

1. INTRODUCTION TO TAXES

CHAPTER OVERVIEW

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SECTION 1: THEORY FOR CLASSROOM DISCUSSION

A) WHAT IS TAX?

Let us begin by understanding the meaning of tax. Taxes are considered to be the “cost of living in a society”. Taxes are levied by the Governments to meet the common welfare expenditure of the society. There are two types of taxes - direct taxes and indirect taxes.

B) CLASSIFICATION OF TAXES:

Direct Taxes: If tax is levied directly on the income or wealth of a person, then, it is a direct tax. The person who pays the tax to the Government cannot recover it from somebody else i.e. the burden of a direct tax cannot be shifted. e.g. Income-tax.

Indirect Taxes: If tax is levied on the price of a good or service, then, it is an indirect tax e.g. Goods and Services Tax (GST) or Custom Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

C) WHY ARE TAXES LEVIED?

The reason for levy of taxes is that they constitute the basic source of revenue to the Government. Revenue so raised is utilized for meeting the expenses of Government like defence, provision of education, health-care, infrastructure facilities like roads, dams etc.

D) POWER TO LEVY TAXES: The Constitution of India, in Article 265 lays down that “No tax shall be levied or collected except by authority of law.” Accordingly, for levy of any tax, a law needs to be framed by the government.

Constitution of India gives the power to levy and collect taxes, whether direct or indirect, to the Central and State Government. The Parliament and State Legislatures are empowered to make laws on the matters enumerated in the Seventh Schedule by virtue of Article 246 of the Constitution of India.

Seventh Schedule to Article 246 contains three lists which enumerate the matters under which the Parliament and the State Legislatures have the authority to make laws for the purpose of levy of taxes.

THE FOLLOWING ARE THE LISTS:

- 1) **UNION LIST:** Parliament has the exclusive power to make laws on the matters contained in Union List.
- 2) **STATE LIST:** The Legislatures of any State has the exclusive power to make laws on the matters contained in the State List.
- 3) **CONCURRENT LIST:** Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent list.

NOTE: Income-tax is the most significant direct tax. Entry 82 of the Union List i.e. List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.

1. INTRODUCTION TO INCOME TAX

A) **WHAT IS INCOME TAX?** It is a tax on income levied by the Central Government.

B) **COMPONENTS OF INCOME TAX:**

- 1) The Income- tax Act, 1961 (as amended up to date). (Income tax Act, 1961 extends to whole of India Including Jammu & Kashmir)
- 2) Annual Finance Act as introduced by the union finance minister and got assent by both the houses of parliament and the president of India.
- 3) The Income - tax Rules, 1962 (as amended up to date).
- 4) Notifications / Circulars issued from time to time by CG / CBDT to guide the revenue department.
- 5) Judgements.

C) **CHARGING SECTION (SEC.4):** Every **person** whose **total income** of the **previous year** exceeds the **maximum income not chargeable to tax** is an **assessee** and chargeable to income tax at the **rates** prescribed in the **Finance Act** for the relevant **assessment year**.

