

# **MAR GREGORIOS COLLEGE OF ARTS & SCIENCE**

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Affiliated to the University of Madras  
Approved by the Government of Tamil Nadu  
An ISO 9001:2015 Certified Institution



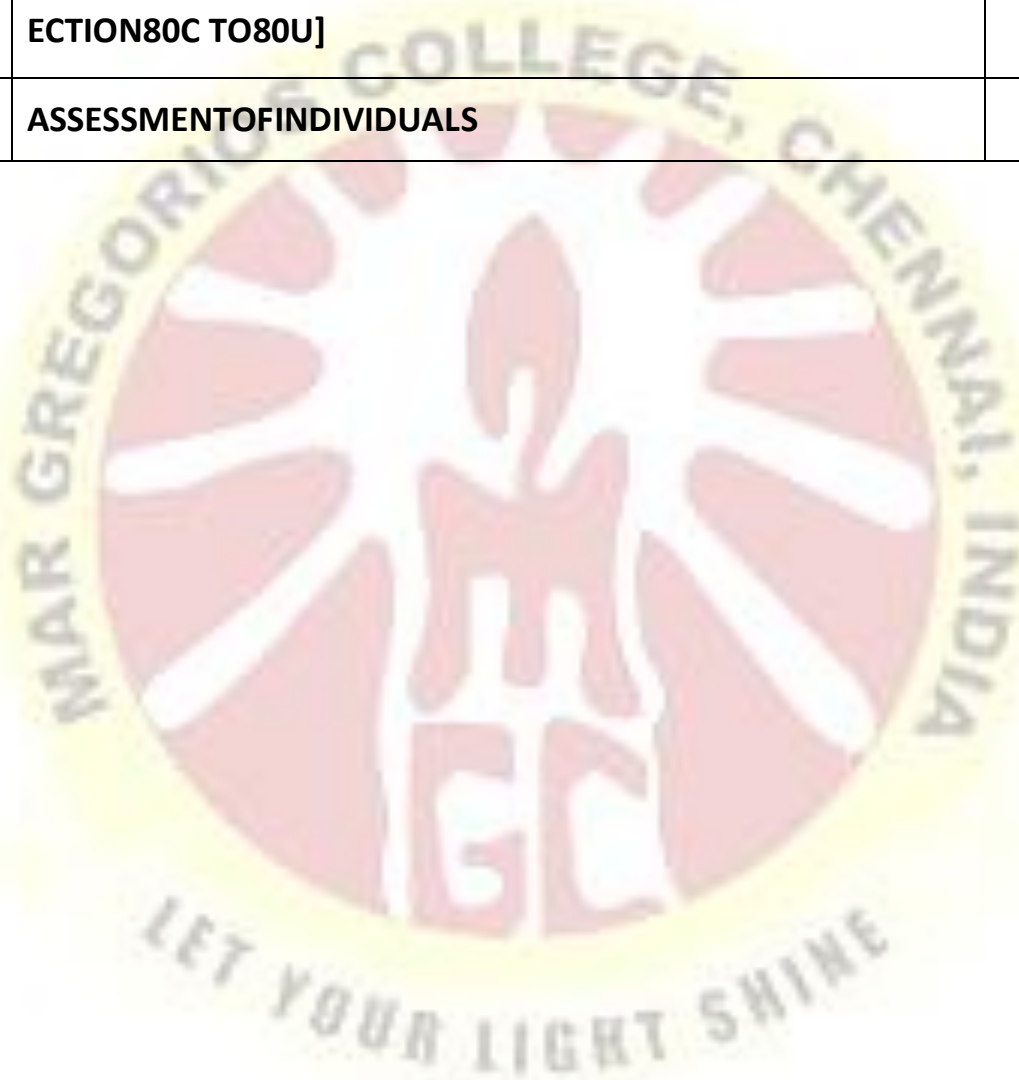
## **DEPARTMENT OF COMMERCE (ACCOUNTING & FINANCE)**

**SUBJECT NAME: INCOME TAX II**

**SEMESTER: VI**

**PREPARED BY: PROF.M.SUMATHY**

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## UNIT-I

### INCOME FROM CAPITAL GAINS (SEC-45)

#### **Introduction**

U/S45(1) any profits & gains arising from the transfer of a capital asset effected in the previous year shall chargeable to income tax under the head "Capital gains".

- Income arising from the transfer of capital asset.
- Effected in the previous year.

#### **Capital assets [sec 2(14)]**

Capital assets refer to property of any kind whether fixed or circulating movable or immovable tangible or intangible held by an assessee including property of his business or profession. Held by connected with his business or profession.

#### **Example types of capital assets.**

- Movable (or) immovable
- Tangible (or) intangible
- Fixed (or) floating
- Goodwill
- Leasehold rights

#### **Types of capital assets**

- Short-term capital assets
- Long-term capital assets

#### **Short-term capital assets [sec 2(42-4)]**

- Short-term capital asset refers to any asset, which is held by the assessee for not more than 36 months immediately prior to the date of transfer.
- In case of shares {equity or preference}, securities listed in any recognized stock exchange in India, units of UTI, units of Mutual Fund and Zero coupon bond - if the assessee holds the asset for not more than 12 months immediately prior to the date of transfer.

#### **Long-term capital assets**

Any asset, which is held for more than 36 months or 12 months as the case may be, will be termed as long-term capital assets. In other words, all assets other than short-term capital assets are called long-term capital assets.

#### **Short-term capital gain**

Any gain from the sale or transfer of short-term capital assets will be termed as short-term capital gain.

#### **Long-term capital gain**

Any gain from the sale or transfer of long-term capital assets will be termed as long-term capital gain.

