illegible]

IC 29

(i) computation of [illegible] [illegible] [illegible] [illegible]

Particulars	[illegible]	[illegible]
Income from salary		
Income from house property		
[illegible] [illegible] [illegible]		
[illegible] [illegible] [illegible]		
[illegible]		
[illegible] [illegible] [illegible] business	[illegible]	[illegible]
[illegible]		
Business income		
Non speculative		
Profit from [illegible] business		
loss from [illegible] [illegible]	(6000)	
Speculation business		
profit from speculation silver	60000	
[illegible] loss from speculation in gold	84000	
loss to be carried forward [illegible] from speculated business	(24000)	660000
Capital gains		
short term capital loss to be carried forward	(6000)	
long term capital loss to be c/f	(96400)	
Income from other sources		
loss in betting	(22500)	
Profit in betting		12000
Total income		5,31,400

Working notes

→ The loss from non speculation business can be setoff against house property, capital gains & income from other source except income from salary.

Hence deduct the loss amount from income from house property

(4400 - 2000 = 2400).

→ The loss from speculation business can be set off against speculation profit only. Hence loss to be c/f for 4 years

→ short term capital loss can be set off against short term capital gain & long term capital gain. But we don't have the long & short term capital gain. Hence c/f the loss for 8 years

→ long term capital loss can be set off against long term capital gain only. We don't have long term capital gain. Hence c/f it for 8 years.

Tax liability

30.9%

5,37,400 (68 years)

537400 - 12000

= 5,25,400

First 3,00,000 - NIL

3,00,000 - 5,00,000 - 5%

2,00,000 x 5%

10,000 5,25,400

5,00,000 - ~~10,00,000~~ - 20%

~~5,00,000 x 20%~~

~~1,00,000~~

25400 x 20%

5080

= 15080

(+) 3% education cess	452
	15,532
(+) 30.9% of profit from betting	3708
	19240
(-) Advance tax	20,000
Refund =	760

→ loss in betting cannot be set off from ~~agai~~ from betting. Because ~~ca~~ casual incomes set off is not permitted.

→ Deduct 12000 of profit from betting from total income as it is charged at a flat rate of 30.9% (Including education cess & Higher education cess) and then calculate tax liability on slab basis of resulting amount then add 3% education cess to tax liability then add tax liability of 30.9% on 12000 then deduct Advance tax.

C-27

XII) computation of total income of Mr. Sanath raj for current assessment year 2018-19

Particular	Amount	Amount
profit from business depreciation	7,09,000	
(-) current depreciation	56000	
(-) unabsorbed depreciation of last year	15000	6,38,000
capital gains		
long term capital loss of current year to be c/f	(45000)	
Income from other souce		2,96,400
Total income Taxable		9,34,400

Tax liability.

First 2,50,000 - NIL

2,50,000 - 5,00,000 - 5%.

2,50,000 x 5%.

= 12500

5,00,000 - 9,34,400 - 20%.

4,34,400 x 20%.

86880

99380

(+) 3% education cess 2981

1,02361

(-) Advance tax 1,00,000

2361

IV. Deductions from Gross Total Income & tax liability of Individual :- (Sec 80C-80U)

Introduction:- while computing the total income of an assessee some deductions are allowed from the gross total income, in addition to deductions that are allowed under different heads of income. These deductions are allowed U/S 80C to 80U.

NOTE:- These deductions are not allowed from

i) long term capital gains
ii) winning from lotteries & horse race e.t.c.
iii) short term capital gain on transfer of equity shares
iv) short term capital gain on transfer of equity oriented units of mutual funds.

The following are some of the important deductions available to an assessee whose status is an "Individual"

1. Qualified savings — U/S 80C
2. Payment (or) deposit in respect of pension fund — U/S 80CCC
3. Medical insurance premium — U/S 80D
4. Deduction in respect of medical treatment & maintainence of handicapped dependents — U/S 80DD. Refer Pg no: C-51
5. Medical treatment (or) expenses of dependent — 80DDB Refer Pg no:- C-52
6. Interest on higher education loan — 80E
7. Donations — U/S 80G

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1. Qualified savings:- deduction U/s 80C

The savings on which deduction is allowed are known as qualified savings. The govt of india from time to time notify the qualified savings. The following are important savings on which deduction is allowed as per I.t Act

i) Employees contribution to RPF, SPF, PPF.

contribution to URPF does not qualify

ii) Life insurance premium:- premium paid on own, spouse (or) on children (or) on the joint life policy of any one of them qualifies, and the qualifying amount is least of the following two.

