

DIRECT TAXES

An Overview

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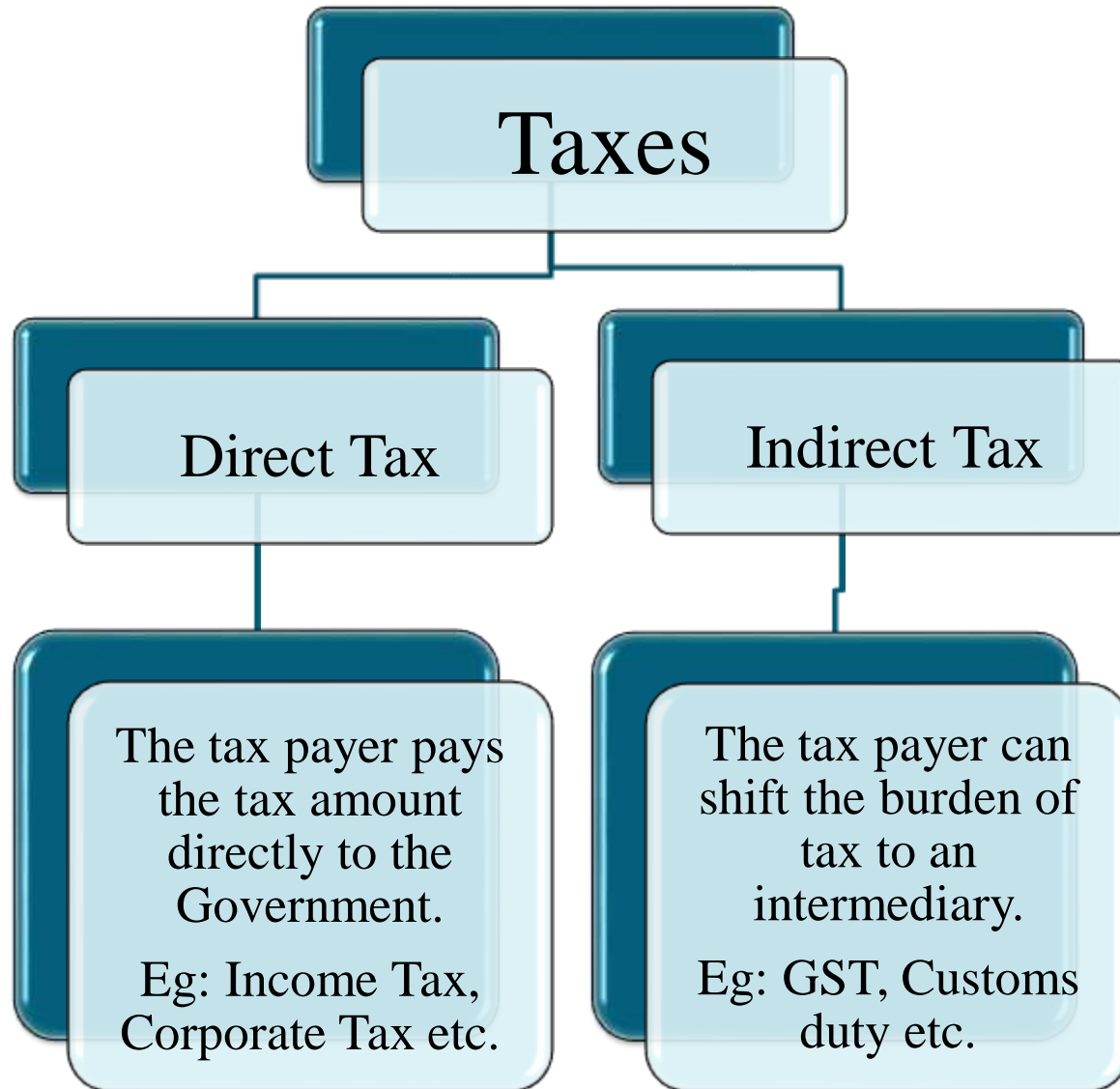
What is Tax??

Tax is money that people have to pay to the Government.

Tax collected by Government is utilized for the development of the nation.

Public Expenditure like Construction of Roads, Bridges, Schools, Hospitals, Defense etc. are few areas where tax money is used.

Classification of Taxes



Income Tax

Income tax is tax on the **Income**, earned by a **Person**.

The Constitution of India empowers the **Central Government** to levy tax on Income.