#### **Indexed cost (section 48)**

Indexed cost refers to cost, which has been proportionately converted with the cost inflation index. It includes both cost of acquisition as well as cost of improvement. In case of bonds and debentures, except capital indexed bonds issued by the government no other bonds or

benturesshouldbeindexed.



The indexed cost should be calculated as follows:

<b>Index Cost =</b>	$\frac{\text{Cost}}{\text{Index of the Year of Acquisition (O R) Improvement}} \times \text{Index of the Year of Sale}$

**Note:** indexed cost of acquisition or indexed cost of improvement can be calculated in the above method.

The governments have notified the following "cost inflation index"

Sr	Financial year	Cost inflation index
1	2001-02	100
2	2002-03	105
3	2003-04	109
4	2004-05	113
5	2005-06	117
6	2006-07	122
7	2007-08	129
8	2008-09	137
9	2009-10	148
10	2010-11	167
11	2011-12	184
12	2012-13	200
13	2013-14	220
14	2014-15	240
15	2015-16	254
16	2016-17	264
17	2017-18	272
18	2018-19	280

**Format**

**Short-term capital gain**

Date	Particulars	Amount	Amount
	Sales value (sales consideration)	****	****
	Less: Expenses on sales (or) Transfer	****	
	<b>Less:</b>		
	i. Cost of acquisition	****	****
	ii. Cost of improvement	****	
	<b>Taxable short term capital gain</b>		****



**Long-term capital gain**

Date	Particulars	Amount	Amount
	Sales value (sales consideration)	****	
	Less: Expenses on sales (or) Transfer	****	****
	Less:		
	i. Indexed Cost of acquisition		
	ii. Indexed Cost of improvement		****
	<b>Long-term capital gains Less: Exemption U/S 54</b>		****
	a. U/s 54 - In respect of residential house	****	
	b. U/s 54(B) - In respect of agricultural land		
	c. U/s 54(D) - In respect of compulsory acquisition of land and buildings	****	
	d. U/s 54(EC) - In respect of improvement in specific bonds	****	
	e. U/s 54(ED) - In respect of listed securities and units	****	
	f. U/s 54(F) - In respect of long term capital assets	****	
	g. U/s 54(G) - In respect of shifting of industrial unit to rural area	****	
	h. U/s 54(GA) - In respect of shifting of industrial unit to special economic zone	****	
	i. U/s 54(GB) - In respect of capital gain on transfer of residential property	****	
	j. U/s 54(H) - In respect of acquiring new asset or depositing or investing amount of capital gain.		****
	<b>Taxable long term capital gain</b>		****

**Problem:4**

Calculate taxable capital gain. An asset was purchased in the year 2008-09 for Rs. 7,00,000. During the previous year it was sold for Rs. 15,00,000. Expenses in connection with the transfer of sale is Rs. 10,000. [CII 2008-09: 137; 2018-19: 280]

**Solution****Calculation of capital gain**

Date	Particulars	Amount	Amount
	Sale consideration		15,00,000
	<b>Less:</b> Expenses in connection with transfer		10,000
	Netsales		14,90,000
	<b>Less:</b> Indexed cost [LTCG] =7,00,000*280/137		14,30,657
	<b>LTCG</b>		<b>59,343</b>

**Problem:4**

From the following details calculate capital gains.

- Sale consideration of residential house 25,00,000 on 26-10-2018 [CII:280]
- Cost of acquisition of the house on 1-8-2008 is Rs.7,02,000 [CII:137]
- New residential house acquired on 2<sup>nd</sup> February 2019 is Rs.7,50,000

**Solution****Calculation of capital gain**

Date	Particulars	Amount	Amount
	Sale consideration		25,00,000
	<b>Less:</b> Expenses in connection with transfer		NIL
	Netsales		25,00,000
	<b>Less:</b> Indexed cost [LTCG] =7,02,000*280/137		14,34,745
	<b>LTCG</b>		<b>10,65,255</b>

## UNIT-II

### INCOME FROM OTHER SOURCES (IFOS)

#### **Introduction**

Any income which is taxable under the act does not place. Under any of the first four heads of income is taxable under the head. It includes (salary, house property, business or profession & capital gain)

- Dividend
- Income from Winnings from lottery, Crossword puzzles, Races, Card games, Gambling and betting.
- Employer contribution to provident fund, received by the employer
- Interest on securities.
- Income from letting of furniture, plant and building & Machinery.
- Amount of gifts besides these some other incomes are taxable under this head of income, like interest other than interest on securities, income from royalty, director fees, commission etc.
- Income from sub-letting house

#### **Bond Washing Transaction**

It is not advisable to avoid tax. When on the eve of the due date securities are sold to friends or relatives having taxable income below the minimum limit of taxation and bought back immediately after due date, so that they do not remain the owner of these securities.

On the due date and is saved from paying tax on their interest it is called a Bond Washing Transaction.