Date of policy issued	For all persons
a. Before 31-03-2012	a. actual premium paid b. 20% of the policy amount (or) some assured
b. After 1-4-2012	a. Actual premium paid b. 10% of the policy amount (or) some assured.

iii) premium paid under unit linked insurance policy

iv) contribution to 10 (or) 15 years cumulative time deposits (CTD) in post office

v) Amount invested in notified central govt securities such as national saving certificate (NSC) VIII & IX issue on self and spouse/children

vi) payment for construction of residential house.

vii) subscription to home loan a/c of the national housing bank.

viii) contribution made towards dhanaraksha, Jeevan dhara, Jeevan akshay of LIC.

ix) Investment in units of equity linked scheme of LIC, UTI (unit trust of india) and other mutual funds.

x) Deposit in pension fund set up by UTI & other mutual funds.

xi) payment to group insurance scheme.

xii) subscription to units of any mutual fund approved by CBDT (central board of direct tax)

xiii) Deposit in national saving scheme - 1992

xiv) Fixed deposit in the sheduled banks.

xv) Deposit in sukanya samridhi account

xvi) 5 years time deposit in post office 1981

xvii) Tution fee paid for children.

The qualifying amount u/s 80C is least of the following two

i) Actual amount of contribution towards qualified savings

ii) ₹ 1,50,000.

2. Medical insurance premium - deduction U/s 80D

premium paid on medical insurance scheme framed by the general insurance corporation of india (or) any other insurer (or) insurance company in the pvt sector approved by the central govt qualifies for deduction if it is paid through cheque (or) draft

NOTE:- premium paid in cash does not qualify for deduction.

The following is the summary table for medical insurance premium

Health policy for	least of two is allowed as deduction
1. own /spouse/dependent children + parents of the assessee	a. actual premium paid b. ₹ 25000 NOTE:- additional ₹ 5000 is given as deduction if policy is taken on parents.
2. If the mediclaim policy is senior & super senior citizen	a. Actual premium paid b. ₹30,000

NOTE:-

1. If policy is taken for self and for parents, total deduction will be limited ₹50,000 and if the parents are senior citizen (or) super senior citizen amount will be restricted/limited to ₹ 55000.

2. For preventive health checkup deduction cannot exceed ₹ 5000 and deduction u/s 80D for both medical insurance & preventive health checkup expenses is limited to 15000/20,000

Intrest on higher education loan:- (u/s 80E)

If an assessee has taken education loan for his/her higher studies (or) for the spouse and children from any approved financial institution and interest paid on such loan during the previous year is fully allowed as deduction.

Donation u/s 80G:- Donations of any amount will be allowed as deduction & when donation is made in kind it will not be allowed as deduction from the assessment year 2018-19 onwards donations made in cash (or) cheque/draft are allowed as deduction however donation exceeding ₹2000 should be made through cheque (or) draft only. The following are the steps to calculate the amount of deduction u/s 80G

Step:-1:- calculate gross qualifying amount (finding out individual limit) ~~which is~~

Step:-2:- Finding out the overall limit.

Step:-3:- Rate of deduction.

Step:-1:- calculating the gross qualifying amount for each donation made

Donation

No limit donation — with limit donation

1. No limit donation: Actual amount donated will be the gross qualifying amount. It means qualifying amount is 100% of the amount donated e.g., If donated amount is ₹ 15000 then the qualifying amount is 15000.

2. With limit donations: The qualifying amount is least of the following 2 amount

a) Actual amount donated

b) 10% of Adjusted Gross total income

NOTE:- Adjusted Gross total income = G.T.I - long term capital gains - other deductions u/s 80 except 80G

Step:-2:- Finding out the overall limit i.e., Net qualifying donations =

= Take total of the qualifying amount with limit and without limit — calculated in above steps

step:-3:- Rate of deduction.

The rate of deductions - refer. pg.no C-55 to C-56.

pg.no $\boxed{C-66}$

Computation of total income

Particulars	Mrs. Jyothi	Mr. Mohan Sai	Mr. Sunil
Gross total income	3,00,000	12,00,000	4,60,000
(-) Deductions u/s 80C:-			
Deduction u/s 80C	96000	1,50,000	1,10,000
Total income	2,04000	10,50,000	3,50,000
	–	1,18,450	2575
	204000	9,31,550	3,47,425

Working notes:-

Calculation of deduction u/s 80C

step:-1:- calculating the aggregate of qualifying amount

1) Contribution to PPF of ~~Mrs. Jyothi~~

Jyothi	Mohan	Sunil
60,000	1,20,000	90,000

ii) premium paid on life policy

Jyothi	Mohan	Sunil
11000	18000	NIL

iii) NSC viii issue purchase

Jyothi	Mohan	Sunil
25000	35000	20000
96000	1,73,000	1,10,000

step:-2:- calculating deduction u/s 80C which is least of following 2

a) Aggregate of qualifying savings

b) 1,50,000

Jyothi	Mohan	Sunil
a) $\boxed{96000}$	a) 1,73,000	a) $\boxed{1,10,000}$
b) 1,50,000	b) $\boxed{1,50,000}$	b) 1,50,000

Tax liability - Mr Mohan Sai (super senior)

