

CRACK-THE-TAX

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CA Intermediate Income Tax

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A **unique** tool to quickly identify **inter-linkage** of concepts for solving case study based income tax questions

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Advance money in respect of transfer of capital asset

| Area | Impact | Chapter | Para |
|--------------------------------|-------------------------------|---------|------|
| Forfeited before 1.4.2014 | Reduced from COA u/s 51 | CG | 135 |
| Forfeited on or after 1.4.2014 | Taxable as IFOS u/s 56(2)(ix) | IFOS | 178 |

Agricultural income

| Area | Agricultural land in India | Any other land | Chapter | Para |
|-----------------------------------|---|-------------------------|-----------|------|
| Rent or revenue from land | Exempt u/s 10(1) | Taxable as IFOS | Exemption | 28 |
| Transfer of land | Exempt (rural); Taxable as capital gain (urban) | Taxable as capital gain | CG | 126 |
| Income from agricultural business | Apportioned u/r 7, 7A, 7B, 8 as PGBP & Exempt | Taxable as PGBP | Exemption | 28 |
| Income from farm house | Exempt (in rural area or liable to local tax), Taxable as PGBP/IHP (other case) | Taxable as PGBP/IHP | Exemption | 28 |

Award or reward

| Area | Impact | Chapter | Para |
|--|--------------------|-----------|------|
| Instituted/approved by Government | Exempt u/s 10(17A) | Exemption | 30 |
| Pension of notified gallantry award winner (or family pension on death of such person) | Exempt u/s 10(18) | Exemption | 30 |
| Others | Taxable as IFOS | IFOS | 178 |

Bonds - See under '[Shares and securities](#)'

Business or profession – Income taxable even if relevant business or profession not in existence during PY

| Area | Section | Chapter | Para |
|--|---------|---------|------|
| Recovery against deduction allowed earlier | 41(1) | PGBP | 119 |
| Balancing charge on sale of depreciable asset by power undertaking | 41(2) | PGBP | 93.7 |
| Sale of assets used for scientific research | 41(3) | PGBP | 100 |
| Recovery against bad debt | 41(4) | PGBP | 111 |
| Sum received after discontinuance of business or profession | 176 | PGBP | 120 |
| Unabsorbed business loss (non-speculative) of year of discontinuance can be set off against income u/s 41(1) to (4) even beyond 8-year carry forward limit | 41(5) | Set off | 191 |

Business or profession - Expenditure deductible if incurred before commencement

| Area | Section | Chapter | Para |
|---|---------|---------|------|
| Investment linked tax incentives for specified businesses | 35AD | PGBP | 94 |
| Preliminary expenses | 35D | PGBP | 97 |
| Scientific research (within 3Y preceding commencement) | 35 | PGBP | 100 |

Buy back - See under '[Shares and securities](#)'

Cash payments (or payments by non-specified mode)

Non specified mode : Other than A/c payee cheque/DD, bank ECS, credit/debit card, net banking, IMPS, UPI, RTGS, NEFT, BHIM Aadhar Pay.

| Payment | Mode | | Impact | Chapter | Para |
|---|------|----------------------------|--|---------|------|
| | Cash | Non-specified | | | |
| Employee health insurance premium | √ | | Not deductible u/s 36(1)(ib) | PGBP | 106 |
| Payment to acquire depreciable asset > 10,000 to a person in a day | √ | √ | Not part of actual cost of asset u/s 43(1) | PGBP | 93.5 |
| Capital expenditure in specified business > 10,000 to a person in a day | √ | √ | No deduction u/s 35AD | PGBP | 94 |
| Business expenditure > 10,000 to a person in a day | √ | √ | Disallowed u/s 40A(3) | PGBP | 117 |
| Cash-mode receipts > 5% of total receipts & cash-mode payments > 5% of total payments | √ | Non a/c payee cheque/draft | 10 Cr Tax Audit limit u/s 44AB for business does not apply | PGBP | 123 |
| Consideration for transfer of L/B paid on or before date of agreement | √ | √ | Benefit of SDV on date of agreement not available u/s 56(2)(x) | IFOS | 172 |
| Health insurance and medical expenditure (other than preventive health check-up) | √ | | No deduction u/s 80D | GTI | 197 |
| Donation to funds/institutions > 2,000 | √ | | No deduction u/s 80G | GTI | 200 |
| Donation for scientific research or rural development > 2,000 | √ | | No deduction u/s 80GGA | GTI | 201 |
| Contribution to political party or electoral trust | √ | | No deduction u/s 80GGB or 80GGC | GTI | 201 |
| Emoluments to employees | √ | √ | Additional Employee Cost is Nil u/s 80JJAA | GTI | 204 |
| Dividend paid by domestic company to individual | √ | | No TDS exemption u/s 194 even if ≤ 5,000 for FY | TDS | 213 |
| Payment by bank, co-op bank or Post Office to account holder | √ | | TDS u/s 194N if > 1 cr (> 20L for ROI defaulter) | TDS | 218 |