#### **The following formula may be used to find out the gross amount in different circumstances. (For the A.Y 2019-20)**

##### **In the case of an individual**

Where the person is resident in India

- a) Interest received on Tax-free government securities - **Exempt**
- b) Interest received on less-tax central or state government securities not to be grossed up
- c) Interest received on savings (taxable) bonds, if interest exceeds Rs. 10,000  
**Interest received \* 100/90**
- d) Interest received on debentures of a local authority or a corporation or debentures of a company listed in a recognized stock exchange in India.  
**Interest received \* 100/90**
- e) Interest received on other debentures and other securities.  
**Interest received \* 100/90**
- f) On income from winnings from lottery and crossword puzzles.  
**Winnings received \* 100/70**

##### **In case of Company**

- a) On interest on securities:  
**Interest received \* 100/90**
- b) On interest other than interest on securities:  
**Interest received \* 100/90**
- c) On income from winnings from lottery and crossword puzzles:  
**Winnings received \* 100/70**



### Simple format for calculation of Income from Other Sources

Date	Particulars	Amount
	i. Dividend from Indian company	****
	ii. Interest from securities	****
	iii. Casual income	****
	iv. Income from letting of plant and machinery, furniture building etc.	****
	v. Family pension	****
	vi. Royalty	****
	vii. Examinership remuneration	****
	viii. Any other income which cannot be included in salary, house property, business or profession, capital gains	****
	<b>Income from Other Sources</b>	<b>****</b>

#### **Problem:1**

1. From the following particulars, compute the income from other sources for A.Y. 2019-20

- i) Winnings from horse races 10,000
- ii) Winnings from lottery tickets (NET) 60,000
- iii) Amount spent on lottery tickets 10,000
- iv) Dividend received 32,000

#### **Solution**

##### **Computation of Income from Other Sources**

Date	Particulars	Amount	Amount
	I. Winnings from horse races		10,000
	II. Winnings from lottery tickets (NET) (60,000 * 100/70)		85,714
	III. Amount spent on lottery tickets		NIL
	IV. Dividend received		32,000
	<b>Income from other sources</b>		<b>1,27,714</b>

**Note:** Expenses on lottery tickets not applicable

#### **Problem:2**

Mr. Raghul earned the following incomes during the previous year ending on 31<sup>st</sup> March 2019. Compute his taxable I.F.O.S.

- I. Income from agricultural land in Burma 3,60,000
- II. Income from agricultural land in Kerala 1,80,000
- III. Interest on fixed deposits in Indian bank 16,200
- IV. Dividends from co-operative society 12,000
- V. Directors fees 10,000
- VI. Net winnings from Manipal lottery 4,20,000

**Solution****Computation of Income from Other Sources**

Date	Particulars	Amount	Amount
	I. Income from agricultural land in Burma		
	II. Income from agricultural land in Kerala		3,60,000
	III. Interest on fixed deposits in Indian Bank (16,200 * 100/90)		Exempt
	IV. Dividend from co-operative society		
	V. Directors fees		18,000
	VI. Net winnings from Manipal lottery (4,20,000 * 100/70)		12,000
			10,000
			6,00,000
	<b>Income from other sources</b>		<b>10,00,000</b>

**Problem:3**

Mr. Ajaigetsthe following gifts in July (PY 2018-19)

- I. Gift of Rs. 50,000 from his friend
- II. Gift of Jewellers worth Rs. 2,00,000 from his fiancée
- III. Gift of Rs. 21,000 from his wife's friend on marriage
- IV. Gift of 41,000 from his friend
- V. Gift of Rs. 26,000 from brother's father-in-law
- VI. Gift of Rs. 35,000 from his wife's friend on the occasion of marriage
- VII. Gift of Rs. 68,000 from his father's brother

**Solution****Computation of Income from Other Sources**

Date	Particulars	Amount	Amount
	I. Gift from his friend		50,000
	II. Gift received from fiancée		2,00,000
	III. Gift received on occasion of marriage		
	IV. Gift received from his friend		Exempt
	V. Gift received from brother's father-in-law		41,000
	VI. Gift received on occasion of marriage		21,000
	VII. Gift from his father's brother		Exempt
			-
	<b>Income from other sources</b>		<b>3,12,000</b>

**Problem:4**

Mr. Ramis investment during the year ended 2019 consisted of the following:

- I. 7% Government securities 25,000
- II. 8% Agra municipal bonds 15,000
- III. 9% Bombay Port Trust Bonds 20,000
- IV. 7% Govt. Bonds 18,000
- V. 6% securities of a foreign government 15,000

VI. Interest credited to Sukanya Samridhi A/c

He paid Rs, 60 as commission for collecting the taxable interest on securities and Rs.1,200 as interest on the loan which he had taken for the purpose of purchasing the Bombay Port Trust Bonds. Find out this income from other sources.

**Solution**

**Computation of Income from Other Sources**

Date	Particulars	Amount	Amount
	I. 7% Government securities (25,000 * 7/100)		1,750
	II. 8% Agra municipal bonds (15,000 * 8/100)		1,200
	III. 9% Bombay port trust bonds (20,000 * 9/100)		1,800
	IV. 7% Government bonds (18,000 * 7/100)		1,260
	V. 6% Securities of a foreign government (15,000 * 6/100)		1,260
	VI. Interest credited to Sukanya Samridhi A/c		1,260
	<b>Less: Deduction</b>		
	a) Commission		900
	b) Interest on loan taken for purchasing Bombay port trust bonds		Exempt
		60	<b>6,910</b>
		1,200	
			1,260
	<b>Income from other sources</b>		<b>5,650</b>

## UNIT- III

### SET-OFF AND CARRY FORWARD OF LOSSES (SEC 70-80)

#### **Introduction**

The concept of set off and carried forward comes into picture only when there is loss any source of income (except salary). To make it clear it that to be studied of in two separations.

- Intersources adjustments (within the same head of income)- sec 70
- Interhead adjustments (with overhead of income)-sec 71

#### **Points to be kept in mind in case of set-off of losses**

- Loss from speculative business cannot be set-off from any other income except income from speculative business.
- Long-term capital loss can be set-off only from long-term capital gain.
- Loss from owning and maintaining of racehorses can be set-off only from any income earned from owning and maintaining of horse races.
- Any other loss can be set-off from any other heads of income [house property loss, Non-speculative business loss, Short-term loss and other source loss]
- Loss from business can be set-off from House property, Capital gains and other sources except salaries.

