

Text Book

INCOME TAX

A Textbook for B.Com. & BBM/BBA as per Gulbarga University Kalaburagi,
Karnataka University Dharwad, Rani Chennamma University Belagavi,
Vijaynagar Sri Krishnadevaraya University Bellary and Akkamahadevi
Women's University Vijayapura Syllabus

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MODULE-9

9.1 ASSESSMENT OF INDIVIDUAL

An individual means any human being. An individual has to pay income tax on total income at progressive rates of tax. The gross total income of an individual comprises the income from following heads.

- ✓ a) Income from Salary
- ✓ b) Income from House Property
- ✓ c) Income from Business or Profession
- ✓ d) Income from Capital Gains
- ✓ e) Income from Other sources

As an individual apart from his income, he/she may get share of income from various institutions in different capacities. The following are the income tax provisions relating to his/her share of income from various institutions.

I) As a member of Hindu Undivided Family:

Share of income received by an individual as a member of Hindu Undivided Family is fully exempt U/s 10(2). According to Sec 64(2), if an individual has converted his self acquired property into HUF property the income from such converted property is taxable in the hands of an individual but not in the hands of HUF, even though the income from such converted property is received by HUF.

II) As a partner of a firm:

- a) Share of profit received from firm by an individual as a partner is fully exempt U/s 10(2A)
- b) Any interest received from firm as a partner is taxable under the head "Income from Business" to the extent to which it was allowed in the assessment of firm.
- c) Salary, Bonus, etc received from firm by an individual as a non-working partner is not taxable because, it was fully disallowed in the assessment of firm.
- d) Salary, Bonus etc received from firm by an individual as a working partner is taxable under the head "Income from Business" only to the extent to which it was allowed in the assessment of firm.
- e) As interest Salary, Bonus etc received from firm are taxable under the head "Income from Business" all expenses incurred for earning of these incomes are allowed as business expenses.

III) As a Share Holder of a Company:

- a) Any dividend received from an Indian Company is fully exempt U/s 10(34)

- b) Any dividend received from a foreign company is taxable under the head "Income from other sources". In case of foreign company, tax is not deducted at source; hence, gross and net dividends are one and the same.

✓ **IV) As a Member of Co-operative Society:**

Dividend received from a co-operative society is taxable under the head "Income from other sources". Here also the tax is not deducted at sources, hence, gross and net dividend are one and the same.

✓ **V) As a member of Association of Persons (AOP) or Body of Individuals (BOI):**

The taxability of share of income from AOP/BOI is depending upon the taxability of AOP/BOI. The share of income from AOP/BOI is treated in following three ways.

- a) When the total income of AOP/BOI is taxable at maximum marginal rate:
The Share of income from AOP/BOI is not taxable, hence, it should not be included in total income of an individual.
- b) When the total income of AOP/BOI is taxable at normal rate:
The share of income from AOP/BOI is included in the total income of individual but rebate of tax U/s 86 is granted at average rate of tax.

$$\text{Average Rate of Tax} = \frac{\text{Income tax on total income}}{\text{Total income}} \times 100$$

Rebate of Tax U/s 86 = Share of income X Average Rate from AOP/BOI

- c) When the total income of AOP/BOI is less than non-taxable limit:
Share of income from AOP/BOI is included in the total income of an individual but rebate of tax U/s 86 is not granted.

5 MARKS ILLUSTRATIONS

1. From the following information compute the total income of Suresh.
- Share of income received from HUF Rs.20,000
 - Share of Profit received from Firm Rs.25,000
 - Dividend received from co-operative society Rs.30,000
 - Interest received as a partner of firm at 15% Rs.18,000
 - Rent received from House Property let out Rs.60,000
 - Winnings from lotteries (Net) Rs.35,000

Solution:

Computation of Total Income of Suresh

P.Y. 2017-18

A.Y. 2018-19

I) Income from House Property (Let out):		
Rental value being Annual value	60,000	
Less: Standard deduction U/s 24 (30% of 60,000)	18,000	42,000
II) Income from Business:		
Interest received as partner of firm (18000x12/15)		14,400
III) Income from Other Sources:		
a) Dividend from co-operative society	30,000	
b) Winnings from lotteries		
(Gross = 35000 x 100/70)	50,000	80,000
Total Income		1,36,400

Note: Share of income received from HUF and share of profit received from firm are exempt U/s 10(2) and 10(2A) respectively.