Cash receipts (or receipts by specified mode)

Specified mode : A/c payee cheque/DD, bank ECS, credit/debit card, net banking, IMPS, UPI, RTGS, NEFT, BHIM Aadhar Pay.

| Receipt | Impact | Chapter | Para |
|---|---|----------|----------|
| Unexplained cash credits | Taxable u/s 68 | Basics | 4.4 |
| Cash assistance against exports | Taxable as PBGP u/s 28(iib) | PGBP | 90 |
| Cash-mode* receipts ≤ 5% of total receipts & cash-mode* payments ≤ 5% of total payments | Limit of 10 Cr for Tax Audit u/s 44AB available in case of business | PGBP | 123 |
| TO/GR received by specified mode by ROI due date | Income @ 6% u/s 44AD | PGBP | 124 |
| Consideration for transfer of L/B received by specified mode on or before date of agreement | Benefit of SDV on date of agreement available u/s 43CA or 50C | PGBP, CG | 121, 144 |
| Cash consideration under Joint Development Agreement (JDA) | Included in FVC u/s 45(5A) | CG | 141 |

*Cash or non a/c payee cheque/draft

Closely held company - See under '[Substantial interest](#)'

Compensation

| Area | Impact | Chapter | Para |
|--|--|-----------|------|
| Any disaster – From Government or local authority | Exempt u/s 10(10BC) | Exemption | 30 |
| VRS compensation | Exempt u/s 10(10C) | Salary | 45 |
| • Amortized for employer | Amortized u/s 35DDA | PGBP | 98 |
| Retrenchment compensation | Exempt u/s 10(10B) | Salary | 46 |
| On termination or modification of terms/conditions: | | | |
| • Of employment (received from employer) | Taxable as salary u/s 17(3) | Salary | - |
| • Of agency, business contract or office of management of company OR for statutory vesting of management in Government | Taxable as PGBP u/s 28(ii) | PGBP | 90 |
| • Not covered above | Taxable as IFOS u/s 56(2)(xi) | IFOS | 178 |
| On compulsory acquisition of capital asset | Taxable as capital gain u/s 45(5) | CG | 140 |
| • TDS on compensation or consideration | TDS u/s 194LA if payment for FY > 2.5 lakh | TDS | 217 |
| Insurance compensation on damage/destruction of capital asset | Taxable as CG u/s 45(1A) | CG | 138 |
| Interest on compensation or enhanced compensation | Taxable as IFOS after deduction of 50% (u/s 56(2)(viii), 145B) | IFOS | 176 |

Commission or brokerage

| Area | Impact | Chapter | Para |
|--|--|----------|------|
| Business activity carried on in India by NR through independent general commission agent | Not a business connection for NR u/s 9(1)(i) | RS & TI | 26.1 |
| Commission earned by employee | Taxable as salary u/s 17(1) | Salary | 35 |
| • Commission based on fixed % of turnover | Part of salary for computing retirement benefits | Salary | 35 |
| Commission to a partner from firm | Taxable as PGBP u/s 28(v) for partner; deductible for firm u/s 40(b) | PGBP | 112 |
| Underwriting commission paid by company as preliminary expenses | Amortization u/s 35D | PGBP | 97 |
| Commission paid to employee (not in lieu of profit or dividend) | Deductible u/s 36(1)(ii) r/w 43B | PGBP | 107 |
| Presumptive income for person earning commission or brokerage income | 44AD is not applicable | PGBP | 124 |
| Commission paid for realizing interest on securities | Deductible u/s 57(i) | IFOS | 176 |
| Commission earned by spouse from concern in which assessee has substantial interest | Clubbed u/s 64(1)(ii) | Clubbing | 182 |
| Commission or brokerage | TDS u/s 194H if > 15,000 for FY | TDS | 215 |
| Commission or brokerage paid by individual/HUF not covered u/s 194H | TDS u/s 194M if > 50 lakh for FY | TDS | 216 |
| Insurance commission | TDS u/s 194D if > 15,000 for FY | TDS | 215 |
| Lottery commission | TDS u/s 194G if > 15,000 | TDS | 215 |
| Director's commission | TDS u/s 192 or 194J (no threshold) | TDS | 216 |

