

Unit-II

Income exempted from Tax:

S. No	Particulars	Persons entitled for exemption	Condition(or) Details
1.	Agricultural income [Sec10(1)]	All assesses	Agriculture Income Less than 5000 Non agriculture income less than 2,50,000 , 3,00,000 and 5,00,000
2.	Sum received from HUF [Sec10(2)]	Member of HUF	Sum has to be paid out of income of family
3.	Share of income from firm	Partners of the Firm	Share of income
4.	Any sum received under a life insurance	Individuals	Sum received under LIC policy
5.	Interest incomes [Sec10(15)]	Individuals HUF & other specified assesses	Specified govt. securities interest amount
6.	Scholarship for [Sec10(16)]	Individuals	Scholarship related to education.
7.	Remuneration of	Individuals, foreign trainee	Full amount is exempted
8.	Allowances of M.P/M.L.A/MLC	MP/MLA/MLA members of any Committees	Daily & all allowances
9.	Awards instituted by Government[Sec10(17A)]	All assesses	Any payment under any govt. awards
10.	Pension to Gallantry award winners of their family members	Defense personal	Amount received

11.	Family pension received by members of Armed forces	Defense personal	Full amount received
12.	Annual Value of one palace of Ex. Rulers of Indian states [Sec10(19A)]	An Individual	Self occupied exempted. If let-out-Annual value is exempted
13.	Certain incomes of Local authority [Sec10(20)]	Local Authority	Income from H.P Capital gain, Income from other sources
14.	Income of scientific research association	Scientific research Association	They use the income for research of the Association
15.	Income of News Agency	News Agency	Spent for collection & distribution of news
16.	Income of professional Institutions	Certain Professional institutions	Should approved by Central Govt.
17.	Income of specified Charitable Funds	Specified Fund/ Authority	Prime Minister fund, Relief Fund
18.	Income of SAARC Fund	SAARC Fund	From AY.92-93
19.	Income of a pension Fund Setup by LIC (or) other insurance	Pension Fund Setup by LIC	Have been approved by controller of insurance
20.	Income of European Economic Community	EEC	Interest income dividend & capital gain

Residential Status Problems

1. Resident & Ordinary Resident

Mr. Rajendran left for U.S.A along with his family for the time on 14.10.2019. He returned to India on 31.5.2020 Determine his residential status for the AY 2020-21.

Stayed in India during the P.Y:

From 1.4.2019 to 14.10.2019

$30+31+30+31+31+30+14=197$ days

First basic condition is satisfied (stay in India for 182 days) he stayed in India for 197days. Since he left India for the first time on 14.10.2019.He would have been residing in India for the 10 yrs preceding pr.yrs.

* Additional condition is also satisfied (stay 2 years out of 10 Preceding pr yrs).

2nd additional condition is also satisfied (stay in India 730days during 7 preceding PY.

So he is ordinary resident.

2. Resident and Not ordinary Resident:

Mr. Williams is a German Citizen during the FY 2019-20, he was in India for 120 days. Determine his residential status for the AY 2020-21. On the assumption that during the FY 2009-10 to 2018-19 he was in India as foll.

2009-10- 20 days

2010-11- 16 days

2011-12- 28 days

2012-13- 30 days

2013-14- 50 days

2014-15-150 days

2015-16- 59 days

2016-17- 59 days

2017-18-182 days

2018-19-182 days

a) Stay in India during PY 1.4.2019-31.3.2020-120 day's first basic condition (stay 180 days) is not satisfied.

b) Stay in India during the 4 years preceding PY

$$182+182+59+59= 482 \text{ days.}$$

Second basic condition is fully satisfied.

c) Stay in India during 10 years preceding PY

2018-19- 182 –resident

2017-18-182 –resident

So additional conditions of being resident for 2 out of 10years preceding the PY is satisfied. So Williams was resident for only 2 years during 10 years.

Mr. Williams is Resident but not Ordinary resident he fulfils only one of the two additional Conditions required under Sec 6(6) (a) to be ordinarily resident.

3. Non-Resident:

1. Mr. James a Foreign national came to India for the first time on June 15.2014. During the FY 2014-15, 2015-16, 2016-17, 2017-18, and 2018-19 and 2019-20 he stayed in India for 50 days, 183 days, 115 days, 25 days, 190 days and 58 days respectively. Ascertain the Residential status for AY 2020-21.

a) Stay in India during PY 1.4.2019 to 1.3.2020.

No. of days if stay in India 58 days.

1st Basic Condition (stay 182 days) is not satisfied.