Total income = 10,50,000

First 5,00,000 - NIL

5,00,000 - 10,00,000 - 20%

5,00,000 × 20%

= 1,00,000

10,00,000 - 10,50,000 - 30%

= 50,000 × 30%

= 15000

1,15,000

(+) 3% education cess 3450

Tax liability 1,18,450

Mr Sunil – 3,50,000

First 2,50,000 - NIL

2,50,000 - 3,50,000 - 5%

= 1,00,000 × 5%, Rebate = least of two amount

= 5000 i) tax liability ii) 2500

~~(+)3%~~ education cess ~~150~~ ~~5150~~

= 5000
Rebate(-) 2500
2500
(+)3% EC 75 2575

Mrs. Jyothi = since Mrs. Jyothi total income is less than 3,50,000 ~~she can~~ ~~claim rebate~~ tax liability is NIL.

~~Tax~~ Total income = 3,04,000.

~~Tax liability is least of two~~

~~Tax liability~~ & First 2,50,000 - NIL

~~2500.~~

II. C-66 year 2018-19

Computation of total income of Mr. Malla reddy for current year

Particular	Amount	Amount
Income from salary		
salary received (50000×12)	6,00,000	
(-) Deduction u/s 16(iii) profession tax	2500	597500
Income from salary		
Income from house property		
Rent received (8000×12)	96000	
(-) Muncipal taxes	9000	
Net Annual value	~~87000~~	
(-) Deduction u/s 24		
standard deduction u/s 24(a)	25900	
Interest on loan	17500	~~430~~
Income from house property		
Income from other source		104400
Gross total income		745300
(-) Deduction u/s 80		
Deduction u/s 80 C		
Term deposit in SBI	(25000)	
contribution to LIC pension fund	(18000)	
(-) Deduction u/s 80 D		
Medical insurance paid	(17000)	
Total income.		6,85,300

working notes:-

Medical insurance premium u/s 80D:-

The amount of deduction is least of following 2

i) Actual premium paid = $\boxed{17000}$

ii) ₹ 25000

Tax liability

6,85,300

First 2,50,000 - NIL

250000 - 500,000 - 5%

2,50,000 × 5%

= 12500

5,00,000 - 10,00,000 - 20%

6,85,300

= 5,00,000 × 20%

= 1,00,000

(or) 1,85300 × 20%

= 37060

49560

3% education cess 1487

51047 → Tax liability

5) computation of total income of Mr. Sunil for current assessment year 2018-19

Particular	Amount	Amount
Income from salary		4,29,500
Income from house property		
Income from letout house	84000	
(-) loss from self-occupied house	(36000)	
	48000	
Income from house property		48000
Income from other sources		1,96200
Gross total income		673700
(-) Deductions u/s 80		
Deduction u/s 80D		
pre-medical health checkup expense in cash	3000	
Deduction u/s 80CCC		
contribution to pension fund	18000	
Deduction u/s 80E		
Interest paid on son's education loan;	31800	
Deduction u/s 80G		
Donation		
100% ~~65,900~~ deduction	9000	
50% (14000 x 50%)	7000	
Total income		604900

Tax liability

Senior citizen

604900

First 3,00,000 - NIL

3,00,000 - 5,00,000 - 5%

3,00,000 - 5,00,000 - 5%.

2,00,000 x 5%.

= 10,000

5,00,000 - 6,04900 - 20%.

104900 - 20%.

= 20980

= 30980

(3%-education cess) 929

31909 → Tax liability

NOTE :- Medical insurance premium paid in cash will not be allowed as deduction. However preventive health checkup expenses paid in cash is allowed as deduction.

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vi) computation of total income of Mr. Sri Shiva Shankar

Particular	Amount	Amount
income from salary (3,35000 + 20000 + 3000) Gross salary	3 58000	
(-) Deduction U/S 16		
profession tax U/S 16(iii)	3000	3,55,000
Income from house property		
Rent received	1,00,000	
(-) Muncipal taxes	18000	
Net annual value	82000	
(-) Deduct U/S 24		
standard deduction U/S 24(a) (82000 x 30%)	24600	
Income from house property		57400
Income from capital gain		
short term capital gain on sale of diamond	60000	
long term capital gain on sale of jewellery	75000	135000
Gross total income		547400
(-) Deduction U/S 80	₹	
Deduction U/S 80C		
Medical insurance premium	36200	
Deduction U/S 80CCC	21800	
Deduction U/S 80DD		
Deposit with UTI whose computing blind	125000	
Deduction U/S 80DDB		
Treatement for chronic disease	40000	
		327400

Medical insurance premium U/S 80D:-

The amount of deduction is least of the following 2

i) Actual premium paid = 36200 (10200 + 7000 + 19000)

ii) $\boxed{30000}$

NOTE:- Deduction in respect of medical treatment & maintaenance of dependent for a person with disability – U/S 80DD.