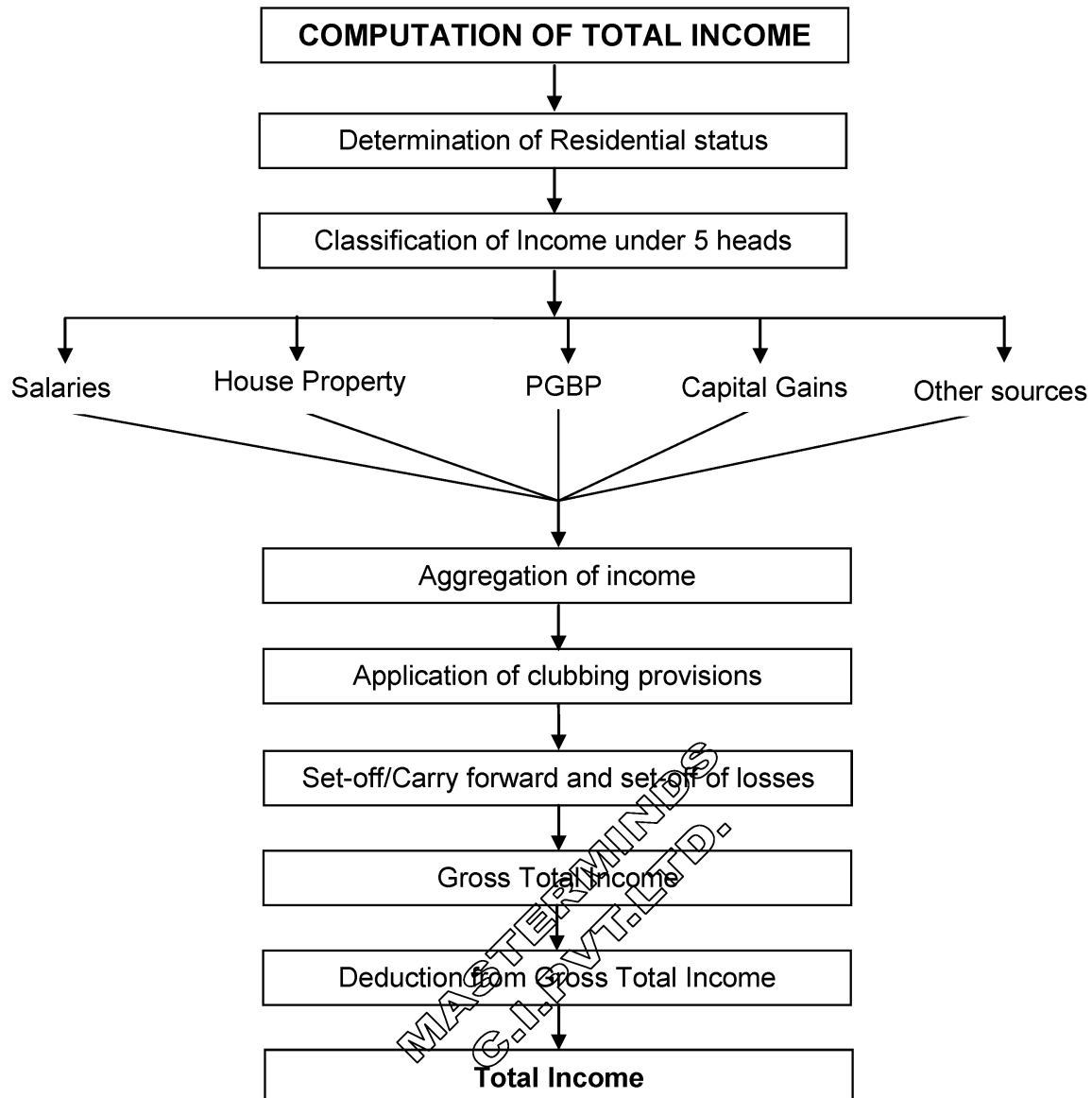
- 1) Person
- 2) Total income
- 3) Financial year
- 4) Previous year
- 5) Assessment year
- 6) Maximum income not chargeable to tax
- 7) Rates of Tax
- 8) Assessee
- 9) Finance Act

D) **PERSON - SEC.2(31):** Includes

- 1) Individuals - Male, Female, Minor, Major (natural born person).
- 2) Companies - Indian and Foreign companies (artificial person).
- 3) Partnership firm including LLP (only for income tax purpose separate legal entity).
- 4) Hindu undivided family (HUF), (including Jain & Sikh families).
- 5) Association of persons / body of individuals.
- 6) Local authorities (corporation, municipality, cantonment board).
- 7) Every artificial juridical person. (E.g., Charitable/ Religious trust, University, Co-Operative Society)

NOTE: Profit motive is not necessary to constitute a person. Association of persons or a body of Individual or a local authority or an artificial judicial person shall be deemed to be a person, whether or not it was formed with the object of deriving income, profits or gains.

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E) TOTAL INCOME:**F) FINANCIAL YEAR:**

- 1) As per Income- tax Act, "Year" means financial year (FY).
- 2) F.Y commences on 1st day of April and ends with last day of March and it consists 12 months.
- 3) Both Previous year and Assessment year is a financial year.

G) PREVIOUS YEAR (Section 3)

- 1) The financial year in which you earn the income is called as previous year.

- 2) **Current previous year:** 2020-21.

3) PREVIOUS YEAR IN CASE OF:

- a) **A business or profession newly set up during FY:** - In such a case, the PY shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the FY.
- b) **A source of income comes into existence in the FY:** -The PY will commence from the date on which the source of income newly comes in to existence and will end with 31st March of the FY.

H) ASSESSMENT YEAR [section 2(9)]: The financial year in which you **pay the tax** is called assessment year. Current Assessment year: 2021-22.

I) **GENERAL RULE:** Income earned in the P.Y is taxable in the next F.Y (i.e. A.Y)

Exceptions: In the following cases the above General rule is not applicable.

