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Income Tax - Assessment and Filing

Course Code: UK6SECMGT301 • Module 3 Notes

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Chapter 1: Income from House Property under Sections 22 to 27

The second head of income classified under Section 14 of the Income Tax Act, 1961 is "Income from House Property". Governed by Sections 22 to 27, the tax under this head is not an excise on the property itself, nor is it a levy upon actual physical rent collections alone. Rather, it is a direct tax upon the inherent earning capacity or annual value of buildings or lands appurtenant thereto. To attract chargeability under Section 22, three cumulative conditions must be satisfied:

1. Existence of Building or Land Appurtenant Thereto: The property must consist of any buildings (such as residential houses, office premises, warehouses, commercial godowns, or factory sheds) or land appurtenant (such as courtyards, driveways, garden compounds, or parking bays attached to the superstructure). Vacant open land devoid of any structure produces income assessable under Profits and Gains of Business or Profession or Income from Other Sources, not under House Property.

2. Ownership of Property: The assessee must be the legal or beneficial owner of the property. Ownership includes freehold or leasehold rights and incorporates the doctrine of "deemed ownership" codified under Section 27 (e.g., transfer to a spouse without adequate consideration, or property held under an agreement to sell under Section 53A of the Transfer of Property Act). Sub-letting of property by a tenant does not generate house property income in the hands of the tenant, as the tenant is not the owner; such receipts are taxed under Income from Other Sources.

3. Non-Occupation for Own Business or Profession: The property must not be occupied by the assessee for the purpose of carrying on any business or profession, the profits of which are chargeable to income tax. If an enterprise utilizes its own real estate for running its administrative headquarters or operating facilities, no annual value is imputed under Section 22 because the operational utility is reflected in business profits.

Section 1: Determination of Gross Annual Value (GAV)

The determination of Gross Annual Value is the foundational step in house property computation. For a let-out property, GAV is determined through a statutory hierarchy comparing four parameters:

• **Municipal Value (MV):** The annual rental valuation established by local municipal authorities for municipal rating.

• **Fair Rent (FR):** The rental value fetched by similar properties in the same or comparable locality.

• **Standard Rent (SR):** The maximum statutory rent recoverable under the applicable State Rent Control Act.

• **Actual Rent Received or Receivable (ARR):** The rent agreed between landlord and tenant, adjusted for unrealized rent satisfying Rule 4 conditions.

The statutory sequence for calculating GAV proceeds as follows:

$$\text{Expected Rent (ER)} = \min(\max(\text{Municipal Value}, \text{Fair Rent}), \text{Standard Rent})$$

Where Expected Rent represents the reasonable rent the property might fetch from year to year. Subsequently, Expected Rent is compared with the Actual Rent Received or Receivable:

Case A (No Vacancy): If ARR exceeds ER, GAV is ARR. If ER exceeds ARR, GAV is ER.

Case B (Vacancy Impact): Where actual rent received is lower than Expected Rent solely owing to vacancy during the previous year, the actual rent received is taken as GAV under Section 23(1)(c).

Case C (Self-Occupied Property): Under Section 23(2), an individual can specify up to two residential houses as self-occupied for own residence, provided they are not let out at any time during the previous year. The Gross Annual Value and Net Annual Value of such self-occupied properties are statutorily deemed to be Nil.

Section 2: Net Annual Value (NAV) and Section 24 Statutory Deductions

Net Annual Value is arrived at by deducting municipal taxes paid from the Gross Annual Value:

$$\text{Net Annual Value (NAV)} = \text{Gross Annual Value (GAV)} - \text{Municipal Taxes Paid by Owner}$$

Municipal taxes (property taxes, water tax, sewerage cess) are deductible only if they are levied by a local authority and are actually paid by the owner during the relevant previous year. Unpaid taxes or taxes borne by the tenant cannot be deducted.

From the Net Annual Value, strictly two deductions are admissible under Section 24:

1. Standard Statutory Deduction under Section 24(a): A flat statutory deduction equal to 30% of Net Annual Value is allowed for let-out properties. This deduction covers repair, maintenance, collection charges, and insurance. It is granted irrespective of whether the assessee spent more, less, or zero amount on actual repairs.

$$\text{Standard Deduction} = 30\% \times \text{Net Annual Value}$$

2. Interest on Borrowed Capital under Section 24(b): Interest payable on loans borrowed for acquiring, constructing, repairing, renewing, or reconstructing the property is deductible on an accrual basis:

• *Let-out Property:* Actual interest payable is deductible without any upper monetary ceiling.

