

1/1/2019

DIRECT TAXES - II

(TAXATION – III)

AMPC

Shahid Qureshi
SYBAF - IV

SET OFF & CARRY FORWARD OF LOSSES

Q.1) Mr. Manthan informs you the following for the Assessment year 2018-19.

- i. Income from Salary Rs. 7,00,000.
- ii. Loss from House Property at Nasik Rs. 1,00,000.
- iii. Income from House Property at Mumbai Rs. 1,50,000.
- iv. Brought forward business loss-assessment year 2014-15 Rs. 50,000.
- v. Current Year Business Income Rs. 60,000.
- vi. Bank interest Rs. 30,000.

Determine total income and carry forward loss, if any.

Q.2) Ms. Mayuri submits the following information for the year ending:

Particulars	Rs.
Income from Salaries Rs. 10,000 p.m.	1,20,000
<i>Income from house property</i>	
LOP	1,00,000
SOP	20,000
<i>Profit & gains from business</i>	
Loss from Business	65,000
<i>Capital gains</i>	
STCL	45,000
LTCG	15,000
<i>Income from Other Sources</i>	
Interest on Securities (NET)	36,000
TDS on Interest on deposit	4,000
Interest on loan borrowed to invest in securities	44,000

Q.3) Mr. X Submits the following information in relation to A.Y. 2018-19.

Particulars	Rs.
Income from Salary	2,00,000
<i>Income from house property</i>	
HP – I Profit	75,000
HP – II Loss	(1,00,000)
<i>Income from business</i>	
Loss from Business – I (Speculative)	(15,000)
Profit from business – II (Non – Speculative)	50,000
Loss From Business – III (Non – Speculative)	(10,000)
<i>Income from Capital gains</i>	
STCL	(60,000)
LTCG	80,000
<i>Income from Other Sources</i>	
Winning from Crossword puzzle	30,000

Q.4) Mr. Mallaya submits the following information in respect of A.Y. 2018-19. Calculate his Net Income. Also show losses to be carried forward.

Particulars	Rs.
Income from Salary	40,000
<i>Income from house property</i>	
HP – I	25,000
HP – II	(35,000)
<i>Income from business</i>	

Business – I (Non - Speculative)	54,000
Business – II (Non – Speculative)	(14,000)
Income from Capital gains	
LTCG	30,000
Income from Other Sources	
Interest on Debentures	1,000
Lottery Winnings	8,000

You are also informed that:

a. He spent Rs. 1,500 as collection charges towards interest on debentures (allowed to be deducted u/s Rs.57 as an expenditure).

b. He has following carried forward losses.

Particulars	Year	Amount
	Rs.	Rs.
Business Loss	2013-14	10,000
LTCL	2014-15	30,000

Q.5) Balbir, a resident individual, submits the following information relevant for the previous year ending March 31, 2018.

Particulars	Rs.
Income from Salary	16,00,000
Income from House Property	
House – I	70,000
House – II	(52,000)
House – III (Self occupied)	(25,000)
Profit and gains of Business or Profession:	
Business – I	2,00,000
Business – II	(75,000)
Business – III (Speculative)	(60,000)
Capital gains:	
STCL	(83,000)
LTCG on transfer of shares	70,000
Income from Other Sources:	
Income from card games	80,000
Loss on Maintenance of Horses race	(1,20,000)
Income from owning and maintaining camels race	2,00,000

Determine the Net Income for the assessment year 2018-19.

Q.6) Mr. Aarez gives you the following details for the financial year 2017-18 from which you are required to calculate his total income liable to tax for the Assessment year 2018-19.

Particulars	Rs.	Particulars	Rs.
Brought forward:		Brought forward:	
Business loss	(20,000)	Income from HP:	(75,000)
Current Year:		Current year:	
STCG (shares)	5,000	LTCG	
IFHP	1,50,000	(Debentures)	(25,000)
Salary	50,000	(Gold)	(7,000)
		Business Loss	(75,000)

COMPUTATION OF TAX LIABILITY OF INDIVIDUAL & HUF

✚ **Format:**

Name of The assessee: _____

A.Y. : _____ P.Y. : _____
 Legal Status : _____ Residential Status : _____

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
<i>I. Income from Salary</i>		
<i>II. Income from House property</i>		
a) LOP		
b) SOP		
<i>III. Income from Business/Profession</i>		
<i>IV. Income from Capital Gains</i>		
a. LTCG		
b. STCG		
<i>V. Income from Other Sources</i>		
<i>Gross Total Income (I+II+III+IV+V)</i>		
<i>Less: Deduction under chapter VI A</i>		
i. U/S 80 C		
ii. U/S 80 CCC		
iii. U/S 80 D		
iv. U/S 80 DD		
v. U/S 80 DDB		
vi. U/S 80 E		
vii) U/S 80 U		

Q.1) Mr. Madan, a disabled as is certified by medical authority person furnishes the following information regarding his house property:

Particulars	House I	House II
Fair Rent	40,000	60,000
Municipal Valuation	55,000	50,000
Rent Received	60,000	-
Municipal tax:		
Paid by Tenant	4,000	-
Paid by Mr. Madan	6,000	5,000
Interest on capital borrowed (due but not paid) for the purpose of construction of house property	6,000	13,000
Ground rent	2,000	-
Insurance Premium Paid	1,500	-
Other Information as follows:		
Interest from Debentures in L & T Ltd.	1,37,000	
Dividend from UTI	5,000	
Bank interest from SBI	3,500	
Winning from Lottery	1,70,000	
Interest from Post-office Saving A/c	5,000	
Dividend from Co-operative society	5,000	

Compute the Total Income of Mr. Madan for the Assessment Year 2018-19.

