

Lecturer - Commerce

(Dr. Gopal Singh)

E.mail.Id - gopalsingh1978rishabh@gmail.com

Mob. No - 9451354695

Vikram Singh Kanya Mahavidyalaya

Mughalsarai Chandauli

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First paper

" Income Tax "

INCOME Tax

Income Tax is an important direct tax. It is a prominent and most significant source of revenue of the government. The government needs money to maintain law and order in the country, safeguard the security of the country from foreign powers and promote the welfare of the people. Since our government is wedded to the socialistic pattern of society it is the foremost duty of the Government to bring out such welfare and development programmes which will bridge the gap between the rich and the poor. All this requires mobilisation of funds from various sources.

Person → Person includes the following-

- (i) An individual - means a natural Person or a human being, who may be male, female, minor child or a lunatic.
- (ii) A Hindu Undivided family - means a hindu family which consists of all person lineally descended from a common ancestor including their wives and unmarried daughters.
- (iii) A Company - may be defined as an artificial Person created by law with perpetual succession a common seal and shares carrying limited liability.
- (iv) A firm means a partnership firm which is defined under the Partnership Act.
- (v) An Association of persons, means two or more persons joining for a common purpose for the purpose

of earning income, the A.O.P may consist of two or more individuals or any other persons.

(vi) Body of individuals - means a Conglomeration of individuals who come together by chance

Assessee

Sec. 2(7)

An assessee means a person.

- (i) who is liable to pay tax, or
- (ii) who is liable to pay any other sum of money under this Act. or
- (iii) in respect of whom any proceeding under this Act has been taken for the assessment of his income or assessment of fringe benefits or
- (iv) who is deemed to be an assessee under any provision of this Act. or
- (v) who is deemed to be an assessee in default under any provision of this Act.

Deemed Assessee → A person who is deemed to be an assessee for some other person is called Deemed Assessee.

Assessee in Default → when a person is responsible for doing any work under the Act and failed to do it, he is called an assessee in default.

Assessment year → Assessment year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year. An assessee is liable to pay tax on the income of the previous year during the following financial year.

Previous year → the year in which income is earned is known as the previous year and the next year in which this income is taxable is known as the assessment year.

Lesson → 1

Income From Salaries

Salaries → any remuneration paid by an employer to his employee in consideration of his services is called salary. It includes the monetary value of those benefits and facilities provided by the employer which are taxable.

Gross Salary = Basic salary +
Allowances + Perquisites
+ Profit in lieu of salary

Allowances → Payments in cash made by the employer to his employees monthly, other than salary, is called an allowance. There are three types of such allowances which are as under

Financial year = 2019-20

Assessment year = 2020-21

Allowances →

- ① Fully Taxable Allowances.
- ② Fully Exempted Allowances
- ③ Partially Exempted Allowances

1: Fully taxable Allowances —

- a: Dearness Allowance
- b: Additional dearness Allowance
- c: Dearness Pay Allowance
- d: City Compensation Allowance
- e: Rural Allowance
- f: Non-Practising Allowance
- g: Medical Allowance
- h: Servant Allowance
- i: Proctor Allowance
- j: Wardenship Allowance
- k: Dog Allowance

- l. Overtime Allowance
- m. Deputation Allowance
- n. Night Allowance
- o. Project Allowance
- p. Family Allowance
- q. Marriage Allowance

2: fully exempted Allowances.

- a. Foreign Allowance
- b. Allowances to High Court Judges.
- c. Allowance received from U.N.O
- d. Travelling Allowance for tour (C.G.E)
- e. Daily Allowances (C.G.E)
- f. Academic (Research) Allowance
- g. Uniform Allowance
- h. Conveyance or Car Allowance (G.E)

3- Partially exempted Allowances

a- House Rent Allowance - (H.R.A) -

- (i) Actual received of H.R.A or
- (ii) Actual Rent Paid - 10% of salary or
- (iii) 40% or 50% of salary

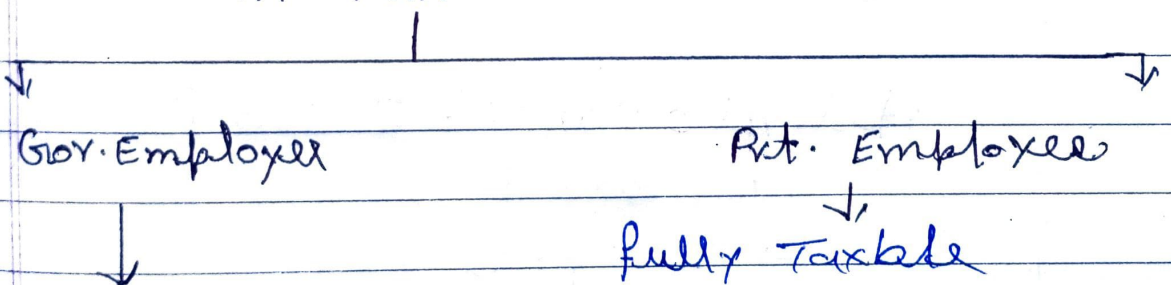
which is the least than amount is Tax free