• *Self-Occupied Property:* Maximum deductible interest is capped at Rs. 2,00,000 per annum for loans taken on or after 1st April 1999 for acquisition or construction completed within 5 years. For repairs, renewals, or reconstruction, the maximum deduction is restricted to Rs. 30,000.

• *Pre-construction Interest:* Interest paid prior to the financial year of construction completion is capitalized and allowed in five equal annual installments commencing from the year of completion.

Chapter 2: Profits and Gains of Business or Profession (PGBP)

The third head of income, governed by Sections 28 to 44DB, covers profits and gains derived from carrying on any business, trade, commerce, manufacture, or professional vocation. Under Section 28, the chargeability extends to operational trading profits, export incentives, partner remuneration, compensation for contract modification, and non-compete fees.

Section 1: General Principles and Admissibility of Business Deductions

The computation of taxable business profits begins with the net profit reflected in the commercial profit and loss statement, adjusted for statutory allowances and disallowances:

1. Allowable Expenses (Sections 30 to 37):

• *Rent, Rates, Taxes, and Insurance for Premises (Sec 30):* Operational facility costs incurred for business premises.

• *Repairs and Insurance of Machinery, Plant, and Furniture (Sec 31):* Revenue expenditure on plant maintenance.

• *Depreciation under Section 32:* Depreciation is mandatory on a block-of-assets basis using the written down value (WDV) method at prescribed statutory rates (e.g., 15% for general plant and machinery, 40% for computers and software). Additional depreciation of 20% is allowed for new manufacturing plant and machinery acquired and installed.

• *General Deduction under Section 37(1):* Any expenditure laid out wholly and exclusively for the purpose of the business, not being capital or personal expenditure, and not incurred for any purpose that is an offence or prohibited by law.

2. Disallowed Expenses and Statutory Restrictions:

• *Section 40(a)(ia):* 30% of any sum payable to a resident on which TDS is deductible but not deducted or deposited before the return filing due date is disallowed.

• *Section 40A(3):* Where payment to a person in a single day exceeds Rs. 10,000 otherwise than by an account payee cheque, account payee draft, or electronic clearing system, 100% of such expenditure is disallowed.

• *Section 43B:* Statutory liabilities (taxes, duties, cess, bonus, commission, gratuity contributions, bank interest, MSME payments) are deductible only upon actual payment on or before the due date of filing the return of income.

Section 2: Presumptive Taxation Schemes for Small Businesses and Professionals

To reduce compliance burdens and audit costs for small traders, entrepreneurs, and professionals, the Act incorporates presumptive taxation frameworks:

Section	Eligible Assessee & Trade	Turnover Threshold	Presumptive Profit Rate
Section 44AD	Resident Individual, HUF, Partnership (excluding LLP) in general business	Gross turnover up to Rs. 2 Crore (enhanced to Rs. 3 Crore if non-cash receipts ≥ 95%)	8% of total turnover, reduced to 6% on turnover received through digital/banking modes.
Section 44ADA	Resident professionals (Legal, Medical, Engineering, Accountancy, Architecture, IT)	Gross receipts up to Rs. 50 Lakhs (enhanced to Rs. 75 Lakhs if non-cash receipts ≥ 95%)	50% of total gross receipts deemed as taxable professional income.
Section 44AE	Small transporters owning not more than 10 goods carriages at any time in the year	Fleet capacity up to 10 vehicles	Rs. 1,000 per ton per month for heavy vehicles; Rs. 7,500 per month for other goods vehicles.

Assessees opting for presumptive taxation under Sections 44AD and 44ADA are exempt from maintaining formal books of account under Section 44AA and undergoing statutory tax audit under Section 44AB.

Chapter 3: Capital Gains under Sections 45 to 55

Under Section 45, any profits or gains arising from the transfer of a capital asset effected in the previous year are chargeable to income tax under the head "Capital Gains". The chargeability depends on four elements: (a) existence of a capital asset under Section 2(14), (b) transfer under Section 2(47), (c) occurrence of transfer during the previous year, and (d) emergence of profit or gain from such transfer.