Q.2) Hari, a Chief Executive appointed on a Contract of 2 years by a company, furnishes the following particulars of his income for the financial year ending 31st March, 2017. Compute his Total Income for the A.Y. 2018-19.

A. Salary Particulars:

Particulars	Rs.
i. Basic Pay and Dearness Allowance	6,48,000
ii. Other Allowances:	
a. Taxable Education Allowance	3,000
b. House Rent Allowance	12,000
c. Servant Allowance	1,500
d. Gas, Electricity, Water supply	1,500
e. Conveyance allowance for private purpose	6,000

B. He resides in his own house, the annual letting value of which is Rs. 18,000. The Municipal tax thereon is Rs. 3,000 per annum.

C. Interest Income:

Particulars	Rs.
a. PPF	1,000
b. On Fixed Deposits with Bank	11,000

D. He has invested the following amounts out of his income:

Particulars	Rs.	Rs.
a. Deposited into pension Plan of LIC		13,000
b. Mediciclaim Insurance Premium paid on the Life of:		
i. Dependent Son	1,000	
ii. Wife	2,000	3,000

Q.3) From the following details and information, compute the total income of Ms. Reena individual, for the A.Y. 2018-19.

Profit & Loss Account for the Year ended 31.3.2018

Particulars	Rs.	Particulars	Rs.
To Staff Salaries, Bonus etc.	32,000	By Trading Profit	10,60,000
To Drawings for Household Expenses	12,000	By rent from portion Let Out	24,000
To Life Insurance Premium paid	6,000	By Share of Profit from Partnership firm	8,000
To Contribution to PPF	5,000	By Receipt from HUF as member of HUF	1,500
To Depreciation on assets used in Business	21,000		
To Advertisement expenses	6,000		
To Printing & Stationery	3,000		
To Net income for the Year	10,08,500		
	10,93,500		10,93,500

Further Details:

- a. An Analysis of the fixed assets, ledger revealed the following:
 - i. Ms. Reena had purchased an accounting machine in June 2002 for Rs. 36,000. Its written down value, as per Income-Tax records, as on 1.4.2015 was Rs. 22,110. In October 2015, it was sold for Rs. 38,110.
 - ii. Depreciation available on other fixed assets for the current year, as per Income-tax Rules was Rs. 18,000.
- b. Included in salaries was salary of Rs. 6,000 drawn by Ms. Reena and a payment of Rs. 4,800 to his brother's son, who was a student of the tenth standard and did not attend to Ms. Reena's business.
- c. Ms. Reena owned two house properties – the first of which was used half for running the business and the other half was let out at Rs. 2,000 p.m. The second property was wholly used as a residence by Ms. Reena. Municipal taxes for the two properties were the same at Rs. 4,800 per annum. The business and the

let out premises were insured against loss by fire and the annual insurance premium was Rs. 600. The payment of Municipal taxes and the insurance premium was included in household expenses. Interest on let out property is Rs. 25,456 and the principal repayment is Rs. 94,000.

d. Included in Advertisement is personal expenses of Rs. 1,500.

e. Ms. Reena paid Rs. 12,000 for medical treatment of specified disease.

4. Compute the taxable income of Mr. Subhash for the Assessment Year 2018-19.

Particulars	Rs.
Net Income from Chemical Business	1,25,00,000
Interest on Saving Bank Account	900
Share of Profit from a Partnership Concern	5,22,000
Short term Capital gains on Land	24,000
Long term capital gains on house Property	1,20,000
Share of Income from HUF in which he is a member	2,82,000
Winning from Horse race	10,000
Interest on bank Deposits:	
- Deposit in his own name	4,000
- In the name of minor son	1,300
Amount for Medical treatment	49,000
Amount paid to ICICI pension Plan.	12,000

Q.5) Mrs. Lisa aged about 66 years is a finance manager of M/s. Lakme & Co. based at Calcutta. She is in continuous service since 2005 and receives the following salary and perks from the company during the year ending 31.3.2018.

a. Basic Salary (50,000 x 12) = Rs. 6,00,000.

b) DA (20,000 x 12) = Rs. 2,40,000

c) Bonus – 2 months Basic Pay

d) Commission 0.1% of the Turnover of the company. The Turnover for the financial year 2014-15 was Rs. 15 crores.

e) Contribution of the employer and employee to the PF account Rs. 3,00,000 each.

f) Interest credited to PF Account at 8.5% - Rs. 60,000.

g) Rent free unfurnished accommodation provided by the company for which the company pays a rent of Rs. 70,000 per annum.

h) Entertainment allowance – Rs. 30,000.

i) Children's education allowance to meet the hostel expenditure of the children – Rs. 15,000 (exempt Rs. 7,200)

j) Professional tax paid Rs. 2,500.

She makes the following payments and investments:

i. Premium paid to insure the life of her major son – Rs. 15,000

ii. Medical Insurance premium for self – Rs. 12,000 and spouse Rs. 5,000.

iii. LIC Pension fund – Rs. 18,000.

Determine the Net Taxable Income for the A.Y. 2018-19.

Q.6) From the following particulars furnished by Mr. Dhan, aged 65 years, for the previous year ending 31.3.2018, compute the taxable income for A.Y. 2018-19.

i. He owns a house property in Metro City. The fair rental value per annum is Rs. 27,000 and the Municipal value is Rs. 24,000.

ii. The house was let out from 1.4.2017 to 31.8.2017 at a monthly rent of Rs. 2,100. From 1.9.2017 Mr. Dhan occupies for his residence.

iii. Expenditure incurred on property and paid:

a. Municipal tax Rs. 4,000.