#### **Carry-forward and set-off of losses**

##### **a) Income from salary**

The question of carry-forward and set-off will not arise in this head of income because there will be no loss under this head of income.

##### **b) Income (loss) from House property**

- Loss which cannot be adjusted during a financial year can be carried forward
- Loss can be carried forward for a period of 8 years.
- Carried forward loss should be set-off only from House property income and not from any other income.
- Return of loss should be filed within the time limit.

##### **c) Income [loss] from business Non-speculative business loss**

- Loss which cannot be adjusted during a financial year can be carried forward
- Loss can be carried forward for a period of 8 years
- Carried forward loss should be set-off only from Business or professional income and not from any other income.
- It is not necessary that loss should belong to the same business. Continuity of business is not necessary to carry forward and set-off.
- Return of loss should be filed within the time limit.
- Speculative business loss
- Loss can be carried forward and set-off only from speculative income.
- Loss can be carried forward for a period of 4 years
- It is not necessary that loss the same business should be continued.
- Return of loss should be filed within the time limit.



**d) Income[loss]fromcapitalgains**

- Losswhichcannotbeadjustedduringa financialyearcanbecarried forward
- Lossshouldbeadjustedonlyfromcapitalgains.
- Long-term capital loss can be carried forward and set-off only from long-termcapitalgainand notfromshort-termcapital gain.
- Short-termcapitallosscanbecarriedforwardandset-offfrom bothlong-term andshort-termgains.
- Losscanbecarriedforwardforaperiodof8 years.
- Returnoflossshouldbefiled withinthetimelimit.

**e) Income[loss]fromothersources**

- Lossfromowningandmaintainingofracehorsecomesunderthishead.
- Suchlosscanbecarried-forwardandset-offonly againstanyincome fromowningandmaintaining of racehorses.
- Losscanbecarriedforwardforaperiodof4 years.
- Returnoflossshouldbefiled withinthetimelimit.

**Problem:1**

ComputethetaxableincomeandlosstobeC/F

- I. BusinessprofitfortheP.Y2018-1920,000
- II. B/Fbusinesslossesof2017-18Rs.10,000
- III. CapitallossonsharesRs.70,00
- IV. Lossfromself-occupied house(U/S24)Rs.5,000

**Solution****Calculationoftotalincome**

Date	Particulars	Amount	Amount
	Businessprofit-2018-19		20,000
	Less:B/Fbusinessloss2017-18		10,000
			10,000
	Less:lossfromself -occupiedhouse(U/S24)		5,000
	<b>Totalincome</b>		<b>5,000</b>

**Problem:2**

Mr.Singhfurnishesthefollowingparticularsofhisincomesfortheassessmentyears2018-2019

- a. Incomefromletouthouse(computed)95,000
- b. Profitfromradiobusiness1,96,000
- c. Profitfromelectricbusiness18,000
- d. Speculationincome19,000
- e. Shorttermcapitalgains32,000
- f. Longtermcapitalgains92,500

Currentyear'sdepreciationamountedtoRs.25,000

ThefollowingitemshavebeenbroughtforwardfromtheprecedingAY:

- (i) Lossfromcyclebusiness2016-2017=39,000



- (ii) Loss from electric business 27,000
- (iii) Loss from radio business 19,000
- (iv) Unabsorbed depreciation 10,000
- (v) Speculation loss 32,000
- (vi) Short term capital loss from 2013-2014 = 41,000
- (vii) Long term capital loss from 2014-

2015 = 64,500 You are required to compute the gross total income.

### Solution

#### Calculation of total income

Date	Particulars	Amount	Amount
	<b>(i) House property income</b>	9,500	
	Less: B/F loss	3,000	6,500
	<b>(ii) Business income: Radiobusiness</b>		
	Interest from firm	19,600	
		1,800	
	Less: Current Depreciation	21,400	
		500	
		20,900	
	Less: Business loss B/FD	4,600	
		16,300	
	Less: Unabsorbed depreciation	1,000	
			15,300
	<b>(iii) Speculation business income</b>		
	Less: Speculation loss B/FD	1,900	
		3,200	
	Loss carried forward		-1,300
	<b>(iv) Capital gains:</b>		
	(a) STCG	3,200	
	Less: B/FD STCL	4,100	
	STCLC/f		-900
	(b) Long-term capital gain	1,400	
	Less: B/FD LTCG	3,950	
	LTCLC/F		-2,550

### Statement of Gross Total Income

Date	Particulars	Amount	Amount
	a. Income from house property		6,500
	b. Income from business		15,300
	c. Capital gain		NIL
	<b>Gross Total Income</b>		<b>21,800</b>

#### Note:

- (i) Speculation loss can be set-off against speculation profit only.
- (ii) Brought forward short-term capital loss can be set-off against short-term capital gains as well as long-term capital gain.
- (iii) Brought forward long-term capital loss can be set-off against long-term capital gains only.



**UNIT- IV**  
**DEDUCTION FROM GROSS TOTAL INCOME [SECTION 80C TO 80U]**

**Introduction**

The aggregate of income computed under each head, after giving effect to the provisions for clubbing of income and set off of losses, is known as "Gross Total Income". In computing the total income of an assessee, certain deductions are permissible under sections 80C to 80U from Gross Total income.

