

## SYLLABUS

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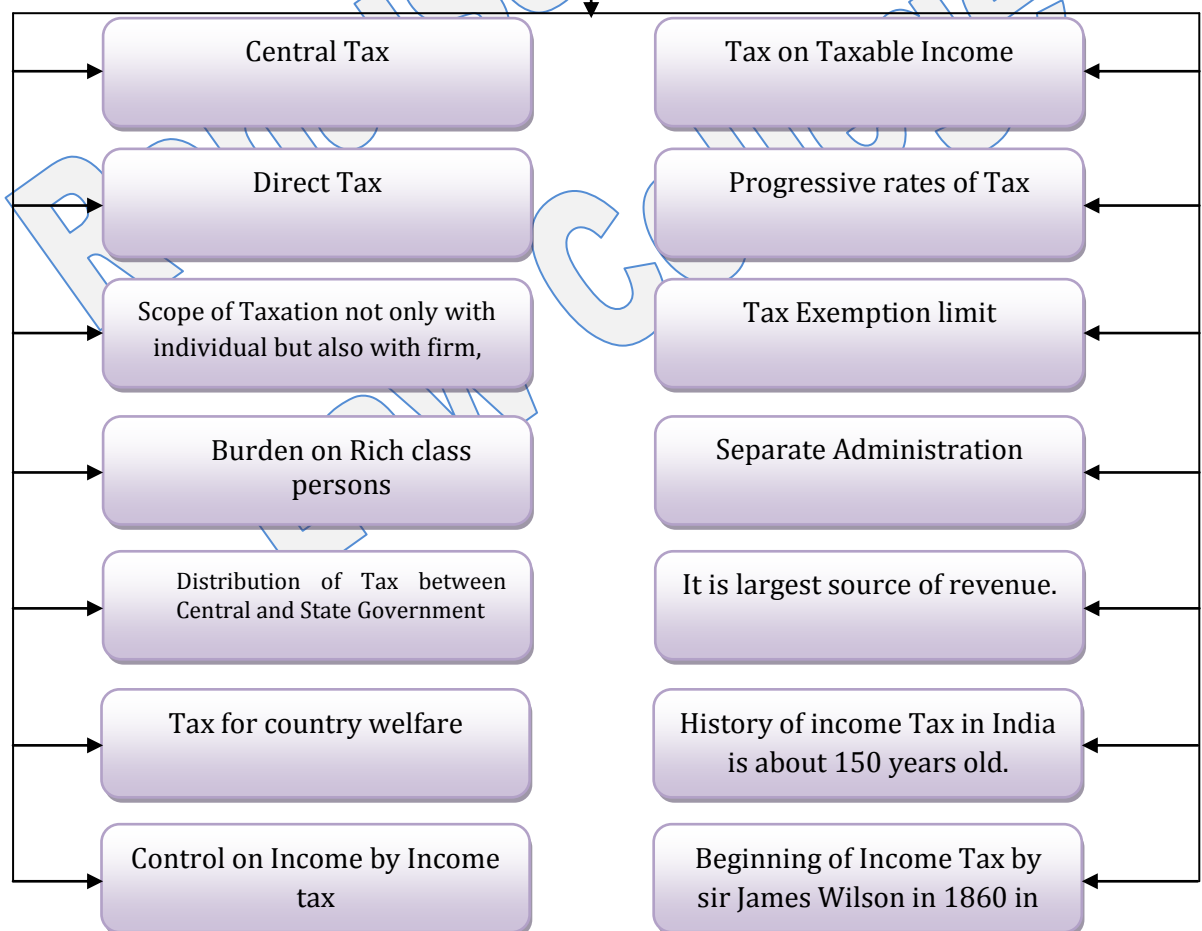
**Unit - 1**  
**Basic concepts of Income Tax**

**Meaning of Income Tax**

Income tax is a tax on year taxable income of a person levied by the Central Government at prescribed rates. Tax payers include individual, firm, company, Hindu undivided family, association of persons, trust etc.

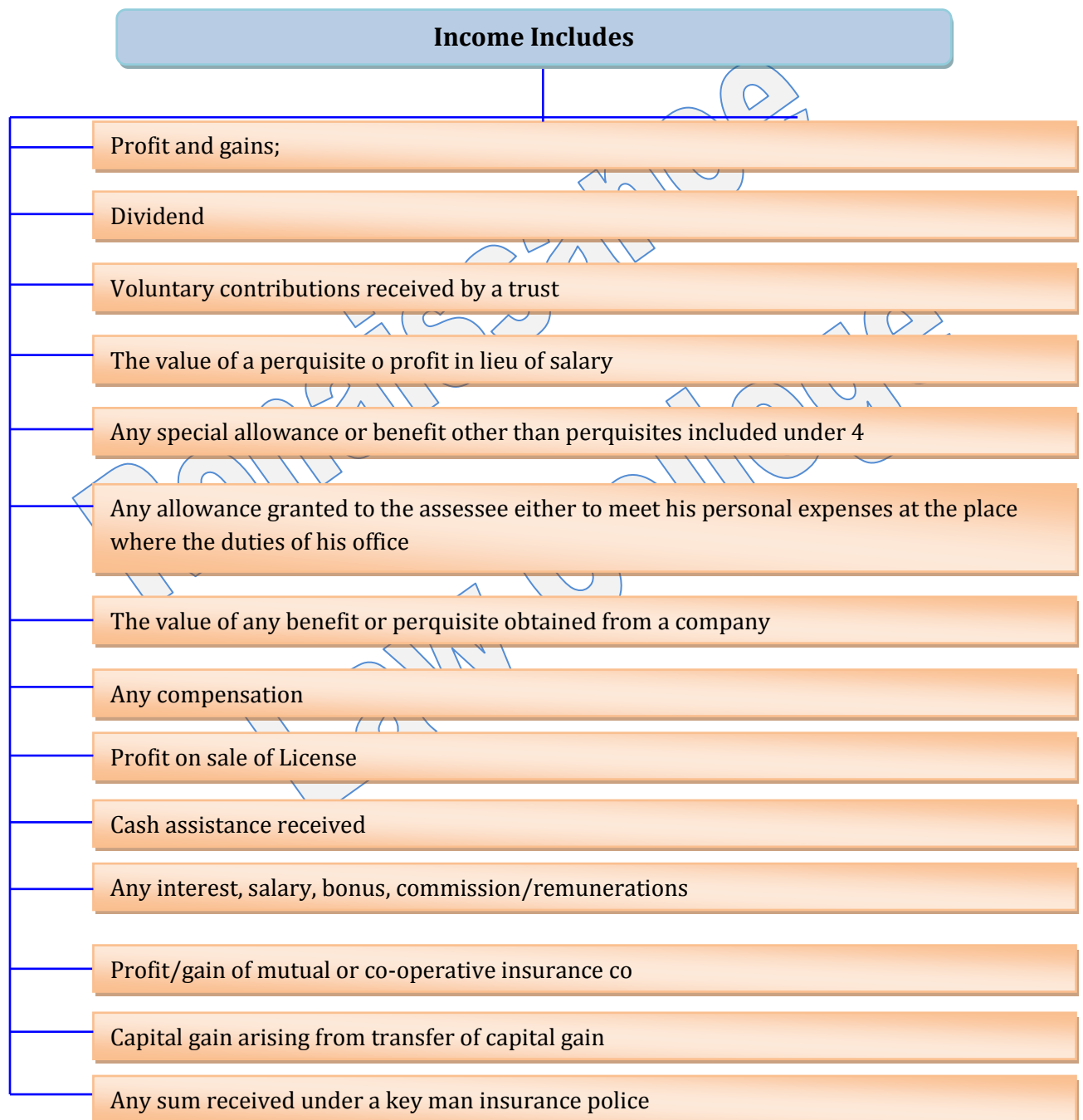
*Taxable income means income calculated under the provisions of the Income Tax Act.1961*

