Intermediate Course
Study Material
(Modules 1 to 3)

Paper 4
Taxation
Section - A : Income-tax Law
[As amended by the Finance Act, 2017]
Assessment Year 2018-19
(Relevant for May, 2018 and November, 2018 examinations)
Module - 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Edition : July, 2017

Website : www.icai.org

E-mail : bosnoida@icai.in

Committee/Department : Board of Studies

ISBN No. : 978-81-8441-880-4

Price : ₹ 400/- (For All Modules)

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

Printed by : Sahitya Bhawan Publications, Hospital Road, Agra -282 003

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BEFORE WE BEGIN ...

**Evolving role of a CA - Shift towards strategic decision making**

The traditional role of a chartered accountant restricted to accounting and auditing, has now changed substantially and there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of plethora of laws, borderless economies consequent to giant leap in e-commerce, emergence of new financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. These factors necessitate an increase in the competence level of chartered accountants to take up the role of not merely an accountant or auditor, but a global solution provider. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

**Skill requirements at Intermediate Level**

Under the Revised Scheme of Education and Training, at the Intermediate Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in problem solving. The process of learning should also help you inculcate the requisite professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired level of professional competence.

**Income-tax law : Dynamic & Interesting**

Taxation is one of the core competence areas of chartered accountants. The subject of “Taxation” at the Intermediate level is divided into two sections, namely, Section A: Income-tax law and Section B: Indirect Taxes. Income-tax is a direct tax i.e., it is a tax levied directly on the income of a person. Income-tax law, at the Intermediate level, largely involves application of the provisions of the Income-tax Act, 1961 in problem solving. The tax laws of the country undergo significant changes every year on the passing of the annual Finance Act. Apart from these significant amendments ushered in every year through the Finance Act, notifications and circulars are also issued from time to time by the Central Board of Direct Taxes (CBDT), the statutory authority in charge with the administration of direct taxes, to implement the provisions of the Act and clarify issues regarding the meaning and scope of certain provisions. Owing to the dynamic nature of income-tax law, learning, understanding and applying the provisions of this law in problem solving is very interesting and challenging.

**Know your Syllabus – Read the same along with Study Guidelines**

The syllabus of income-tax law is divided into ten topics. The Study Material has also been divided into ten chapters in line with the syllabus. For understanding the coverage of syllabus, it is important to read the Study Material along with the Study
Guidelines. The concept of Study Guidelines is being introduced in the Revised Scheme of Education and Training in this subject, in line with international best practices, to specify the topic-wise exclusions from the syllabus. Therefore, the Study Guidelines, contain the detailed topic-wise exclusions from the syllabus. The provisions of these excluded sections are, accordingly, not discussed in the Study Material. However, while discussing the relevant applicable provisions, a reference may have been made to these excluded sections at certain places either by way of a footnote or otherwise.

The relevant Finance Act and Assessment Year

This Study Material on Income-tax law is based on the provisions of income-tax law as amended by the Finance Act, 2017 and the significant notifications and circulars issued upto 30th April, 2017. The computational problems have been solved on the basis of the provisions of income-tax law applicable for A.Y. 2018-19. The Study Material is therefore, relevant for May 2018 and November, 2018 examinations. The amendments made by the Finance Act, 2017 and latest notifications/circulars are indicated in *italics/bold italics* in the Study Material.

Framework of Chapters – Uniform Structure comprising of specific components

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 Study Material is divided into three modules for ease of handling by the students.

The various chapters/units of each subject at the Intermediate level have been structured uniformly and comprises of the following components:

<table>
<thead>
<tr>
<th>Components of each Chapter</th>
<th>About the component</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Learning Outcomes</td>
<td>Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence</td>
</tr>
<tr>
<td>2. Chapter Overview</td>
<td>As the name suggests, the flow chart/table/diagram given at the beginning of each chapter would give a broad outline of the contents covered in the chapter</td>
</tr>
</tbody>
</table>
3. **Content**  
The concepts and provisions of income-tax law are explained in student-friendly manner with the aid of examples/illustrations/ diagrams/flow charts. Diagrams and Flow charts would help you understand and retain the concept/provision learnt in a better manner. Examples and illustrations would help you understand the application of concepts/provisions. These value additions would, thus, help you develop conceptual clarity and get a good grasp of the topic.

4. **Exercise Questions with Answers**  
The exercise questions and answers would help you to apply what you have learnt in problem solving, and, thus, sharpen your application skills. In effect, it would test your understanding of concepts/provisions as well as your ability to apply the concepts/provisions learnt in solving problems and addressing issues.

5. **Let Us Recapitulate**  
A summary of the chapter is given at the end to help you revise what you have learnt. It would especially facilitate quick revision of the chapter the day before the examination.

6. **Test Your Knowledge**  
This primarily comprises of Multiple Choice Questions which test the breadth and depth of your understanding of the topic.