According to Section 1 of the Income Tax Act, 1961, the act shall be called as the Income Tax Act, 1961 and it is applicable to the **whole of India**.

The Act came into force on **01st April, 1962**.

Definitions

Income u/s 2(24)

Income includes:

- a. Profits or gains of business or profession
- b. Dividend
- c. Voluntary Contribution received by:
 - Charitable / Religious Trust or University
 - Educational Institution
 - Scientific Research
 - Promotion of Sports
- d. Value of perquisite or profit in lieu of salary taxable u/s 17
Eg: Motor Car
- e. Capital Gain u/s 45
- f. Winnings from Lottery, Crossword puzzles, Horse races, Gambling, Betting
- g. Non-compete agreements
- h. Individual/ HUF > Rs. 50,000/- after 01st April, 2006 as gift

Definitions

Person u/s 2(31)

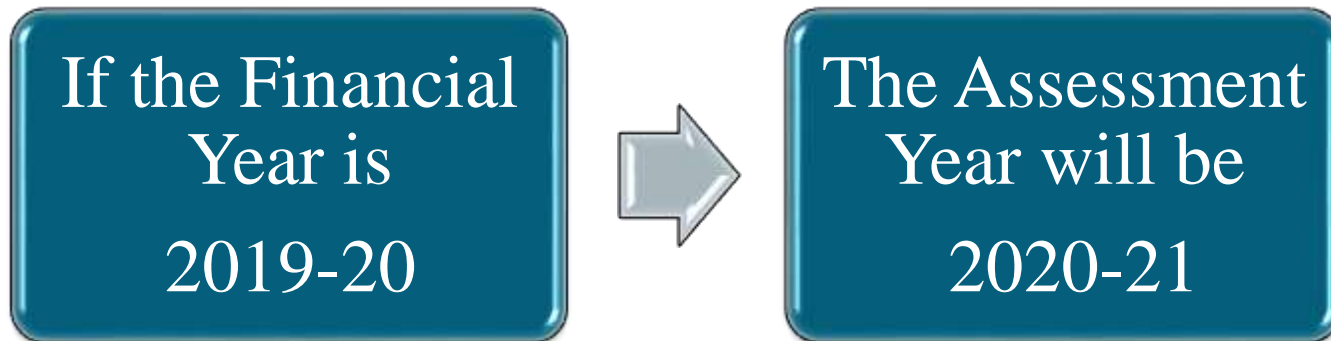
The term person includes the following:

- a. an individual;
- b. a Hindu undivided family (HUF);
- c. a Company;
- d. a Firm;
- e. an association of persons (AOP) or body of individuals (BOI), whether incorporated or not;
- f. a local authority; and
- g. every artificial juridical person not falling in the categories mentioned above. (Residual category)

Definitions

Assessment Year u/s 2(9)

- “Assessment year” means the period of twelve months commencing on 1st April every year and ending on 31st March of the next year.
- For Eg:



- The income of the Financial Year 2019-20 is taxed in the Assessment Year 2020-21.

Definitions

Previous Year u/s 2(34) read with Section 3

- The year in which income is earned is known as previous year.
- It is the financial year immediately preceding the assessment year.
- The previous year is the financial year of 12 months i.e. from 01st April to 31st March.
- For a newly set up business, the previous year will begin from the date of setting up or coming into existence of the new business to 31st March.
- In the above case, the previous year may be less than 12 months.

Heads of Income (Sec 14)

All incomes shall, for the purposes of Income Tax shall be classified under the following heads of income:

Income from
Salaries

Income from
House Property

Profits and
Gains of
Business or
Profession

Capital Gains

Income from
Other Sources

The addition of above five categories will result in determination of **Gross Total Income (GTI)**.

Income from Salaries (Sec 15 to 17)

Computation of Income from Salary

Particulars	Rs.	Rs.
A] <u>Salary (Gross) u/s 17(1)</u>		
Basic Salary	XX	
Bonus (Receipt Basis) etc.	<u>XX</u>	XX
B] <u>Allowances</u>		
Dearness Allowance	XX	
House Rent Allowance etc.	<u>XX</u>	XX
C] <u>Perquisites u/s 17(2)</u>		
Rent free Accommodation	XX	
Vacation at holiday homes	XX	
Motor Car with or without Driver	<u>XX</u>	XX
D] Profits in Lieu of Salary u/s 17(3)		XX
GROSS SALARY (A+B+C+D)		XX

Income from Salaries (Sec 15 to 17)

Computation of Income from Salary (contd.)