- 1) Non-Resident shipping business (Sec.172):
- 2) Assessment of persons leaving India (Sec.174)
- 3) AOP / BOI / Artificial Juridical Person formed for a particular event or purpose (Sec. 174A)
- 4) Assessment of person trying to dispose assets with a view to avoid tax (Sec.175)
- 5) Discontinued business (Sec.176)

J) **MAXIMUM INCOME NOT CHARGEABLE TO TAX / BASIC EXEMPTION:**

| CATEGORY OF PERSON | BEL (Rs.) |
|--|------------|
| 1) Individuals, HUF, AOP/BOI/AJP (Men or Women < 60 years) | 2,50,000/- |
| 2) Individuals - Resident Senior Citizens (Men or Women ≥ 60 years but < 80 years) | 3,00,000/- |
| 3) Individuals -Resident Very Senior Citizens (Men or Women ≥ 80 years) | 5,00,000/- |
| 4) Companies & partnership firms | Nil |
| 5) Co-operative societies | Nil |
| 6) Local authorities | Nil |

K) **RATES OF TAXATION: (for Assessment year 2021-22)**

1) **TAXES RATES:**

| | ASSESSES | AMOUNT | RATES |
|----|--|----------------------|-------|
| a) | Individuals (Other than below), H.U.F., A.O.P./B.O.I & AJP and All Non - resident individuals (No age limit) | Up to 2,50,000 | Nil |
| | | 2,50,001 - 5,00,000 | 5% |
| | | 5,00,001 - 10,00,000 | 20% |
| | | Above 10,00,001 | 30% |
| b) | Individual's ≥ 60 years but < 80 years (Senior Citizens) - Resident | Up to 3,00,000 | Nil |
| | | 3,00,001 - 5,00,000 | 5% |
| | | 5,00,001 - 10,00,000 | 20% |
| | | Above 10,00,001 | 30% |
| c) | Individual's ≥ 80 years (Very Senior Citizens) - Resident | Up to 5,00,000 | Nil |
| | | 5,00,001 - 10,00,000 | 20% |
| | | Above 10,00,001 | 30% |
| d) | Partnership firms (Incl. LLP) | Flat rate | 30% |
| e) | Domestic Companies: | | |
| | i) Where the total turnover or gross receipt in the previous year 2018 - 19 does not exceed Rs. 400 Crores | Flat rate | 25% |
| | ii) In case of other domestic companies | Flat rate | 30% |
| | iii) Foreign Companies | Flat rate | 40% |
| f) | Local authorities | Flat rate | 30% |
| g) | Co-operative societies | Up to 10,000 | 10% |
| | | 10,001 - 20,000 | 20% |
| | | Above 20,000 | 30% |

NOTE 1: Optional tax rate for Individual/ HUF u/s 115BAC: Individual/ HUF have an option to pay tax in respect of their total income (other than Special rates) at the following concessional rates.

| | Total income | Rate of tax |
|----|-----------------------------|-------------|
| a) | Up to 2,50,000 | Nil |
| b) | From 2,50,001 to 5,00,000 | 5% |
| c) | From 5,00,001 to 7,50,000 | 10% |
| d) | From 7,50,001 to 10,00,000 | 15% |
| e) | From 10,00,001 to 12,50,000 | 20% |
| f) | From 12,50,001 to 15,00,000 | 25% |
| g) | Above 15,00,000 | 30% |

- The above rates are applicable only if the Assessee do not avail certain exemptions/ Deductions like LTC, Standard deduction, Interest to self - occupied property, Chapter VIA deductions except 80CCD(2) OR 80JJAA etc.
- Individual/ HUF exercising the option u/s 115BAC are not liable to Alternate Minimum tax u/s 115JC.
- The Surcharge rate u/s 115 BAC are same as Applicable to other Individuals or HUF.
- Marginal relief is applicable to Individuals or HUF opts Concessional rate u/s BAC.

NOTE 2: Optional tax rate for Co-operative society (Resident in India) u/s 115BAD

- **Concessional rate: 25.168%** (Tax @ 22%+ Surcharge @10%+ Cess @ 4%)
- The above Concessional rate is applicable only if the Assessee do not avail certain exemptions/ Deductions like 10AA, 32AD, 35CCC, 32(1)(ia), Chapter VIA (Except 80JJAA) etc.
- Alternate Minimum tax u/s 115JC would not be applicable to Co-operative society opting for Sec 115BAD
- Marginal relief is not applicable to Co-operative society_ opts Concessional rate u/s 115BAD

NOTE 3: Optional tax rate for Domestic company(i.e Concessional rate) u/s 115BAB and 115BAA:

- **115BAB:** If company Set up and registered on or after 1.10.2019 and Commences Manufacture articles or things before 31.3.2023 : **15% of income derived from Manufacture or Production of articles or things.** (Tax @ 15%+ Surcharge @10%+ Cess @ 4%)
- **115BAA:** All domestic companies (whether Manufacturer or not) : **22% of total income** (Tax @ 22%+ Surcharge @10%+ Cess @ 4%)
- The above Concessional rates u/ 115BAB/115BAA are applicable only if the Assessee do not avail certain exemptions/Deductions like 10AA, 32AD, 33AB, 33ABA, 35AD, 35CCC, 35CCD, 80IA to 80RRB. (Except 80JJAA or 80M), 32(1)(a) etc.
- Marginal relief is not applicable Domestic companies opts Concessional rate u/s 115BAB/115BAA

NOTE 4: Resident Individual whose 60th birthday/ 80th birthday falls on 1.4.2021 would be considered to have attained a particular age on 31st March proceeding the anniversary of his birthday, hence eligible for higher basic exemptions limit of 3Lakhs/5Lakhs..