Section 1: Classification into Short-Term and Long-Term Capital Assets

The categorization of a capital asset dictates the computational methodology and tax rates:

• **Listed Securities & Equity Mutual Funds:** Holding period of more than 12 months qualifies as Long-Term Capital Asset (LTCA); 12 months or less is Short-Term Capital Asset (STCA).

• **Unlisted Shares & Immovable Property (Land & Buildings):** Holding period of more than 24 months qualifies as Long-Term Capital Asset; 24 months or less is Short-Term Capital Asset.

• **Other Capital Assets (Jewellery, Debt Funds, Unlisted Securities):** Holding period of more than 36 months qualifies as Long-Term Capital Asset; 36 months or less is Short-Term Capital Asset.

Section 2: Computational Mechanism and Indexation Formula

For Short-Term Capital Gains (STCG), net gains are computed by deducting expenditure on transfer, cost of acquisition (COA), and cost of improvement (COI) from the Full Value of Consideration (FVC).

For Long-Term Capital Gains (LTCG), the assessee is entitled to indexation benefits to adjust the purchase and improvement costs against inflation, using the Cost Inflation Index (CII) notified by the Central Government:

$$\text{Indexed Cost of Acquisition (ICOA)} = \text{Cost of Acquisition} \times \frac{\text{CII of Year of Acquisition (or 2001-02)}}{\text{CII of Year of Transfer}}$$

$$\text{Indexed Cost of Improvement (ICOI)} = \text{Cost of Improvement} \times \frac{\text{CII of Year of Improvement}}{\text{CII of Year of Transfer}}$$

Section 3: Statutory Capital Gains Tax Exemptions

Sections 54, 54EC, and 54F provide targeted exemptions where capital gains or net consideration are reinvested in designated productive assets:

1. Section 54 (Residential Property to Residential Property): Available to Individuals and HUFs on long-term capital gains arising from the sale of a residential house. Exemption is allowed if gains are reinvested in acquiring one residential house in India within 1 year before or 2 years after the date of transfer, or constructed within 3 years (statutory cap Rs. 10 Crore).

2. Section 54EC (Investment in Specified Infrastructure Bonds): Exemption on long-term capital gains from land or buildings reinvested within 6 months in bonds issued by NHAI, REC, PFC, or IRFC, redeemable after 5 years (maximum investment Rs. 50 Lakhs per financial year).

3. Section 54F (Transfer of Any Long-Term Capital Asset Other than Residential House): Available where net consideration from selling non-residential long-term assets (shares, commercial land) is reinvested in a residential house, subject to the investor owning not more than one residential house on the date of transfer.

Chapter 4: Income from Other Sources under Sections 56 to 59

Section 56 serves as the residuary head of income under the Income Tax Act. Any income, profits, or gains of every kind which are not chargeable to tax under any of the preceding four heads (Salaries, House Property, PGBP, Capital Gains) and are not exempt under Section 10 are assessed under "Income from Other Sources".

Section 1: Specifically Includible Incomes

Section 56(2) enumerates incomes that must mandatorily be charged under this head:

1. Dividend Income: Dividends received from domestic companies, foreign companies, or mutual fund units are fully taxable in the hands of shareholders at their applicable slab rates under Section 56(2)(i).

2. Casual and Winnings from Lotteries, Crosswords, Races, and Online Games: Governed by Section 115BB and Section 115BBJ. Taxed at a flat statutory rate of 30% plus applicable cess. No basic exemption, no expense deduction, and no Chapter VI-A deductions are permissible against lottery or betting incomes.

3. Interest on Securities, Bank Deposits, and Loans: Interest on fixed deposits, recurring deposits, corporate debentures, and post office schemes.

4. Deemed Gift Taxation under Section 56(2)(x): Where any person receives without consideration, or for inadequate consideration, any sum of money exceeding Rs. 50,000 in aggregate in a financial year, the entire aggregate sum is taxable as income. Inadequate consideration on immovable property is taxable if the difference between Stamp Duty Value and actual consideration exceeds the higher of Rs. 50,000 or 10% of the consideration.

Exemptions under Section 56(2)(x): Gifts received from relatives (parents, spouse, siblings, lineal ascendants/descendants), gifts received on the occasion of marriage, gifts under a will or inheritance, and gifts from registered charitable trusts are completely exempt.

Section 2: Deductions Admissible under Section 57

Section 57 allows deductions for expenses incurred wholly and exclusively for earning other source income:

• **Interest on Borrowed Capital for Dividend:** Deduction is allowed only for interest expense incurred to earn dividend income, capped at a maximum of 20% of the gross dividend received.