**Salient Features of Income Tax**



**Income [Section 2(24)]**

Though 'Income' is a very important word for the Income Tax Act but no precious definition of the word "Income" is attempted under the Income Tax Act, 1961. The term "Income", in the context of the Act, is inclusive. The narration given in Sub-Section (24) of Section 2 of the Act enumerates certain items, including those which cannot ordinarily be considered as income but are treated statutorily as such.



**Agricultural Income [Section 2 (1A)]**

**Definition of Agriculture Income**

Sec. 2(1A) defines “agricultural income” to means –

- (A) any rent or revenue derived from land which is situated in India and is used for agricultural purposes,
- (B) any income derived from such land by agriculture or by the process employed to render the produce fit for the market or by sale of such produce by a cultivator or receiver of rent in kind,
- (C) Any income derived from any building provided the following conditions are satisfied (i) The Building is immediate vicinity of the agriculture land (ii) it is occupied by the cultivator or received of rent or revenue (iii) It is used as a dwelling house or store house/out house. (iv) The land is assessed to land revenue or a local rate.
- (D) Any income derived from saplings/seedling grown in a nursery shall be deemed to be agricultural income.



**Partly Agricultural Income Shown by Chart**

S.No.	Partly Agricultural Income	Agricultural Income	Non Agricultural Income
1	Growing & manufacturing tea in India	60%	40%
2	Growing & cured coffee in India by the seller	75%	25%
3	Sale of Coffee grown, cured, roasted and grounded	60%	40%
4	Sale of centrifuged latex or cenex manufactured from rubber	65%	35%
5	Other Agricultural produce grown by the manufacturer and used for own product.	Market value of agricultural produce used in production	Remaining Business income will be taxable.

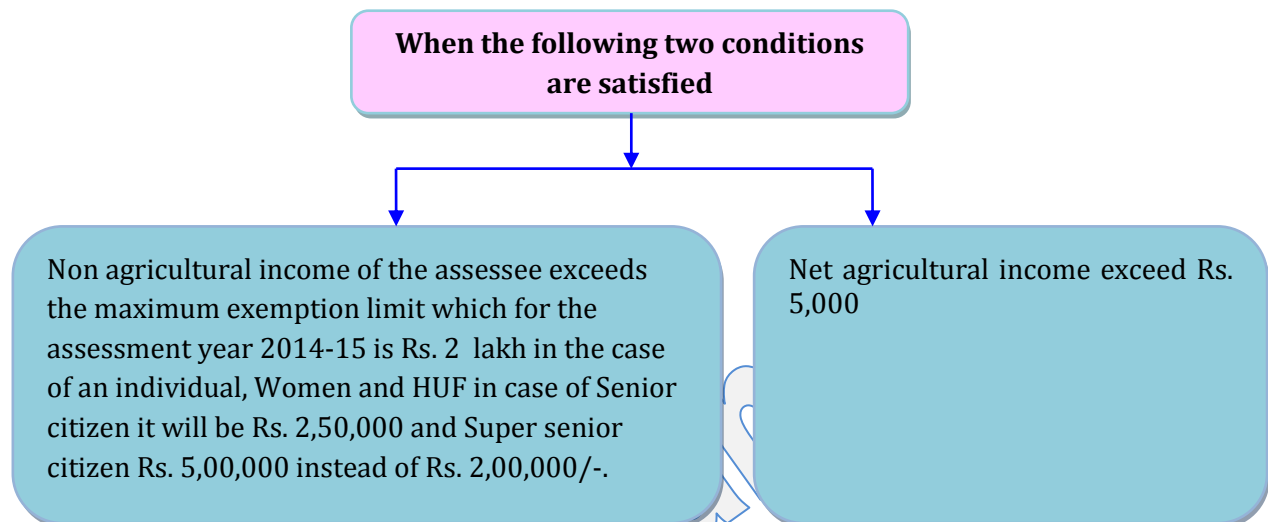
**Income connected with land but not agricultural income –**

1. Profit earned on purchasing the standing crop.
2. Income from mines
3. Income from self grown grass, trees/bamboos
4. Divided from a company engaged in Agricultural
5. Income from warehouses and godowns.
6. Income from land used for brick making
7. Income from supply of water for irrigation purposes.
8. Remuneration for managing agricultural property.
9. Income from dairying.
10. Interest accrued on promissory notes executed for arrears of rent.

**Agricultural Income and Tax Liability –**

Though agricultural income is exempt and it is not included in computation of total income of an assessee but from tax calculation point of view it is added to total income. The agricultural income is integrated with non-agricultural income in those cases where assessee has both incomes. Such integration is done only in the case of individual, HUF, AOP/BOI and Artificial juridical person.

**Condition for Integration –**



**Procedure for computation of Tax-payable on non-agricultural income after Integration-**

1. Aggregate the Agricultural income with non Agricultural income and determine the tax payable on such amount.
2. Aggregate the Agricultural income with basis exemption limit and determine the tax payable on such amount.
3. The difference between the tax computed in step (a) and step (b) will be the tax payable in respect of non-agricultural income.

**DEFINITIONS**

**CASUAL INCOME**

Causal Income means such income the receipt of which is accidental and without any stipulation. It is the nature of an unexpected windfall. Though causal income is fully taxable but it is necessary to clear this meaning from the following point of view –

Causal income like lottery, race income are taxable at special rate of 30%

Causal income cannot be set off against other causal income as well as casual income cannot be used for setting off loss of other head

**ASSESSMENT YEAR : (2014-2015)**

It means the period of twelve months commencing on 1<sup>st</sup> of April every year. In other words period of 12 months – 1<sup>st</sup> April to 31<sup>st</sup> March is called assessment year.