2. Compute the total income of Mr. Sunil Joshi from the following information.

- Share of income from AOP (AOP has paid maximum marginal rate of tax) Rs.25,000
- Interest on debentures of Z Ltd. Received (unlisted) Rs.18,000
- Sale proceeds of Building Rs.6,25,200 which was purchased in 2012-13 for Rs.4,20,000. The cost of inflation index for the year 2012-13 and 2017-18 were 200 and 272 respectively.
- Salary received as MLA Rs.10,000 p.m.
- Income from Business (Computed) Rs.50,000

Solution:

Computation of Total Income of Sunil Joshi

P.Y. 2017-18

A.Y. 2018-19

i) Income from Business		50,000
ii) Long Term Capital Gains:		
Sale proceeds of building	6,25,200	
Less: Indexed cost of acquisition (4,20,000 x 272/200)	5,71,200	54,000
iii) Income from Other Sources:		
a) Interest on debentures of Z Ltd.		

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(Gross = $18,000 \times 100/90$)	20,000	
b) Salary received an MLA ($10,000 \times 12$)	1,20,000	1,40,000
Total Income		2,44,000

Note: As AOP has paid maximum marginal rates of tax, share of income received from AOP is not taxable.

3. Compute the total income of Smt. Vijaylaxmi from the following information.

- Agricultural income from Nepal Rs.30,000
- Income from Speculation Business Rs.1,00,000
- He is partner in a firm from which he has received interest on capital at 11% p.a. Rs.22,000 and salary as a working partner Rs.58,000 (Which was fully allowed in the Assessment of firm)
- Share of income received from AOP Rs.20,000 (AOP has paid normal rates of tax)
- Rent received from let out property Rs.5,000 p.m. Municipal tax paid Rs.4,000; Interest on loan taken for construction of house Rs.9,200.

Solution:

Computation of Total Income of Smt. Vijaylaxmi

P.Y. 2017-18

A.Y. 2018-19

I)	Income from House Property:			
	Rental value being gross annual value (5000×12)	60,000		
	Less: Municipal taxes paid	4,000		
	Annual value	56,000		
	Less: Deduction U/s 24:			
	a) Standard deduction (30% of 56,000)	16,800		
	b) Interest on loan	9,200	26,000	30,000
II)	Income from Business:			
	Income from speculation business	1,00,000		
	Interest from firm	22,000		
	Salary from firm	58,000		
	Share of income from AOP	20,000		2,00,000
III)	Income from Other Sources:			
	Agricultural income from Nepal			30,000
	Total income			2,60,000

Note: As AOP has paid normal rates of tax, share of income from AOP is included in business income on which she can claim rebate of tax u/s 86.

4. How do you treat the following incomes while computing the total income of an Individual?

- a) Share of profit received by a partner from a firm
- b) Share of income received as a member of HUF
- c) Dividend received from a domestic company
- d) Dividend received from a co-operative society
- e) Dividend received from a foreign company

Ans: Treatment of following incomes while computing the total income of an Individual.

- a) Share of profit received by a partner from firm is fully exempt u/s 10 (2A)
- b) Share of income received by a member of HUF is fully exempt u/s 10 (2).
- c) Dividend received from a domestic company is fully exempt u/s 10 (34).
- d) Dividend received from a co-operative society is taxable under the head income from other sources.
- e) Dividend received from a foreign company is taxable under the head income from other sources.

5. How do you treat the following incomes while computing the total income of an Individual?

- a) Agricultural income in India.
- b) Agricultural income outside India.
- c) Interest received by a partner from firm.
- d) Salary, bonus etc. received by a working partner from firm.
- e) Salary, bonus etc., received by a non-working partner from firm.
- f) Share of income from Association of Persons.

Ans: Treatment of following incomes while computing the total income of an Individual.