• **Family Pension under Section 57(iia):** Deduction is allowed at 33.33% (one-third) of family pension received or Rs. 15,000, whichever is less (enhanced to Rs. 25,000 under the New Tax Regime).

Chapter 5: Deductions from Gross Total Income under Chapter VI-A

Gross Total Income (GTI) is the aggregate of taxable incomes computed under all five heads after applying set-off and carry forward provisions. Under Chapter VI-A (Sections 80C to 80U), deductions are allowed to

encourage savings, promote healthcare, support social causes, and provide relief to disadvantaged individuals. Total Chapter VI-A deductions cannot exceed Gross Total Income (exclusive of capital gains and casual lottery winnings).

Section 1: Section 80C, 80CCC, and 80CCD (Investment and Retirement Savings)

1. Section 80C: Covers investments and specified payments made by an Individual or HUF. Eligible avenues include Public Provident Fund (PPF), Employee Provident Fund (EPF), Equity Linked Savings Scheme (ELSS), Life Insurance Premiums, National Savings Certificate (NSC), Sukanya Samriddhi Yojana (SSY), repayment of principal on housing loans, and tuition fees for up to two children.

2. Section 80CCC: Contributions to pension funds of LIC or approved insurers.

3. Section 80CCD(1): Employee contribution to the National Pension System (NPS) up to 10% of salary (or 20% of gross income for self-employed).

Overall Ceiling under Section 80CCE: The aggregate deduction under Sections 80C, 80CCC, and 80CCD(1) is subject to a strict statutory ceiling of Rs. 1,50,000.

Additional NPS Deduction under Section 80CCD(1B): An exclusive additional deduction of up to Rs. 50,000 is allowed for voluntary individual contributions to Tier-I NPS, over and above the Rs. 1,50,000 ceiling of Section 80CCE (total combined investment benefit Rs. 2,00,000).

Section 2: Section 80D (Health Insurance Premium)

Provides deductions for medical insurance premiums and preventive health check-ups paid via non-cash banking modes:

• **Self, Spouse, and Dependent Children:** Maximum deduction of Rs. 25,000. If the assessee or spouse is a senior citizen (age 60 or above), the ceiling is elevated to Rs. 50,000.

• **Parents:** Additional deduction of Rs. 25,000 for parents' health insurance. If parents are senior citizens, the ceiling is elevated to Rs. 50,000.

• **Preventive Health Check-up:** Within the overall ceilings, up to Rs. 5,000 is deductible for cash or digital payments towards preventive medical check-ups.

• **Maximum Possible Benefit:** If both the assessee and parents are senior citizens, the total deduction under Section 80D can reach Rs. 1,00,000 per financial year.

Section 3: Section 80E, 80G, 80TTA/80TTB, and 80U

1. Section 80E (Interest on Higher Education Loan): 100% deduction for interest paid on loans taken from financial institutions for higher education of self, spouse, or children. Deduction is available for a maximum period of 8 consecutive assessment years with zero upper monetary ceiling.

2. Section 80G (Donations to Charitable Funds): Admissible deductions for donations to approved funds. Categorized into 100% deduction without qualifying limit (PM National Relief Fund, National Defence Fund), 50% without qualifying limit (Jawaharlal Nehru Memorial Fund), 100% with qualifying limit (family planning promotion), and 50% with qualifying limit (approved charitable institutions). Cash donations exceeding Rs. 2,000 are completely disallowed.

3. Section 80TTA & Section 80TTB (Interest on Deposits):

• *Section 80TTA:* Deduction up to Rs. 10,000 for non-senior individual assessees in respect of interest on savings bank accounts.

• *Section 80TTB:* Exclusive deduction for senior citizens up to Rs. 50,000 in respect of interest on all bank deposits (savings accounts, fixed deposits, and recurring deposits).

4. Section 80U (Person with Disability): Flat statutory deduction granted to resident individuals certified with a disability:

• Ordinary disability (40% to 79%): Flat deduction of Rs. 75,000.

• Severe disability (80% or above): Flat deduction of Rs. 1,25,000.