Gross Salary		XX
Less: <u>Deductions u/s 16</u>		
i) <u>Standard Deduction</u>		
a) Rs. 50,000/-		
b) Actual Gross Salary		
Least of a and b	XX	
ii) <u>Entertainment Allowance</u>		
(Govt. Employees only)		
a) Actual Entertainment Allowance		
b) 1/5 th of Basic Salary		
c) Rs. 5000 per year		
Least of a, b and c	XX	
iii) Profession Tax	XX	(XX)
NET TAXABLE INCOME FROM SALARY		<u>XX</u>

Income from House Property (Sec 22 to 27)

Computation of Income from House Property

Particulars	Rs.	Rs.
Gross Annual Value (GAV) u/s 23		XX
Less: Municipal taxes paid by the owner		<u>(XX)</u>
Net Annual Value (NAV)		XX
Less: <u>Deductions u/s 24</u>		
a) 30% of NAV [Sec 24(a)]	XX	
b) Interest on Borrowed Capital [Sec 24(b)]	<u>XX</u>	<u>(XX)</u>
INCOME FROM HOUSE PROPERTY		<u>XX</u>

Profit & Gain of Business or Profession

Computation of Income from Business/ Profession

(When P&L A/c is given)

Particulars	Rs.	Rs.
Net Profit/ (Loss) as per P&L A/c		XX
Add: <u>Expenses debited to P&L A/c but disallowed</u>		
Personal Expenses	XX	
Donations	XX	
Fines & Penalty	XX	
Income Tax, Wealth Tax, Gift Tax	XX	
Depreciation as per books	<u>XX</u>	XX
Add: <u>Income not credited to P&L A/c but taxable</u>		
Non-compete fees	XX	
Received from LIC on Keyman Insurance Policy	XX	
	<u>XX</u>	XX

Profit & Gain of Business or Profession

Computation of Income from Business/ Profession (contd.)

(When P&L A/c is given)

Particulars	Rs.	Rs.
Less: <u>Expenses not debited to P&L A/c but allowed</u>		
Depreciation as per Income Tax Act	XX	
Expenditure on Scientific Research	<u>XX</u>	(XX)
Less: <u>Income credited to P&L A/c but exempt or taxable under different head</u>		
Dividend Income	XX	
Salary Income	XX	
Income from House Property	XX	
Capital Gain	XX	
Income from Other Sources	<u>XX</u>	(XX)
INCOME FROM BUSINESS/ PROFESSION		<u>XX</u>

Profit & Gain of Business or Profession

Computation of Income from Profession

(When P&L A/c is NOT given)

Particulars	Rs.
Professional Receipts	XX
Less: Professional Expenses	(XX)
Income from Profession	<u>XX</u>

Capital Gains (Sec 45 to 54EC)

Computation of Capital Gain

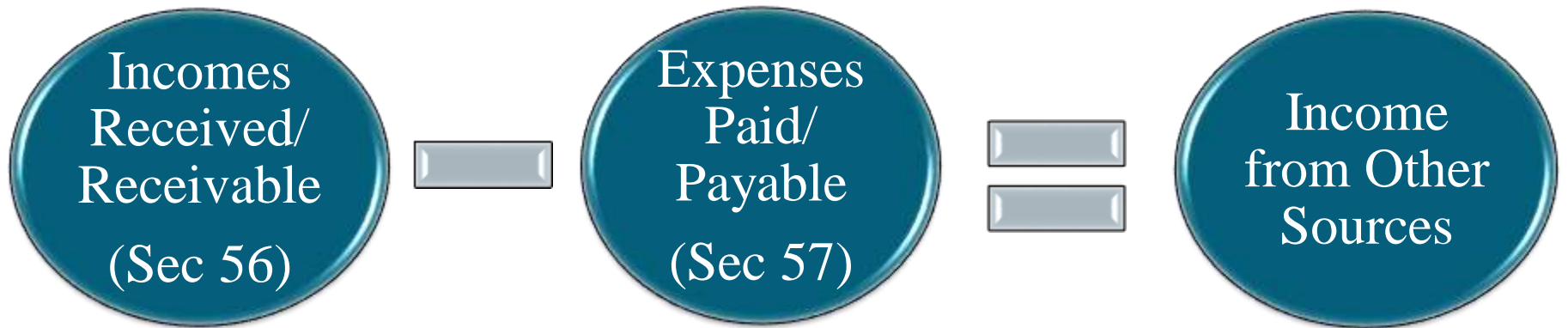
Particulars	Rs.	Rs.
Full Value of Consideration (Sale Proceeds)		XX
Less: Transfer Expenses (Brokerage)		(XX)
Net Sale Consideration		XX
Less: <u>Indexed Cost of Acquisition</u> In case FMV of property is given		
a) Cost of Acquisition	XX	
b) Fair Market Value (FMV)	XX	
Higher of a and b should be indexed		(XX)
Less: <u>Indexed Cost of Improvement</u> (Improvement done prior to 2000-01)		(XX)
Long Term Capital Gain (LTCG) (If, Holding period > 24 months)		XX

