

INCOME TAX LAW

UNIT-1

INCOME UNDER CAPITAL GAINS

1. Define Capital Assets.

sec2(14) defines capital assets as,"a property of any kind held by an assessee whether or not connected with his business or profession". the tax is to be levied on any profit or gain occurring on the transfer of a capital asset. capital asset is a property of any kind except stock in trade, personal effect except gold ,silver etc., rural agriculture land ,gold bond, special bearer bond 1991 and gold deposit bond 1999.

2. Explain the short term capital asset.

short term capital asset is that which is held by an assessee for not more than 36 months immediately preceding the date of its transfer. in case of financial securities the period has been reduced to 12 months.

3. What is transfer.

transfer in relation to a capital asset ,includes, sale, exchange or relinquishment of the asset or the extinguishment of any rights there in or the compulsory acquisition there of under any law.

4. What is meant by indexed cost of acquisition.

indexed cost of acquisition means an amount which bears to the cost of acquisition the same proportion as cost inflation index for the year in which the asset is transferred bears to the cost inflation index for the 1st year in which the asset was held by the assessee.

5. What is short term capital gain?

gain arising from transfer of short term capital assets is called 'short-term capital gain'.

6. What do you mean by the term,"cost of improvement".

any expenditure incurred in making any addition\alteration to the capital asset to increase the value of capital asset is treated as cost of improvement.

7. Discuss the procedure for

the computing long term capital gains.

sales consideration	xxx
less: expenses on sales	xxx
net sales consideration	xxx
less: indexed cost of aquisition	xxx
less: indexed cost of improvement	xxx
long term capital gains	xxx
less: exemptions under	xxx
taxable long term capital gains	xxx

SECTION-B

1. Mention the assets that are excluded from the definition of "capital assets".

1. stock in trade held for business or profession: any stock in trade or consumable stores or raw materials held for the business or profession.

2. assets held for personal use: personal effects of the assessee held for the personal use or for the use of any member of his family dependent upon him (i.e.,) movable property including wearing apparel and furniture.

3. rural agricultural land: any agricultural land which is not situated in any area within the territorial jurisdiction of a municipality or a contonment board having a population of 10,000 or more.

4. gold bonds issued by the government: (gold bonds), 1980 issued by the central government.

5. special bearer bonds: special bearer bonds 1991, issued by the central government.

6. gold deposit bonds: gold deposit bonds issued under gold deposit scheme, 1999.

INCOME FROM OTHER SOURCES

SECTION-A

1. What is casual income?

casual income means income which is not regular. Winnings from lotteries, crossword puzzles, races including horse races, card games etc., are included as casual income.

2. What is grossing up?

grossing up required to be done if the "net winnings" is given.

gross winnings = net income * 100 / (100 - tax rate).

3. What is listed security?

if the security issued by a company is listed with a stock exchange, it is called listed security.

4. State any two items of deduction allowable in computing income from other sources.

(a) in respect of income from machinery plant, etc., in letting on hire- repairs, insurance premium depreciation can be claimed.

(b) in respect of dividend and interest on securities - commission paid to bank for collection of dividend and interest can be claimed.

4. What is gross interest ?

if interest on securities is received without tax deduction it is called gross interest.

5. When dividend is exempt.

dividends declared or distributed by an Indian company, or by a mutual fund on its units or units of UTI are fully exempted.

6. What is sub -letting?

when an assessee lets a property which he had taken on rent, it is called as sub-letting.

7. What is speculation loss ?

loss which is derived from a speculation business is known as speculation loss. this speculation business loss can be set off only against speculation business income.

8. Give the provision of deduction from family pension.

a standard deduction of a sum equal to 33% of such pension or Rs. 15,000, whichever is less, is allowed as deduction from family pension.