Chapter VI-A Section	Nature of Eligible Investment / Expense	Maximum Statutory Ceiling
Section 80C / 80CCE	PPF, EPF, ELSS, Life Insurance, Housing Loan Principal	Rs. 1,50,000 aggregate across 80C, 80CCC, 80CCD(1).
Section 80CCD(1B)	Voluntary Tier-I National Pension System (NPS) Contribution	Rs. 50,000 exclusive additional deduction.
Section 80D	Medical insurance premiums for self, family, and parents	Rs. 25,000 to Rs. 1,00,000 depending on senior citizen status.
Section 80E	Interest on higher education loans	100% of interest paid for 8 consecutive years (No limit).
Section 80TTA / 80TTB	Interest on savings accounts (80TTA) or all deposits (80TTB)	Rs. 10,000 (Non-seniors) / Rs. 50,000 (Senior Citizens).
Section 80U	Resident assessee with certified physical disability	Rs. 75,000 (Ordinary) / Rs. 1,25,000 (Severe disability).

Chapter 6: Practical Worked Problems & Integrated Computations

Worked Problem 1: Income from House Property Resolution

Mr. Suresh Kurup owns a residential house in Thiruvananthapuram which is let out to a commercial bank executive at a monthly rent of Rs. 35,000. The particulars of the property are as follows:

• Municipal Value: Rs. 3,60,000 per annum.

• Fair Rent: Rs. 4,00,000 per annum.

• Standard Rent: Rs. 3,90,000 per annum.

• Municipal Taxes: Municipal taxes assessed at 10% of Municipal Value were paid during the year by Mr. Kurup.

• Interest on borrowed capital: Mr. Kurup paid Rs. 1,20,000 as interest on housing loan borrowed from Canara Bank for property construction.

Compute the Net Taxable Income from House Property for Mr. Suresh Kurup for the relevant assessment year.

Step-by-Step Resolution:

Step 1: Computation of Expected Rent (ER):

• Higher of Municipal Value (Rs. 3,60,000) and Fair Rent (Rs. 4,00,000) = Rs. 4,00,000.

• Expected Rent = Lower of higher figure (Rs. 4,00,000) and Standard Rent (Rs. 3,90,000) = Rs. 3,90,000.

Step 2: Determination of Gross Annual Value (GAV):

• Actual Rent Received = Rs. 35,000 × 12 = Rs. 4,20,000.

• Since Actual Rent Received (Rs. 4,20,000) exceeds Expected Rent (Rs. 3,90,000), GAV = Rs. 4,20,000.

Step 3: Computation of Net Annual Value (NAV):

• Gross Annual Value = Rs. 4,20,000.

• Less: Municipal Taxes Paid (10% of Rs. 3,60,000) = Rs. 36,000.

• Net Annual Value (NAV) = Rs. 4,20,000 − Rs. 36,000 = Rs. 3,84,000.

Step 4: Statutory Deductions under Section 24:

• Standard Deduction under Section 24(a) = 30% of NAV = 30% of Rs. 3,84,000 = Rs. 1,15,200.

• Interest on Borrowed Capital under Section 24(b) = Actual interest payable = Rs. 1,20,000.

• Total Deductions under Section 24 = Rs. 1,15,200 + Rs. 1,20,000 = Rs. 2,35,200.

Step 5: Taxable Income from House Property:

• Net Taxable Income = NAV − Total Deductions = Rs. 3,84,000 − Rs. 2,35,200 = Rs. 1,48,800.

Worked Problem 2: Integrated Gross Total Income and Chapter VI-A Deduction

Dr. Radhika Menon (age 46, resident) provides the following details of her earnings and outlays for the financial year:

• Net Taxable Income from Salaries (after Standard Deduction): Rs. 8,20,000.

• Net Taxable Income from House Property (let-out): Rs. 1,40,000.

• Dividend received from Indian companies: Rs. 45,000.

• Interest received on Bank Fixed Deposits: Rs. 35,000.

• Interest received on Savings Bank Account: Rs. 14,000.

• Winnings from Kerala State Lottery (gross): Rs. 1,00,000.

• Investments & Expenditures made during the year:

  - Contribution to Public Provident Fund (PPF): Rs. 1,10,000.

  - Investment in Equity Linked Savings Scheme (ELSS): Rs. 60,000.

  - Voluntary contribution to Tier-I NPS: Rs. 50,000.

  - Mediclaim insurance paid by cheque for self and family: Rs. 22,000.

  - Mediclaim insurance paid by cheque for senior citizen mother: Rs. 38,000.

  - Donation to Prime Minister National Relief Fund (cheque): Rs. 25,000.