- b. Fire Insurance Rs. 2,500.
 c. Land revenue Rs. 4,600.
 d. Repairs Rs. 1,000.
 iv. Interest paid on borrowings for construction:
 a. For the year Rs. 1,51,600
 b. Proportionate Pre-construction interest Rs. 12,960
 c. Principal repayment of Loan Rs. 40,040.
 v. Income from Firm (Partnership firm A/c) as partner:
- | | Rs. |
|---------------------|----------|
| Salary | 5,25,000 |
| Interest on Capital | 4,20,000 |
| Share Income | 1,35,000 |
- vi. He contributed Rs. 6,500 annuity Pension plan of LIC.
 vii. Mr. Dhan paid Rs. 65,000 for medical treatment of his brother.

Q.7) The Income related particulars of Mr. Coorg, aged 56, for the year ended 31.03.2018 are given below:

- i. Salary Rs. 24,000 per month.
 - ii. He was provided with a rent-free accommodation in Hyderabad for which rent of Rs. 6,000 per month was paid by his employer.
 - iii. His sick wife's treatment was taken from a private hospital, for which an amount of Rs. 32,000 paid towards medical expenses by his employer in December, 2017.
 - iv. An allowance of Rs. 13,200 was paid by his employer towards his son's education;
 - v. The employer paid DA Rs. 10,000 p.m. (considered for retirement benefits), professional tax of Rs. 2,400 and Income – tax liability of Rs. 15,000.
 - vi. He encashed earned leave to his credit to the tune of Rs. 10,000.
 - vii. Loss from speculative business Rs. 20,000.
 - viii. Loss from sale of shares in ABC Pvt. Ltd. held for ten months Rs. 8,000.
 - ix. Profit on sale of Long term capital assets Rs. 10,000.
- Compute the Total Income of Mr. Coorg for the assessment year 2018-19.

Q.8) Income of Mr. Bipin from Securities of State Government is Rs. 1,39,000. He owns two house Properties particulars of which are given below:

Nature of Occupancy	SOP	LOP
Annual Rent	-	5,40,000
Expenses:		
Repairs	1,000	40,000
Collection charges	-	1,500
Municipal taxes	1,000	20,000
Insurance	400	12,000
Ground rent	500	10,000

He contributed Rs. 1,05,000 to PPF and spent Rs. 76,000 on his disabled daughter fully depended on him. Compute the taxable income of Mr. Bipin for the A.Y. 2018-19.

Q.9) Mr. Dinesh is a disabled person certified by medical authority, owning a general store. His profit & Loss A/c for the year ended 31st March, 2018 is given below:

Particulars	Rs.	Particulars	Rs.
To Purchases	6,20,000	By Gross Sales	15,00,000
To Salary to Staff	26,000	By Rent Received	48,000
To Embezzlement of Cash	31,000		
To Repairs of House Property	12,000		
To Collection charges of rent	1,500		
To Medical Insurance Premium paid for self	10,000		
To Municipal taxes of house property	5,000		
To Income Tax	6,500		
To RDD	14,000		
To Net Profit	8,22,000		
	15,48,000		15,48,000

Compute his taxable income of Mr. Dinesh whose age is 82 years for the A.Y. 2018-19.

Q.10) Mr. Rajendra is an employee of M/s Raj Oil Mills Pvt. Ltd. During the year ended 31st March, 2018 he received a net salary of Rs. 3,60,000 after making the following deductions:

- Income tax Rs. 19,000.
- Total deduction in respect of contribution to recognized provident fund Rs. 40,000.
- Total deduction in respect of contribution to LIC Premium Rs. 41,000.
- Professional tax Rs. 2,500.
- During the year he incurred expenditure in cash of Rs. 8,000 towards expenditure on preventive health check up.

During the year he earned the Interest of Rs. 15,000 from securities of Rs. 15,000 from securities of Central Government and Rs. 16,500 by way of interest on fixed deposits with Canara Bank.

During the year he also made the following investments and payments:

- ICICI Pension Plan Rs. 15,000.
- Investment in NSC Rs. 60,000.
- Life Insurance Premium paid Rs. 30,000.
- Deferred Annuity Plan Rs. 30,000.

Compute the taxable income of Mr. Rajendra for the A.Y. 2018-19.

*****THE END*****

COMPUTATION OF INCOME FROM PARTNERSHIP FIRM

❖ *Remuneration to partner {In case of firm u/s 40(b)}*

While computing the income of the firm any payment of salary, bonus, commission or remuneration to any partner is allowable as deduction provided it does not exceed the ceiling and it is provided in the partnership deed. Any payments in excess of such specified ceiling will be disallowed u/s 40(b). If salary, bonus, commission or remuneration paid to a partner who is not a working partner, will be disallowed. The ceiling which has been provided on remuneration to working partner is as stated below:

i. In case of a **FIRM (engaged in profession or non-professional firm)** the maximum remuneration allowable as deduction shall be ascertained as follows:

In case of loss or Book Profit upto Rs. 3,00,000 for the year	Rs. 1,50,000 or 90% of Book-Profit which ever is more.
In case of Book – Profit exceeding Rs. 3,00,000 for the year	Rs. 2,70,000 plus 60% of the excess over Rs. 3,00,000.

The remuneration paid to the working partner of the firm within the limit specified as above is allowable as business expenditure. The excess payment over the above limit specified shall be disallowed. However, such payment must be authorized by the partnership deed.

❖ *Interest to the partners:*

While computing the income of the firm any payment of interest to the partners or their capital shall be allowed as deduction provided such payment of interest is authorized by the partnership deed and such amount does not exceed the amount calculated at the rate of 12% (18% till 31st May, 2002) simple interest, if such payments exceeds the limit specified; by the amount it exceeds is disallowed u/s 40(b). Similarly, such payment of interest is not authorized by the partnership deed, the whole amount of such amount of interest is disallowed u/s40(b).

1. M/s. Ravi Kiran, a partnership firm, submits to following profit & loss account to you for computation of taxable income for the assessment year 2018-19.