- a) Agricultural income in India is fully exempt u/s 10 (1).
- b) Agricultural income outside India is taxable under the head income from other sources.
- c) Interest received by a partner from firm is taxable under the head income from business upto 12% pa.
- d) Salary, bonus etc. received by a working partner from firm is taxable under the head income from business only to the extent to which it was allowed in the assessment of firm.
- e) Salary, bonus etc. received by a non-working partner from firm is not taxable as they are fully disallowed in the assessment of firm.
- f) Share of income received from Association of Persons is taxable under the head income from other sources and after calculating income tax on total income rebate of tax u/s 86 is granted at average rate of tax, if the total income of Association of Persons is taxable at normal rate of tax.

15 MARKS ILLUSTRATIONS

6. From the following Receipts and Payments A/c of Dr. Narayan and the additional information, compute his total income for the A.Y. 2018-19.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Cash on hand	4,000	Dispensary expenses	44,000
Consultation fees	2,60,000	Medical periodicals	1,600
Visiting fees	40,000	Life insurance premium	24,000
X-ray fees	1,00,000	Salaries to staff	1,20,000
Share from HUF	16,000	Domestic expenses	1,10,400
Loan from Bank for purchase of surgical equipment	60,000	Donations	40,000
Winnings from lotteries (Net)	70,000	Cost of surgical equipment	1,20,000
Rent from House property (let out)	48,000	Deposit in Bank	1,20,000
		Car expenses	12,000
		Cash in hand	6,000
	5,98,000		5,98,000

Additional Information:

1. Depreciation allowable as per rule is Rs.10,000
2. Donations are Rs.4,000 to political party and Rs.36,000 to an approved charitable institution.
3. Domestic expenses include Rs.12,000 being premium on mediclaim policy for himself.

Solution:

Computation of Total Income of Dr. Narayana

P.Y. 2017-18

A.Y. 2018-19

i) Income from Profession:		
Gross Income from profession:		
Consultation fees	2,60,000	
Visiting fees	40,000	
X-ray fees	1,00,000	4,00,000
Less: Expenses of profession:		
Dispensary expenses	44,000	
Medical periodicals	1,600	
Salaries to staff	1,20,000	
Depreciation as per IT Rules	10,000	
Car expenses	12,000	1,87,600
Income from Profession		2,12,400

ASSESSMENT OF INDIVIDUAL

ii) Income from House Property (LOP):		
Rental value being annual value	48,000	
Less: Standard deduction U/s 24 (30% of 48,000)	14,400	33,600
iii) Income from Other Sources:		
Winnings from lotteries (Net) 70,000		
(Gross = 70,000 x 100/70)		1,00,000
		<u>3,46,000</u>
Gross Total Income		
Less: Deductions U/s 80:		
1) U/s 80C: Life Insurance premium	24,000	
2) U/s 80D: Premium on Mediclaim policy	12,000	
3) U/s 80GGC: Donations to political party	4,000	
4) U/s 80G: Donations to approved charitable institution (Note-1)	15,300	55,300
Total Income		<u>2,90,700</u>

Working Notes:

1. Calculation of deductions U/s 80G

Gross Total Income		3,46,000
Less: 1) Deduction U/s 80C	24,000	
2) Deduction U/s 80D	12,000	
3) Deduction U/s 80GGC	4,000	40,000
Adjusted Gross Total Income		<u>3,06,000</u>
Donations to Approved Charitable Institution		36,000
OR		
10% of Adjusted Gross Total Income		
(10% of 3,06,000)		<u>30,600</u>
Whichever is Less		
Qualified Donation		<u>30,600</u>
∴ Deduction U/s 80G (50% of 30,600)		<u>15,300</u>

2. Share of income from HUF is exempt u/s 10(2).

7. Dr. Ram Mohan furnished his Receipts and Payments A/c for the previous year 2017-18.

To Balance b/d	84,000	By Rent of clinic	1,40,000
To Loan from Bank	1,00,000	By Purchase of surgical equipment (on 01.01.2018)	80,000
To Consultation fees	5,40,000	By Municipal taxes	38,400
To Visiting fees	3,20,000	By Purchase of books for profession	20,000
To Gifts from patients	44,000	By Motor car purchased on (15.09.2017)	6,00,000

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To Rent from house property	1,68,000	By Salary to staff	1,92,000
To Agriculture income	34,400	By Interest on Bank loan	32,600
To Interest on PO SB A/c	3,000	By Donation to political party	4,000
To Interest on debentures of X Ltd. (net) (listed)	36,000	By Donation to temple (approved)	80,000
To Winnings from Lotteries (net)	56,000	By Car expenses	80,000
To Share of income from HUF	69,000	By Purchase of medicine	90,400
		By Life insurance premium	8,000
		By Balance c/d	89,000
	14,54,400		14,54,400