The amount of deduction that an assessee claim is ₹ 1,25,000

NOTE: Amount spent (or) deposited for treatment of such dependent should be ignored in the problem

Deduction inrespect of medical treatment for a chronic disease such as Aids, cancer etc U/S 80DDB can be allowed as deduction which is least of following 2 amounts

i) Actual amounts spent = 80000

ii) $\boxed{40000}$

Medical Insurance premium U/s 80D

Medical insurance premium taken on assessee (self / spouse / dependent children) & if the assessee age is below 60 year the amount of deduction is least of the following 2

i) Actual premium paid = 10200 + 7000 (himself) (wife)
= $\boxed{17200}$

ii) 25000.

NOTE: since the assessee also paid premium for parent whose age is above 60 years he can further claim deduction U/S 80D which is least of the two

i) Actual premium paid $\boxed{19000}$

ii) ₹ 30000

∴ The total deduction that the assessee can claim is ₹ 36200 (∵ 17200 + 19000)

Tax liability

Total income = 3,21,400

First 2,50,000 - NIL

2,50,000 - 3,21,400 - 5%.

= 71400 × 5%

= 3570.

Rebate = least of 2 amounts

i) Tax liability = 3570

ii) $\boxed{2500}$

	= 3570
(-) Rebate	2500
	1070
3% education cess	32
	1102 ·

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I) computation of total income of Mr. Srinivas

Particular	Amount	Amount
Income from salary		5,74,400
Income from house property		
Income from letout house property	18300	
(-) loss from self occupied house property	(3400)	14900
Income from other source		52970
		642270
Deduction U/s 80		
deduction U/s 80 C qualified savings	1,12,000	
deduction U/s 80 D Medical insurance	15600	
deduction U/s 80E	19500	
Total income		4 94770

Tax liability

Total income = 4,94,770

First 2,50,000 - NIL,

2,50,000 - 4,94770 - 5%.

244770 × 5%

12239

	12239
(+) 3% educat - ion cess	367
	12606

deduction u/s 80C

Qualified savings

Actual amount spent $\boxed{1,12,000.}$

1,50,000

deduction u/s 80D

Actual amount spent $\boxed{16000}$

25000

deduction u/s 80E :- Actual amount of interest paid is allowed as deduction.
i.e. 19500.

The particulars of income and other related information of Mr. Shankar (64 years) for the financial year 2017-18 are given below compute total income & tax payable

1. Salary received from the employer ₹14,25,000
2. Rent received from let out house ₹900000 and municipal tax being 5%
3. Arrears of rent from the above of house which was not charged earlier ₹2,42,000
4. Fair rental value of self occupied house ₹1,85,000 & interest on loan taken to construct the house is ₹40000 (The loan is taken on 20-03-1999)
5. Profession tax paid @5% of salary received
6. Donation to ~~~~ certified charitable hospital @50% is ₹12000
7. Winning from camel race ₹55000
8. Qualified savings u/s 80C ₹1,23,750
9. Interest paid as education loan of son is ₹ 17500.

Computation of total income of Mr. Shankar for current assessment year 2018-19

Particulars		Amount	Amount
Income from salary			
Income of salary received		14,25,000	~~14,25,000~~
(-) profession tax (5%)		7125	14,17,875
Income from house property			
Rent received =	9,00,000		
(-) Municipal taxes @5%	45000		
NAV	855000		
(+) Arrears of rent	2,42,000		
	10,97,000		
(-) standard deduction (@30% of 1097000)	329100		
		767900	
(-) loss from self occupied house (interest on loan)		30000	7,37,900.
Income from other sources:			
winning from camel race (More than 5000 Gross up) (55000×100/70)			~~55000~~ 78571
Gross total income			22,34,346
(-) Deduction u/s 80			
Deduction u/s 80C Qualified savings		1,23,750	
Deduction u/s 80E Interest on loan		17500	
Donation u/s 80G - Donations (12000×50%)		6000	147250
Total income			20,87,096

Interest loan taken for self occupied house is allowed as deduction if it is taken before 1-4-1999 which is least of the following 2

i) Actual interest paid = 40000

ii) $\boxed{30000}$

Deduction u/s 80C

Qualified saving

deduction can be given least of two amounts

i) Actual amount paid = $\boxed{1,23,750}$

ii) 1,50,000

Tax liability

deduct the campaign (?) from gross total income as it charged at flat rate ... and then add (?) 30% ... 78571 ...

Total income = 20,87,096

= 20,87,096 − 78571 (...)

= 20,08,1525

First 3,00,000 − NIL

3,00,000 − 5,00,000 − 5%

2,00,000 × 5%

= 10,000

5,00,000 − 10,00,000 − 20%

5,00,000 × 20%

= 1,00,000

10,00,000 − 20,08,525 − 30%

= 10,08,525 × 30%

= 3,02,558

= 4,12,558

(+) 3% education cess 12,377

4,24,935

(−) 30.9% on 78571 24,278

Tax liability 4,49,213

Deduction u/s 80E

Interest on loan of higher education is given as deduction.