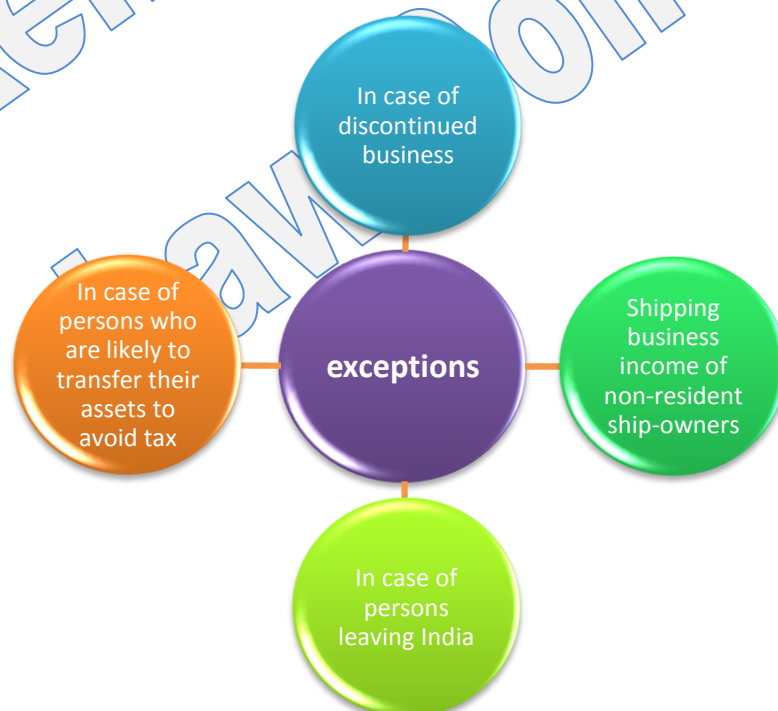
**PREVIOUS YEAR (Section 3)(2013-2014)**

Previous year means the financial year immediately preceding the assessment year e.g. for the assessment year 2014-2015 previous year will commence on 1<sup>st</sup> of April, 2012 and end on 31<sup>st</sup> March, 2014. Previous year for income tax purposes will be financial year which ends on 31<sup>st</sup> of March, however the assessee can close his books of accounts on other date e.g. an assessee may maintain books of accounts on calendar year basis but his previous year, for Income Tax purpose, will be financial year and not the calendar year. This uniform previous year has to be followed for all sources of income.

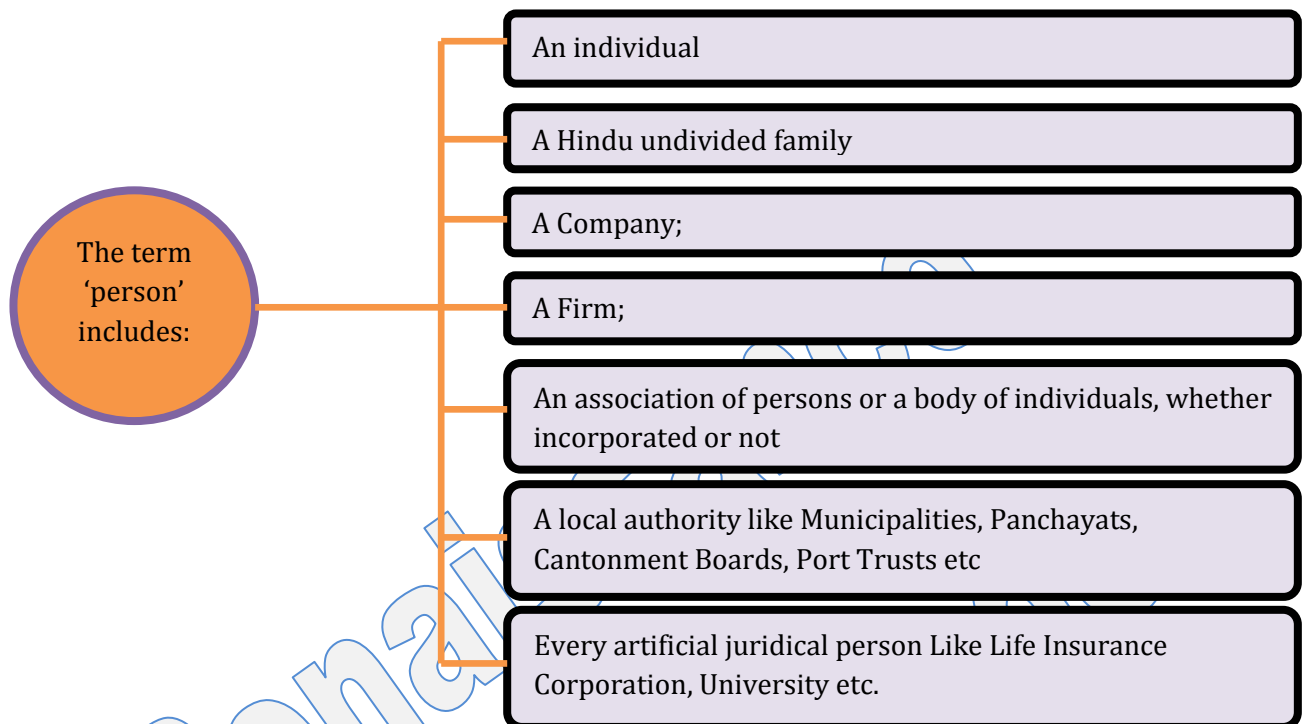
Important points in relation to previous year: Under the following situation the previous year would be-

1. Where a different accounting year is followed
2. Previous year in case of newly set up business
3. In case of newly created source of income

**Exception to the rule of Previous Year:**



**PERSON [SECTION-2 (31)]**



**ASSESSEE [SECTION-2 (7)]**

In simple word, An Assessee is a person who is liable to pay any sum under Income Tax Act or in respect In respect of whom the proceeding have been initiated under this Act.

The word 'assessee' has been defined in Section 2(7) of the Act according to which assessee means a person by whom any tax or any other sum of money is payable under the Act and includes –

**(a) Every person:**

- (i) Who is liable to pay any tax; or
- (ii) Who is liable to pay any other sum of money under this Act (e.g. interest, penalty, etc); or
- (iii) In respect of whom any proceeding under this Act has been taken for the assessment of the income; or
- (iv) In respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or
- (v) In respect of whom any proceeding under this Act has been taken for the assessment for the loss sustained by him or by such other person; or
- (vi) In respect of whom any proceeding under this Act has been taken for the amount of refund due to him or to such other person;

**(b) A Deemed Assessee:**

A person who is liable to pay tax not only on his own income but on the income of any another person. Deemed assessee includes legal representative, agent of non resident, guardian or manager of an infant and lunatic, trustees and administrators etc.

**(c) Who is deemed to be an assessee in default?**

A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income tax Act.