DEDUCTION UNDER CHAPTER VI-A IN RESPECT OF 'PAYMENTS'		
Section	Nature of Payment	Who can Claim
80C	Life Insurance Premium, Provident Fund Contribution (Maximum: Rs. 1,50,000)	Individuals
80CCC	Pension Fund [Maximum: Rs. 1,50,000]	Individuals
80CCD(1)	Deduction available in respect of Employee's / Assesses Contribution to National Pension Scheme (NPS) [Section 80CCD(1)]	Individuals
80CCD(1B)	Additional Deduction of Rs. 50,000 is available in respect of Employee's / Assesses Contribution to National Pension Scheme (NPS) [Section 80CCD(1B)]	Individuals
80CCD(2)	Deduction available in respect of Employer's Contribution to National Pension Scheme (NPS) [Section 80CCD(2)]	Employees
80D	Deduction in respect of Health or Medical Insurance Premium	Individual/HUF
80DD	Deduction in respect of Maintenance Including Medical Treatment of a Dependent who is a Person with Disability	Resident Individual/Resident HUF
80DDB	Deduction in respect of Medical Treatment, etc.	Resident Individual/Resident HUF
80E	Payment of interest of Loan taken for higher studies	Individual
80EE	Deduction in respect of Interest on Loan taken for Residential House Property	Individual
80G	Deduction in respect of Donations to certain Funds, Charitable Institutions, etc. [Section 80G]	All Assesses
80GG	Deduction in respect of Rents Paid [Section 80GG]	Individual
80GGA	Deduction in respect of certain Donations for Scientific Research or Rural Development [Section 80GGA]	All assesses not having any income chargeable under the head 'Profits and gains of business or profession'
80GGB/GGC	Contribution to Political Parties	
DEDUCTION UNDER CHAPTER VI-A IN RESPECT OF 'CERTAIN INCOMES'		

80-IA	Deduction in respect of Profit and Gains from Industrial Undertaking or Enterprises engaged in infrastructure Development [Section 80IA]	All Assesse
80-IAB	Deduction in respect of profits and gains by an undertaking or an enterprise engaged in development of Special Economic Zone (SEZ)	Developers
80-IAC	Special Provision in respect of Eligible Business of Eligible StartUp [Section 80-IAC] [W.e.f.A.Y. 2017-18]	Companies/LLPs
80-IB	Deduction in respect of Profit & Gain from certain Industrial Undertaking other than Infrastructure Development Undertaking [Section 80-IB]	All Assesse
80-IBA	Deduction in respect of Profits and Gains from Housing Projects [Section 80-IBA]	All Assesse
80-IC	Deduction in respect of Profits and Gains of Certain Undertaking or Enterprises in certain Special Category States. [Section 80-IC]	All Assesse
80-ID	Deduction in respect of Profits and Gains from Business of Hotels and Convention center in NCR	All Assesse
80-IE	Deduction in respect of certain undertaking in North-Eastern States	All Assesse
80-JJA	Deduction In Respect Of Profit And Gains From Business Of Collecting And Processing Of Bio-Degradable Waste	All Assesse
80-JJAA	Deduction In Respect Of Employment Of New Employees [Section 80-JJAA] w.e.f.A.Y. 2017-18	All Assesse
80LA	Deduction in respect of certain incomes of Offshore Banking Units and International Financial Services Centre	Scheduled Banks
80P	Deduction in respect of income of Co-operative Societies	Co-operatives Societies
80PA	Deduction in respect of income of Farm Producer Companies [W.e.f.A.Y. 2019-20]	Producers Companies
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than textbooks [Maximum Rs. 3,00,000]	Resident Individuals
80RRB	Deduction in respect of royalty on patents [Maximum Rs. 3,00,000]	Resident Individuals
80TTA	Deduction in respect of interest on deposits in savings accounts to the maximum extent of Rs. 10,000	Individuals/HUF
80TTB	Senior citizen to be allowed a deduction of Rs. 50,000 on account of interest on deposits with Banks / co-operative bank/post office. [W.e.f.A.Y. 2019-20]	Senior Citizens
80U	Deduction in case of a person with disability [Maximum: Rs. 1,25,000]	Resident Individuals

**Problem:1**

Mr. Vasanth previous year's gross total income is Rs. 5,00,000. He has made the following donations. Calculate the net income.

- National foundation for communal harmony Rs. 10,000
- National children's fund Rs. 20,000
- National defence fund Rs. 25,000

**Solution**

Date	Particulars	Amount	Amount
	Gross Total Income		5,00,000
	<b>Less: deduction u/s 80G</b>		
	i. NFGH-100%-No limit	10,000	
	ii. NCF-100%-No limit	20,000	
	iii. NDF-100%-No limit	25,000	55,000
	<b>Net income</b>		<b>4,45,000</b>

**Problem:2**

Calculate the deduction allowable under section 80GG to an Assessee having the following incomes for the assessment year 2019-20:

Particulars	Amount
Business income	55,000
Interest from bank	5,000
<b>Total income</b>	<b>60,000</b>

Rent paid by him for a house occupied by him for the purpose of his residence is Rs. 1,250 per month

**Solution**

**Computation of taxable income**

Date	Particulars	Amount	Amount
	Business income		55,000
	Income from other sources:		
	Bank interest		5,000
	<b>Gross total income</b>		<b>60,000</b>
	<b>Less: Deduction</b>		
	Deduction u/s 80GG in respect of rent paid		9,000
	<b>Taxable income</b>		<b>51,000</b>

**Working note:**

Deduction in respect of rent paid u/s 80GG: (least of the following exempted)

- Rs. 5,000 per month i.e., Rs. 60,000
- 25% of GTI (GTI - deductions u/s 80-LTCG and STCG on sale of listed shares)  $(60,000) \times 25/100 = \text{Rs. } 15,000$
- Rent paid - 10% of income  $(1,250 \times 12) - [10/100 \times 60,000] = 15,000 - 6,000 = 9,000$



**Problem:2**

Mr. Gopi who is totally handicapped provides you the following information. Compute the tax on his income for the assessment year 2019-20.