Compute Dr. Radhika Menon's Gross Total Income, Total Eligible Chapter VI-A Deductions, and Net Total Taxable Income under the regular (Old) tax regime.

Step-by-Step Resolution:

Step 1: Statement of Gross Total Income (GTI):

• Income from Salaries: Rs. 8,20,000.

• Income from House Property: Rs. 1,40,000.

• Income from Other Sources:

  - Dividend Income: Rs. 45,000.

- Bank Fixed Deposit Interest: Rs. 35,000.

- Savings Bank Interest: Rs. 14,000.

- Lottery Winnings: Rs. 1,00,000.

- Total Other Sources = Rs. 1,94,000.

• **Gross Total Income (GTI) = Rs. 8,20,000 + Rs. 1,40,000 + Rs. 1,94,000 = Rs. 11,54,000.**

Step 2: Computation of Deductions under Chapter VI-A:

• **Deduction under Section 80C:** PPF (Rs. 1,10,000) + ELSS (Rs. 60,000) = Rs. 1,70,000. Capped at Section 80CCE statutory limit of **Rs. 1,50,000**.

• **Deduction under Section 80CCD(1B):** Voluntary NPS Tier-I contribution allowed up to **Rs. 50,000**.

• **Deduction under Section 80D:**

- Self and family: Rs. 22,000 (within Rs. 25,000 limit).

- Senior citizen mother: Rs. 38,000 (within Rs. 50,000 senior citizen limit).

- Total Section 80D Deduction = Rs. 22,000 + Rs. 38,000 = **Rs. 60,000**.

• **Deduction under Section 80G:** Prime Minister National Relief Fund qualifies for 100% deduction without limit = **Rs. 25,000**.

• **Deduction under Section 80TTA:** Interest on savings bank account allowed up to statutory ceiling of **Rs. 10,000** (out of Rs. 14,000 received).

• **Total Deductions under Chapter VI-A = Rs. 1,50,000 + Rs. 50,000 + Rs. 60,000 + Rs. 25,000 + Rs. 10,000 = Rs. 2,95,000.**

Step 3: Verification of Chapter VI-A Limitation:

• Chapter VI-A deductions cannot be set off against lottery winnings (Rs. 1,00,000). Eligible non-lottery GTI = Rs. 11,54,000 − Rs. 1,00,000 = Rs. 10,54,000. Since Rs. 2,95,000 ≤ Rs. 10,54,000, the full deduction of Rs. 2,95,000 is allowed.

Step 4: Net Total Taxable Income:

• Net Total Income = Gross Total Income − Chapter VI-A Deductions = Rs. 11,54,000 − Rs. 2,95,000 = **Rs. 8,59,000.**

• Note: In the final assessment, Rs. 1,00,000 lottery winning is taxed at flat 30% under Section 115BB, and the balance Rs. 7,59,000 is taxed at normal progressive slab rates.

Chapter 7: Presumptive Taxation under Section 44AD and 44ADA: Operational Mechanics & Worked Case

The presumptive taxation regime under Sections 44AD and 44ADA represents a substantial structural simplification for micro, small, and medium enterprises (MSMEs) and independent professionals. Under these schemes, qualifying assessees are relieved from the onerous compliance mandates of Section 44AA (maintenance of formal day-to-day books of account) and Section 44AB (compulsory independent statutory tax audit by a Chartered Accountant).

Section 1: Operational Mandates of Section 44AD

Under Section 44AD, an eligible resident individual, Hindu Undivided Family (HUF), or partnership firm (excluding Limited Liability Partnerships) carrying on any business (other than plying, hiring, or leasing goods

carriages covered under Section 44AE, agency business, or commission/brokerage) can declare business profits at a statutory presumptive rate:

• **8% of Gross Turnover:** Applied on turnover or gross receipts received in cash or through non-banking channels.

• **6% Concessional Rate for Digital Turnover:** Applied on the amount of gross turnover or receipts received through an account payee cheque, account payee bank draft, electronic clearing system (ECS), or prescribed digital modes (UPI, RTGS, NEFT, IMPS, credit/debit cards) received during the previous year or before the due date of filing the return under Section 139(1).

• **Eligible Turnover Ceiling:** The statutory ceiling is Rs. 2 Crore, which is extended to Rs. 3 Crore where the aggregate of cash receipts in the previous year does not exceed 5% of total turnover.