**GROSS TOTAL INCOME**

Gross Total Income means aggregate amount of taxable income computed under five heads of income i.e. salaries, house property, business & profession, capital gains and other sources. In other words, Gross Total Income means total income computed in accordance with the provisions of the Act before making any deduction under sections 80C to 80U.

In Simple words, the aggregate amount of the following heads of income is called Gross Total Income –

- (i) Salaries (Cash receipts and perquisites from the employer),
- (ii) Income from House Property (Rental income)
- (iii) Profits an Gains of Business or Profession,
- (iv) Capital Gains from transfer of movable and immovable assets,
- (v) Income from other Sources i.e. interest, royalty, lottery etc.

**TOTAL INCOME**

The following are the current rates of taxation for an individual, Hindu, Undivided Family, firm, company and co-operative society for the assessment year 2012-13.

**BASIS OF CHARGE (TAX RATE)**

**Tax Rates –**

Applicable tax rates for the Assessment  
Year 2014-15 (Previous year 2013-2014)  
are as follows –

1. Tax rates applicable on individual and HUF (less than 60 years)–

Income	Tax Rate
On First Rs. 200000	NIL
On Next Rs. 200001 to 5,00,000	10%
On Next Rs. 5,00,001 to 1000000	20%
On above 10,00,000	30%

2. **Resident senior citizen Assessee** (Whose age is 60 year or more but less than 80 years) Male or Female

Income	Tax Rate
On First Rs. 2,50,000	-
On Next Rs. 2,50,001 to 5,00,000	10%
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

3. **Super Senior Citizen Assessee** (80 years or more)

Income	Tax Rate
On First Rs. 5,00,000	-
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

- 4. **Partnership firm** - 30% flat Rate on Income of firm.
- 5. **Domestic Company** –Domestic Company 30% flat rate on income if income is more than Rs. 1 Crore then 5% Surcharge is also applicable on tax payable.
- 6. **Foreign Company** –Foreign Company 40% flat rate on income if income is more than Rs. 1 Crore then 5% Surcharge is also applicable on tax payable.



7. Co-operative Society -

Income	Tax Rate
On First Rs. 10,000	10%
On Next Rs. 10,000	20%
On remaining balance	30%

8. Tax Rate on special income-

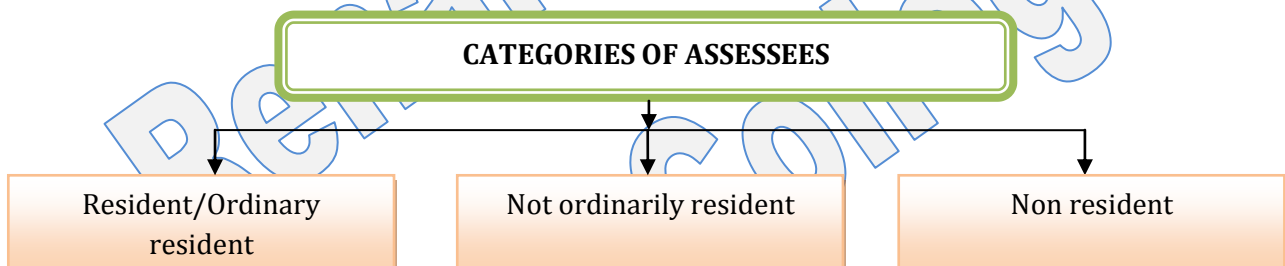
a. Long term capital gain	20% (Flat)
b. Short term capital gain (U/s 111A)	15% (Flat)
c. Income on lottery, horse race, Cross word Puzzle etc.	30% (Flat)

9. **Education Cess** - 3% Education Cess is applicable on taxable Income of all type of assessee but in case of company education cess is applicable after adding of surcharge (if any).

**RESIDENTIAL STATUS AND TAX LIABILITIES**

The tax liability under income tax is determined on the basis of residential status of an assessee but not according to the citizenship hence it becomes necessary that firstly the residential status of an assessee should be determined.

On the basis of residential status there are 3 categories of assesseees:



There are separate rules for different types of assessee like; individual, H.U.F., firm, companies etc. for determination of residential status.

**Individual Assessee**

1) **Resident / Ordinary Resident** : - If an individual wants to become resident in India, then he has to fulfill the basic condition as well as two additional conditions:

**i) Basic conditions:** In the basic conditions, there are two conditions. On satisfying any one of these, it will be assumed that the basic condition is satisfied.

a) The assessee must have lived for at least 182 days in India during the previous year.

**OR**

b) The assessee must have lived for at least 365 days in 4 years preceding the previous year and at least 60days in 4 years preceding the previous year.

### EXCEPTIONS TO THE BASIC CONDITIONS

1. If an assessee is an India citizen and goes aboard for the employment purpose or leaves the country as a member of crew of an Indian ship.
2. If an assessee is an Indian citizen or an Indian origin, living in a foreign country and comes to India on tour during the previous year.

In both these exceptional cases an assessee has to lives for at least 182 days for satisfying the basic condition.

#### ii) Additional Conditions

There are two additional conditions and assessee has to satisfy both of these conditions. These are :

- a. An assessee must have been assessed as resident for at least 2 out of 10 years preceding the previous year.

**AND**

- b. An assessee must have lived for at least 730 days out of 7 year proceeding the previous years.

Thus on satisfying any of the two basic conditions and two additional conditions an individual assessee can be termed as “ordinary resident”.

- 2) **Not Ordinarily Resident:** If an assessee satisfies the basic condition but fails to satisfy the two additional conditions, then he will be assessed as “not ordinarily resident”.
- 3) **Non Resident:** If an assessee fails to satisfy even the basic condition, then he will be assessed or “non resident”.

### Hindu Undivided Family (H.U.F.)

- 1) **Resident :** An HUF will be assessed as resident in India if :
  - a) Management and control of the business is wholly/partly situated in India.

**AND**

  - b) “Karta” of the HUF satisfies the two additional conditions.
- 2) **Not Ordinarily Resident :** An HUF will be assessed as NOR if:
  - a) Management and control of the business is wholly/partly situated in India

**BUT**

  - b) Karta of HUF does not satisfy the two additional conditions.
- 3) **Non Resident:** An HUF will be assessed as non resident if control and management of the HUF is wholly situated outside in India.

### FIRM OR ASSOCIATION OF PERSONS

- 1) **Resident :-** A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
- 2) **Non Resident :** A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

### COMPANY

- 1) **Resident :** A company will be assessed as resident in India if :

i) It is an Indian Company

OR

ii) It is controlled and managed wholly within India.

**2) Non-Resident:** A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident.

### RESIDENTIAL STATUS AND TAX INCIDENCE (LIABILITIES)

Tax liability of an assessee depends upon the residential status on which income he is liable to pay tax and which incomes are not taxable for him, for determination of this matter, now we have to understand the relationship between residence and tax liabilities:

- a) Tax liability of **Resident**
  - i) Income received or deemed to be received in India.
  - ii) Income accrued or deemed to be accrued in India.
  - iii) Income received or accrued outside the India
- b) Tax liability of **Not ordinarily resident:**
  - i) Income received or deemed to be received in India.
  - ii) Income occurred or deemed to be accrued in India.
  - iii) Income business situated outside India but controlled and managed from India
- c) Tax liability of **non residents:**
  - i) Income received or deemed to be received in India
  - ii) Income occurred or deemed to be accrued in India.