Profit & Loss account for the year ending 31-3-2018

Particulars	Rs.	Particulars	Rs.
To Salaries and wages	2,40,000	By Gross Profit	9,00,000
To Rent	1,32,000	By Dividend from UTI (ETSP)	19,000
To Printing	24,000	By dividend from Indian Co.	50,000
To Telephone & Mobile Expenses	22,000	By Interest on FD with BOI	50,000
To Conveyance	19,000		
To Baddebts	18,000		
To Interest	78,000		
To Depreciation	1,20,000		
To Professional fees	24,000		
To Subscription	24,000		
To Advertisement expenses	18,000		
To Net Profit	3,00,000		
	10,19,000		10,19,000

Additional Information:

- a. Salaries include Rs. 1,50,000 paid to working partner Ravi and Rs.60,000 to working partner kiran.
- b. Interest paid includes Rs.60,000 being interest paid to partner kiran at the rate of 20% simple interest.
- c. The firm purchases goods in case of one bill for Rs.1,25,000 for which payment has been made by cash.

2. M/s. Samarth Lifters a partnership firm, furnishes the following profit & loss account and requires you to compute the taxable business income for A.Y. 2018-19.

Particulars	Rs.	Particulars	Rs.
To Salary	2,20,000	By Gross Profit	9,75,000
To Salary to partners		By recovery of Baddebts earlier	
Partner Anil	2,00,000	allowed as a deduction	20,000
Partner Bhavin	1,90,000		
To Advertisement	20,000		
To Interest	48,000		
To telephone expenses	62,000		
To Tea & Snacks	26,000		
To Printing	14,000		
To Legal Expenses	10,000		
To Traveling	10,000		
To Office maintenance	16,000		
To Miscellaneous Expenses	11,000		
To Net Profit	1,68,000		
	9,95,000		9,95,000

a. Interest paid to partners is at 16% p.a. whereas partnership deed provides for 12% p.a.

3. XL, YL and ZL are the three partners of a firm, sharing profit and losses as 2:3:5. The profit and loss account of the firm for the year ending on March 31, 2018 shows the following:

Particulars	Rs	Particulars	Rs
Opening stock	42,000	Sales	42,80,000
Purchases	15,70,000	Closing Stock	20,000
Business Expenses	17,14,000	Other Business Receipts	1,32,000
Remuneration to Partner's	7,26,000		
Interest on Partner's capital @24%			
p.a.	1,80,000		
Net Profit	2,00,000		
	44,32,000		44,32,000

Other Information:

a. The details of the remuneration and interest to partners:

Remuneration to Partners:

XL Rs. 1,80,000

YL Rs. 2,40,000

ZL Rs. 3,60,000

Interest to Partners @24% per annum:

XL Rs. 60,000

YL Rs. 36,000

ZL Rs. 84,000

b. Depreciation on fixed assets not provided Rs. 25,000.

c. Remuneration and interest on capital of partners are as partnership deed. The requirement of section 184 and 40(b) are satisfied.

Other income and investment of the partners:

Particulars	XL	YL	ZL
Interest on companies Debentures	1,20,000	1,15,000	1,45,000
Interest on bank Deposits (Gross)	25,000	35,000	40,000
Contribution to PPF	35,000	40,000	60,000

Determine the tax liability of the firm as also of XL, YL and ZL for the assessment year 2018-19.

4. From the following data of M/s. ABC engaged in business, Calculate the salary and interest to partners allowable under section 40 (b) of the income tax Act, 1961.

Profit and Loss A/c for the year 31.03.2018

Particulars	Rs.	Particulars	Rs.
To Salaries:		By Gross Profit	16,25,300
Staff	5,50,000	By Dividend from Companies	25,600
Partners		By Interest received on Fixed	72,500
A	2,00,000	Deposits (Held as	
B	1,40,000	'investments')	
C	60,000		
To General expenses	55,000		
To Depreciation on Machinery	82,000		
To Rent	84,000		
To Bank Interest	22,000		
To insurance Premium	1,55,000		
To telephone, Printing, Postage and stationery	42,000		
To Interest to partners:			
A	30,000		
B	22,500		
C	15,000		
To Net Profit	2,65,400		
	17,23,400		17,23,400

You are further informed that:

- Rent paid includes partner A's personal rent Rs. 14,000.
- Depreciation admissible as per the Income Tax Act is Rs. 60,000.
- Insurance premium paid for cover of Machinery is Rs. 35,000, for stock is Rs. 85,000 and the remaining is partner's personal life insurance premium.
- General expenses include partner B's children school fees Rs. 15,000.
- Partner's are paid interest @15% p.a. on their capitals and C is not a working partner.

*****THE END*****

TAX DEDUCTED AT SOURCES

❖ Introduction

TDS stands for tax deducted at source. As per the Income Tax Act, any company or person making a payment is required to deduct tax at source if the payment exceeds certain threshold limits. TDS has to be deducted at the rates prescribed by the tax department.

The company or person that makes the payment after deducting TDS is called a deductor and the company or person receiving the payment is called the deductee. It is the deductor's responsibility to deduct TDS before making the payment and deposit the same with the government. TDS is deducted irrespective of the mode of payment—cash, cheque or credit—and is linked to the [PAN](#) of the deductor and deductee.

TDS is deducted on the following types of payments:

- Salaries
- Interest payments by banks
- Commission payments
- Rent payments
- Consultation fees
- Professional fees

However, individuals are not required to deduct TDS when they make rent payments or pay fees to professionals like lawyers and doctors.

TDS is one kind of advance tax. It is tax that is to be deposited with the government periodically and the onus of the doing the same on time lies with the deductor. For the deductee, the deducted TDS can be claimed in the form of a tax refund after they file their [ITR](#).