Additional Information:

1. Provide depreciation on motor car at 15%, on surgical equipment at 20% and books at 60%.
2. Municipal taxes pertain to house property
3. During the year he paid medical insurance premium Rs.15,000 by cheque on his health under approved scheme.
4. He sold a building during the year for Rs.6,24,000. It was purchased by him in may 2013 for Rs.4,40,000. The cost of inflation index for the financial year 2013-14 and 2017-18 were 220 and 272 respectively.
5. Half of the car expenses relate to his personal use.

Compute the total income of Dr. Ram Mohan for the A.Y. 2018-19.

Solution:**Computation of Total Income of Dr. Ram Mohan****P.Y. 2017-18****A.Y. 2018-19**

i) Income from Profession:		
Gross Incomes from profession:		
Consultation fees	5,40,000	
Visiting fees	3,20,000	
Gifts from patients	44,000	9,04,000
Less: Expenses of profession:		
Rent of clinic	1,40,000	
Salary to staff	1,92,000	
Interest on loan from bank	32,600	
Car expenses relating to profession (80,000x1/2)	40,000	
Purchase of medicine	90,400	
Deprecation on Motor car relating to profession (6,00,000x15/100x1/2)	45,000	

ASSESSMENT OF INDIVIDUAL

	Depreciation on surgical equipments (80,000x20/100x1/2)	8,000	
	Depreciation on books (20,000x60/100)	12,000	5,60,000
	Income from Profession		3,44,000
ii)	Income from House Property (LOP):		
	Rental value being gross annual value	1,68,000	
	Less: Municipal taxes paid	38,400	
	Annual value	1,29,600	
	Less: Standard deduction U/s 24	38,880	90,720
iii)	Income from Other Sources:		
	Interest on debentures of X Ltd. (Gross=36,000 x 100/90)	40,000	
	Winnings from lotteries (Gross=56000 x 100/70)	80,000	1,20,000
iv)	Income from Long term Capital Gains:		
	Sale proceeds of building	6,24,000	
	Less: Indexed cost of acquisition 4,40,000 x 272/220	5,44,000	80,000
	Gross Total Income		6,34,720
	Less: Deductions U/s 80:		
	1) U/s 80C: Life Insurance premium paid	8,000	
	2) U/s 80D: Own health insurance premium paid:		
	Actual 15,000		
	Or Maximum 25,000		
	Whichever is less	15,000	
	3) U/s 80GGC: Donations to political party	4,000	
	4) U/s 80G: Donations to approved Temple (Note-1)	26,386	53,386
	Total Income		5,81,334

Working Notes:

1. Calculation of deductions U/s 80G

Gross Total Income		6,34,720
Less: 1) Deduction U/s 80C	8,000	
2) Deduction U/s 80D	15,000	
3) Deduction U/s 80GGC	4,000	
4) Long term Capital gains	80,000	1,07,000
Adjusted Gross Total Income		5,27,720
Donations to Approved Temple		80,000
OR		
10% of Adjusted Gross Total Income (10% of 5,27,720)		52,772

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	Whichever is Less	
Qualified Donation		52,772
∴ Deduction U/s 80G (50% of 52,772)		26,386

- As surgical equipments are put to use in profession for less than 180 days, only half of the depreciation is allowed.
- Motor car is put to use in profession for more than 180 days, hence, full depreciation is allowed.
- Half of the car expenses and half of the depreciation on car are relating to profession are allowed
- Share of income from HUF is exempt u/s 10 (2)
- Agricultural income is exempt u/s 10 (1)
- Interest on PO SB A/c exempt u/s 10 (15)
- It is assumed that bank loan is used for profession purpose. Hence, interest on bank loan is allowed.