Salary = Basic salary (B.S) + Dearness Allowance (D.A) Conditional + Dearness pay (D.P) + sales of Commission

50% of salary = Metro City (Delhi, Mumbai, Kolkata, Chennai)

40% of salary = Non-metro city

b: Entertainment Allowance



(i) Actual received of Entertainment Allowance or

② 26% of Salary

③ ₹ 5000 maximum amount

which is the less than amount is tax free
U/S 16(ii)

Salary = Only Basic Salary (B.S)

C: Transport Allowance = 1600 Per month
is tax free
(only office to Home & Home to office)

D: Underground Allowance - 800 Per
month is tax free

E: Education Allowance = ₹ 100 Per month,
Per son & maximum 2 son,
is tax free

F: Hostel Allowance = ₹ 300 Per month,
Per son & maximum 2 son,
is tax free.

G. Special Allowance (Transport Agencies) :-

U 70% of Actual received of Allowance or

₹10000 Per month

Less than amount is Tax free

H. Tribal Area Allowance :- ₹200 per month
is Tax free

I. Hill area compensatory Allowance :- ₹300 P.M
is Tax free

PERQUISITES :- (अभिलक्ष)

1. Rent free House :-

next page →

Rent Free

Gov. Employer

↓
Unfurnished House

↓
Furnished House

↓
Taxable value for unfurnished House

↓
Unfurnished House

↓
= Licensing value for Gov. + 10%

↓
for Gov.

↓
Actual Rent Paid of
Furnitures

House

↓
Gov. Employer

↓
Unfurnished House

↓
Furnished House

↓
Owned By Employer

↓
Rented House

↓
If Than population is less than 10 lakh \Rightarrow 7.5% of sal. is Taxable

↓
(ii) Than population is more than 10 lakh \Rightarrow 10% of sal. is Taxable

↓
(iii) Than population is more than 25 lakh \Rightarrow 15% of sal. is Taxable

↓
15% salary or Actual Rent Paid, which is less than amount is Taxable value of rent free House

↓
Taxable value of unfurnished Rent free House =

↓
Taxable value of unfurnished Rent free House + 10% Cost of furnitures + Actual Rent Paid of furnitures.

↓
Salary = B.S + D.P + D.A (Conditionally) +

↓
Commission + All Taxable Allowances + All amount Payment.

2:

Medical Benefits or Requisites -

In India

Out of India

- | | |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| <p>① Employee & his family treatment on Employer's Hospital is full Taxfree</p> | <p>① Employee & his family All treatment Exp. is fully Taxfree But</p> |
| <p>② Employee and his family treatment on Gov. Hospital is fully Taxfree</p> | <p>Recommended By R.B.I. ② Patient and attendant All</p> |
| <p>③ Employee and his family treatment on Pvt. Hospital But recommended By employer is fully Taxfree.</p> | <p>travelling Exp. is fully Taxfree But total Taxable Income is less than ₹ 200000</p> |
| <p>④ Employee and his family is treatment on Pvt. Hospital But Not recommended By Employer than whole amount is Taxable</p> | |

3: Provident fund \rightarrow Contribution to Employer of Provident fund is more than 12%. Salary is Taxable

$$\text{Salary} = B.S + D.P + G.A (\text{conditional}) + S.C$$

4: Interest on Provident fund \rightarrow interest credited to the Provident fund Account is \neq more than 9.5% is Taxable

5: Education Benefits \rightarrow Education benefits

Per month Per son \neq 1000 is Tax free
But more than Per month Per son \neq 1000
Received than whole amount is Taxable.

6: Car Facility \rightarrow

(A) All Exp paid By Employer \rightarrow

(a) Car only official used \rightarrow Taxable value is nil

(b) Car only Pvt. used \rightarrow Taxable value =

All Exp of car + 10% Cost of car + Driver Salary (By Employer) - Sum amount Paid By Employee.

(C) Car Partially official & Prt. used \rightarrow Taxable value =

(i) Large \rightarrow ₹ 2400 per month is Taxable

(ii) Small car \rightarrow 1800 per month is Taxable and provided the driver By Employer then 900 p.m is Taxable in both cases.

