INTERMEDIATE (IPC) COURSE
STUDY MATERIAL

PAPER : 4

TAXATION

Part – 1 : Income-tax
Assessment Year 2017-18
(Income-tax law as amended by the Finance Act, 2016)

MODULE – 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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In the syllabus for Chartered Accountancy course, taxation constitutes a core competence area for the students. A thorough knowledge of taxation helps the students to increase their analytical abilities. In the Intermediate (IPC) Course, “Taxation” constitutes Paper 4. Students are expected to acquire working knowledge in, *inter alia*, income-tax after undergoing this course.

The Study Material explains the provisions of income-tax and the Practice Manual contains the questions on income-tax from past examinations, adapted and solved on the basis of the provisions applicable for A.Y.2017-18. The subject matter in the Study Material is based on the law as amended by the Finance Act, 2016 and relevant for A.Y.2017-18. Efforts have been made to present the complex law of income-tax in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students. The various illustrations will help in understanding the application of income-tax law and stimulate analytical thinking by the students.

The main features of this edition of the Study Material are -

- The amendments made by the Finance Act, 2016 and incorporated in this study material have been tabulated chapter-wise with the corresponding section reference and given as “Significant Amendments in this Edition” in the next four pages.
- In the Study Material, the latest amendments i.e., the amendments made by the Finance Act, 2016 and notifications and circulars issued between 01.05.2015 and 30.04.2016 have been given in *italics/bold italics*.
- The new illustrations as well as the illustrations which have undergone changes due to these amendments have been given in a shaded background.
- Feedback form is given at the end of the Study Material. The students are encouraged to give their feedback/suggestions.

These features would aid the students in the learning process. Finally, we would welcome suggestions to make this book more helpful and ‘student-friendly’. In case you need any further clarification/guidance, you may send your queries at priya@icai.in.
TAXATION [PART I : INCOME TAX]

Significant amendments in this edition

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**Note** - In addition, significant notifications and circulars issued between the period 1.5.2015 and 30.4.2016 have been included under the respective chapters.
Income-tax is a direct tax i.e., it is a tax levied directly on the income of a person. Income-tax, at the Intermediate (IPC) level, largely involves application of provisions of the Income-tax Act, 1961 to solve computational problems. It is, therefore, very interesting and at the same time, a dynamic subject, on account of the major changes which take place in the income-tax law every year.

Since the subject of income-tax is new to you, it is essential that you need to have an idea of the constituents or elements which make up the income-tax law. You also need to understand the basic concepts, especially, the concept of “income”, on which tax is levied under this Act. The concepts of “assessment year” and “previous year” are equally imperative. Most importantly, you need to comprehend the manner of computation of total income, on which income-tax is levied.

Know your syllabus and expected level of knowledge

It is important that you are aware of the scope of syllabus and the level of knowledge expected, so that you can plan your study accordingly.

The syllabus of Part – I: Income-tax of IPCC Paper 4 : Taxation comprises of –

- Important definitions in the Income-tax Act, 1961,
- Basis of charge, rates of taxes applicable for different types of assessees,
- Concepts of previous year and assessment year,
- Residential status and scope of total income,
- Incomes which do not form part of total income,
- Heads of income and the provisions governing computation of income under different heads,
- Income of other persons included in assessee’s total income,
- Aggregation of income, set-off or carry forward and set-off of losses,
- Deductions from gross total income,
- Computation of total income and tax liability; rebates and reliefs,
- Provisions concerning advance tax and tax deduction at source and
- Provisions for filing return of income.

Working knowledge of the above topics is required at the IPCC level.

You are expected to gain knowledge of the provisions of income-tax law related to the topics mentioned above and also gain ability to solve simple problems concerning assessees with the status of individual covering the areas mentioned in the above paragraph.
Be informed of the Finance Act and Assessment Year relevant for your examination

The Finance Act of a particular year would be applicable for the May and November examinations of the next year. For instance, the amendments made by the Finance Act, 2016 would be applicable for May, 2017 and November 2017 examinations. The relevant assessment year for May 2017 and November 2017 examinations is, therefore, A.Y.2017-18.

You are expected to be updated with the notifications, circulars and other legislative amendments made up to 6 months prior to the examination. For May 2017 examination, such amendments made up to 31st October, 2016 would be relevant and for November 2017 examination, such amendments made up to 30th April, 2017 would be relevant.

Draw up a detailed study plan and allocate time for each topic/chapter of the subject

Preparing a comprehensive study time table well in advance would be of great help in organizing your study in an effective manner. In fact, you should start your study immediately after passing your CPT examination and registering for Intermediate (IPC) Course. Ideally, you should allocate at least 3 to 4 hours every day for the subject of income-tax. Utilise your study period effectively.