2nd Basic condition (60 days stay in PY and 365 days in 4 preceding PY is not satisfied. So he is non-Resident.

Unit V

Income from Business (or) Profession

Format:

Profit as per P&L a/c

xxx

Add:

1) Expenses (or) losses disallowed but

Charged in P&L a/c	xxx	
2) Income taxable as business income		
But not credited to the P&L a/c	xxx	
3) Expenses in excess of the allowed amount		
Charged in P&L a/c	xxx	
4) Undervaluation of cl.stock (or) over		
Overvaluation of opening stock	xxx	xxx

		Xxx

Deduct:

1) Expenses (or) losses allowed but		
Not debited to P&L a/c	xxx	
2) Incomes not taxable as business		
Income but credited to the		
P&L a/c	xxx	
3) Incomes exempt from tax but		
Credited in P&L a/c	xxx	
4) Over- valuation of cl.stock &		
Undervaluation of op.stock	xxx	xxx

Taxable income from Business		xxx

Allowed Expenses:

1. Expenses in respect of Buildings.
2. Expenses in respect of plant, machinery, furniture, repairs and insurance premium
3. Depreciation on Intangible Assets.
4. Deduction regarding deposit in Tea Development account, coffee Development a/c or Ruffle Development.
5. Deduction regarding deposit in special a/c for prospection for (or) extract petroleum (or) natural gas.
6. Expenditure on scientific Research.
7. Deduction regarding capital expenditure to obtain license to operate telecommunication Services.
8. Expenditure on eligible Project or scheme.
9. Expenditure on specified business.
10. Payment to Rural Development Fund, National poverty, Eradication Fund.
11. Expenditure on agricultural extension.
12. Expenditure on skill development project incurred by a company.
13. Bonus (or) commission to employers.

Expenses Disallowed:

1. Expenditure on advertisement in any sources etc., published by a political party.

2. Payment out of India (or) in India to a non-resident (or) a foreign company.
3. Any payment to residents on which tax is deductible at source but tax has not been deducted.
4. Income Tax.
5. Salaries payable outside India (or) to a non-resident on which tax has not deducted at source.
6. Tax paid by the employer voluntarily on the value of perquisites.

Expenses Not Deductible in Certain Circumstances:

1. Payment to relative (or) associate concern in excess of market rate.
2. Payment in cash exceeding 20,000/ 35,000
3. Provision for gratuity provided.
4. Contribution to any unapproved fund

Problems:

1. Sri. Nehru is the Proprietor of a business. He is P&L of for the year ended March 31 2019 is as follows:

Establishment	4800	Gross profit	3 ,50,840
Rent Rates & Taxes	2900	Int. on govt.sec	5,400
General charges	750	Rent from H.P	5,400

Household exp.,	51,730
Commission on	
Discount & allowances	450
Provision for Bad debts	1,500
Postage & Telegrams	270
Law charges	450
Advertising	1,550
Fire Insurance premium	360
Value added tax paid	1,450
Repairs & Renewals	
(not for business)	630
Loss on sale of Motor (or)	
(used for private purpose)	1,800
Life Insurance Premium	1,790
Int. on capital	1,090
Audit fee	300
Int. on bank loan	1,380
Provision for Depreciation	2,500
Provision for Income Tax	3,900
Net Profit	2,80,840

3,61,640

3,61,640

Additional Information:

- a) Actual Bad debts written off during the year Rs.550
- b) Amount of Income tax actually paid Rs.4200
- c) Depreciation allowable is Rs.1700 as per Income tax rules.
- d) Advertising Expenses include RS 550 spent on special advertising new shop in market.
- e) Law charges are in connection with trademark.
- f) He carries on his business from a rented premier half of which used for residence. Rent, Rates included Rs. 2400 paid as rent.
- g) Bank loan is taken for business premiers.

Compute his Income from business & his Gross total income.

Computation of Nehru's Business Income

Net profit as per P&L a/c		2,80,840
Add: Exp. not allowed		
Rent of one-half premises	1,200	
Household exp.,	51,730	
Provision for Bad debts	1,200	

Loss on sale of Motor car	1,800	
Repairs & Renewals	630	
LIC premium	1,790	
Int. on capital	1,090	
Provision for Depreciation	2,500	
Provision for Income Tax	3,900	65,840

		3,46,680

Less: Exp. Not charged		
Bad debts	550	
Depreciation	1,700	2,250

		3,44,430

Less: Interest not chargeable:		
Int. on govt. securities	5,400	
Rent from H.P	5,400	10,800

Income from Business		3,33,630