8. Mr. Arjun, a resident individual gives the following particulars of his income earned during the year 2017-18.

- Basic salary (after deducting contribution to Recognised Provident Fund Rs.36,000) Rs.2,44,000
- Employer's contribution to above fund Rs.36,000
- Club bills and membership fees paid by employer Rs.12,000
- Entertainment allowance Rs.16,000

Mr. Arjun's other incomes for the same period are as under:

- Interest on Govt. Securities Rs.8,000
- Rent from house property Rs.40,000
- Long term Capital Gains Rs.20,000
- Income from units of Mutual Fund Rs.10,000
- Dividend from Indian Company Rs.2,000

He also furnished the following information:

Deposited in Public Provident Fund Rs.30,000, Life insurance premium paid on his wife's policy Rs.2,000, Medical insurance premium paid by cheque to Insurance Corporation of India Rs.15,000

Compute his total income for the assessment year 2018-19.

Solution:

Computation of Total Income of Mr. Arjun

P.Y. 2017-18

A.Y. 2018-19

i)	Income from Salary:	
	1. Basic salary received	2,44,000
	Add: Contribution to RPF deducted from salary	36,000
	Basic Salary	2,80,000
	2. Excess contribution of employer to RPF [36,000 – (2,80,000 × 12/100)]	2,400
	3. Club bills and membership paid by employer	12,000

ASSESSMENT OF INDIVIDUAL

4. Entertainment allowance		16,000	
	Gross Salary	3,10,400	
	Less: Deduction u/s 16	-	3,10,400
ii)	Income from House Property (LOP): Rental value being annual value	40,000	
	Less: Standard deduction u/s 24 (30% of 40,000)	12,000	28,000
iii)	Long term Capital Gains		20,000
iv)	Income from Other Sources: Interest on Govt. Securities		8,000
	Gross Total Income		3,66,400
	Less: Deductions u/s 80:		
	1) u/s 80C:		
	Life Insurance premium on wife policy	2,000	
	Contribution to RPF	36,000	
	Deposit in Public Provident Fund	30,000	
	2. u/s 80D:		
	Health insurance paid by Cheque	15,000	
	OR		
	Maximum	25,000	
	Whichever is less	15,000	83,000
	Total Income		2,83,400

Note:

1. Income from units of mutual fund is exempt U/s 10(35)
2. Dividend from Indian company is exempt U/s 10(34)
3. Employer's contribution to RPF is exempt up to 12% of salary and excess contribution is taxable.

9. Sri Shekar a resident and person with severe disability has received the following amounts during the financial year 2017-18.

1. Net salary Rs.1,78,168 after deduction of Income tax Rs.6,800 and his contribution to Statutory Provident Fund Rs.14,400. Life insurance premium of Rs.11,632 was paid by employer on the life of employee.
2. Rs.11,600 from a bank being interest of savings Deposit (gross)
3. Rs.4,000 from a firm being interest on deposits
4. He sold the house on 01.01.2018 for Rs.3,92,000 which was purchased in April 2001 for Rs.70,000. Sri Shekar had spent Rs.18,400 for addition of one room during the year 2011-12.
5. Rs.36,000 from the tenant of house as rent
6. Speculation profit Rs.30,000 on Gold and loss from speculation in Silver Rs.10,000
7. Rs.48,000 being compensation for termination of agency
8. Interest on government securities Rs.20,000

The cost inflation index for 2001-02 was 100, in 2011-12 it was 184 and 2017-18 272.

Compute his total income for assessment year 2018-19.

INCOME TAX**Solution:****Computation of Total Income of Sri Shekar****P.Y. 2017-18****A.Y. 2018-19**

i)	Income from Salary:			
	1. Basic salary: Net salary received	1,78,168		
	Add: a) Income tax deducted	6,800		
	b) Own contribution to SPF deducted	14,400		
	Basic Salary	1,99,368		
	2. Life insurance premium on the life of employee paid by employer	11,632		
	Gross Salary	2,11,000		
	Less: Deduction u/s 16	-		2,11,000
ii)	Income from House Property (LOP):			
	Rental value being Gross annual value	36,000		
	Less: Standard deduction U/s 24 (30% of 36,000)	10,800		25,200
iii)	Income from Business:			
	a) Speculation profit on gold	30,000		
	Less: Speculation loss on silver	10,000		
	Income from speculation	20,000		
	b) Compensation for termination of agency	48,000		68,000
iv)	Long term Capital Gains:			
	Sale proceeds of house	3,92,000		
	Less: 1) Indexed cost of acquisition			
	70,000 x 272/100	1,90,400		
	2) Indexed cost of improvement			
	18,400 x 2272/184	27,200		
v)	Income from other Sources:			
	Interest on savings deposits with Bank	11,600		
	Interest on Deposits from Firm	4,000		
	Interest on Government Securities	20,000		35,600
	Gross Total Income			5,14,200
	Less: Deductions U/s 80:			
	1) U/s 80C:			
	Own contribution to SPF	14,400		
	Life Insurance premium paid by employer	11,632	26,032	
	2) U/s 80TTA: Interest on savings deposits		10,000	
	2. U/s 80U: Deduction for severe disability		1,25,000	1,61,032
	Total Income			3,53,168
	Total income rounded off U/s 288A			3,53,170