Particulars	Amount
Salary (per annum)	
Interest on Bank Saving Account	
Interest on Govt. Securities	
Long term capital gain	
Short term capital gain	
Winnings from lotteries (gross)	
Deposit in PPF	
NSC (VIII) purchased during the year	

**Solution****Computation of Total Income of Mr. Gopi, a handicapped assessee**

Date	Particulars	Amount	Amount
	Income under the head salary:		
	Gross salary	1,30,000	
	<b>Less: standard deduction u/s: 16(i)</b>	40,000	90,000
	Capital gain:		
	Long-term capital gain	40,000	
	Short-term capital gain	10,000	50,000
	Income from other sources:	15,000	
	Interest on bank savings	4,000	
	Interest on Govt. securities	20,000	39,000
	Winnings from lotteries		1,79,000
	<b>Less: deductions:</b>	40,000	
	(i) U/S 80C: PPF	20,000	
	NSC	60,000	
	(ii) U/S 80U in respect of handicapped assessee	75,000	
	(iii) U/S 80TTA: savings bank deposits interest (least of Rs. 10,000 or 15,000)	10,000	1,45,000
	<b>Taxable income</b>		<b>34,000</b>

VarioustypesofAssessmentunderIncomeTaxAct,1961(AmendedbyFinanceAct, 2016)

Every Person, whose earning, which is chargeable to tax, has to furnish his return of income to the Income Tax Department. After filling of return of income, the next step is the processing of income tax return by the Income Tax Department. The income tax department examines the return of income and specifies any correction, if any. The process of examination of the return of the Income Tax Department is called "Assessment". Assessment includes e-

assessment and best judgment assessment under section 147 and 144 respectively. Each type of assessment is discussed in detail in this article.

### Types of Assessment

**Under Income Tax Act, 1961, there are four types of assessment as mentioned below:**

- Self assessment – u/s 140A
- Summary assessment – u/s 143(1)
- Scrutiny assessment – u/s 143(3)
- Best Judgment Assessment – u/s 144
- Protective assessment
- Re-assessment or Income escaping assessment – u/s 147
- Assessment in case of search – u/s 153A

### Self-assessment

Submitting returns assesses if find whether he is liable for any tax or interest. For this purpose this section has been introduced in Income tax act.

Where any tax is payable on the basis of any return required to be furnished under section 139 or section 142 or section 148 or section 153A, after deducting:

- Advance tax Paid, if any
- TDS/TCS
- Relief
- MAT credit

The assesses shall pay tax & interest before furnishing return and proof of such payment will be accompanied with the return of income.

### Summary assessment

Assessment under section 143(1) is like preliminary checking of the return of income. Under this section, Income tax department sent intimation u/s 143(1) in which comparative Income Tax computation [i.e. as provided by Tax payer in Return of Income and as computed u/s 143(1)] is sent by Income Tax Department. At this stage no detailed scrutiny of the Return of Income is carried out. At this stage, the total income or loss is computed after making the following adjustment (if any), namely:

- Any arithmetical error in the return.
- An incorrect claim, if such incorrect claim is apparent from any information in the return.
- Disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished beyond the due date specified under section 139(1).
- Disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return.
- Disallowance of deduction claimed under section 10AA, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, or section 80-IE, if the return is furnished beyond the due date specified under section 139(1).
- Addition of income appearing in form 26AS or form 16A or Form 16 which has not been included in computing the total income in the return.

### Time Limit

Assessment u/s 143(1) can be made within a period of one year from the end of financial year in which the return of income is filed.

## Scrutiny Assessment

Scrutiny assessment refers to the examination of a return of income by giving opportunity to the assessee to substantiate the income declared and the expenses, deduction, losses, exemptions, etc. claimed in the return with the help of evidence. During the course of scrutiny, the assessing officer gets opportunity to conduct enquiry as he deemed fit from the assessee and from third parties. The exercise is aimed at ascertaining whether the income in the return is correctly shown by the assessee and whether the claims for deductions, exemption etc. are factually and legally correct. If any omission, discrepancies, inaccuracies, etc. come to light as a result of examination, the assessing officer makes his own assessment of the assessee's taxable income after taking into consideration all the relevant facts. These assessments are made under section 143(3) of the Income Tax Act.

The cases selected for Scrutiny Assessment can be of two types - i.e.

1. Manual scrutiny cases
2. Compulsory Scrutiny cases.

### (1) Manual scrutiny cases

Following can be reason for manual scrutiny case:

- Not filing Income Tax Return
- Declaring lesser income compared to earlier year or Declaring more loss compared to earlier year.
- Mismatch in TDS credit between claimant and 26AS.
- Non-declaration of exempt income.
- Claiming large refunds in return of Income.
- Taking double benefit due to change in Job.
- High Value Transaction (as reflected in AIR).

### (2) Compulsory Scrutiny cases

The following cases are compulsorily selected for scrutiny:

- Cases involving addition in the earlier assessment year in excess of Rs. 10 lakhs on a substantial and recurring question of law or fact which is confirmed in appeal or is pending before an appellate authority may come under compulsory scrutiny.
- Cases involving addition in an earlier year on the issue of transfer pricing in excess of Rs. 10 crore or more on a substantial and recurring question of law or fact which is confirmed in appeal or is pending before an appellate authority.
- Computer Added Scrutiny Selection (CASS): cases are also being selected under CASS on the basis of broad based selection filters. List of such cases shall be separately intimated in due course by DGIT (system) to the jurisdictional concerned. The cases for this purpose are mostly selected through the process of computer assisted scrutiny selection (CASS) and there is no element of subjectivity in this process.
- Cases in respect of which specific and verifiable information pointing out tax evasion is given by Government Department/Authorities. The Assessing Officers shall record reasons and take prior approval from Pr. CCIT/CCIT/Pr. DGIT/DGIT concern before selecting such a case for scrutiny.
- Cases where order denying the approval u/s 10 (23C) of the Act or withdrawing the approval already granted has been passed by the competent authority, yet the assessee found claiming tax exemption under the aforesaid provision of the Act.