**Unit - II**  
**SET OFF AND CARRY FORWARD OF LOSSES**

**Set Off and Carry Forward of Losses**

Income tax is levied on the total income of any assessee of previous year, Gross total income is calculated by aggregation the income of the assessee under different sources of income falling under one head of income and then all the heads of income are put together to find out the net result in the shape of Gross total income. It is not necessary that every source shall result into a profit every year. The provisions regarding set off and carry forward can be discussed under two categories below-

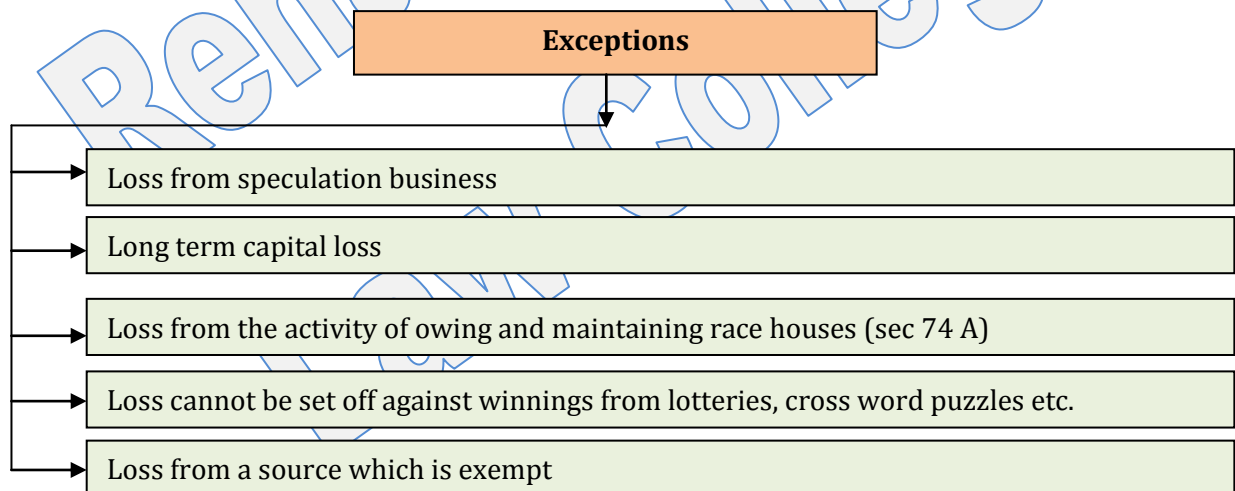
1. Set off of losses
2. Carry forward and set off of losses

**Set off of losses**

Computation of total income is to lump together all sums of income falling under one head and then all heads are pooled to find the net result in gross total income. It, therefore, follows that where the net result in respect of any source is a loss, it can be set off against profit in respect of another source of income under the same head. The provisions regarding set off and carry forward one discussed below-

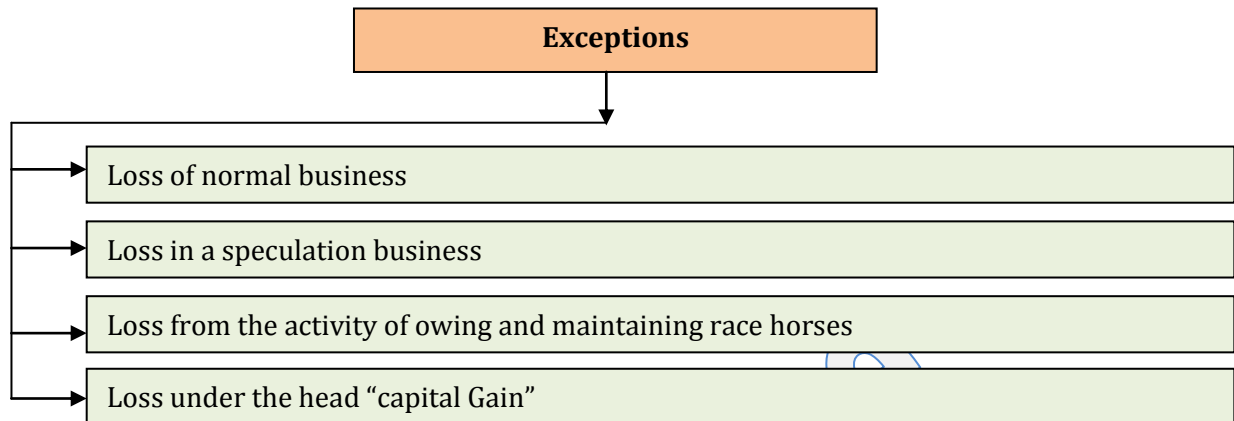
1. **Set off under the same head (Sec-70)** – Set off loss from one source against income from other sources under the same head of income is first step of set off of losses. It is called inter source adjustment. Inter source adjustment is allowed only in case of loss from income from house property, loss from normal business, loss in respect of interest income.

**Exceptions-** In the following cases loss from one source of income although it falls under the same head-



2. **Set off against income other heads (Sec. 71)** – Set off loss from one head against the income of another head in the same assessment year. Inter-head adjustment is discussed under sec -71. Where the net result of the computation under any head of income in respect of nay accounting year is a loss, the assesee shall be entitled to have such amount of loss set off against his income assessable for this assessment year under any other head of income.

**Exemptions-** The following losses cannot be set off against the income of other heads or a particular head-



### Carry forward and set off of losses

If it is not possible to set off the losses in the same assessment year in which they accrued so much at the loss as has not been so set off out of the following losses can be carried forward for being set off against his income in the succeeding years. All losses are not allowed to be carried forward. The following losses are only allowed to be carried forward and set off in the subsequent assessment years-

Loss under the head: income from house property" (Sec 71) B

Loss of non-speculation business or profession (Sec 72)

Loss of speculation business (Sec 73)

Short term capital loss/ long term capital loss. (Sec 74)

Loss from activity of owing and maintaining race horses. (sec 74 A)

Unabsorbed Depreciation (Sec 32 (2))

### Submission of return for losses (Sec 80)

It is necessary for the assessee to file the return of loss voluntarily if he desires to have the benefit of carry forward.