Rates for deduct of tax at source

Taxes shall be deducted at the rates specified in the relevant provisions of the Act or the First Schedule to the Finance Act. However, in case of payment to non-resident persons, the withholding tax rates specified under the Double Taxation Avoidance Agreements shall also be considered

Rates for tax deduction at source

<i>Particulars</i>	<i>TDS Rates (in %)</i>
1. In the case of a person other than a company	
1.1 where the person is resident in India-	
<u>Section 192</u> : Payment of salary	Normal Slab Rate
<u>Section 194A</u> : Income by way of interest other than "Interest on securities"	10
<u>Section 194C</u> : Payment to contractor/sub-contractor	
a) HUF/Individuals	1
b) Others	2
<u>Section 194H</u> : Commission or brokerage	5
<u>Section 194-I</u> : Rent	
a) Plant & Machinery	2
b) Land or building or furniture or fitting	10
<u>Section 194J</u> : Any sum paid by way of	
a) Fee for professional services,	
b) Fee for technical services	
c) Royalty,	
d) Remuneration/fee/commission to a director or	
e) For not carrying out any activity in relation to any business	
f) For not sharing any know-how, patent, copyright etc.	
Note : With effect from June 1, 2017 the rate of TDS would be 2% in case of payee engaged in business of operation of call center.	10

[For Assessment year 2018-19]

* The rate of TDS shall be increased by applicable surcharge and Health & Education cess.

1. Mr. Ramesh is employed with Alok Industries Ltd. as well as Bharat Forge Ltd. for a salary of Rs. 25,000 and Rs. 30,000 respectively on part time basis. He selects Alok industries Ltd. for deducting TDS on aggregate Salary. Calculate tax to be deducted by each company.

2. Mr. Suresh is employed with Yamuna Ltd upto 31st October (salary: Rs. 50,000 p.m.). on 1st November, he joined Zoom Ltd. (Salary Rs. 70,000 p.m.) Calculate tax to be deducted by each company.

❖ **When TDS on Interest (other than Interest on Securities) under section 194A not deductible?**

TDS under section 194A is not deductible where the aggregate amount of interest credited/paid (or likely to be credited/paid) during the FY does not exceed the amount given below:

Payer	Threshold limit (Rs.)	Threshold limit (Rs.) for Senior Citizen wef 01.04.2018
Banking company (on time deposit)	10,000	50,000
Co-operative society carrying on banking business (on time deposit)	10,000	50,000
Post office (on SCSS)	10,000	50,000
Any other person	5,000	5,000

❖ **SECTION 194C: PAYMENT TO RESIDENT CONTRACTORS**

Section 194C states that any person responsible for paying any sum to the resident contractor for carrying out any work (including the supply of labor), in pursuance of a contract between the contractor and the following:

- a. The Central Government or any State Government
- b. Any local authority
- c. Any corporation established by or under a Central, State or Provisional Act
- d. Any company
- e. Any co-operative society
- f. Any authority constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the needs for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both
- g. Any society registered under the Society Registration Act, 1980 or under any such corresponding law to the Act in any Part of India
- h. Any trust
- i. Any university or deemed university
- j. Any firm

• **At what rate TDS has to be deducted u/s 194C ?**

A.2 (a) 1 % where the payment is being made or credit is given to an individual or a HUF.

(b) 2% where the payment is being made or credit is to be given to any other entity.

W.e.f. 1-10-2009, the nil rate will be applicable if the transporter quotes his PAN. The rate of TDS will be 20% in all the above cases, if PAN is not quoted by the deductee on or after 1-4-2010.

No surcharge, education cess and SHEC shall be added. Hence, TDS shall be deductible at basic rates.

- What is the rate of TDS?

Sl. No	Nature of Payment	TDS Rate if PAN available	TDS Rate if PAN not available
1	Payment / Credit to resident individual or HUF	1%	20%
2	Payment/Credit to any resident person other than individual / HUF	2%	20%
3	Payment/ credit to Transporters	NIL	20%

Note:- No Surcharge, Education Cess, and SHEC shall be added. Hence, TDS shall be deductible at basic rates.

❖ Section 194H: TDS on Commission:

- Section 194H is for income tax deducted on any income by way of commission or brokerage, by any person responsible for paying to a resident.
- Individuals and Hindu Undivided Family who were covered under section 44AB are also required to deduct TDS.
- Section 194H does not include insurance commission referred to in section 194H.

❖ The rate of TDS?

The rate of TDS is 5%.

- No surcharge, education cess or SHEC shall be added to the above rates. Hence, the tax will be deducted at source at the basic rate.
- The rate of TDS will be 20% in all cases if PAN is NOT quoted by the deductee.

Under what circumstances TDS u/s 194H is not deductible?

- No deduction shall be made under this section in a case where the amount or the aggregate amounts of such income to be credited or paid during the financial year does not exceed INR 15,000
- The Person can make an application to the assessing officer under section 197 for deduction of tax at NIL rate or at a lower rate.

❖ Section 194 I: TDS on Rent:

Section 194-1 of the Income Tax Act, which deals with rent. Rent means a payment under any lease, sub-lease, tenancy or any other arrangement or agreement for the use of any of the following mentioned below, separately or together:

- Land.
- Building.
- Land appurtenant to a building.
- Machinery.
- Plant.
- Equipment.
- Furniture.
- Fittings.

❖ TDS Rates for Rent

The following will be the TDS rates applicable for rent:

- Plant, machinery or equipment- 2%.
- Rent of land, building and furniture for individuals and Hindu Undivided Family- 10%.

- Rent of land, building or furniture in case of others- 10%.

Note:- No surcharge, education cess or SHEC shall be added to the above rates. Hence tax will be deducted at source at the basic rate. Moreover, the rate of TDS will be 20% if PAN is not quoted, whatever the case may be.