Capital Gains (Sec 45 to 54EC)

Computation of Capital Gain (contd.)

Particulars	Rs.
Long Term Capital Gain (LTCG)	XX
Less: <u>Purchase of 2 Residential House Properties (Sec 54)</u> (If Capital gain < Rs. 2 Crores) (Purchase before 1 year to the date of transfer) or (Purchase within 2 years from the date of transfer) (Construction within 3 years from date of transfer) (Benefit available once in a lifetime)	(XX)
Less: <u>Investment in NHAI or RECL bonds (Sec 54EC)</u> (Investment should be done within 6 months from date of transfer)	(XX)
NET LONG TERM CAPITAL GAIN	<u>XX</u>

Income from Other Sources (Sec 56 to 58)



Deductions under Chapter VI-A (Sec 80C to 80U)

Sec 80C

Specified Savings

- Individual/ HUF
- Max limit Rs. 1,50,000/-
- Examples:
- LIC Premium paid
- Investment in NSC
- Principal Repayment of Housing Loan
- Deposit in PPF (Self & Spouse)

Sec 80CCC

Contribution to Pension Fund

- Individual only
- Max limit Rs. 1,50,000/-
- Total of 80C, 80CCC & 80CCD = Rs. 1,50,000/- Max.

Sec 80D

Medical Insurance Policy

- Individual/ HUF
- Own, Spouse, Dependent Children = Rs. 25,000/- Max
- Parents (Dependent or Not) = Rs. 25,000/- Max extra deduction.

Deductions under Chapter VI-A (Sec 80C to 80U)

Sec 80DD

- Maintenance/ Medical Treatment of Disabled Dependent
- Individual/ HUF
- Disability = Rs. 75,000/- Severe Disability = Rs. 1,25,000/-

Sec 80E

- Interest on Loan for Higher Education
- Individual only

Sec 80TTA

- Interest on Saving Bank A/c & Post Office Saving A/c
- Individual/ HUF
- Max limit Rs. 10,000/-

Sec 80U

- Individual (Assessee) suffering from Disability
- Disability = Rs. 75,000/- Severe Disability = Rs. 1,25,000/-

Incomes Exempted from Tax (Sec 10)

If a person is in receipt of the following incomes, **he is not required to pay tax** thereon:

Agricultural
Income

[U/s 10(1)]

Receipt from HUF

[U/s 10(2)]

Share in Profits of
Firm by Partner

[U/s 10(2A)]

Gratuity

[U/s 10(10)]

Leave Salary

[U/s 10(10AA)]

Commutation of
Pension

[U/s 10(10A)]

House Rent
Allowance

[U/s 10(13a)]

Scholarships

[U/s 10(16)]

Awards by CG or SG

[U/s 10(17A)]

Incomes Exempted from Tax (Sec 10)

Pension received
by person,
honoured by a
Gallantry Award
[U/ 10 (18)]

Pension received
by Family of
Armed Forces
[U/s 10(19)]

Clubbed Income of
a Minor Child
[U/s 10(32)]

Dividend Income
[U/s 10(34)]

Income from
Mutual Fund
[U/s 10(35)]

Interest Income on
specified securities
[U/s 10(15)]

Computation of Total Income

Name of the Assessee: Mr. X

Asst. Year: 2020-21

Previous Year: 2019-20

Legal Status: Individual

Residential Status: R. & O. R.

Particulars

Rs.

I] Income from Salaries

XX

II] Income from House Property

XX

III] Income from Business or Profession

XX

IV] Income from Capital Gains

XX

V] Income from Other Sources

XX

Gross Total Income (GTI)

XX

Less: Deductions under Chapter VI-A

(XX)

Net Taxable Total Income (NTTI)

XX

Thank You!!