All business deductions under Sections 30 to 38, including unabsorbed depreciation, are statutorily deemed to have been fully allowed. The written down value (WDV) of depreciable assets is adjusted automatically as if normal depreciation had been calculated.

Section 2: Professional Presumptive Framework under Section 44ADA

Section 44ADA governs resident individual professionals engaged in designated specialized vocations: medical practitioners, legal advocates, chartered accountants, architects, software engineers, and technical consultants. Where gross professional receipts do not exceed Rs. 50 Lakhs (enhanced to Rs. 75 Lakhs where cash collections do not exceed 5%), profits are statutorily presumed to be 50% of gross receipts. The remaining 50% is deemed to cover all operational costs, professional indemnity insurance, office rent, staff stipends, and equipment depreciation.

Assessees adopting Section 44AD or 44ADA are required to pay their entire estimated advance tax liability in a single installment on or before 15th March of the financial year, rather than four quarterly installments.

Chapter 8: Worked Numerical Problem 3: Long-Term Capital Gain & Exemption Mechanics

Mr. Thomas Mathew purchased a residential plot of land in Ernakulam on 14th June 2008 for Rs. 12,00,000. He incurred registration and legal documentation expenses of Rs. 60,000. On 10th October 2023, he sold the plot for an agreed consideration of Rs. 68,00,000. The Stamp Duty Valuation assessed by the registration authority was Rs. 72,00,000. Brokerage paid on the sale was 1.5% of the actual transaction value.

On 15th February 2024, Mr. Mathew invested Rs. 25,00,000 in capital gains bonds issued by the National Highways Authority of India (NHAI) under Section 54EC. Additionally, on 28th March 2024, he purchased a new residential apartment in Aluva for Rs. 28,00,000 to claim relief under Section 54F. Prior to this purchase, Mr. Mathew owned only one existing residential house.

Given the Cost Inflation Index (CII) for FY 2008-09 was 137 and for FY 2023-24 was 348, compute the taxable Long-Term Capital Gain for Mr. Mathew for Assessment Year 2024-25.

Detailed Step-by-Step Resolution:

Step 1: Full Value of Consideration under Section 50C:

• Actual transaction consideration = Rs. 68,00,000.

• Stamp Duty Value = Rs. 72,00,000.

• 110% of actual consideration = 1.10 × Rs. 68,00,000 = Rs. 74,80,000.

• Under Section 50C, since the Stamp Duty Value (Rs. 72,00,000) does not exceed 110% of actual consideration (Rs. 74,80,000), the actual sale consideration of Rs. 68,00,000 is adopted as Full Value of Consideration.

Step 2: Net Consideration:

• Full Value of Consideration: Rs. 68,00,000.

• Less: Transfer expenses (brokerage at 1.5% of Rs. 68,00,000): Rs. 1,02,000.

• **Net Sale Consideration: Rs. 66,98,000.**

Step 3: Computation of Indexed Cost of Acquisition (ICOA):

• Total Cost of Acquisition = Purchase price (Rs. 12,00,000) + Registration charges (Rs. 60,000) = Rs. 12,60,000.

• Indexed Cost = Rs. 12,60,000 × (348 / 137) = Rs. 32,00,584.

Step 4: Gross Long-Term Capital Gain:

• Gross LTCG = Net Sale Consideration − Indexed Cost = Rs. 66,98,000 − Rs. 32,00,584 = Rs. 34,97,416.

Step 5: Deductions under Section 54EC:

• Investment in NHAI bonds within 6 months = Rs. 25,00,000.

• Capital gain remaining after Section 54EC = Rs. 34,97,416 − Rs. 25,00,000 = Rs. 9,97,416.

Step 6: Exemption under Section 54F:

• Mr. Mathew transferred a non-residential asset (vacant plot) and invested in a residential apartment (Rs. 28,00,000) within the stipulated period, owning not more than one house.

• Proportionate Section 54F Exemption formula:

$$\text{Section 54F Exemption} = \text{Remaining Capital Gain} \times \frac{\text{Cost of New House}}{\text{Net Consideration}}$$

• Exemption = Rs. 9,97,416 × (Rs. 28,00,000 / Rs. 66,98,000) = Rs. 4,17,002.