Conversion

A: Stock-in-trade to capital asset

| Area | Impact | Chapter | Para |
|----------------------------------|--|---------|-------|
| On conversion | Business income u/s 28(via) = FMV | PGBBP | 113 |
| On use for B/P post conversion | Actual cost u/s 43(1) = FMV | PGBBP | 113 |
| Subsequent sale of capital asset | Capital gain: COA u/s 49(9) = FMV u/s 28(via)) | CG | 139.2 |

B. Capital Asset to stock-in-trade

| Area | Impact | Chapter | Para |
|-----------------------------------|---|---------|-------|
| On conversion | Capital gain u/s 45(2): FVC = FMV on date of conversion | CG | 139.1 |
| Subsequent sale of stock in trade | Business income: Cost = FMV on date of conversion | PGBBP | 139.1 |

Debentures - See under '[Shares and securities](#)'

Disability

| Area | Impact | Chapter | Para |
|--|--|----------------|---------|
| Income of minor child with disability u/s 80U | Not clubbed with income of parent u/s 64(1A) | Clubbing | 181 |
| Life insurance policy on person with 80U or 80DDDB disability or disease | Deduction u/s 80C for premium up to 15% of SA; Proceeds exempt u/s 10(10D) if premium is up to 15% of SA | GTI, Exemption | 193, 30 |
| Deduction for maintenance of disabled dependant | Deduction u/s 80DD | GTI | 198 |
| Deduction in case of person with disability | Deduction u/s 80U | GTI | 198 |

Dividend

| Area | Impact | Chapter | Para |
|--|--|-------------|-------|
| Meaning | Scope defined u/s 2(22) | IFOS | 168.1 |
| Paid by Indian company outside India | Deemed to accrue/arise in India u/s 9(1)(iv) | RS & TI | 26.3 |
| In case of Sikkimese individual | Exempt u/s 10(26AAA) | Exemption | 30 |
| In the hands of shareholder | Taxable | IFOS | 170 |
| Deduction in computing dividend income | Only interest up to 20% of dividend [u/s 57] | IFOS | 169 |
| Rate of tax and surcharge | Normal rate, SC can't exceed 15% for individual, HUF, AOP, BOI, AJP | Rate of tax | 14 |
| On liquidation of company | See under 'Liquidation' | IFOS | 171 |
| TDS | U/s 194 | TDS | 213 |
| Interest for deferment of advance tax on dividend (not being u/s 2(22)(e)) | No interest u/s 234C if shortfall is due to underestimate or failure to estimate | TDS | 231 |

Education

| Area | Impact | Chapter | Para |
|---|--|-----------|------|
| Scholarship granted to meet cost of education | Exempt u/s 10(16) | Exemption | 30 |
| Allowances received from employer: | | | |
| • Research allowance | Official expenditure exempt u/s 10(14) | Salary | 58 |
| • Children education allowance | Exempt u/s 10(14) @ Rs. 100 per child (max 2 children) | Salary | 58 |

| | | | |
|---|--|--------|-----|
| • Children hostel allowance | Exempt u/s 10(14) @ Rs. 300 per child (max 2 children) | Salary | 58 |
| Education facility provided by employer | Taxable/Exempt as perquisite u/r 3 | Salary | 59 |
| Expenses on training to gain skills for use in business or profession | Deduction u/s 37(1) | PGBP | 114 |
| Tuition fee paid for full time education of children | Deduction u/s 80C (up to 2 children) | GTI | 193 |
| Interest paid on loan for higher education | Deduction u/s 80E | GTI | 199 |

Employee welfare funds (PF, SF, GF, etc.)