2) SPECIAL TAX RATES:

- Sec.112A(LTCG)-In excess of 1,00,000 -10% flat rate
- Sec.112 (LTCG) - 20% flat rate.
- Sec. 111A (STCG) - 15% flat rate.
- Sec. 115BB (Lottery) - 30% flat rate.
- Sec. 115BBE (Deemed Income) – 78% (Flat rate@60% + surcharge@25% + H& Ed.Cess @4%)

NOTE: In all the above cases, rates are same for all the Assesses.

3) SURCHARGE: It is a tax on tax

| Total Income of individual/ HUF/ AOP/ BOI/ Artificial Juridical Person | Surcharge |
|--|-------------------|
| > Rs.50 lakhs ≤ Rs.1 crore | 10% of income-tax |
| > Rs.1 crore ≤ Rs.2 crore | 15% of income-tax |
| > Rs.2 crore ≤ Rs.5 crore | 25% of income-tax |
| > Rs.5 crore | 37% of income-tax |

NOTES:

- a) 25%, 37% Surcharge rates are not applicable to Capital gain u/s 111A and 112A, Dividend income.
- b) The above SURCHARGE rates are also applicable to Assessee's opts Concessional rates u/s 115BAC.

| Assessee | Applicable Surcharge | |
|--|---|--------------------|
| | TI > Rs. 1 Crore, but TI ≤ Rs. 10 Crores | TI > Rs. 10 Crores |
| Other (i.e., firms / LLP, local Authorities, Co-operative societies) | 12% | 12% |
| Domestic Companies | 7% | 12% |
| Foreign Companies | 2% | 5% |

NOTE: In case of Co-operative societies, Domestic Companies opts Concessional rate u/s 115BAD/115BAB/115BAA - (The applicable Surcharge rate is 10%)

4) **SEC.87A: REBATE OF MAXIMUM RS. 12,500 (I.E. TAX LIABILITY OR RS. 12,500 WHICHEVER IS LOWER)**

Rebate is allowed from tax paid subject to fulfillment of following conditions:

- The assessee is an individual.
- He is Resident in India (ROR or RNOR).
- His total income does not exceed Rs.5,00,000.

QUANTUM: lower of (i) Income tax payable or (ii) Rs. 12,500.

NOTE: Rebate under section 87A is, however, not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.

- 5) **HEALTH & EDUCATION CESS:** 4% for all assesses which is to be calculated on tax and surcharge.
- 6) **AVERAGE RATE OF TAX (SEC.2 (10)):** Average rate of tax means the rate arrived at by dividing the amount of income tax calculated on the total income by such total income.

$$\text{Average rate of Tax} = \frac{\text{Tax Payable}}{\text{Total Income}} \times 100$$

- 7) **MAXIMUM MARGINAL RATE (MMR) (SEC.2 (29C)):** Maximum Marginal Rate to mean the rate of income - tax (including surcharge on income tax if any) applicable in relation to the **highest slab** of income in the case of an individual, AOP or BOI, as the case may be, as specified in finance Act of the relevant year.

Maximum Marginal Rate (MMR) = Highest Slab Rate + Surcharge + Health and Education Cess

NOTE: Marginal Rate is not available to Assessee who opt for Concessional rate u/s 115BAA, 115BAB, 115 BAD.

- L) **COMPUTATION OF MARGINAL RELIEF:** Marginal relief will be provided to such tax payers having a total income of more than 50L/1 Cr./2Cr./10 Cr. i.e., the income tax payable (Inc. surcharge) on the higher income should not exceed the income tax payable on 50L/1 Cr./2Cr./10 Cr by more the amount of income that exceeds 50L/1 Cr./2Cr./10 Cr respectively.

M) **ASSESSEE: (Sec.2(7))**

(M16 - 4M, N13 - 4M)

- Any Person, who is required to pay tax or any other sum of money under The Income Tax Act 1961, is called an assessee.
- In addition, the term includes the following types:
 - General assessee:** Every person in respect of whom any proceedings under the Act has been taken for the assessment of-
 - His income; or
 - The income of any person in respect of which he is assessable; or

iii) The loss sustained by him or such other person; or

iv) The amount of refund due to him or to such other person.

b) **Defaulted assessee:** If he fails to comply with the duties imposed upon him under the Act.