B \div All Exp Paid By Employer \rightarrow

(a) car only official used \rightarrow Taxable value is Nil

(b) car only Prt used \rightarrow Taxable value is =

All Exp of car + 10% cost of car + Driver Salary (By Employer)

C \div Car Partially official & Prt. used \rightarrow -

(a) Large car \rightarrow ₹ 900 p.m is Taxable

(b) Small car \rightarrow ₹ 600 p.m is Taxable

and driver sal is 900 p.m (By Employer)

C: Car Exp Paid By Employer & Employee →

Car used official & Pvt and official Exp is Paid By Employer & Pvt. Exp. Paid By Employee than taxable value -

(i) Large car →

₹ 2400 p.m (All. Exp Paid By Employer)

₹ 900 p.m (All. Exp Paid By Employee)

(ii) Small car →

₹ 1800 p.m (All. Exp Paid By Employer)

₹ 600 p.m (All. Exp Paid By Employee)

and driver sal. 900 p.m (By Employer)

Both cases.

D: more than one car →

The company provided more than one car than taxable value = If car is used by official & Pvt. and remaining car is used only Pvt.

F: Other facility → Domestic Servant, Sweeper, watchman, cook, electricity, gas Paid By Employer is fully taxable.

Q-1: Mr. X is employed in a Company at ₹ 15000 P.M. He is a member of Recognised Provident fund to which he and his employer contributes 15% of his salary. during the year his was given credit of ₹ 12000 as interest on the Provident fund balance of ₹ 100000. ~~fact~~ calculate the taxable amount of annual accretion to be included in his income under the head salaries.

Ans- Annual salary (15000 × 12) = ₹ 180000

↳ Excess of employer's contribution to Provident fund over

12% of salary = 5400

↳ interest in excess of 9.5% = 2500

Taxable

~~Fact~~ Annual Accretion = 5400 + 2500 = 7900

W.N =

↳ Salary = 180000

3% Excess = $180000 \times \frac{3}{100} = 5400$

↳ $12000 - 100000 \times \frac{9.5}{100}$

= 12000 - 9500 = 2500

Q-2:- Find out the amount of the house Rent Allowance which shall be included in the income under the head Salaries in each case.

- (i) Basic pay ₹ 20000 p.m, Dearness pay @ 10% of Basic pay, Commission based on fixed Percentage of turnover ₹ 120000 for the year, H.R.A ₹ 5000 p.m, Actual Rent paid by the assessee ₹ 4000 p.m, House situated in Agra.
- (ii) Basic pay ₹ 30000 p.m, Dearness Allowance @ 10% of basic pay, House Rent Allowance ₹ 5000 p.m Actual Rent paid By the assessee ₹ 7000 p.m House situated in Mathura
- (iii) Basic pay ₹ 20000 p.m Dearness Allowance @ 10% of Basic pay, H.R.A ₹ 2000 p.m, Actual Rent paid By the assessee ₹ 5000 p.m House situated in Delhi.

Ans-(i) Calculation of H.R.A —

(i) House Rent Allowance Required =	₹ 60000
(ii) Actual Rent paid - 10% of salary =	₹ 9600
(48000 - 38400)	
(iii) 40% of salary =	₹ 153600

Tax free amount = 9600

Taxable amount = Actual Received - Tax free
 = 60000 - 9600
 = 50400

Ans

working note -

$$\begin{aligned} \text{Salary} &= B.S + DP + DA (\text{conditional}) + P.S.C \\ &= 20000 \times 12 + 10\% + 0 + 120000 \\ &= 240000 + 24000 + 120000 \\ &= 384000 \end{aligned}$$

$$10\% \text{ of sal} = 384000 \times \frac{10}{100} = 38400$$

$$40\% \text{ of salary} = 384000 \times \frac{40}{100} = 153600$$

(ii) calculation of H.R.A -

$$\text{Actual Required of H.R.A} = \text{₹ } 60000$$

$$\text{Actual Rent Paid} - 10\% \text{ of sal} = 48000$$

$$(84000 - 36000)$$

$$40\% \text{ of salary} = 153600$$

$$\text{Tax free} = 48000$$

$$\text{Taxable} = 60000 - 48000$$

$$= 12000$$

W.N -

$$\text{Salary} = 30000 \times 12 + 0 + 0 + 0$$

$$= 360000$$

$$10\% \text{ of salary} = 360000 \times \frac{10}{100} = 36000$$

$$11\% \text{ of salary} = 360000 \times \frac{11}{100} = 396000$$

(iii) calculation of H.R.A. —

a- Actual received of H.R.A. =	₹ 24000
Actual Rent Paid - 10% of sal =	
(60000 - 36000)	24000
50% of salary =	180000

$$\text{Tax free amount} = 24000$$

$$\text{Taxable} = 24000 - 24000 = 0$$

W.N

$$\begin{aligned} \text{Salary} &= 20000 \times 12 + 0 + 0 + 0 \\ &= 240000 \end{aligned}$$

$$10\% \text{ of salary} = 240000 \times \frac{10}{100} = 24000$$

$$50\% \text{ of salary} = 240000 \times \frac{50}{100} = 120000$$