A: Provident Fund, Superannuation Fund, other welfare fund – Recognized/Approved

| Area | Impact | Chapter | Para |
|--------------------------------|---|-------------|-----------|
| Impact on employer | | | |
| Employer's contribution | Deductible u/s 36(1)(iv) subject to 43B | PGBP | 105 |
| Employee's contribution | Deductible u/s 36(1)(va) if credited by due date of fund | PGBP/IFOS | 105, 178 |
| Impact on employee | | | |
| Employer's contribution | Exempt/taxable, as provided | Salary | 41.2 |
| Employee's contribution | Deduction u/s 80C | GTI | 193 |
| Accretion | Exempt/taxable, as provided | Salary | 41.2 |
| Payment of accumulated balance | Exempt/taxable, as provided. TDS u/s 192/192A if taxable. | Salary, TDS | 41.2, 212 |

B: Gratuity Fund (Approved)

| Area | Impact | Chapter | Para |
|---------------------------|--|---------|------|
| Impact on employer | | | |
| Employer's contribution | Deductible u/s 36(1)(v) subject to 43B | PGBP | 105 |
| Payment of gratuity | Deductible u/s 37(1) | PGBP | 114 |
| Impact on employee | | | |
| Receipt of gratuity | Exempt u/s 10(10), as provided | Salary | 38 |

ESOP - See under '[Fair market value](#)' and '[Shares and securities](#)'

Fair market value (FMV)

| Area | Impact | Chapter | Para |
|---|---|----------|----------|
| ESOP: | | | |
| • Taxable as salary | Perquisite u/s 17 = FMV on date of exercise of option – Amount paid by employee | Salary | 66 |
| • Taxable as capital gain | COA = FMV taken u/s 17 | CG | 154 |
| Payment to a related party | Disallowed u/s 40A(2) to the extent excessive or unreasonable having regard to FMV, etc. | PGBP | 116 |
| Conversion of stock-in-trade to capital asset and vice-versa | See under 'Conversion' | PGBP, CG | 113, 139 |
| Full value of consideration (FVC) of capital asset cannot be determined | FVC u/s 50D = FMV on date of transfer of asset | CG | 130 |
| Capital asset acquired before 1.4.2001 | COA u/s 55 = Higher of COA or FMV on 1.4.2001. FMV can't exceed SDV in case of land/building. | CG | 132 |
| Equity shares or units of EOF, referred | COA u/s 55 = Higher of (A) COA or (B) Lower of FMV on | CG | 166 |

| | | | |
|--|---|----------------|---------------|
| u/s 112A, acquired before 1.2.2018 | 31.1.2018 or FVC | | |
| Cost of capital asset to previous owner cannot be determined | COA u/s 55 = FMV on date the capital asset became property of previous owner | CG | 136 |
| Insurance compensation on damage or destruction of capital asset | FVC u/s 45(1A) = Money or FMV of assets received | CG | 138 |
| Slump sale of undertaking | FVC u/s 50B = FMV calculated as prescribed | CG | 162 |
| Transfer of unquoted shares | FVC u/s 50CA = FMV, if FVC < FMV | CG | 145 |
| Claim that SDV of land/building > FMV and SDV not disputed by assessee | AO to refer valuation to Valuation Officer u/s 50C/43CA/56(2)(x) | PGBP, CG, IFOS | 121, 144, 172 |
| Distribution of assets to shareholders by company in liquidation | Capital gain u/s 46 to shareholder on distribution: FVC = Money received + FMV of assets distributed – Dividend u/s 2(22)(c) Capital gain on subsequent transfer: COA u/s 55 = FMV on date of distribution | CG, IFOS | 171 |
| Reference by AO to Valuation Officer to determine FMV of capital asset | Reference can be made u/s 55A | CG | 146 |
| Receipt of specified movable property | Taxable u/s 56(2)(x) = Gift: Aggregate FMV, if it is > 50,000; Others: Excess (i.e., Aggregate FMV – Consideration), if it is > 50,000 | IFOS | 172 |
| Issue of shares by closely-held company to resident (issue price > face value) | Taxable u/s 56(2)(viib) = Issue price – FMV | IFOS | 177 |

Fees for technical services (FTS)

Only provisions specific to FTS are highlighted below

| Area | Impact | Chapter | Para |
|--|---|-----------|------|
| FTS is income deemed to accrue/arise in India | U/s 9(1)(vii) | RS & TI | 26.5 |
| Expenses in forex to render technical services outside India by SEZ unit | Excluded from export turnover & total turnover u/s 10AA | Exemption | 29 |
| Paid without TDS | Disallowance u/s 40(a)(i) or 40(a)(ia) | PGBP | 115 |
| Technical consultancy | Is a specified profession u/s 44AA | PGBP | 122 |
| Remuneration from concern in which spouse has substantial interest | No clubbing u/s 64(1)(ii) if spouse possesses technical or professional qualification | Clubbing | 182 |
| TDS on FTS | TDS u/s 194J if > 30,000 for FY | TDS | 216 |
| TDS on provision of services (includes FTS) by e-commerce participant facilitated by e-commerce operator | TDS u/s 194-O | TDS | 218 |