Example: If an employer fails to make TDS and/or fails to deposit into government treasury.

c) **Representative assessee (person on behalf of another person):** If a person files ROI on behalf of others.

Example: Agents in India of Non-Residents.

→ Representative assessee is also called Deemed assessee.

NOTE: Every assessee is a person but every person need not be an assessee

N) **FINANCE ACT:**

1) A group of legislations relating to direct & indirect taxes.

2) At present we are studying Finance Act 2020 applicable for PY 2020-2021 or A.Y.2021-22.

O) **CONCEPTS RELATING TO INCOME:**

1) Income can be in cash or in kind.

2) Income includes Notional income.

3) Every income need not be a taxable income.

4) Illegal income is equally taxable.

5) Income includes loss.

6) Same income can't be taxed twice (Previously on accrual basis, now on cash basis).

7) Same person can be taxed twice (As Individual and as Karta).

8) Income may be taxed either on accrual basis or cash basis as the case may be.

9) Income means regular periodic monetary returns from definite sources. However certain incomes which do not arise regularly are treated as income for tax purposes e.g., winnings from lotteries, crossword puzzles.

P) **ROUNDING OFF TOTAL INCOME (Sec. 288A):** The total income shall be rounded off to the nearest multiple of ten rupees (paise shall be ignored). For instance, if the total income is Rs.10,10,583 then the same can be rounded off to Rs.10,10,580.

Q) **ROUNDING OFF OF TAX (Sec.288B):** It may be noted that, the aggregate of tax, surcharge and education cess payable shall be rounded off to nearest multiples of ten rupees (paise shall be ignored). For instance, if the total income tax liability is Rs. 9,583 then the same can be rounded off to Rs.9,580.

R) **REVENUE RECEIPT (VS.) CAPITAL RECEIPT:** For the purpose of taxability, income can be classified under two types of Receipts.

Revenue Receipts: For the Revenue Receipt, there must be existence of source of income. The source may be tangible or intangible. In other words Income earned by utilizing the source of income is called revenue receipts. **Example:** An insurance claim of Rs.10 lakhs received by a company as compensation for stock destroyed by fire in the course of business is a revenue receipt.

Capital Receipts: Receipts for which a source of income does not exist is a capital receipt. E.g., gifts, capital contribution. Also receipts arising by way of sale of source of income can be said to be a capital receipt. **Example:** Sale of trees with its roots or sale of property, share capital.

| Receipts | From | Source of income |
|----------|------|------------------|
| Fruits | From | Trees |
| Salary | From | Job |
| Rent | From | House Property |

Tax Treatment:

Revenue Receipts → Always Taxable Unless Otherwise Exempted

Capital Receipts → Not Taxable unless Otherwise taxable

S) PROVISO(S) AND EXPLANATIONS:

Proviso(s): The Proviso(s) to a section/sub-section/clause spells out the exception(s) to the provision contained in the respective section/sub-section/clause, i.e., the proviso spells out the cases where the provision contained in the respective section/sub-section/clause would not apply or where the provision would apply with certain modification.

Explanations: The Explanation to a section/sub-section/clause gives a clarification relating to the provision contained in the respective section/sub-section/clause.

T) ANALYSIS:

- 1) Income tax is the money that you have to pay the government for the Income you earned. Income is defined u/s. 2(24), However tax is not paid on amount received but on total income earned every year.
- 2) Income of previous year is taxable in the following Assessment Year at the rates applicable for that AY. Rates of tax may be changed from year to year.
- 3) Tax is charged on every person. Thus every entity falling within the meaning of the word person defined u/s. 2(31) is liable to pay tax on the total income earned by it.
- 4) Law in force as on 1st April of FY will apply for assessment of tax. Any amendments in the Act or rules which come into force after the first day of April of a financial year would not apply to the assessment for that year, even if the assessment is actually made after the amendments come into force.

To determine income tax one needs to understand the meaning of the words used in Sec.4. Each of these has been defined in the Act u/s.2.

SECTION 2: PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM NO.1 (PRINTED SOLUTION AVAILABLE): Compute tax liability after marginal relief in the following situations for Resident assessee for the previous year 2020-2021? (Assume that, the Assessee has not opted for Provisions of Sec 115BAC)

| Name | Arun | Murthy | Shekhar |
|-----------------|-------------|----------------|----------------|
| Age of Assessee | 42 years | 51 years | 58 years |
| Total income | Rs.51 lakhs | Rs.1.01 crores | Rs.2.01 crores |

(ANS.: ARUN: TAX RS.14,69,000, MURTHY: TAX RS.33,21,500, SHEKHAR: TAX RS.70,55,750)

(SOLVE PROBLEM 1 OF ASSIGNMENT PROBLEM AS REWORK)