The next step is to estimate the time to be allocated for each topic/chapter of the subject. The scope of syllabus, the contents of each chapter in the Study Material and Practice Manual would help you to broadly assess the time which each topic of the subject would consume. Of course, since the subject of income-tax is new to you, you have to keep some percentage margin over and above the time assessed by you to take care of possible difficulty in understanding new concepts, particularly relating to business taxation, capital gains and provisions concerning deduction of tax at source.

Make full use of all the knowledge inputs of BOS

The Board of Studies brings out various publications from time to time with a view to assist the students in education. You are advised to make full use of the Study Material and other educational inputs provided to you. These educational inputs are also hosted at the Student Home Page of ICAI http://students.icai.org. The intention of creation of this portal is primarily to ensure free and unrestricted flow of knowledge and information to the students across the country by way of easy access to the latest publications of the Institute. Our efforts will, however, bear fruit only if you make it a habit to browse the portal as often as possible and assimilate the knowledge inputs contained therein. It is of utmost importance that you read these knowledge inputs to attain conceptual clarity, to remain updated with the developments in all the subjects and also to acquire the ability to apply the concepts to solve computational problems. Some of the important publications of BOS in the area of Income-tax are -

<table>
<thead>
<tr>
<th>Publication</th>
<th>Objective</th>
<th>Key Features</th>
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<tr>
<td>Study Material</td>
<td>The aim of the Study Material is to build a strong conceptual base by explaining the complex income-tax law</td>
<td>• The chapters are organised in a logical sequence for clear comprehension; • The provisions of income-tax law have been explained in a lucid</td>
</tr>
<tr>
<td>Supplemental Study Paper</td>
<td>Practice Manual</td>
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<tr>
<td>This is a very important knowledge input in the area of taxation explaining the amendments made by the relevant Finance Act and latest circulars and notifications issued by CBDT.</td>
<td>The Practice Manual has also been grouped chapter-wise and contains a variety of problems in each topic for the better understanding and application of the concepts explained in the Study Material.</td>
<td>• The Supplementary Study Paper is also divided into chapters, so that you can co-relate the same with the Study Material; • Illustrations have been given, wherever possible, for better understanding of the amendments; • Related sections are grouped together and explained to facilitate interlinking and reading of interconnected provisions; • In respect of each notification, the relevant provision of the Act which confers the power to issue such notification is described briefly, so that you can relate the notification to the appropriate provisions of the Act.</td>
</tr>
<tr>
<td>• The questions in each chapter of the Practice Manual are taken from the past thirteen years question papers set at the PE-II, PCC and IPCC examinations. In addition, other questions from past RTPs etc. are also included; • The questions are adapted as per the provisions of income-tax law as amended by the latest relevant Finance Act. • Answers to the questions are based on the provisions of income-tax law</td>
<td></td>
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as amended by the latest relevant Finance Act.

For example, in the October 2016 edition of the Practice Manual, the questions and answers are based on the provisions of income-tax law as amended by the Finance Act, 2016 and are hence, relevant for May 2017 and November 2017 examinations. The relevant assessment year is A.Y.2017-18.

- Key points are given at the beginning of each chapter to facilitate quick revision;
- Self-examination questions are added at the end of each chapter to test your understanding of the concepts explained in the corresponding chapter of the Study Material.

| Revision Test Papers (RTP) | The RTPs are prepared with the twin objective of -
|---------------------------|--------------------------------------------------|
|                           | (1) updating you on the latest developments on the statutory front.
|                           | (2) helping you to self-assess the effectiveness of your study and revision by solving the questions given in Part II independently and comparing the same with the answers given. |

- The RTP is divided into two parts –
  - **Part I : Statutory Update** – Latest Notifications & Circulars
  - **Part II : Questions & Answers** - A Self-assessment test.

  The questions in Part II are framed to test your awareness and understanding of the provisions of income-tax law forming part of the syllabus for Intermediate (IPC) Course.

<table>
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<th>Suggested Answers</th>
<th>As the name depicts, this publication contains the questions set at the CA examination, as well as the suggested</th>
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- The answers are prepared with a view to assist the students in education;
- The Suggested Answers generally
answers to such questions.

represent the ideal manner in which questions should be answered;
- Therefore, it contains references to sections (including sub-sections and clauses), notifications and circulars issued by the CBDT;
- In solutions to computational problems, the reasons for treatment of items are explained by way of Notes, giving reference to the related provisions of income-tax law.