There can be two types of scrutiny assessment i.e. (1) Limited scrutiny assessment and (2) Complete Scrutiny Assessment. When case is selected for Limited scrutiny assessment, assessing officer can ask only the details regarding the reason behind the selection of any specific matter. However, in case of Complete Scrutiny Assessment, Assessing officer can ask complete details of transaction reflecting in the return of the income.

### **Best Judgment Assessment**

Section 144 of Income tax act, 1961 speaks about Best Judgment Assessment. In the best judgment assessment, an assessing officer makes an assessment based on his best reasoning. Assessment should neither be dishonest in his assessment nor have a vindictive attitude.

### **There are two types of Best Judgment Assessment**

- **Compulsory best judgment assessment:** It is done when assessing officer finds that there is an act amounting to non-co-operation by the assessee or where assessee is found to be a defaulter in supplying information to the department.
- **Discretionary best judgment assessment:** It is done in cases where assessing officer is dissatisfied with the authenticity of the accounts given by the assessee or where no regular method of accounting has been followed by the assessee.

The process of Best Judgment Assessment is applied in conformity with the Principle of Natural justice. As per the provision of Section 144 of the Income Tax Act, 1961, the Assessing officer is supposed to make an assessment of the income of an assessee to the best of his judgment in the following cases:

- If the person fails to make return u/s as required 139(1) and has not made a return or a revised return under sub-section (4) or (5) of that section; or
- If any person fails to comply with all the terms of a notice under section 142(1) or fails to comply with the direction requiring him to get his account audited in terms of section 142(2A); or
- If any person after having filed a return fails to comply with all the terms of a notice under section 143(2) requiring his presence or production of evidence and documents; or
- If the Assessing officer is not satisfied about the correctness or the completeness of the accounts of assessee or if no method of accounting has been regularly employed by the assessee.

In the case of best judgment assessment, an assessee has a right to file an appeal u/s 246 or to make an application for revision u/s 264 to the commissioner.

### **One should also keep in view the following**

The best judgment assessment can only be made after giving the assessee an opportunity of being heard. Such opportunity shall be given by issue of a notice to the assessee to show because why the assessment should not be completed to the best of his judgment and that opportunity for hearing will not be necessary where notice u/s 142(1) already been issued.

### Protective assessment

Though there is no provision in the income tax act authorizing the levy of income tax on a person other than whom the income tax is payable, yet it is open to the authorities to make a protective or alternative assessment if it is not ascertainable who is really liable to pay the tax among a few possible persons.

In making a protective assessment, the authorities are merely making an assessment and leaving it as a paper assessment until the matter is decided (as to whom the asset owned by) one way or another. Furthermore, a protective order of assessment can be passed but not a protective order of penalty must, however be noted that while protective assessment is permissible, a protective order for recovery is not permissible.

### Re-Assessment (or) Income escaping assessment

Re-

assessment is carried out if the Assessing officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year

### Points to keep in mind while filing a revised return:

- ITR form can be changed while revising of return.
- No penalty can be levied by the department for bonafide mistakes (unintentional)
- If the assessing officer discovers that the error/omission were intentional/fraudulent return revision of return is not allowed and penalty may be levied.
- Interest under section 234B and 234C will be recalculated under every revised return.
- If the taxpayer has revised return after the survey/search and it was found that the mistake in the original return was not bonafide then levy of penalty is justified





**UNIT-**  
**VASSESSMENT OF INDIVIDUAL**

**Introduction****S**

Assessment of individuals include calculation of taxable income and the tax liability of an assessee after giving effect to all rules and regulations that are incorporated by the Income Tax authorities from time to time. Rules prevailing for the current financial year should be applied to assess the tax liability of an individual. The following lines deal with the procedure of assessment on income of an individual.

**How incomes should be assessed?**

The sum total of all the sources of income after giving effect to set-off and carry-forward of losses reduced with sections 80 and rebate u/s 87A and 88 E should be considered as the taxable income. The taxable income should be rounded-off to the nearest Rs.10 (rounding off) tax rates, surcharge and education cess as applicable should be applied on the taxable income or net income to identify the tax liability of an individual.

**How to calculate Income Tax?**

Date	Particulars	Amount	Amount
	Income from salary		*****
	Income from house property		*****
	Income from business or profession		*****
	Income from capital gain		*****
	Income from other sources		*****
	Gross total income		*****
	Less: deduction u/s 80		*****
	<b>Total income</b>		<b>*****</b>

**How to calculate tax liability?**

Particulars	Amount	Amount
Total amount of tax [total income rate of tax prescribed by the act]		*****
<b>Less:</b> Rebate u/s 87 A [for resident individual whose income does not exceed Rs.5 lakhs]		*****
<b>Add:</b> surcharge		*****
<b>Add:</b> Education cess - 2% Secondary and higher education cess [SHEC] - 1%	***** *****	***** *****
<b>Less:</b> Advanced paid tax [if any] Tax deducted at source [TDS] [if any]	***** *****	***** *****
<b>Net amount to be paid as Tax/Tax Liability</b>		<b>*****</b>