Note: _____

PROBLEM NO.2 (PRINTED SOLUTION AVAILABLE): Mr. Sai (aged 29 years) furnishes the following information for the P.Y. 2020-21. (Assume that, the Assessee has not opted for Provisions of Sec 115BAC)

| | |
|-----------------------------------|--------------|
| Gross Salary | Rs.4,30,000 |
| (-) Standard deduction Rs. 50,000 | Rs. 3,80,000 |
| Interest on Bank Deposits | Rs. 1,90,000 |
| L.T.C.G on sale of land | Rs. 2,40,000 |
| PGBP income | Rs. 5,40,000 |
| S.T.C.G on sale of Building | Rs. 2,30,000 |
| Winnings from lotteries | Rs. 1,20,000 |
| Chapter VI A Deductions | Rs. 1,30,000 |

Compute his total income and tax liability for the A.Y. 2021-22

❖ **Recompute the answer if the assessee has claimed option U/S 115BAC**

(SIMILAR: N18 (N) - 5M) (ANS.: 2,68,880 & Rs. 2,53,760)

PROBLEM NO.3 (PRINTED SOLUTION AVAILABLE): Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is Rs.1,01,00,000 and the total income does not include any income in the nature of capital gains. (Assume that, the Assessee has not opted for Provisions of Sec 115BAB/BAA)

(ANS.: TAX LIABILITY OF X LTD. IS 32,24,000, M.R - RS.1,42,100)

(SOLVE PROBLEM 2 OF ASSIGNMENT PROBLEM AS REWORK)

Note: _____

PROBLEM NO.4 (PRINTED SOLUTION AVAILABLE): Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is Rs.10,01,00,000 and the total income does not include any income in the nature of capital gains. (Assume that, the Assessee has not opted for Provisions of Sec 115BAB/BAA)

(ANS.: TAX LIABILITY OF X LTD. IS 334,88,000, M.R - RS. 14,33,600)

SECTION 3: PRINTED SOLUTIONS TO CLASSROOM DISCUSSION PROBLEMS

PROBLEM NO.1

Computation of tax liability of Mr. Arun for the A.Y.2021-22

Arun (42 years): Total Income: 51,00,000

| | | |
|--|-----------|------------------|
| A) Tax payable including surcharge on total income of 51,00,000 | | |
| Up to Rs.2,50,000 | | Nil |
| 2,50,000 to Rs.5,00,000 (5%) | | 12,500 |
| 5,00,000 to Rs.10,00,000 (20%) | | 1,00,000 |
| 10,00,000 to 51,00,000 (30%) | | 12,30,000 |
| | | 13,42,500 |
| Add: Surcharge @ 10% on 13,42,500 | | 1,34,250 |
| | | 14,76,750 |
| B) Tax payable on total Income of 50 Lakhs (12,500+1,00,000+12,00,000) | | 13,12,500 |
| C) Excess tax payable (A-B) | | 1,64,250 |
| D) Marginal Relief (1,64,250-1,00,000, being the amount of income in excess of 50,00,000) | | 64,250 |
| E) Tax Payable | 14,12,500 | |
| EC@4% | 56,500 | 14,69,000 |

In the present case, the tax liability of Mr. Arun considering the Marginal relief is higher than tax liability under Normal route.

Computation of tax liability of Mr. Murthy for the A.Y.2021-22

Murthy (51 years): Total Income: 1,01,00,000

| | | |
|---|-----------|------------------|
| A) Tax payable including surcharge on total income of 1,01,00,00 | | |
| Upto Rs. 2,50,000 | | Nil |
| 2,50,000 to Rs.5,00,000 (5%) | | 12,500 |
| 5,00,000 to Rs.10,00,000 (20%) | | 1,00,000 |
| 10,00,000 to 1,01,00,000 (30%) | | 27,30,000 |
| Total | | 28,42,500 |
| Add: Surcharge @ 15% on 28,42,500 | | 4,26,375 |
| | | 32,68,875 |
| B) Tax payable on total income of 1 crore (12,500+1,00,000+27,00,000) plus surcharge of 10%) | | |
| | | 30,93,750 |
| C) Excess tax payable (A) - (B) | | 1,75,125 |
| D) Marginal relief (1,75,125-1,00,000, being the amount of income in excess of 1,00,00,000) | | 75,125 |
| E) Tax Payable | 31,93,750 | |
| EC@4% | 1,27,750 | 33,21,500 |

In the present case, the tax liability of Mr. Murthy considering the Marginal relief is higher than tax liability under Normal route.