Follow systematic study pattern
Ideally, for the subject of Income-tax, your study pattern should be in the following sequence as briefed in the table below -

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<th>Relevant Publication</th>
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<td>Step I</td>
<td>Study each topic of your syllabus thoroughly for conceptual clarity</td>
<td>Study Material, as amended by the Finance Act relevant for your examination.</td>
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<tr>
<td>Step II</td>
<td>Understand the latest developments on the statutory front, i.e., the amendments made by the latest Finance Act and recent Notifications and Circulars issued by CBDT.</td>
<td>Supplementary Study Paper</td>
</tr>
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<td>Step III</td>
<td>Work out the problems and solve the questions after completing study of each chapter in the Study Material to test your level of understanding of concepts explained in the said chapter. Note – After you complete study of the entire syllabus content, solve all the problems in the Practice Manual once again to make sure there are no grey areas.</td>
<td>Practice Manual</td>
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<td>Step IV</td>
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<td>Test your level of preparation by solving past question papers within the given time frame of three hours and compare your answers with</td>
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the answers published by the BOS. You can also check your progress by solving the Mock Test Papers hosted on the Students’ Home Page. Mock tests are also held at the various regional offices and branches of the Institute.

Mock Test Papers

Step I – Study the “Study Material” to get your concepts clear

Ideally, when you take up any topic for study, you must first go through the relevant chapter of the Study Material for building a strong conceptual base. Make sure you read the Study Material updated on the basis of the provisions of income-tax law as amended by the Finance Act relevant for your examination. In case you have the earlier edition of the Study Material, then, you must go through the Supplementary Study Paper, which explains the amendments made by the Finance Act relevant for your examination.

Step II – Stay current with the “Supplementary”

You are advised to update yourself with the help of Supplementary Study Paper which is brought out every year. In this publication, the amendments made in income-tax law by the Finance Act of that year are categorized chapter-wise and explained with the aid of illustrations and tabular presentations to facilitate easy understanding. Further, the latest notifications and circulars issued by the CBDT (up to 30th April of the year) are also explained in the Supplementary Study Paper. Accordingly, the Supplementary Study Paper-2016 explains the amendments made by the Finance Act, 2016 and significant notifications and circulars issued between 01.05.2015 and 30.4.2016.

You must carefully peruse the amendments explained in the Supplementary Study Paper and update yourself. The related sections are grouped together and discussed at one place in the Supplementary Study Paper and therefore, you would not face any difficulty in combined reading and understanding of the interconnected provisions.

Even if you have the latest Study Material, we would still advise you to go through the Supplementary Study Paper, since the amendments are discussed in detail therein. It would also help you understand and assimilate the recent amendments in a more effective manner.

Step III – Apply the concepts to solve practical problems in the Practice Manual

After reading each chapter in the Study Material, try to work out the problems in the parallel chapter of the Practice Manual on your own, and thereafter compare your answers with the answers given therein. This would help you to identify your mistakes and also learn from your mistakes. Further, this process would help in revision of the concepts and principles contained in each chapter of the Study Material and application of the same while solving computation problems. The computation problems in the Practice Manual are worked out in detail, with working notes/notes, giving reference to the related provisions of income-tax law.

Once you complete study of all the topics in the syllabus, try solving the problems in the Practice Manual once again to test if you are clear with all the concepts or whether there are still any grey areas which require further understanding.
**Step IV – Update & Revise with the aid of the RTP**

**Update yourself on the statutory front**

The Study Material is generally updated on the basis of the Finance Act of that year and notifications and circulars issued up to 30th April of that year. The Study Material, so updated, would be relevant for May and November examinations held in the following year. However, for the May examination to be held in the following year, the significant notifications and circulars issued up to 31st October of the previous year are relevant. The RTP for May examination, therefore, contains the significant notifications and circulars issued between 1st May and 31st October of the previous year. Likewise, for the November examination of the following year, the significant notifications and circulars issued up to 30th April of that year are relevant. The RTP for November examination would, therefore, contain the significant circulars and notifications issued between 1st May of the previous year and 30th April of the next year.

For instance, the September, 2016 edition of the Study Material is updated on the basis of the amendments made by the Finance Act, 2016 and circulars and notifications issued up to 30th April, 2016. This edition of the Study Material is relevant for May 2017 and November 2017 examinations. However, for May 2017 examination, the amendments made by circulars and notifications issued between 1st May, 2016 and 31st October, 2016 would also be relevant, and hence, the same would be explained in the RTP for May 2017 examination. Likewise, for November 2017 examination, the amendments made by circulars and notifications issued between 1st May, 2016 and 30th April, 2017 would also be relevant, and the same would be explained in the RTP for November 2017 examination.