Order in which current and brought forward losses are to be adjusted-

As per Sec. 72 business loss does not include unabsorbed depreciation, unabsorbed Capital expenditure on scientific research and family planning. Therefore they can also be carried forward. The current years business loss should be set off before setting off unabsorbed depreciation etc. such carries forward business loss will be set off against business head only after the current year's depreciation current capital expenditure on scientific research and capital expenditure on family planning have been claimed. Therefore, the order of set off will be as under-

1. Current year capital expenditure on scientific research and capital expenditure on family planning to the extent allowed
2. Current year depreciation
3. Carried forward business or profession losses
4. Unabsorbed expenditure on family planning

5. Unabsorbed depreciation
6. Unabsorbed capital expenditure on scientific research.

**Chart shows the rules for set off and Carry forward of losses**

<b>Heads of Income</b>	<b>Set off Losses during current previous year</b>	<b>Carried forward and set off in subsequent years.</b>
<b>1. Loss from house property (Whether self occupied or rented)</b>	Firstly setting off against another house property income and if required, from another heads of income.	Any income under the head Income from House property up to 8 subsequent assessment years.
<b>2. Non speculation business loss</b>	Firstly setting off against another business income and if business income is not sufficient then another heads of income, except income from salary	Any income under the head "Income from Business or profession" up to 8 subsequent assessment years.
<b>3. Speculative business loss</b>	Only against another speculating profit, if any	Only against speculative income under the head "Income from business or profession" up to subsequent 4 assessment years.
<b>4. Short term-capital loss</b>	Any Income under the head "Capital gain" either short-term or long-term.	Any income under the head 'Capital gains' up to subsequent 8 assessment years.
<b>5. Long term capital loss</b>	Only against long-term capital gain	Only against long-term 'Capital gains' up to subsequent 8 assessment years.
<b>6. Loss from the activity of owing and maintaining race horses</b>	Only against income from the activity of owing and maintaining race horses.	Only against income from the activity of owing and maintaining race horses up to subsequent 4 assessment years.
<b>7. Unabsorbed depreciation of any period</b>		Unabsorbed depreciation can be set off against income of any head (except salary income) there is no time limit for set off

**DEDUCTIONS FROM GROSS TOTAL INCOME**

(1) **80 C Deduction in respect of investment in LIP provided funds, NSC etc.:-** This deduction is provided to individual and HUF assesses **maximum** upto **Rs. 1 Lac** on their investments following items will be entitled for the deductions under this section:-

- (i) LIP of spouse and children [upto 20% of sum assured]
- (ii) Employees contribution in statutory PF.(SPF)
- (iii) Employees contribution in Recognized PF (RPF)
- (iv) Deposit in Public provided fund.(PPF)
- (v) Exempted contribution Super annulations fund.(SAF)
- (vi) NSC's and accrued interest or it.
- (vii) Contribution to "ULIP" of UTI
- (viii) Amount deposited in Public sector finance companies or housing Board.
- (ix) Payment of principle value of housing loan.
- (x) Investment in shares or debentures of infrastructure companies.
- (xi) Amount deposited in National Housing Bank.
- (xii) Education expenses paid for children.
- (xiii) Amount deposited in fixed deposit for a period of 5 years or more in a scheduled bank.
- (xiv) Contribution to employees insurance scheme of central government by an employee of central government.
- (xv) Investment in Notified Bonds of NABARD
- (xvi) Senior Citizen saving Scheme

**Deduction:-**

Total of above mentioned items  
 Or  
 1 Lakh

} Whichever is less

[If assessee is also entitled for the deduction of 80CCC and 80CCD, then, he'll get a maximum deduction of Rs. 1 lac in all these 3 deduction]

(2) **80 CCC Deduction in respect of contribution to pension fund set up by LIC or any other insurer:** Only **individual assessee** is entitled for this deduction upto Rs. 1 Lac.

(3) **80 CCD Deduction in respect of contribution on to pension scheme of central government:-**  
 If a person **individual** is appointed as an employee of Central government on 1<sup>st</sup> Jan 04 or there the amount of gross salary for pension scheme and the same amount will be contributed by the central government also. Amount contributed by central government will be taxable under the head of salary but from the gross total income deduction will be allowed equal to the amount contributed by employer & employee u/s 80 CCD.

(4) **Deduction in respect of investment made under any equity saving scheme (Sec. 80 CCG)**  
**Amount of deduction -**

**The amount of deduction under section 80 CCG shall be -**

- a. 50% of amount invested in equity share
- Or
- b. Maximum Rs. 25,000 whichever is less.

- (5) **80 D Deduction in respect of medical insurance premium:-** This deduction is allowed upto Rs. 15,000 for premium paid by **individual and HUF assesses** but if premium is paid for a person aged 60 years and above, an additional deduction of Rs. 5000 will be allowed, it means that maximum deduction will be Rs. 20,000.
- (6) **80 DD Deduction in respect of expense of deposit for maintenance of handicapped dependent:-** Under this section, **individual & HUF assesses** will be entitled for a standard Deduction Rs. 50,000.  
In case of server disability, [More than 80%] SD will be Rs. 100,000.
- (7) **80 DDB Deduction in respect of medical treatment of specified diseases:-** This deduction will be allowed to **individual & HUF assesses** upto Rs. 40,000 (In case of persons aged 60 years or above, Rs. 60,000)
- (8) **80 E Deduction in respect of payment of interest of higher education loan for individual :-** Actual amount of interest is deductible.
- (9) **80 G Deduction in respect of donation given to recognized charitable institutions and funds:-** This deduction is allowed to **assesses to all categories** for such donation given by them to charitable institution funds situated in India which are given in monetary form only.  
This deduction can be divided into 4 categories:-
- (a) Without Limit 100%**
- (i) P.M. National relief fund
  - (ii) Armenia earth quake relief fund
  - (iii) Africa Fund
  - (iv) National foundation for communal harmony.
  - (v) Recognised education institutions and universities
  - (vi) Maharastra C.M earthquake relief fund.
  - (vii) Andhra Pradesh CM cyclone relief fund.
  - (viii) C.M. or governor relief fund.
  - (ix) District literacy committee
  - (x) Army welfare fund
  - (xi) National defence fund
- (b) Without limit 50%**
- (i) P.M. Draught Relief fund
  - (ii) National children fund
  - (iii) J.L. N Memory fund
  - (iv) Indira Gandhi Memorial fund
  - (v) Rajeev Gandhi foundation.
- (c) Under Limit 100% [100% of Qualifying Amount]**
- (i) Donation to central or state government for family planning programs
- (d) Under Limit 50% [50% of Qualifying Amount]**

Donation to Approved charitable institutions.

Donation to any notified temple,mosque,gurudwara,church or other place for renovation or repair

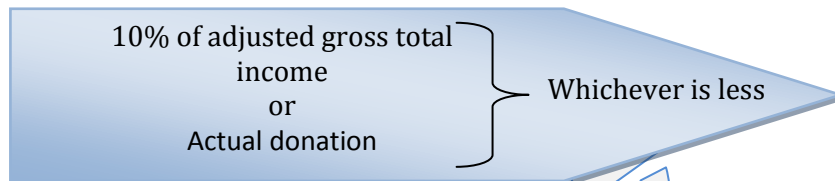
Donation by a company to the Indian Olympic association or any other notified games and sports institution.