$\boxed{D-26}$ II. computation

Income from profession		18,32,000
capital gain		
Short term capital gain on sale of equity shares	~~Exempted~~ 1,30,000	
Short term capital gain on sale of gold ornaments	78000	
long term capital gain on sale of building	16,00,000	
long term capital gain on shares	Exempted	18,08,000
Income from other source		
Interest on bank deposit		15000
Gross total income		36,55,000
Deduction u/s 80		
Deduction u/s 80D		
payment made for mediclaim policy	17000	
Deduction u/s 80C contribution to PPF	60000	
Deduction u/s 80E ~~Repayment son's~~ interest on higher education loan	18000	

Deduction u/s 80G

Donation prime minister relief fund (100%)	21000	
Deduction u/s 80C		
Deposit in sukanya samridhi yojana	42000	
		34,97,000

Qualified savings u/s 80C
The amount of deduction is least of following 2
1) Aggregate of ~~tax~~ savings
Contribution to PPF + deposit in sukanya samridhi
60,000 + 42000
$\boxed{1,02,000}$
2) 1,50,000

Deduction u/s 80D
The amount of deduction is least of following 2
i) Actual premium paid = $\boxed{17000}$
ii) 25000

Deduction u/s 80E
Interest on higher education loan u/s 80E is allowed as deduction. 22600
Repayment should be ignored.

Tax liability
Total income = 34,97,000
34,97,000 − 1,30,000 − 16,00,000
17,67,000
First 2,50,000 − NIL
2,50,000 − 5,00,000 − 5%
2,50,000 × 5%
= 12500
5,00,000 − 10,00,000 − 20%
5,00,000 × 20%
1,00,000.
10,00,000 − 17,67,000
= 7,67,000 × 30%
= 2,30,100

= 3,42,600
~~10278~~
~~3,52,878~~
~~(+) 15% of STCG of shares~~ ~~52932~~
~~4,05,810~~
~~(+) 20% of LTCG on share sale of building~~ ~~81,162~~

3,42,600
(+) 15% of STCG of shares 19500
362100
(+) 20% of LTCG of building (16,00,000 × 20%) 3,20,000
6,82,100
2% education cess 20463
7,02,563 → Tax liability

1-27 (ii)

Computation of total income Smt. Chandrima for current assessment year 2018-19.

Particulars	Amount	Amount
Income from salary		
Salary received (27800×12)	3,33,600	
(-) profession tax u/s 16(iii) (100×12)	1200	332,400
Income from house property		
Rent received	1,44,000	
(-) Muncipal tax	–	
NAV	1,44,000	
(-) Deduction u/s 24		
standard deduction u/s 24(a) (1,44,000×30%)	43200	1,00,800
Income from capital gain		
sale proceeds	9,20,000	
(-) selling expense	4600	
Net consideration	9,15,400	
(-) Index cost of acquisition (cost of asset × previous yr index / purchase yr index)	5,94,067	
	3,21,333	321,333
Income from other source		26400
Gross total income		7,80,933
(-) Deduction u/s 80		
Deduction u/s 80C Qualified savings		1,50,000
Deduction u/s 80D		20000
Total income		610933

1. Qualified savings deduction u/s 80C – The amount of deduction is least of the following two

i) Aggregate of qualified savings = 1,61,400

ii) $\boxed{1,50,000}$

2. Medical insurance premium u/s 80D – The amount of deduction is least of the following two

i) Actual premium paid (11000+9000) $\boxed{20000}$

ii) 25000

Total income = 6,10,933

6,10,933 – 321333

= 2,89,600

First 2,50,000 – NIL

2,50,000 – 2,89,600 – 5%

= 39600 × 5%

= 1980

	1980
20% of LTCG	64,267.
	66,247
(+) 3% education cess	1987
	68234

Q-27 IV

Computation of total income of Sri hanumanth rao for year 2017-18.

Particular	Amount	Amount
Income from salary		3,87,000
Income/loss from house property		(78500)
Income from capital gain		
Short term capital gain on sale of land	1,92,000	~~1,92,000~~
Long term capital gain on sale of gold	48000	2,40,000
Income from other source		18000
Gross total income		5,66,500
Deduction U/S 80		
Deduction U/S 80C	1,50,000	
Deduction U/S 80G ~~(6000×50%)~~ Donation (6000×50%)	3000	
Total income		4,13,500

Sons' college fee

since it is not mentioned in question a tuition fee no need to give deduction u/s 80C, hence ignore ... problem.

Deduction u/s 80-C

The deduction amount is least of the following two

i) Aggregate of amounts = 2,59,500
(1,30,000 PPF + 1,15,000 (Repayment of loan) + 14500 (LIC))

ii) $\boxed{1,50,000}$

Medical insurance premium is paid in cash. hence no deduction is allowed.