Computation of tax liability of Mr. Shekhar for the A.Y.2021-22

Shekhar (58 years): Total Income: 2,01,00,000

| | |
|--|------------------|
| A) Tax payable including surcharge on total income of 2,01,00,00 | |
| Upto Rs. 2,50,000 | Nil |
| 2,50,000 to Rs.5,00,000 (5%) | 12,500 |
| 5,00,000 to Rs.10,00,000 (20%) | 1,00,000 |
| 10,00,000 to 2,01,00,000 (30%) | 57,30,000 |
| Total | 58,42,500 |
| Add: Surcharge @ 25% on 58,42,500 | 14,60,625 |
| | 73,03,125 |
| B) Tax payable on total income of 1 crore(12,500+1,00,000+57,00,000)+ surcharge of 15%) | 66,84,375 |
| C) Excess tax payable (A) - (B) | 6,18,750 |
| D) Marginal relief (6,18,750-1,00,000, being the amount of income in excess of 2,00,00,000) | 5,18,750 |
| E) Tax Payable | 67,84,375 |
| EC@4% | 2,71,375 |
| | 70,55,750 |

In the present case, the tax liability of Mr. Shekhar considering the Marginal relief is higher than tax liability under Normal route.

PROBLEM NO.2

a) COMPUTATION OF TOTAL INCOME OF MR. SAI FOR THE A.Y. 2021 – 2022:

| Particulars | Amount | Amount |
|-------------------------------|----------|------------------|
| Income from Salaries | | 3,80,000 |
| Income from House Property | | – |
| P.G.B.P | | 5,40,000 |
| Capital Gains: | | |
| L.T.C.G | 2,40,000 | |
| S.T.C.G | 2,30,000 | 4,70,000 |
| Other sources: | | |
| Interest | 1,90,000 | |
| Winnings | 1,20,000 | 3,10,000 |
| Gross total Income | | 17,00,000 |
| Less: Chapter VI A deductions | | (1,30,000) |
| NET INCOME | | 15,70,000 |

COMPUTATION OF TAX LIABILITY:

| | |
|---|-----------------|
| L.T.C.G (2,40,000 x 20%) | 48,000 |
| Winnings (1,20,000 x 30%) | 36,000 |
| Other income (15,70,000 – 3,60,000) = 12,10,000 | |
| Upto 2,50,000 | - |
| Next 2,50,000 (5%) | 12,500 |
| Next 5,00,000 (20%) | 1,00,000 |
| Bal. 2,10,000 (30%) | 63,000 |
| | <u>1,75,500</u> |

2,59,500

Add: Health & Education cess: (@4%)

10,380

Net Tax liability

2,69,880

b) COMPUTATION OF TOTAL INCOME OF MR. SAI FOR THE A.Y. 2021 – 2022:If he opts concessional rate u/s 115 BAC.

| Particulars | Amount | Amount |
|--|----------|------------------|
| Income from Salaries (3,80,000 + 50,000) | | 4,30,000 |
| Income from House Property | | – |
| P,G,B.P | | 5,40,000 |
| Capital Gains: | | |
| L.T.C.G | 2,40,000 | |
| S.T.C.G | 2,30,000 | 4,70,000 |
| Other sources: | | |
| Interest | 1,90,000 | |
| Winnings | 1,20,000 | 3,10,000 |
| Gross total Income | | 17,50,000 |
| Less: Chapter VI A deductions | | – |
| NET INCOME | | 17,50,000 |

COMPUTATION OF TAX LIABILITY:

| | |
|---|-----------------|
| L.T.C.G (2,40,000 x 20%) | 48,000 |
| Winnings (1,20,000 x 30%) | 36,000 |
| Other income (17,50,000 – 3,60,000) = 13,90,000 | |
| Upto 2,50,000 | – |
| Next 2,50,000 (5%) | 12,500 |
| Next 2,50,000 (10%) | 25,000 |
| Next 2,50,000 (15%) | 37,500 |
| Next 2,50,000 (20%) | 50,000 |
| Bal. 1,40,000 (25%) | 35,000 |
| | 1,60,000 |
| | 2,44,000 |
| Add: Health & Education less: (@4%) | 9,760 |
| Net Tax liability | 2,53,760 |

PROBLEM NO.3

| Particulars | Amount |
|---|-------------|
| A) Computation of Tax on Total Income Including surcharge | |
| Total Income | 1,01,00,000 |
| Tax Rate @ 30% | 30,30,000 |
| Add: Surcharge @ 7% (30,30,000 x 7%) | 2,12,100 |
| Tax payable including surcharge | 32,42,100 |
| B) Tax on Total Income of Rs 1,00,00,000 | |
| Tax liability (Rs. 1,00,00,000 x 30%) | 30,00,000 |
| C) Income exceeding 1,00,00,000 (1,01,00,000-1,00,00,000) | 1,00,000 |
| D) Marginal Relief | |
| Tax on total income including surcharge-(Tax in 1 crore + income exceeding 1 crore) | 1,42,100 |
| 32,42,100-(30,00,000+1,00,000) | |
| E) Tax liability = Tax on Total income including surcharge – Marginal relief (32,42,100- | |

| | |
|---|-----------|
| 1,42,100) | |
| Tax Payable | 31,00,000 |
| Add: Health and education cess @ 4% (31,00,000 x 4%) | 1,24,000 |
| Tax liability including cess | 32,24,000 |