We hope that these student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application skills.

*Happy Reading and Best Wishes!*
SYLLABUS

PAPER – 4 : TAXATION
(One paper – Three hours – 100 Marks)

Objective:
To develop an understanding of the provisions of income-tax law and goods and services tax law and to acquire the ability to apply such knowledge to make computations and address application oriented issues.

SECTION A: INCOME TAX LAW (60 MARKS)

Contents:

1. Basic Concepts
   (i) Income-tax law: An introduction
   (ii) Important definitions in the Income-tax Act, 1961
   (iii) Concept of previous year and assessment year
   (iv) Basis of Charge and Rates of Tax

2. Residential status and scope of total income
   (i) Residential status
   (ii) Scope of total income

3. Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)
   (i) Incomes not included in total income
   (ii) Tax holiday for newly established units in Special Economic Zones

4. Heads of income and the provisions governing computation of income under different heads
   (i) Salaries
   (ii) Income from house property
   (iii) Profits and gains of business or profession
   (iv) Capital gains
   (v) Income from other sources

5. Income of other persons included in assessee’s total income
   (i) Clubbing of income: An introduction
   (ii) Transfer of income without transfer of assets
   (iii) Income arising from revocable transfer of assets

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(iv) Clubbing of income of income arising to spouse, minor child and son’s wife in certain cases  
(v) Conversion of self-acquired property into property of HUF

6. **Aggregation of income; Set-off, or carry forward and set-off of losses**  
   (i) Aggregation of income  
   (ii) Concept of set-off and carry forward and set-off of losses  
   (iii) Provisions governing set-off and carry forward and set-off of losses under different heads of income  
   (iv) Order of set-off of losses

7. **Deductions from gross total income**  
   (i) General provisions  
   (ii) Deductions in respect of certain payments  
   (iii) Specific deductions in respect of certain income  
   (iv) Deductions in respect of other income  
   (v) Other deductions

8. **Computation of total income and tax liability of individuals**  
   (i) Income to be considered while computing total income of individuals  
   (ii) Procedure for computation of total income and tax liability of individuals

9. **Advance tax, tax deduction at source and introduction to tax collection at source**  
   (i) Introduction  
   (ii) Direct Payment  
   (iii) Provisions concerning deduction of tax at source  
   (iv) Advance payment of tax  
   (v) Interest for defaults in payment of advance tax and deferment of advance tax  
   (vi) Tax collection at source – Basic concept  
   (vii) Tax deduction and collection account number

10. **Provisions for filing return of income and self-assessment**  
    (i) Return of Income  
    (ii) Compulsory filing of return of income  
    (iii) Fee and Interest for default in furnishing return of income  
    (iv) Return of loss  
    (v) Provisions relating to belated return, revised return etc.
(vi) Permanent account number
(vii) Persons authorized to verify return of income
(viii) Self-assessment

SECTION B : INDIRECT TAXES (40 MARKS)

Contents:

1. Concept of indirect taxes
   (i) Concept and features of indirect taxes
   (ii) Principal indirect taxes

2. Goods and Services Tax (GST) Laws
   (i) GST Laws: An introduction including Constitutional aspects
   (ii) Levy and collection of CGST and IGST
      a) Application of CGST/IGST law
      b) Concept of supply including composite and mixed supplies
      c) Charge of tax
      d) Exemption from tax
      e) Composition levy
   (iii) Basic concepts of time and value of supply
   (iv) Input tax credit
   (v) Computation of GST liability
   (vi) Registration
   (vii) Tax invoice; Credit and Debit Notes; Electronic way bill
   (viii) Returns
   (ix) Payment of tax including reverse charge

Note – If any new legislation(s) is enacted in place of an existing legislation(s), the syllabus will accordingly include the corresponding provisions of such new legislation(s) in place of the existing legislation(s) with effect from the date to be notified by the Institute. Similarly, if any existing legislation ceases to have effect, the syllabus will accordingly exclude such legislation with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State GST Law.

Consequential/corresponding amendments made in the provisions of the Income-tax law and Goods and Services Tax laws covered in the syllabus of this paper which arise out of the amendments made in the provisions not covered in the syllabus will not form part of the syllabus. Further, the specific inclusions/exclusions in the various topics covered in the syllabus will be effected every year by way of Study Guidelines. The specific inclusions/exclusions may also arise due to additions/deletions every year by the annual Finance Act.
## STUDY GUIDELINES