Gift or benefit

| Area | Impact | Chapter | Para |
|---|---|---------|------|
| From employer to employee (gift, voucher or token) | Taxable as perquisite u/s 17(2) in hands of employee | Salary | 67 |
| House property transferred to spouse or minor child (not married daughter) without adequate consideration | Transferor is deemed owner u/s 27(i) | IHP | 88 |
| Benefit or perquisite arising from business or profession | Taxable u/s 28(iv) in hands of recipient | PGBP | 90 |
| Business asset acquired on gift/inheritance | Special provision to determine actual cost u/s 43(1) for depreciation | PGBP | 93.9 |
| Gift of capital asset: | | | |

| | | | |
|--|--|----------|------|
| • Transferor | No capital gain u/s 47(iii) | CG | 136 |
| • Transferee | COA = Cost to previous owner u/s 49(1) | CG | 136 |
| Money or property received without consideration or for inadequate consideration | Taxable u/s 56(2)(x) in hands of recipient | IFOS | 172 |
| • Income arising outside India from gift of money from resident to NR taxable u/s 56(2)(x) | Deemed to accrue/arise in India u/s 9(1)(viii) | RS & TI | 26.6 |
| Transfer of capital asset whose FMV/SDV was charged u/s 56(2)(x) | COA = Value taken into account u/s 56(2)(x) | CG, IFOS | 173 |
| Income of spouse or son's wife from asset transferred without adequate consideration | Clubbed u/s 64(1)(iv)/(vi) | Clubbing | 183 |
| Income of any person/AOP (for benefit of spouse or son's wife) from asset transferred without adequate consideration | Clubbed u/s 64(1)(vii)/(viii) | Clubbing | 183 |
| Income from property transferred to HUF without adequate consideration | Clubbed u/s 64(2) | Clubbing | 184 |

Also see under '[Fair market value](#)'

Goods carriage (transport operators)

| Area | Impact | Chapter | Para |
|---|--|---------|------|
| Business of plying, hiring or leasing goods carriages | Presumptive income u/s 44AE if owns ≤ 10 goods carriage | PGBP | 124 |
| Disallowance for expenditure by non specified mode | Enhanced limit u/s 40A(3) of Rs. 35,000 | PGBP | 117 |
| Self generated stage carriage permit | COA is Nil for purpose of capital gain | CG | 159 |
| TDS for transport contract payments | TDS u/s 194C (but no TDS if owns ≤ 10 goods carriage and PAN furnished to payer) | TDS | 216 |

Hindu Undivided Family (HUF)

Only provisions related to an individual assessee qua transaction with HUF are given above

| Area | Impact | Chapter | Para |
|--|---|---------------|-------|
| Residential status | NR if control & management wholly outside India; else Resident (ROR or RNOR based on status of Karta) [u/s 6] | RS & TI | 20 |
| Sum paid to member out of income of HUF | Exempt u/s 10(2) | Exemption | 30 |
| Excessive or unreasonable payment to HUF in which member has ≥ 20% profit share | Disallowed u/s 40A(2) in hands of member | PGBP and IFOS | 116 |
| Capital asset acquired by distribution on partition of HUF: | | | |
| • Transferor HUF | No capital gain u/s 47(i) | CG | 136 |
| • Transferee | COA = Cost to previous owner u/s 49(1) | CG | 136 |
| Loan/advance by closely-held company to HUF in which shareholder (holding ≥ 10% equity shares) is entitled to ≥ 20% income | Deemed dividend in hands of shareholder u/s 2(22)(e) | IFOS | 168.2 |
| Money/property received as gift or for inadequate consideration: | | | |
| • By member as distribution on partition of HUF | Not taxable u/s 56(2)(x) in hands of recipient member | IFOS | 172 |
| • By HUF from its member | Not taxable u/s 56(2)(x) in hands of recipient HUF | IFOS | 172 |
| Conversion by member of self-acquired property as property of HUF or transfer for inadequate consideration | Income from property clubbed in hands of member u/s 64(2) | Clubbing | 184 |