Donation to an authority for the purpose of housing accommodation or planning development of towns & villages.

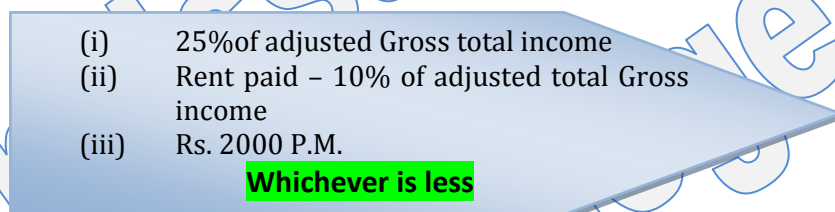
**Here, the terms under limit means the Qualifying amount (Q.A.) which will be calculated as under :-**

**Q.A. →**



Adjusted gross total income = GTI – LTCG - deduction u/s 80c to 80u (except Sec. 80G)

(10) **80 GG Deduction in respect of rent paid for house:-** This deduction is provided to such individual assesses who are living in a rental house and who are not getting accommodation facility/House rent allowance from their employer. Deduction is calculated as :-



(10) **80 GGA Deduction in respect of donation to Scientific research:-** Every person who has no income from business is entitled for 100% this type of donation.

(11) **80 GGB/80 GGC Deduction in respect of donation to political parties:-** Company assessee are entitled under Sec.

80 GGB and other assesses u/s 80 GGC for deduction in respect of donations given to PP. amount of donation is **deductible**

(12) **80 IA Deduction in respect of profits of industrial undertakings engaged in infra - structure industry:-** As such this deduction is allowed for all the assesses but here we are going to discuss the provisions regarding assessee other than company assessee.

S.No.	Particular	%
1	Telecommunication Services :- 1 <sup>st</sup> five years	100%
2	Next five years	30%
3	Inquisitorial Park :- Consecutive any 10 years out of first 15 years	100%
4	Power undertakings engaged in generation and distribution consecutive any 10 years out of first 15 years	100%
5	Undertakings engaged in infra structure development	not entitled

### Income from Capital Gain

#### Meaning of capital gains (Sec. 45)

Any profit or gain arising from the sale or transfer of a capital asset is chargeable to tax under the head “Capital Gains”, Capital asset means any movable or immovable asset like land, building, plot, gold, silver, jewellery, shares, securities etc. Profit/Loss arising from transfer of such assets is compared under the had of capital gain from Income tax point of view.

#### Definition of Capital Asset Sec-2 (14) -

Capital asset means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible e.g. land, building, plot, gold, silver, precious metals, jewellery, shares, securities, furniture, machinery etc.

#### Exception -

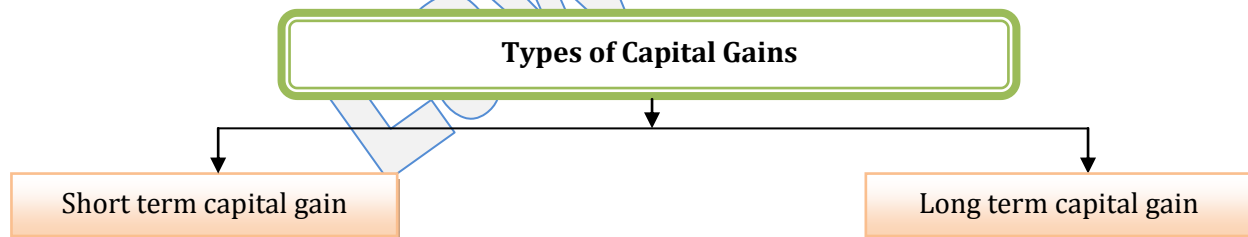
1. Though Property of any kind held by an assessee whether or not connected with his business/profession is included in the definition of ‘Capital Assets’ it does not include -

1. Stock in trade
2. Personal effect Assets (which is personally used by assessee and family member)
3. Agricultural land in rural area
4. Gold Bonds
5. Special Bearer Bonds
6. Gold deposit bonds

} Which is issued by Central Government

#### 2. Items included under capital gains Sec. -45

1. Profit from transfer of Capital Assets Sec. 45 (1)
2. Insurance Claim Sec. 45 (1A)
3. Conversion of Capital Assets into stock in trade Sec.45 (2)
4. Assets transferred to Firm/AOP Sec. 45 (3)
5. Profit from distribution of capital assets on dissolution Sec. 45(4)
6. Profit arises from compulsory acquisition of capital Assets. Sec. – 45 (5).
7. Capital Gain on repurchase of units of Mutual Fund Sec. 45 (6)



#### Short term capital asset

- (i) Shares, securities, bonds, units are held by the assessee for not more than 12 months before transfer.
- (ii) Assets on which depreciation has been allowed under the Income Tax Act, whether depreciable asset held by the assessee more or less 36 months.
- (iii) Any other asset which is held by the assessee for not more than 36 months, e.g., land, building, precious metals, jewellery etc.

#### Long term capital asset

- (i) Shares, securities, bonds, units held by the assessee for more than 12 months.
- (ii) Other assets like building, gold, plot, land, jewellery etc. held by the assessee for more

than 36 months.

**Computation of Short term capital gain/loss (For the Assessment Year 2014-15)**

Sales consideration	.....	
Less – Aggregate amount of the following:		
(a) Transfer Expenses (Advertisement). Brokerage, legal exp. etc)	.....	
(b) Cost of acquisition of the asset	.....	
(c) Cost of improvement	.....	(-).....
Short term capital gain/less	.....	

**Computation Of Long Term Capital Gain/Loss (For the Assessment Year 2014-15)**

Full value of consideration		
Less : Total of the following		.....
(i) Transfer expenses	.....	
(ii) Indexed cost of acquisition	.....	
(iii) Indexed cost of improvement	.....	(-).....
Long term capital gain/loss		.....

**Formula:-**

**1. Calculation of Index cost of acquisition**

(i) If assets acquired before 01.04.1981 by the Assessee

$$\text{Index Cost} = \frac{\text{Original Cost or fair market value on 1.4.1981 (which ever is more)} \times \text{Index for the transfer year 2013-14(939)}}{\text{Cost inflation Index for 1981-82 (100)}}$$

(ii) If assets acquired on 01.04.1981 by the Assessee

$$\text{Index Cost} = \frac{\text{Cost of acquisition} \times \text{Index for the transfer year 2013-14(939)}}{\text{Cost Inflation Index for the year in which the assets is acquired by the assessee}}$$

**Note:-** If the property is acquired before 1.4.81 then index for 1981-82 will be taken as index for the base year.

**2. Calculation of Indexed cost of improvement**

**Formula:-**

$$= \frac{\text{Cost of Improvement} \times \text{Cost Inflation index for the year in which the asset is transferred year 2013-14(939)}}{\text{Cost Inflation Index for the year in which Improvement to the asset took place.}}$$

**Note:-** Improvement cost incurred before 1.4.81 is not considered. It should be ignored. Only cost of improvement will be considered which is related after 31.3.81.