PROBLEM NO.4

| Particulars | Amount |
|---|---------------|
| A) Computation of Tax on Total Income Including surcharge | |
| Total Income | 10,01, 00,000 |
| Tax Rate @30% | 3,00,30,000 |
| Add: Surcharge @12% (30,30,000 x 12%) | 36,03,600 |
| Tax payable including surcharge | 3,36,33,600 |
| B) Tax on Total Income of Rs 10,00,00,000 | |
| Tax liability (10,00,00,000 x 30%) | 3,00,00,000 |
| Add: surcharge @7% (Exceeding 1 crore) | 21,00,000 |
| Tax payable including surcharge | 3,21,00,000 |
| C) Income exceeding 10,00,00,000 (10,01,00,000-10,00,00,000) | 1,00,000 |
| D) Marginal Relief | |
| Tax on total income including surcharge-(Tax in 10 crore + income exceeding 10 crore) 3,36,33,600-(3,21,00,000+1,00,000) | 14,33,600 |
| E) Tax liability = Tax on Total income including surcharge – Marginal relief (3,36,33,600-14,33,600) | |
| Tax Payable | 3,22,00,000 |
| Add: Health and education cess @ 4% (3,22,00,000 x 4%) | 12,88,000 |
| Tax liability including cess | 3,34,88,000 |

SECTION 4: ASSIGNMENT PROBLEMS

PROBLEM NO.1: Compute the tax liability in the following cases (Assume that, the Assessee has not opted for Provisions of Sec 115BAC)

| Assessee | Status | Total Income (in Rs.) |
|---------------------|-------------------------------------|-----------------------|
| i) Mr. Mohan | Resident Individual of 40 years | 12,80,000 |
| ii) Mrs. Swati | Non-resident Individual of 52 years | 19,25,000 |
| iii) Mr. Bansal | Resident Individual of 75 years | 10,28,000 |
| iv) M/s Vasavi firm | Partnership firm | 10,10,000 |
| v) Mrs. Resham | Non-resident individual of 80 years | 12,00,000 |
| vi) Mrs. Radhika | Resident Individual of 80 years | 12,00,000 |
| vii) Srinivas Ltd | Indian co. | 10,00,001 |
| viii) Prakash Ltd | Foreign co. | 20,00,002 |

(ANS.: I) RS. 2,04,360; II) RS. 4,05,600; III) RS.1,23,140; IV) RS. 3,15,120; V) RS. 1,79,400; VI) RS. 1,66,400; VII) RS. 3,12,000; VIII) 8,32,000)

PROBLEM NO.2: Compute the tax liability of Mr. X is a resident individual, assuming that the total income of Mr. X. is Rs.10,02,00,000 and the total income does not include any income in the nature of capital gains. (Assume that, the Assessee has not opted for Provisions of Sec 115BAC)

(ANS.: TAX LIABILITY - RS. 4,25,62,340, MR-NIL)

SECTION 5: ADDITIONAL PROBLEMS FOR STUDENTS SELF PRACTICE

PROBLEM NO.1: The income of X comprises of only property income up till March 10, 2019. On March 10, 2019, he starts a new business of computer hardware. From the data given below, find out the taxable income of X for the assessment years 2020-21 to 2021-22: (Assume that, the Assessee has not opted for Provisions of Sec 115BAC)

Property income: Rs. 42,000 every year.

Business income: Rs. 69,000 from March 10, 2020 to March 31, 2021 (out of which Rs.10,000 is for the period ending March 31, 2020).

PROBLEM NO.2: Determine the status of the following

- a) Delhi University.
- b) DCM Ltd.
- c) Delhi Municipal Corporation.
- d) Taxmann Publications (P.) Ltd.
- e) Lakshmi commercial Bank Ltd.
- f) ABC Group Housing Co-operative Society.
- g) XY & Co., firm of X and Y
- h) A joint family of X, Mrs. X and their sons A and B

X and Y who are legal heirs of Z (Z died in 1996 and X and Y carry on his business without entering into partnership).

SECTION 6: TEST YOUR KNOWLEDGE

- 1) Can a calendar year be treated as a PY?
- 2) What is the **general rule** of taxation?
- 3) State any **four** instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.
- 4) "Income of a previous year will be charged to tax in the assessment year following the previous year"- Discuss the exceptions to this general rule.
- 5) Explain the concept of "Marginal Relief" under the Income-tax Act, 1961.

THE END

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