❖ **Section 194J: TDS on Professional Fees:**

As per Section 194J of Income Tax Act of 1961, an individual should deduct TDS at the rate of 10% when the following payments are made to a resident, in a fiscal year (higher than Rs.30,000):

- Amount charged as professional services fee or
- Amount charged as technical service fee or
- Non-compete fee according to the Income Tax Act of Section 28(VA) or
- Royalty.

1. what would be the TDS rate applicable u/s 194C

- A Company paid Rs. 5 Lacs to government department on 5.5.2017.
- A company involved in advertisement business pays Rs. 2,00,000 to the Newspaper on account of publication of its advertisement.
- A publishing company sponsors a seminar and pays Rs. 3,80,000 to the organizers who are a firm.
- A company involved in advertising business pays Rs. 60,000 to an artist.
- A garment manufacturing company pays Rs. 5,00,000 to an advertising company.
- Kots Ltd. pays 1,80,000 to a contractor (individual) for carrying out routine repair work.
- Perfect Ltd. pays advertisement printing bill of Rs. 2,00,000 to an individual.
- Accounts department of the Government purchased goods and pays Rs. 20,000 to Amruta canteen Ltd.
- A government department pays Rs. 1 Lac to a company for transporting certain documents i.e. couriers to Delhi.
- The Transport company above gives the contract of transporting documents to an individual sub-contractors Rs. 1,00,000.
- The transport company above gives a part of the contract of transporting documents to a sub – contractor for Rs. 15,000.

2. Ascertain the amount of TDS for the following independent situations:

- SBI has to pay interest of Rs. 4,00,000 to Mr. Arun.
- SBI has to pay interest Rs. 4,00,000 to Mr. Arjun Ltd.
- SBI has to pay interest of Rs. 3,000 to Mr. Amir on time deposit.
- Apar Rubber Ltd. has to pay rent for a warehouse owned by the State Government.
- Apar Rubber Ltd. has to pay a sum of Rs. 4,00,000 to an engineer.
- Mr. Ajay has to pay Rs. 19,000 as professional charges.

3. Sun Ltd., makes the following payment during the Financial year 2017-18.

Sr. no	Paid to	Nature of Payment	Rs.
A	Desai & Co.	Audit Fees	18,000
B	Tilak & Co.	Account writing fees	35,000
C	Tilak & Co.	Reimbursement of out of pocket expenses	20,000
D	Naik & Co.	Fees for interior Decoration : Office	40,000
E	Patil & Co.	Brokerage for arranging office on Rental basis	2,000

Determine on which of the above payments tax is to be deducted at source for the Assessment Year 2018-19.

4. Determine on which of the following payment of tax is to be deducted at source for the Assessment Year 2018-19.

Sr.no	Payer	Payee	Nature of Payment	Rs.
A	Manoj & Co. (firm)	Mr. Manoj (a partner)	Interest on capital	15,000
B	Indian Post Office	Mr. J (age 69 years)	Interest on senior citizen Savings scheme account	18,000
C	Janata Sahakari bank Ltd	Mr. Pramod	Interest on FD	21,000
D	Motor Accident Claim Tribunal	Mrs. Sunita	Interest on Compensation of rs. 1,00,000	9,000
E	Income Tax department	Mr. Suresh	Interest on IT Refund	6,000
F	Mumbai University	Mr. Sagar	Contract charges for construction of overbridge	49,000
G	Sawant & Bros. (HUF) having tax audit u/s 44AB in the FY 2016-17.	Mr. X	For Interior Decoration work carried out at home	75,000
H	MTNL	Mr. Parag (PCO Operator)	Commission on PCO Collection	4,500
I	Moon Ltd.	Shyam Ltd.	Accommodation of general manager	2,10,000
J	Asha Ltd	Mr. Mahendra	Refundable deposit for flat taken on Lease	1,50,000

*****THE END*****

ADVANCE TAX

❖ *What is Advance Income Tax?*

Advance Income Tax refers to paying the part of your yearly taxes in advance. It is obligatory to pay advance tax in every case where the advance tax payable is Rs.10,000 or more. Advance tax should be paid in the year in which the income is received.

Income Liable for Advance Tax:

Under the scheme of advance tax payment of tax, every income (including capital gains, winnings from lotteries, crossword puzzles, etc.) is liable for payment of advance tax.

Advance tax due dates, applicable from the assessment year 2018-19, are given below:

Due date of payment of advance tax	For any assessee (except an eligible assessee given in Column 3)	An assessee who declares his business/professional income in accordance with the provisions of section 44AD(1) or section 44ADA(1)
On or before June 15 of the previous year	Up to 15 per cent of advance tax payable	-
On or before September 15 of the previous year	Up to 45 per cent of advance tax payable	-
On or before December 15 of the previous year	Up to 75 per cent of advance tax payable	-
On or before March 15 of the previous year	Up to 100 per cent of advance tax payable	Up to 100 per cent of advance tax payable <i>(On or before 31st March 2019).</i>

1. Assuming the total tax payable by an Individual Assessee is Rs. 12,570 and TDS is Rs.1,000. Calculate the Advance tax on the respective due dates.

2. Assuming the total tax payable by a Company Assessee is Rs. 44,970 and TDS is Rs.2,000. Calculate the Advance tax on the respective due dates.

3. Mr. Sudhir has earned the following income as follows:

a. Income under the head Business/Profession Rs. 15,00,000.

b. Income under the head other sources Rs. 10,00,000..

He has paid advance tax as given below:

Upto 15th Sept. 2017. Rs. 1,00,000.

Upto 15th Dec. 2017 Rs. 3,00,000.

Upto 15th March 2018 Rs. 5,00,000.

You are required to compute liability for the A.Y. 2018-19 and also the shortfall/excess in each advance tax installment, if any.