**Exemption of Capital Gains**

Exemptions are of two types

**A. Exemption of capital gains under various sub-clauses of section 10;**

1. Capital gain on transfer of units of US 64 exempt [Section 10 (33)]
2. Exemption of long-term capital gain arising from sale of shares and units and Securities Transaction Tax paid [Section 10(38)]
3. Capital gain on compulsory acquisition of urban agriculture land-Sec. 10(37)

**B. Capital gains exempt from tax – Under section 54 to 54H**

(i) Residential property converted in new residential property (Sec.54) within 3 years or before 1 year or after 2 years	Cost of new land <b>or</b> capital gain (which ever is less)
(ii) Agricultural land transferred and another agricultural land purchased within 2 year (Sec. 54B)	Cost of new land <b>or</b> capital gain (which ever is less)
(iii) Compulsory acquisition of land and building of industrial undertaking (Sec. 54D)	Cost of new land building <b>or</b> capital gain (which ever is less.)
(iv) Capital gain is invested in notified bonds (Sec. 54EC) NABARD, Rural Electrification Corporation Bonds, National Highway Authority of India etc.	Invested amount within 6 months
(v) Other capital gains invested in residential property (Sec. 54F) = $\frac{\text{Capital gain} \times \text{Cost of new house}}{\text{Net consideration}}$	Proportionate Exemption
(vi) Shifting of industrial undertaking from urban area to other area (Sec. 54G) or SEZ (Sec. 54GA)	Upto the cost of new industrial assets.
(vii) Capital gain on transfer of residential house property (sec.54GB)- w.e.f. of A.Y. 2014-15 a new exemption is available to an individual or a HUF in respect of LTCG gain. If assessee invest net consideration or part in equity shares before due date of furnishing the return, in eligible company it least 5 year he shall entitled exemption as under_	

Invested amt in new equity share <hr style="width: 50%; margin-left: 0;"/> = Net consideration *capital gain	Calculated Amount
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**Important Points**

- Personal effect (clothing, furniture, utensils, vehicles etc.), Rural agricultural land, stock-in-trade, Gold Bonds, are not covered under the identification of “Capital Asset”. So, profit or loss arising from the transfer of such assets is not noticeable.
- Depreciable assets will be treated as short-term asset even if such asset is held by the assessee for Less than or more than 36 months.
- Indexed cost will not be allowed for the following long-term assets-
  - (i) Securities, Bonds, Units and debentures of company.
  - (ii) Listed shares of an Indian company sold outside Stock Exchange and the assessee wants to pay tax @ 10% for long term capital gain instead of 20%
  - (iii) Non-resident assessee opts taxation u/s 115C to 115I in respect of foreign exchange assets.

**Calculation of cost of Original Shares & Bonus Shares**

Bonus shares means shares allotted by a company to its existing share holders without any consideration. An assessee holds shares of a company and thereafter the company allotted him bonus shares on the basis of holding.

**1. If original shares acquired before 1 April, 1981**

The cost of actualisation will be taken-

Actual Cost of original shares

or

market value on 1.4.81, whichever higher is cost

**2. If the original shares acquired after 1 April, 1981**

Cost of actualisation will be actual cost

**3. If the bonus shares acquired before 1st April, 1981**

Cost of Bonus Shares – Market value on 1 April, 1981

**4. If the Bonus shares acquired after 1 April, 1981**

cost of Bonus Shares – Nil

**Income from other sources**

This is the last and residual head of charge of income. An income which does not specifically fall under any one of the preceding four heads of income (viz Salaries, Income from house property, Profits and gains of business or profession or Capital gains) is to be computed and brought to charge under section 56 under the head Income from other sources.

**COMPUTATION OF INCOME FROM OTHER SOURCES**

S.No.	Items	Taxability
1.	Dividend on shares	
	(i.) Dividend from domestic company	Exempt
	(ii.) Dividend from units	Exempt
	(iii.) Dividend from non domestic company or co-operative society	Taxable as it is

2.	Interest on securities	
	(i.) Interest on tax free Govt. securities (ii.) Interest on less tax Govt. securities (iii.) Interest on commercial securities	Exempt Taxable as it is
	(a) If gross interest is given (b) If interest is given net and amount is more than Rs. 5,000 on listed debentures (c) Interest on tax free commercial securities (i) Listed debentures of a company  (ii) Unlisted debentures of a company  (d) Interest on Semi Govt. securities	Taxable as it is $\frac{\text{Int.} \times 100}{\text{Gross}} = 90$  $\frac{\text{Int.} \times 100}{\text{Gross}} = 90$  Gross Interest taxable
3	Interest on Bank Deposit – up to Rs. 10,000 If interest is more than 10,000 and given net, such amount will be grossed up.	Taxable as it is $\frac{\text{Int.} \times 100}{\text{Gross}} = 90$
4	Co-operative interest and dividend	Taxable as it is
5	Interest on company deposits or firm's deposits (i) If interest amount is upto Rs. 5,000 (ii) If net interest is more than Rs. 5,000	Taxable as it is $\frac{\text{Int.} \times 100}{\text{Gross}} = 90$
6	Lottery (a) If the prize amount is given and (b) If net amount is given and such amount is more than Rs. 5,000	Fully taxable $\frac{\text{Net amount} \times 100}{70}$
7	Horse race income	Fully taxable
8	Causal income	Fully taxable
9	Royalty, director's fees, article income, exam. Remuneration	Received income (-) expenses
10	Family pension	Received amount (-) 1/3 or 15,000 whichever is less
11	Income from sub tenant	Net income
12	Income from machinery, plant or furniture on hire.	Rent received (-) expensed and depreciation.
13	Agricultural income outside India	Taxable
14	Income from non agricultural land in India	Taxable
15	Salary of M.P. or M.L.A.	Taxable
16	Income from undisclosed sources	Taxable
17	Cash gifts : (if the aggregate amount exceeding Rs. 50,000 in a financial year) from other persons except relatives.  <b><u>Less : Deduction allowed (above mentioned incomes)</u></b> (i) Interest Collection charges (ii) Interest on loan (iii) Any expenditure which is incurred by the assessee to earn such income	Fully taxable .....  Actual amount Actual amount Actual amount

**Calculation of Income from Sub-tenant**

rent received from sub-tenant		.....
Less - Expenses allowed :		
(i) Rent paid by the assessee for the part which is sub let out	.....	
(ii) Repairs and other expenses paid by the assessee regarding such part	.....	(-).....
Income from sub tenant		.....

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