Tax liability

Total income = 4,13,500

4,13,500 − 48000

= 3,65,500

First 2,50,000 − NIL

2,50,000 − 3,65,500 − 5%

1,15,500 × 5%

= 5775

(+) (48000 × 20%) 9600

15,375

(+) 3% education cess 461

15,836

1) computation of total income of Sri pradeep saxena

Particular	Amount	Amount
Income from salary		
Income from salary	5,60,600	5,60,600
(-) loss from house property	1,87,600	3,73,000
Income from house property		
Rent received	72000	
(-) Municipal taxes	10,000	
NAV	62000	
Deduction u/s 24		
Standard deduction 30%	18600	
Interest on loan	2,31,000	
loss from house property	(187600)	
Income from capital gain		
Short term capital gains on sale of shares	~~5,00,000~~ 91000	
long term capital gain on sale of shares	Exempted	91000
Income from Other source		
Interest on bank fixed deposit	37100	
Dividends from indian companies	Exempted	37100
Gross total income		5,01,100
Deduction u/s 80		
deduction u/s 80C qualified savings	81000	
deduction u/s 80D Mediclaim (self+wife+son)	21900	
Mediclaim (Father+mother)	20100	
Deduction u/s 80G	25800	
Donation to prime minister relief fund	3100	
Donation to ramkrishna math		3,50,000
Total income		

Tax liability

Total income = 3,50,000 - 91000 = 2,59,000

First 2,50,000 - NIL

2,50,000 - 2,59,000 - 5%

~~1,00,000~~ × 5% · 9000 × 5%

= ~~5000~~ = 450

Rebate - 87A

	450
(-) ~~Rebate~~	~~450~~
	450
(+) 15% of STCG	13650
	14100
(-) Rebate	2500
	11600
	348
	11948
(-) TDS	16000
Tax refund	4052

Rebate = least of 2 amts

i) Tax liability 14100

ii) $\boxed{2500}$

Deduction u/s 80 D

i) $\boxed{21100}$ → self + wife + son.

ii) 25000

i) $\boxed{20100}$ → father + mother

ii) 30000

The gross total income of Mrs USHA amounted ₹ 6,00,000 in the previous year ending 31-march-2018. She has made the following donations to

i) Gujrath earthquake relief fund 40000
ii) Africa fund 10,000
iii) Approved educational institutions 15000
iv) Approved temples 35000
v) clothes distributed to the poor 5000
vi) Municipal corporation for promotion of family planning 20000
vii) To PGI chandigarh for helping the poor & needy in cash 20000
viii) during the year she donated ₹ 20000 to clean ganga fund.

Compute the amount of deduction admissible u/s 80 G for assessment year 2018-19.

Calculation of deduction u/s 80G

Particular	Qualifying amount ₹ (Q.A)	Rate (₹)	Amount ₹
No limit donation			
Gujrath earthquake relief fund	40000	100%	40000
Africa fund	10000	100%	10000
Clean Ganga fund	20000	100%	20000
with limit donation			
To approved education institution 15000	least of ~~15000~~ two i) 10000 (or) 10% of 6,00,000 (6,00,000 × 10% = 60000)	out of qualifying amount for family planning ₹ 20000 @ 100%. Balance Q.A ₹ 40000 @ 50%	20000
To approved temple 35000			
To municipal corporation for family planning 20000			20000
70000	Qualifying amount = 60000		
			1,10,000

Qualifying amount is limited rate of deduction is 100%.

state Govt (or) local authority (or) approve institution for promoting family planning = ~~100% deduction~~.

Least of two { Actual amount donated (or) 10% of adjusted gross total income

with limit donation rate of deduction is 50%.

least of two { i) Actual amount donated ii) 10% of adjusted Gross total income

Donation given in kind (distribution of clothes) will not be allowed as deduction U/S 80G

Donations given in cash exceeding ₹ 2000 does not qualify for deduction U/S 80G

Mr. Varun whose gross total income is 50,00,000 makes the following donation during the previous year 2017-18. Compute his total income.

i) Prime minister national relief fund 1,25,000
ii) National defense fund 2,50,000
iii) Muncipal corporation 1,25,000
iv) CMC Ludhiana for promotion of family planning 1,70,000
v) Mr. Sunil Dutt a social activist for charity purpose 50,000
vi) National children fund 40000
vii) Jawaharlal lal nehru memorial fund 2,50,000
viii) To temple of public worship (notified). 4,00,000

Particulars		Qualifying amount (₹)	Rate	Amount
Gross total income				50,00,000
(-) Deduction U/S 80G				
No limit donation				
Prime minister national relief fund		1,25,000	100%	1,25,000
National defense fund		2,50,000	100%	2,50,000
National children fund		40000	100%	40000
Jawaharlal nehru memorial fund		2,50,000	50%	1,25,000
With limit donation		~~1,25,000~~		
Municipal corporation	1,25,000	less of two	out of qualifying amt for family planning	
Temple of public worship	4,00,000	i) 6,95,000	₹1,70,000 @ 100%	1,70,000
CMC Ludhiana for promotion of family planning	1,70,000	ii) 10% of GTI ~~1,72,000~~ 1,50,000	~~100%~~	~~1,70,000~~
	6,95,000	50,00,000 × 10%	Bal QA ₹ 3,30,000 @ 50%	1,65,000
		$\boxed{5,00,000}$ QA = 5L		
Total income				41,25,000

Donation made to Mr. Sunil Dutt a social activist for charity purpose is not given as deduction.