Note:

1. Sri Shekar is suffering from severe disability hence, deduction U/s 80U is allowed at a fixed amount of Rs.1,25,000.
2. Speculation loss on silver is set off against speculation profit on gold.
3. Interest on saving deposit with bank is allowed as deduction u/s 80TTA subject to a maximum of Rs. 10,000

10. From the following particulars, compute the total income of Mr. Rajkumar.
- i) Salary Rs.4,500 per month and Bonus equal to 2 months salary. His own contribution to RPF is 20% of his salary with an equal contribution from the employer
 - ii) He owns a residential house consisting of two identical units. One unit is let out at Rs.1,800 per month to his father-in-law and the other unit is let out at Rs.2,000 per month to an outsider. The municipal taxes paid on the entire house amounted to Rs.4,000 and fire insurance Rs.800
 - iii) He is engaged in smuggling business out of which he earned a profit of Rs.1,50,000. This profit is arrived at after claiming the following expenses:
 - i) Rs.8,000 paid as tips to police
 - ii) Rs.10,000 as loss of goods seized by custom authority
 - iii) Rs.10,000 paid as penalty to customs department
 - iv) He is a non working partner in a firm and received his share of profit Rs.20,000 and interest on capital Rs.30,000.
 - v) His investments were as follows:
 - i) Rs.30,000 Deposits in Bank at the rate of 10% per annum
 - ii) Rs.20,000 7% Treasury Savings Deposits Certificates (10 years).
 - iii) Rs.1,00,000 18% Tax free debentures of X Ltd. (Listed)
 - vi) He made the following payments.
 - i) Employment tax Rs.2,320
 - ii) Medical expenditure for the treatment of specified disease of mother Rs.50,000.

Solution:

Computation of Total Income of Mr. Raj Kumar

P.Y. 2017-18

A.Y. 2018-19

i)	Income from Salary:		
	1. Basic salary (4,500 x 12)	54,000	
	2. Bonus (4,500 x 2)	9,000	
	3. Taxable contribution of employer to RPF (8% of 54,000)	4,320	
	Gross Salary	67,320	
	Less: Employment tax U/s 16(iii)	2,320	65,000
ii)	Income from House Property (LOP):		
	a) Unit II let out to outsiders		
	Rental value being Gross annual value	24,000	
	Less: Municipal taxes (4,000 x 1/2)	2,000	
	Annual Value	22,000	
	Less: Standard deduction U/s 24 (30% of 22,000)	6,600	

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		15,400	
b) Unit I let out to father-in-law	21,600		
Rental value (1,800 x 12)			
OR	24,000		
Fair rental value (2,000 x 12)			
Whichever is higher	24,000		
Gross Annual value	2,000		
Less: Municipal taxes (4,000 x 1/2)	22,000		
Annual Value	6,600	15,400	30,800
Less: Standard deduction U/s 24 (30% of 22,000)			
iii) Income from Business:		1,50,000	
Profits from smuggling		10,000	
Add: Penalty paid to customs department		1,60,000	
		30,000	1,90,000
Interest on Capital from firm			
iv) Income from other Sources:			
1. Interest on Bank Deposits (30,000 x 10/100)	3,000		
2. Interest on tax free debentures of X Ltd.			
Net = 1,00,000 x 18/100 = 18,000			
Gross = 18,000 x 100/90	20,000	23,000	
Gross Total Income		3,08,800	
Less: Deductions U/s 80:			
1) U/s 80C: Own contribution to RPF (20% of 54,000)	10,800		
2. U/s 80DDB: Medical expenditure for specified disease	50,000		
OR			
Maximum	40,000		
(Which ever is less)	40,000	50,800	
Total Income		2,58,000	