4. Ms. Shweta has income under the head profit & gains of Business & Profession of Rs. 20,00,000 and her Income from Other sources is Rs. 5,00,000. She has Agricultural income of Rs. 5,00,000. LIC Premium paid Rs.1,00,000.

Compute her Advance tax liability for the Assessment year 2018-19.

5. From the following particulars submitted by Mr. Rajaram (70 years), ascertain the advance tax payable during the financial year 2017-18.

Particulars	Income	Tax deduction by Payer
Salary	20,00,000	10,000
Rent @ Rs. 10,000 per month	1,20,000	-
Long Term Capital gains on sale of shares of September 1,2017	1,20,000	-
Winning from races	5,00,000	15,000
Bank Interest	50,000	15,000

Mr. Rajaram has contributed Rs. 10,500 towards recognized provident fund.

******THE END******

INTEREST PAYABLE u/s. 234A, 234B, 234C

Section 234A: Interest for defaults in furnishing return of income

The IT Act has made provisions for a penalty of 1% every month or part of the month on the amount of tax payable. This interest is calculated from the due date to the date of actually filing the [income tax return](#).

For example, ABC has failed to file the tax return on tax payable of Rs 2,00,000, on stipulated date of 31st July 2018, and submits it on 2nd December 2018. The Simple interest due on the tax will be-

Tax Payable: Rs 200000

Delay in Payment of Tax from 31st July 2018: 5 months (August, September, October, November and December)

Penalty: $2,00,000 * 5\% = \text{Rs } 10,000$.

Section 234B: Interest for defaults in payment of advance tax

This penalty provision activates in two cases:

1. *If the Assessee was liable to pay advance tax, but failed to deposit that.*
2. *If the amount deposited was less than 90% of the tax to be deposited.*

In both the above cases, assessee will be levied a Simple Interest @ 1% per month or part of the month. Please remember, if you deposited the advance tax which was more than 90% of the total tax, then no interest will be charged from you. This interest is chargeable from 1st April of the Assessment Year. It can also be charged from the initiation date of assessment year to the date of determination of total income under sub-section (1) of section 143 and where a regular assessment is made, to the date of such regular assessment, on an amount equal to the assessed tax or, as the case may be, on the amount by which the advance tax paid as aforesaid falls short of the assessed tax.

In calculation of 90% we will consider the amount of tax payable after TDS.

Consider this example:

The tax liability of the Individual Assessee was Rs 2,40,000 while TDS due was Rs 40,000.

Advance tax already paid was Rs 1,20,000.

Calculation of Interest:

Tax Liability was Rs 2,40,000, while TDS was Rs 40,000.

Tax Assessment: Rs 2,00,000 (2,40,000-40,000)

Now IT department assesses, whether partial payment comes under limit of 90%.

$\text{Rs } 2,00,000 * 90\% = \text{Rs } 1,80,000$

Therefore amount of Tax paid was less than amount due by Rs 60,000 (1,80,000-1,20,000).

The total interest due under section 234B will be: $\text{Rs } 60,000 * 1\% * 4 \text{ months (April-July)} = \text{Rs } 2,400$.

The interest is taken till July because which is the due date of payment for individual assessee and assumed as month of return filing.

Section 234C: Payment of Advance tax not in time or Interest for deferment of advance tax

A. Wef A.y 2017-18: The table below shows the payment rate. These payment rate is applicable to:-

i. Corporate Assessee

Corporate/Non- corporate Assessee		
Due Date	Amount due	Rate of interest
On or before 15 June	15% of tax due on the returned income or the amount of such advance tax paid	Simple Interest @ 1% per month or part of the month for 3 months
On or before 15 September	45% of tax due on the returned income or the amount of such advance tax paid	Simple Interest @ 1% per month or part of the month for 3 months
On or before 15 December	75% of tax due on the returned income or the amount of such advance tax paid	Simple Interest @ 1% per month or part of the month for 3 months
On or before 15 March	100% of tax due on the returned income or the amount of such advance tax paid	Simple Interest @ 1% per month or part of the month for 1 month

However if the advance tax paid by the assessee on the current income, on or before the 15th day of June or the 15th day of September is not less than twelve per cent or, thirty-six per cent respectively of the tax due on the returned income, then, the assessee shall not be liable to pay any interest on the amount of the shortfall on those dates:

- Mr. Ratan is an assessee whose income tax computed was Rs 6,00,000

He paid the following advance tax:

1. 10th June: Rs 30,000
2. 15th September: Rs 50,000
3. 15th December: Rs 25,000
4. 15th March : Rs 30,000

Total = Rs 1,35,000

TDS= Rs 1,20,000

Tax Assessment: Rs 6,00,000- 1,20,000= Rs 4,80,000

Penalty on the Advance Tax is calculated on the basis of difference between actual amount paid and due.

15% of Rs 4,80,000 = 72,000 differential = 72,000- 30,000 = Rs 42,000
 45% of 4,80,000 = 2,16,000 differential = 2,88,000- 80,000 = Rs 1,36,000
 75% of 4,80,000=3,60,000 differential =3,60,000-1,05,000= Rs 2,55,000
 100% of 4,80,000 = 4,80,000, differential = 4,80,000-1,35,000 = Rs 3,45,000

Interest Charges:

Rs 42,000*1%*3 months = Rs 1,260
 1,36,000*1%*3 months = Rs 4,080
 2,55,000*1%*3 months = Rs 7,650
 3,45,000*1%*1 months = Rs 3,450

Total Penalty = Rs 16,440.

It is important to understand the penalties under **Sec 234A, 234B and 234C** when you are trying to keep away from tax evasion. It's always better to keep you IT file clean and complete to avoid such interest penalties.