SECTION-B

1. State the various items of income chargeable under the head, "income from other source".

1. dividend from co-operative societies and foreign companies.
2. any fees or commission received by an employee from a person other than his employer.
3. any annuity due or the commuted value of any annuity paid under the provisions of the annuity deposit scheme.
4. interest on bank deposits and interest on loans.
5. agricultural income from land situated outside India.
6. royalty for writing books, for mining etc., after deducting incidental expenditure incurred to earn such income.
7. family pension received by widows and heirs of deceased employees.
8. gratuity received by a director who is not an employee of the company
9. amount withdrawn from deposit in national savings scheme.
10. interest received on securities of co-operative society.

Thus, these are the various items of income chargeable under the head income from other sources.

UNIT-3

CLUBBING OF INCOME

SECTION-A

1. Explain the term "clubbing of income".

An assessee is generally taxed in respect of his own income. However, there are certain cases in which this general rule is not applicable. The income tax law deviates from this general proposition and provides that the income of certain other persons should be included in the assessee's total income under specified circumstances. Thus, clubbing of income means adding other person's income to the assessee's total income.

2. What is meant by set off?

loss under a particular head of income can be adjusted against income from any other source under the same head or other heads is called as set off.

3. What is carry forward losses ?

if any loss relate to any previous year can't be set-off either under the same head or against the incomes of other heads during same previous year ,such a loss can be carried forward to future previous years for sitting off against incomes of future previous years. however such carry forward and set-off in future years is allowed as per the rules prescribed under income tax act.

4. List any two deemed incomes.

1. parent to child;
2. spouse to spouse; and
3. sponsor to alien.

SECTION-B

1. Write short notes on loss from speculation business.

- (a) loss can be carried - forward and set off only from speculative income.
- (b) loss can be carried forward for a period of 4 years .
- (c) it is not necessary that the same business should be continued.
- (d) return of loss should be filed within the time limit.

2. What are the losses which could be carried forward and set-off .

if a loss can't be set off either under the same head or under the different heads because of absence or inadequacy of the income of the same year ,it may same year ,it may be carried forward and set off against the income of the subsequent year. However, the loss so carried forward can be set-off only against same head ,i.e. the benefit of "inter-source" adjustment is lost.

SEC	NATURE OF LOSS TO BE CARRIED FORWARD	INCOME AGAINST WHICH THE BROUGHT FORWARD LOSS CAN BE SET OFF SUBSEQUENT YEARS	MAXIMUM PERMISSIBLE PERIOD [FROM THE END OF THE RELEVANT ASSESSMENT YEAR] FOR CARRY FORWARD OF LOSSES
71B	unabsorbed loss from house property	income from house property	8 assessment years
72	unabsorbed business loss (non speculative)	profit & gains from business or profession (non speculative)	8 assessment years
73	loss from speculation business	income from speculation business	4 assessment years
73A	loss from specified business under section 35AD	profit from specified business under section 35AD	indefinite period
74	long-term capital loss	long-term capital gains	8 assessment years
74	short-term capital loss	short\long-term capital gains	8 assessment years
74A	loss from the activity of owning and main - taining race horses	income from the activity of owning and maintaining race horses.	4 assessment years

UNIT-4

DEDUCTIONS FROM GROSS

TOTAL INCOME

SECTION-A

1. What are "no limit donation".

Donation with 100% deduction without any qualifying limit are 'no limit donations'.

Example: 1. prime minister's national relief fund , 2. national defence fund , 3. prime minister's , 4. the africa (public contribution- india) fund, 5. the national foundation for communal harmony.

2. Explain the deduction u/s.80D.

this deduction is allowed to an individual and hindu undivided family for payment towards mediclaim insurance premium . the amount of deduction available is subject to a maximum of Rs.25,000 (Rs. 30,000 in case of senior citizen).

3. Explain deduction u/s 80U.

a resident individual who is totally blind or suffers from permanent physical disability is entitled to a deduction of Rs. 75,000 u/s 80 u. A higher deduction of Rs.1,25,000 with severe disability (over 80%) is allowed.

UNIT-5

INCOME TAX AUTHORITIES AND

THEIR POWERS

SECTION-A

1. Who are income tax authorities ?

various administrative and judicial authorities income tax act,1961. these authorities have been grouped into two main wings.

(1) administrative.

(2) judicial.

2. Mention any two uses of PAN.

(1) IT Returns filling.