**Tax Rates**

**1. In case of an Individual (resident or non-resident) or HUF or Association of Person or Body of Individual or any other artificial juridical person**

**AssessmentYear2019-20**

<b>TaxableIncome</b>	<b>Tax Rate</b>
UptoRs.2,50,000	Nil
Rs.2,50,000toRs5,00,000	5%
Rs.5,00,000toRs.10,00,000	20%
AboveRs.10,00,000	30%

**Less:** Rebate under Section 87A [see Note]

**Add:** Health and Education Cess [see Note]

**AssessmentYear2020-21**

<b>TaxableIncome</b>	<b>Tax Rate</b>
UptoRs.2,50,000	Nil
Rs.2,50,000toRs5,00,000	5%
Rs.5,00,000toRs.10,00,000	20%
AboveRs.10,00,000	30%

**Less:** Rebate under Section 87A [see Note]

**Add:** Surcharge and Health & Education Cess [see Note]

**2. In case of a resident senior citizen (who is 60 years or more at any time during the previous year but less than 80 years on the last day of the previous year)**

<b>TaxableIncome</b>	<b>Tax Rate</b>
UptoRs.3,00,000	Nil
Rs.3,00,000toRs5,00,000	5%
Rs.5,00,000toRs.10,00,000	20%
AboveRs.10,00,000	30%

**Less:** Rebate under Section 87A [see Note]

**AssessmentYear2020-21**

<b>TaxableIncome</b>	<b>Tax Rate</b>
UptoRs.3,00,000	Nil

Rs.3,00,000toRs5,00,000	5%
Rs.5,00,000toRs.10,00,000	20%
AboveRs.10,00,000	30%



**Less:** Rebate under Section 87A [see Note]

**Add:** Surcharge and Health & Education Cess [see Note]

### 3. In case of a resident super senior citizen (who is 80 years or more at any time during the previous year)

#### Assessment Year 2019-20

Taxable Income	Tax Rate
Upto Rs. 5,00,000	Nil
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

**Add:** Surcharge and Education Cess [see Note]

#### Assessment Year 2020-21

Taxable Income	Tax Rate
Upto Rs. 5,00,000	Nil
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

**Add:** Surcharge and Health & Education Cess [see Note]

#### Assessment Year 2019-20

##### Surcharge:

Surcharge is levied on the amount of income-tax at the following rates if total income of an Assessee exceeds specified limits:

Nature of Income	Range of income		
	Upto Rs. 50 lakh	More than Rs. 50 lakh but upto Rs. 1 crore	More than Rs. 1 crore
Any Income	Nil	10%	15%

##### The surcharges shall be subject to marginal relief:

- Where income exceeds Rs. 50 lakhs, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of Rs. 50 lakhs by more than the amount of income that exceeds Rs. 50 lakhs
- Where income exceeds Rs. 1 crore, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of Rs. 1 crore by more than the amount of income that exceeds Rs. 1 crore.

- Health and Education Cess: The amount of income-tax and the applicable surcharges shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.





- Rebate under Section 87A: The rebate is available to a resident individual if his total income does not exceed Rs. 3, 50,000. The amount of rebate shall be 100% of income-tax or Rs. 2,500, whichever is less.

### Problem:1

Calculate the tax liability of Mr. Alok for the assessment year for the particulars given below.

Income from salary Rs. 3,00,000 [computed]  
Income from house property Rs. 74,000  
Income from other sources Rs. 1,50,000  
Donation to national defense fund Rs. 8,000

### Solution

#### Computation of taxable income

Date	Particulars	Amount	Amount
	Income from salary		3,00,000
	Income from house property		74,000
	Income from other sources		1,50,000
	<b>Gross total income</b>		<b>5,24,000</b>
	Less: Deduction u/s 80G-100% for NDF		8,000
	<b>Taxable income</b>		<b>5,16,000</b>

#### Computation of Tax Liability

Date	Particulars	Amount	Amount
	(i) Upto Rs. 2,50,000		Nil
	(ii) Rs. 2,50,000 to Rs. 5,00,000 [2,50,000 * 5%]		12,500
	(iii) Balance Rs. 16,000 [5,16,000 - 5,00,000] [16,000 * 20/100]		3,200
	<b>Total Tax on income</b>		<b>15,200</b>
	<b>Add: Education cess @ 4%</b> [15,200 * 4/100]		628
	Surcharge		Nil
	<b>Tax Liability</b>		<b>16,328</b>

### Problem:2

Calculate tax liability of Shri. Anand assuming he is a very senior citizen [81 years old] for the assessment year from the following information.

- Income from business Rs. 12,00,000
- Half share of profit from business Rs. 45,000
- Share of income from AOP Rs. 22,000
- Share of loss from firm Rs. 16,500

### Solution

#### Computation of Taxable Income

Date	Particulars	Amount	Amount
	Income from business		12,00,000
	<b>Taxable income</b>		<b>12,00,000</b>

**Computation of Tax Liability**

<b>Date</b>	<b>Particulars</b>	<b>Amount</b>	<b>Amount</b>
	(i) Upto Rs. 5,00,000		Nil
	(ii) Rs. 5,00,000 to Rs. 10,00,000 [5,00,000 * 20%]		1,00,000
	(iii) Balance Rs. 2,00,000 [12,00,000 - 10,00,000] [2,00,000 * 30/100]		60,000
	<b>Total Tax on income</b>		<b>1,60,000</b>
	<b>Add: Education cess @ 4%</b> [1,60,000 * 4/100]		6,400
	<b>Surcharge</b>		Nil
	<b>Tax Liability</b>		<b>1,66,400</b>