1. For the Assessment year 2018-19. Mr. Amir aged years, has income from proprietary business. Due date for furnishing the return of income is 31.7.2018. He files the return of income on 3.12.2018 declaring income of Rs.6,85,000. Tax deducted @ source is Rs. 785. Advance tax paid is Rs. 46,000 (Rs. 15,000 on 12.9.2017 plus Rs. 15,000 on 12.12.2017 plus Rs. 16,000 on 14.3.2018). Calculate the interest payable under section 234A for delay in furnishing the return of income.
2. Shri Janardhan files the return on Income for the Assessment year 2018-19 on 29-07-2018 (due date of filing return is 31-7-2018) declaring income of Rs. 5,95,000. Tax deducted at source is Rs. 1,320 and advance tax paid is Rs. 38,400 (on or before 15-9-2017, Rs. 14,000; on or before 15-12-2017, Rs. 14,000 and on or before 15-03-2018, Rs. 10,400). Find the interest payable for default in payment of advance tax u/s.234B.
3. "Tax due on the return income" of Mr. Zubin for the assessment year 2018-19 is Rs. 60,000. Advance tax paid by him is Rs. 56,000 (Rs. 10,000 on 15-09-2017, Rs.16,000 on 15-12-2017 and Rs.30,000 on 14-03-2018, Find out interest payable u/s.234C.
4. Mr. Don informs you that his tax liability for the Assessment year 2018-19 is Rs. 4,000. The due date for filing return of income was 31.07.2018. but he filed his return on 2.08.2018.
 - a. Is he liable to pay interest u/s 234 A for late filing of return? If yes, calculate the amount of interest.
 - b. Is he liable to pay interest u/s 234B for shortfall of advance tax? If yes, calculate the amount of interest. (Ignore interest u/s 234C).

*****THE END*****

DOUBLE TAXATION AVOIDANCE AGREEMENT

❖ *Meaning:*

Double Taxation means the same income being taxed twice in the hands of the same assessee.

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❖ *What is relief u/s 90, 90A and 91?*

Relief can be claimed for income which is charged to tax both in India as well as in any other country.

Relief is granted as per the provisions of Double Taxation Avoidance Agreement (DTAA) between that country and Government of India, if any or as per section 91 of the Act for tax paid in foreign country.

Relief from Double Taxation can be provided in two ways:

- ***Bilateral Relief***

When there is an agreement between two countries, relief is calculated according mutual agreement between such two countries. Bilateral relief can be granted by either of the following methods:

1. Exemption Method: Under this method, income is taxed in only one country

2. Tax Relief Method: Under this method, income is taxed in both the countries. Relief is granted in the country in which the taxpayer is the resident.

- ***Unilateral Relief***

When there is no mutual agreement between the countries, relief is provided by the home country.

In simple words:

(I) In case there is DTAA with the Country, then Tax Relief can be claimed u/s 90.

(II) In case there is DTAA with the Specified Associations, then Tax Relief can be claimed u/s 90A.

(III) In case there is No DTAA, then Tax Relief can be claimed u/s 91.

Now let us consider each of the above situation in detail:

(I) In case there is DTAA with the Country, then Tax Relief can be claimed u/s 90.

It might happen that taxpayer is required to go abroad for any job assignment during any part of the year. In this case, he would receive salary in India as well as salary from that foreign country. Tax is deducted from both salaries in both countries. Since income received anywhere in the world is taxable in India in the case of residents, relief U/s. 90 of Income Tax Act can be claimed on the taxes paid on foreign income.

- ❖ ***Steps to compute Double Taxation relief u/s 91:***

1. Compute the NET TAXABLE INCOME (NTI) {After including the doubly taxed income or foreign income with Indian income and after claiming all the available exemptions and deduction}.
2. Find out the amount of 'Gross Tax' {before claiming any Rebate/Relief/TDS/TCS/MAT Credit/AMT Credit/Advance Tax/SA Tax. But after adding surcharge and Education cess}.
3. Find out the Average Rate of Tax (A.R.T) on NTI (where ART means as defined in section 2(10)).

$$\text{A.R.T.} = \left(\frac{\text{Gross Tax Payable} \times 100}{\text{Net Taxable Income (NTI)}} \right)$$

4. Find out the rate, at which the tax was deducted/ paid in foreign country.
5. Find out the lower of rate of tax from step no. 3 and 4.
6. Relief u/s 91 = [(Doubly taxed income included in NTI) x (Rate of Tax found out in step no. (5) above)].

1. Mr. Somshekhar aged 28 years, a model is deriving income of Rs. 40,00,000 from modelling performed outside India. Tax of Rs. 8,00,000/- was deducted at source @20% in the country where the shows were held. India does not have any agreement with that country for avoidance of double taxation. Indian income of somshekhar is Rs. 20,00,000. Compute the total income and the tax payable by him for the A.Y.2018-19, assuming that he was resident in India for the given previous year with PPF deposit of Rs.1,50,000.

2. Mr. ram a Resident Indian, as derived the following incomes for the previous year relevant to the A.Y.2018-19.

Particulars	Rs.
a. Income from Profession	2,94,000
b. Share of Income from a partnership firm in Country X (Tax paid in Country X for this equivalent Indian rupees Rs. 8,000)	40,000
c. Commission income from a concern in a country Y (Tax paid in Country Y @20%) converted in Indian Rupees.	30,000
d. Interest from Scheduled Banks	1,18,000

Mr. Ram wishes to know, whether he is eligible for any Double taxation relief and if so, its quantum. India does not have any DTAA with countries X & Y.

3. Mr. Surana who derived income of Rs.3,00,000 during the assessment year 2018-19 from a country with which India has no double taxation avoidance agreement Tax of Rs.75,000 was deducted at source in the said country. His income from profession in India during the assessment year 2018-19 amounted to Rs. 4,00,000. Compute tax payable by Mr. Surana for Assessment year 2018-19.

*****THE END*****