**Revise what you have learnt**

Solving the questions and problems in the Revision Test Papers and comparing the same with the answers given would help you to self-assess the effectiveness of your study and revision.

**Step V - Check your level of preparation**

**Solve past years’ question papers and compare with Suggested Answers**

You should also make an honest attempt to solve the immediately preceding examination papers within a time span of three hours and compare your answers with the Suggested Answers published by the Board of Studies. This will help you to identify the areas where you are deficient and enable you to take corrective steps to avoid such mistakes in your examination.

However, remember that Suggested Answers are prepared on the basis of the provisions applicable for the assessment year relevant for that particular examination. For example, the Suggested Answers for May 2016 examination are based on the provisions applicable for A.Y.2016-17. In case you are appearing for the examination in May 2017 or November 2017, the relevant assessment year would be A.Y.2017-18. Therefore, while checking your answers with the answers given in the Suggested Answers, you should keep in mind that your answer would vary to the extent of amendments made by the Finance Act, 2016 and notifications and circulars issued after 31.10.2015.
Solve Mock Test Papers

You may also try attempting Mock Test Papers hosted on the Students’ Home Page of ICAI to complete the process of revision. You can also appear for the Mock Tests conducted at the regional offices and branches of the Institute and check your level of progress.

Face the examination with confidence

Having prepared well for the examination, it is also important that you approach the examination with a positive attitude. Do keep in mind the following points to score well in this paper –

(i) **Answer the questions with due emphasis on provisions of income-tax law** - Support your answers/conclusions with proper reasoning. Answers should be based on relevant legal provisions rather than a mere common sense and/or guess work.

(ii) **Supplement your computation with Working Notes** - Give complete working notes while solving computational problems.

   For example, if you are computing taxable HRA while calculating salary income, the working note should specify the three limits and the corresponding figures, the least of which would be exempt under section 10(13A). The balance HRA would be taxable and taken to the main computation sheet.

(iii) **Try to quote relevant section numbers** – Quoting section numbers would definitely add value to your answers. However, it is better not to quote than to misquote a section number.

(iv) **State your assumptions/views clearly** - The provisions of income-tax law are subject to different interpretations, and hence there is a possibility of alternate views in the tax treatment of a particular item of income or expense or loss or deduction. As a student, you should state your view/assumption clearly and proceed to answer the question on that basis.

(v) **Avoid using short forms** – Use of short forms like AO, ITO, IT Act, etc. should be avoided. Write the full names of the statutes, like, “Income-tax Act, 1961”.

(vi) **Present your answers well** - Underline important points and section references as and when you answer each question. Also, make sure that your handwriting is neat and legible. Answer all parts of a question one after the other. Do not answer different parts of the same question at different places.

_Happy Reading and Best Wishes!_
SYLLABUS

PAPER – 4 : TAXATION

(One paper ─ Three hours ─ 100 Marks)

Level of Knowledge: Working knowledge

Objectives:

(a) To gain knowledge of the provisions of Income-tax law relating to the topics mentioned in the contents below and
(b) To gain ability to solve simple problems concerning assessee with the status of ‘Individual’ covering the areas mentioned in the contents below.

Contents:

PART – I : INCOME TAX (50 MARKS)

1. Important definitions in the Income-tax Act, 1961
2. Basis of charge; Rates of taxes applicable for different types of assessee
3. Concepts of previous year and assessment year
4. Residential status and scope of total income; Income deemed to be received / deemed to accrue or arise in India
5. Incomes which do not form part of total income
6. Heads of income and the provisions governing computation of income under different heads
7. Income of other persons included in asessees’s total income
8. Aggregation of income; Set-off or carry forward and set-off of losses
9. Deductions from gross total income
10. Computation of total income and tax payable; Rebates and reliefs
11. Provisions concerning advance tax and tax deducted at source

The syllabus of Part II (50 Marks) is given in Volume-III of the Study Material.

Note: If new legislations are enacted in place of the existing legislations the syllabus will accordingly include the corresponding provisions of such new legislations in the place of the existing legislations with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State VAT Law.

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- Chapter 6 : Aggregation of Income, Set-off and Carry Forward of Losses
- Chapter 7 : Deductions from Gross Total Income
- Chapter 8 : Computation of Total Income and Tax Payable
- Chapter 9 : Provisions Concerning Advance Tax and Tax Deducted at Source
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