(2) Opening a bank account.

(3) Proof of identity.

3. Who is assessing officer?

Assessing officer will mean assistant commissioner, Assistant directors or income tax officer having jurisdiction u/s 120 (1) or (2) and deputy commissioner or deputy director who is directed to exercise powers and perform functions of assessing officer u/s. 120(4).

4. Expand the term CBDT.

The Central Board of Directors Taxes (CBDT) is the highest executive authority whose powers of administration, supervision & extent over the whole of income tax department.

5. Explain Section 139(4)

Any assessee who has not furnished a return within the time allowed to him u/s 139 (1) or within the time allowed under a notice issued u/s 142 (1) may furnish the return of the previous year at any time before the expiry of one year from the end of relevant annual year or before the completion of the assessment whichever is earlier.

6. Explain the advance payment of tax?

Advance tax, as computed in accordance with the provisions, shall be payable during a financial year, only when the amount of such advance tax payable by the assessee during the year is Rs.10,000 or more.

7. What do you mean by belated returns?

Any assessee who has not furnished return within the time allowed u/s. 139(i) is meant as belated return.

8. What do you mean by tax holiday?

In order to encourage establishment of export-oriented industries in the free trade zones, the Finance Act, 1981 has provided for exempted tax exemption, which is called as tax holiday.

9. What is self-assessment ?

1. Returns u/s 139 for obligatory filing of return
2. Returns u/s 142 is return of income in the prescribed form.
3. Returns u/s 148 is return in response to notice for assessment. This is called self assessment.

10. What are deemed incomes ?

This incomes which is considered to be available for use by an individual regardless of actual receipt. income is deemed from:

- a. parent to child
- b. spouse to spouse ;
- c. sponsor to alien.

SECTION-B

1. What are the powers of the chief commissioner of income tax ?

- (a) Powers to appoint income tax officers on inspectors of income tax.
- (b) Powers to give instruction to subordinate officers.
- (c) Powers to transfer cases.
- (d) Powers regarding discovery and production of evidence.
- (e) Powers regarding search and seizure.
- (f) Powers regarding disclosure of information regarding the assessee.
- (g) Powers to transfer to high court.
- (h) Powers to with hold refund in some cases.
- (i) Powers revise orders passed by subordinates.
- (j) Powers to reduce or waive penalty in certain cases.

2. Who are the "assessing officer" u/s 2(7A) ?

According to sec. 2(7A) "Assessing officer" Will mean Assistant Commissioner ,assistant director ,or income tax officer having jurisdiction u/s 120 (1) or (2) and deputy commissioner or deputy director who is directed to excise powers and performs functions of assessing officer u/s 120 (4).

3. Explain various types of assessment.

- 1. self assessment: An assessee is required to make his own assessment of income and pay tax before filing the return of income tax department.
- 2. Best judgement assessment: the assessing officer is under obligation to make

assessment of the total income or loss to the best of his judgement on the basis of all relevant material gathered by him.

3. Assessment on the basis of return: When a return has been filed u/s 139 or in response to notice 142 (1) following procedure is in practice.

On basis of return filed, if any tax or interest is due ,an intimation will be sent .if any refund is due to an assessee,an intimation shall be sent.

4. Assessment on the basis of evidence: When the assessing officer consider it necessary to verify correctness or completeness of the return for ensuring the income or loss or tax.

5. Income escaping assessment: Where any income is escaped in assessment ,the assessing officer can make any proceedings for assessment .

SECTION-C

1. What is meant by "best judgment" assessment ? What are its consequences?

(a) compulsory best judgement assessment.

(b) discretionary best judgement assessment consequences of best judgement assessment .

(1) the assessee is liable to penalty

(2) the assessee is liable to prosecution u/s 276CC and 276 D

- if any person has not made any return under provisions of section 139 (1)
- if any person fails to comply with notice under section 142 (1) income tax act 1961
- if any person fails to comply with notice given under sec 143 (1) of the act after filing its return and failed to appear before the assessing officer as directed.
- if the assessing officer is not satisfied with the correctness of the accounts.