Note:

1. Rent received for similar house is considered as fair rental value for unit I let out to father-in-law.
2. Interest on Treasury Savings Deposits Certificate (10 year) is exempt U/s 10(15)
3. Share of profit received from firm is exempt U/s 10(2A)
4. In case of smuggling business, tips paid to police and loss of goods seized by custom authorities are allowed but penalty paid is disallowed.
5. Employer's contribution to RPF is exempt up to 12% of salary and excess contribution is taxable.

11. Find out the taxable income of Raghuram from the following information

ASSESSMENT OF INDIVIDUAL

Profits and Loss A/c for the year ending 31.03.2018

To Interest	3,600	By Gross Profit	2,45,400
To Repairs and Renewals	4,400	By Interest on debentures of a company (gross)	20,000
To Insurance	8,400	By Rent from House Property	72,000
To Depreciation	11,200		
To Compensation	20,400		
To Law Charges	10,200		
To Labour welfare expenses	7,600		
To Subscriptions	11,600		
To Net profit	2,60,000		
	3,37,400		3,37,400

Other Information:

- Interest includes Rs.400 on loan taken for purchase of debentures of a company and Rs.600 on loan taken for reconstruction of let out property.
- Repairs relating to house property let out are 40% of repairs and renewal expenses.
- Depreciation includes Rs.2,400 on let out property
- Compensation was paid to an employer, whose dismissal was in business interest.
- Insurance includes 30% fire insurance of let out property, 30% of workers accident insurance and the balance for life insurance.
- Law charges include Rs.4,000 relating to a petition filed against breach of a contract and the balance regarding sales tax appeal.
- Subscriptions include Rs.4,000 given for election purposes to political parties.
- The following amounts are not debited to P & L A/c:
 - Expenses incurred on the occasion of Deepawali Rs.1,000
 - Theft of cash from iron safe Rs.3,000
 - Expenses for new telephone connection in the business Rs.4,000.

Solution:

Computation of Total Income of Mr. Raghuram

P.Y. 2017-18

A.Y. 2018-19

1) Income from Business:		
Net profit as per P & L A/c		2,60,000
Add: Disallowed expenses debited to P & L A/c:		
1. Interest on loan taken for purchase of debenture	400	
2. Interest on loan taken for reconstruction of let out property	600	

INCOME TAX

3. Repairs of let out property (40% of 4,400)		1,760	
4. Depreciation on house property let out		2,400	
5. Fire insurance of let out property (8,400x30/100)		2,520	
6. Life Insurance premium (8,400 x 40/100)		3,360	
7. Subscription to political party		4,000	15,040
			<u>2,75,040</u>
Less: Incomes relating to other heads credited to P&L A/c:			
1. Interest on debentures of a company		20,000	
2. Rent from House Property		72,000	92,000
			<u>1,83,040</u>
Less: Allowable expenses not debited to P & L A/c:			
1. Expenses incurred on the occasion of Deepawali		1,000	
2. Theft of cash		3,000	
3. Expenses for new telephone connection in business		4,000	8,000
			<u>1,75,040</u>
II)	Income from business		
	Income from House Property (LOP):		
	Rental value being annual value	72,000	
	Less: Deduction U/s 24		
	1. Standard deduction (30% of 72,000)	21,600	
	2. Interest on loan	600	
		22,200	49,800
III)	Income from other Sources:		
	Interest on debentures of a company	20,000	
	Less: Interest on loan taken for purchase of debentures U/s 57	400	19,600
	Gross Total Income		<u>2,44,440</u>
	Less: Deductions U/s 80:		
	1) U/s 80C: Life insurance premium	3,360	
	2) U/s 80 GGC: Donations to political party	4,000	7,360
	Total Income		<u>2,37,080</u>

Note:

1. Compensation paid to an employee on his termination in the interest of business is allowed
2. Theft of cash is allowed assuming that it is incidental to business.
3. Expenses incurred on the occasion of deepawali and new telephone connection expenses are allowed.
4. Legal charges relating to petition filed against breach of contract and sale tax appeal expenses are allowed.