Q28 VI)
Computation of total income of Mr. Vasu reddy for current assessment year 2018-19

Particular	Amount	Amount
I. Income from salary		
Basic pay (21500×12)	2,58,000	
Dearness allowance @ 10400×12	1,24,800	
Entertainment allowance (4000×12)	48000	
Gross salary	4,30,800	
Deduction u/s 16		
Entertainment allowance u/s 16(ii)	5000	
profession tax u/s 16(iii)	4200	421600
II Income from ~~property~~ house property from let out house	27200	
Income loss from self occupied house	(18000)	9200
III Income from other source:		
Income from units of birla mutual funds	Exempted	
Dividends from shares of indian companies	Exempted	
Dividends from shares of foreign		21000
Income from HUF	Exempted	
Gross total income		4,51,800
Deduction u/s 80		
Qualified savings u/s 80C	1,20,100	
Interest on higher education loan u/s 80E	16000	
Deduction u/s 80G	15000	
Deduction u/s 80GGA	10000	
		2,90,700

Entertainment allowance:
The assessee is a govt employee entertainment allowance can be allowed as deduction which is least of 3 amounts
i) Actual entertainment allowance received
48000
ii) 20% of salary = 51600
iii) $\boxed{5000}$
(salary = Basic pay only)

Interest on car loan cannot be given as deduct.

Tax liability
First 2,50,000 - NIL

-29 VIII

Computation of total income Mr. Natwar Singh.

Particulars	Amount	Amount
Income from salary		
Income from agriculture land in punjab state	Exempted	
Income from agriculture land in pakistan	33000	
		33000
Income from house property		
Income from house property for building in jaipur	92000	92000
Income from other source		
Ground rent received from land in mumbai city	2,10,000	
Interest from bank of baroda	28000	2,38,000
Income from business & profession		
Receipts from poultry farm	3,05,000	
(-) Expenses	1,87,000	1,18,000
Income from capital gain		
Long term capital gains on paintings	2,80,000	
long term capital gains on sale of shares	Exempted	
short term capital gains on shares	1,80,000	
short term capital on sale of land	1,00,000	5,60,000
Gross total income		
Deductions U/S 80		10,41,000
deduction U/S 80C		
Qualified savings		
deduction U/S 80 G	1,00,000	
Donations (50% deduction)	6000	
Deduction U/S 80DDB medical treatment	60,000	1,66,000
Total income		8,75,000

Tax liability

Total income = 8,75,000 − 1,80,000 (STCG)
= 6,95,000 − 2,80,000 (LTCG)
= 4,15,000

First 2,50,000 − NIL

2,50,000 − 415000 − 5%
= 1,65,000 × 5%
= 8250

			8250
		(+) 15% shares	27000
=	~~51500~~	(+) 20% on LTCG of paints	56000
~~(+) 15% on short term shares~~	~~27000~~		
	~~78500~~		
			91250
~~(+) 3% education tax~~	~~2355~~	(+) 3%	2737
		Tax liability	93987

Deduction U/S 80DDB

Deduction in respect of chronic disease treatment prescribed by CBDT U/S 80DDB

Amount of deduction is least of two

i) Actual amount spent 3,00,000

ii) $\boxed{60,000}$ (∵ senior citizen)

Deduction u/s 80C — qualified savings
least of two
Actual amt = $\boxed{1,00,000}$
1,50,000

Compute tax liability of Mrs. Jaya for the assessment year 2018-19 from the particulars given below.

Gross salary 3,30,000
Self occupied house whose ARV is 18000
Municipal taxes 3000
Interest on loan for construction of the house 10,000
Amount repaid against loan taken from HDFC 15000.
Bank interest 6000
Interest on debentures (Govt) 4000
Interest on Govt securities 4000
Interest accrued on NSC-VIII Issue 1240
Amount contributed to RPF 4800
Life insurance premium ~~paid~~ on policy of ~~...~~ 30000 ₹ 4000
Amount deposited with PPF 4000
Tax deducted at source from salary is 15000

computation of total income of Mrs. Jaya for current assessment year 2018-19.