Step 7: Taxable Long-Term Capital Gain:

• Taxable LTCG = Remaining Capital Gain − Section 54F Exemption = Rs. 9,97,416 − Rs. 4,17,002 = **Rs. 5,80,414.**

Chapter 9: Aggregation, Set-Off, and Carry Forward of Losses

In determining the Gross Total Income of an assessee, individual sources or heads of income may yield negative balances (losses). The Income Tax Act establishes a rigorous two-tier mechanism under Sections 70 to 80 for setting off and carrying forward these losses.

Section 1: Intra-Head Set-Off under Section 70

Loss from one source of income can be set off against income from another source falling within the same head of income during the same previous year, subject to the following statutory restrictions:

• **Long-Term Capital Loss:** Long-term capital loss can be set off only against long-term capital gain. It cannot be set off against short-term capital gain.

• **Speculation Business Loss:** Can be set off only against speculation business profits.

• **Loss from Owning and Maintaining Race Horses:** Can be set off only against income from maintaining race horses.

• **Short-Term Capital Loss:** Short-term capital loss can be set off against both short-term capital gains and long-term capital gains.

Section 2: Inter-Head Set-Off under Section 71

Where a loss cannot be fully absorbed within the same head, it may be set off against income from other heads in the same financial year, subject to critical statutory exclusions:

• **Loss from House Property:** Maximum inter-head set-off against any other head (including salaries) is capped at Rs. 2,00,000 per financial year. Any unabsorbed house property loss exceeding Rs. 2,00,000 must be carried forward to subsequent years.

• **Business Loss:** Business losses cannot be set off against salary income. A business loss may, however, be set off against income from house property, capital gains, or other sources.

• **Capital Losses:** Capital losses (short-term or long-term) cannot be set off against any head other than Capital Gains.

• **Loss from Speculation or Lottery:** Cannot be set off against any other income.

Category of Loss	Inter-Head Set-off Permissibility	Carry Forward Period	Future Set-off Eligibility
House Property Loss	Permitted up to Rs. 2,00,000 against any head	8 Assessment Years	Only against Income from House Property.
Non-Speculation Business Loss	Permitted against any head except Salary	8 Assessment Years	Only against Business Profits (PGBP).
Short-Term Capital Loss	Strictly prohibited against other heads	8 Assessment Years	Against STCG and LTCG.
Long-Term Capital Loss	Strictly prohibited against other heads	8 Assessment Years	Strictly against LTCG only.
Unabsorbed Depreciation	Permitted against any head except Salary	Indefinite carry forward	Against any taxable head except Salary.

Under Section 80, carry forward of business loss, speculation loss, and capital loss is allowed only if the return of income for the loss year is filed on or before the statutory due date prescribed under Section 139(1). However, loss under the head House Property and unabsorbed depreciation can be carried forward even if the return is filed belatedly.

Chapter 10: Clubbing of Income Provisions under Sections 60 to 64

To thwart aggressive tax avoidance where high-bracket individuals divert income or assets to family members in lower or nil tax brackets, Sections 60 to 64 introduce statutory "clubbing" rules:

1. Transfer of Income Without Transfer of Assets (Section 60): Where an individual transfers income arising from an asset without transferring the asset itself, the income continues to be chargeable to tax in the hands of the transferor.

2. Revocable Transfer of Assets (Section 61): Where an asset is transferred under a deed that contains a provision for re-transfer or allows the transferor to resume power over the asset, income is taxed in the hands of the transferor.

3. Remuneration of Spouse from an Enterprise in which Assessee has Substantial Interest (Section 64(1)(ii)): Salary, commission, or fees paid to a spouse by an enterprise in which the assessee holds substantial interest (≥ 20% voting power or profit share) are clubbed with the assessee's income, unless the spouse possesses technical or professional qualifications and remuneration is solely attributable to application of such knowledge.

4. Transfer of Assets to Spouse (Section 64(1)(iv)): Where an asset is transferred directly or indirectly to a spouse without adequate consideration (otherwise than in connection with an agreement to live apart), income arising from the asset is clubbed with the transferor spouse.

5. Income of Minor Child (Section 64(1A)): All income accruing to a minor child (including interest on fixed deposits or gifts) is clubbed with the income of the parent whose total income (before this clubbing) is higher. However, income earned by a minor child through manual work or application of specialized talent, or income of

a child with disability under Section 80U, is not clubbed. Under Section 10(32), an exemption of up to Rs. 1,500 per minor child is allowed to the parent in whose income the minor's earnings are clubbed.