Particulars	Amount	Amount
Income from salary		3,20,000
Income from house property		
GAV	-	
(-) Municipal taxes	-	
NAV	-	
(-) Deduction u/s 24		
Interest on loan u/s 24(b)	10000	
Loss from self occupied house property		(10,000)
Income from other source		
Bank interest	6000	
Interest on debentures (Govt)	4000	
Interest on Govt securities	4000	
Interest on NSC-VIII issued	1240	15 240
Gross total income		3,35,240
(-) Deductions u/s 80		
Deduction u/s 80C		29040
		3,06,200
Total income.		

Working notes:-

Qualified savings u/s 80C

The amount of deduction is least of the following two

i) Aggregate of qualified savings = $\boxed{29040}$

ii) 1,50,000

Calculation of Aggregate of qualified savings

i) Amount repaid as housing loan	15000
ii) Amount contributed to RPF	4800
iii) Life insurance premium	4000
iv) Amount deposited in PPF	4000
	27800
v) Interest on NSC-VIII issue	1240
	29040

Tax liability

Total income = 3,06,200

First 2,50,000 — NIL

2,50,000 – 3,06,200 – 5%

= 56200 × 5%

= 2810

Rebate = least of two

i) tax liability = 2810

ii) $\boxed{2500}$ = 25

	2810
(–)	2500
	310
(+) 3% education cess	9
	319
(–) TDS	15000
	(14681)

Revision

From the following details, compute total income of Mr. x for the current assessment year 2018-19

1. Salary received ₹ 20,000 per month
2. Profession tax paid ₹ 200 p.m.
3. Income from house property from a let out house in Mumbai ₹ 4,50,000
   Rent received from house property which is letout at Chennai ₹ 5,00,000 p.a.
   He occupied one house with his family in hyd for which he has taken a loan of 40,00,000 and rate of interest is 10%.
3. Profit from manufacturing business ₹ 2,00,000
   loss from speculation in gold ₹ 50,000
4. loss from sale of building ₹ 20,000
   loss from sale of shares ₹ 20,000
   (Short term)
5. long term capital gain on sale of residential building ₹ 5,00,000
6. Interest from bank deposits ₹ 6000
7. winning from lottery (net) ₹ 1,00,000
8. winning from horse races ₹ 3000
   He invested in National savings scheme ... his contribution to PPF ... ₹ 50,000, ... deposit in Sukanya Samridhi Yojana (...) ₹ 10,000 ...
   ₹ 35,000
   He paid medical insurance premium for family & spouse ₹ 50,000 p.a.
   ... ₹ 10,000 worth of rice to needy ...
   ₹ 800

computation of total income of Mr. x for the current assessment year 2018-19

Particular		Amount	Amount
Income from salary			
Salary received (20,000×12)		2,40,000	
(-) profession tax u/s 16(iii) (200×12)		2400	2,37,600
Income from house property			
Income from house property (Mumbai)	4,50,000	4,50,000	
Rent received (Chennai) (GAV)	5,00,000		
(-) Municipal tax	—		
NAV	5,00,000		
(-) Deduction u/s 24 standard deduction u/s 24(a) (30% of NAV)	1,50,000		
	3,50,000	3,50,000	
		8,00,000	
(-) loss from self occupied house property (40,00,000×10%)		(4,00,000)	4,00,000
Income from business			
profits from manufacturing business			2,00,000
Income from capital gain			
LTCG on sale of residential building		5,00,000	
(-) loss from sale of building		20,000	4,80,000
		4,80,000	
(-) short term capital loss on sale of shares		80,000	
			4,00,000

Income from other source		
Interest on bank deposit	6000	
Winning from lottery $(1,00,000 \times \frac{100}{70})$	1,42,857	
Winning from horserace	3000	
		1,51,857
Gross Total income		13,89,457
(-) Deduction U/S 80		
Deduction U/S 80C Qualified savings	95000	
Deduction U/S 80D Medical insurance premium	25000	1,20,000
		12,69,457

Working notes:- loss from speculation in gold cannot be set off against any other head of income. Therefore it has to be carried forward for next 4 assessment year.

Winning from lottery is more than 10,000 than Gross amt = Net amt $\times \frac{100}{70}$

Deduction U/S 80C (Qualified savings):- The amount of deduction is least of 2 amounts

i) aggregate of qualified savings

a) 50,000 + 20000 + 25000 = $\boxed{95000}$
(NSC-VIII) (RPF) (S.S.Y)

b) 1,50,000

Deduction U/S 80(D) (Medical insurance premium least of two is allowed as deduction

a) Actual premium paid 50,000

b) $\boxed{25000}$

Donation in kind cannot be allowed as deduction.

UNIT-5 Imp Questions

1. Explain the powers of CBDT
2. " " " " chief commissioner income tax
3. " " " " Assessing officer
4. Explain the procedure for E-filing of returns and what are the various types of return (voluntary.)
5. What do you mean by assessment explain in detail the assessment procedure adopted by the department and by the assessee.