### New Intermediate Course Paper 4: Taxation Section A: Income-tax law

#### List of topic-wise exclusions from the syllabus

<table>
<thead>
<tr>
<th>Topics of the Syllabus</th>
<th>Exclusions (Provisions which are excluded from the corresponding topic of the Syllabus)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Basic Concepts</td>
<td>-</td>
</tr>
<tr>
<td>2. Residential status and scope of total income</td>
<td>Section 9A - Certain activities not to constitute business connection in India</td>
</tr>
<tr>
<td>3. Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)</td>
<td><strong>Clause of section 10</strong></td>
</tr>
<tr>
<td></td>
<td>6A</td>
</tr>
<tr>
<td></td>
<td>6B</td>
</tr>
<tr>
<td></td>
<td>6BB</td>
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<tr>
<td></td>
<td>6C</td>
</tr>
<tr>
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<td>8 &amp; 9</td>
</tr>
<tr>
<td></td>
<td>8A &amp; 8B</td>
</tr>
<tr>
<td></td>
<td>15A</td>
</tr>
<tr>
<td></td>
<td>19A</td>
</tr>
</tbody>
</table>

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| 20 to 25A | - Income of local authorities [Section 10(20)]
- Income of research associations approved under section 35(1)(ii)/(iii) [Section 10(21)]
- Income of news agency [Section 10(22B)]
- Income of professional associations [Section 10(23A)]
- Income received on behalf of any Regimental Fund or Non-Public Fund established by armed forces [Section 10(23AA)]
- Income of Funds established for welfare of employees of which such employees are members [Section 10(23AAA)]
- Income of Fund set up by Life Insurance Corporation or any other insurer under pension scheme [Section 10(23AAB)]
- Income of institution established for development of Khadi and Village industries [Section 10(23B)]
- Income of authorities set up under State or Provincial Act for promotion of Khadi and Village Industries [Section 10(23BB)]
- Income of any body or authority set up to administer religious or charitable trusts [Section 10(23BBA)]
- Income of European Economic Community (EEC) [Section 10(23BBB)]
- Income derived by the SAARC Fund for Regional Projects [Section 10(23BBC)]
- Income of the IRDA [Section 10(23BBE)]
- Income of Central Electricity Regulatory Commission [Section 10(23BBG)]
- Income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)]
- Income of certain funds or institutions [Section 10(23C)]
- Income of Mutual Fund [Section 10(23D)]
- Income of a securitization trust from the activity of securitization [Section 10(23DA)]
- Income of Investor Protection Funds [Section 10(23EA)]
- Specified income of Investor Protection Fund set up by commodity exchanges [Section 10(23EC)]
- Income of Investor Protection Fund set up by depositories [Section 10(23ED)]
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Specified income of Core Settlement Guarantee Fund (SGF) set up by a recognized Clearing Corporation [Section 10(23EE)]</td>
</tr>
<tr>
<td></td>
<td>Income of Investment Fund [Section 10(23FBA)]</td>
</tr>
<tr>
<td></td>
<td>Income of unit holder of an Investment Fund [Section 10(23FBB)]</td>
</tr>
<tr>
<td></td>
<td>Certain incomes of Business trust [Section 10(23FC)/(23FCA)]</td>
</tr>
<tr>
<td></td>
<td>Distributed income of unit holder of a business trust [Section 10(23FD)]</td>
</tr>
<tr>
<td></td>
<td>Income of trade unions [Section 10(24)]</td>
</tr>
<tr>
<td></td>
<td>Income of provident funds, superannuation funds, gratuity funds etc. [Section 10(25)]</td>
</tr>
<tr>
<td></td>
<td>Income of Employees State Insurance (ESI) Fund [Section 10(25A)]</td>
</tr>
<tr>
<td>26AAB to 29A</td>
<td>Income of an Agricultural Produce Market Committee or Board [Section 10(26AAB)]</td>
</tr>
<tr>
<td></td>
<td>Income of a corporation etc. for the promotion of interests of members of Scheduled Castes or Scheduled Tribes or both [Section 10(26B)]</td>
</tr>
<tr>
<td></td>
<td>Income of corporations established to protect interests of minority community [Section 10(26BB)]</td>
</tr>
<tr>
<td></td>
<td>Income of corporation established by a Central, State or Provincial Act for welfare of ex-servicemen [Section 10(26BBB)]</td>
</tr>
<tr>
<td></td>
<td>Income of a co-operative society formed for promoting the interests of Scheduled Castes or Schedules Tribes or both [Section 10(27)]</td>
</tr>
<tr>
<td></td>
<td>Incomes of certain bodies like Coffee Board, Rubber Board etc. [Section 10(29A)]</td>
</tr>
<tr>
<td>36</td>
<td>Long term capital gains on transfer of listed equity shares purchased on or after 1.3.2003 but before 1.3.2004, and held for a period of 12 months or more</td>
</tr>
<tr>
<td>37A</td>
<td>Any income chargeable under the head capital gains in respect of transfer of specified capital asset to an assessee, being an individual or HUF under Land Pooling Scheme</td>
</tr>
</tbody>
</table>
| 39 to 42 | Specified income arising from any international sporting event in India [Section 10(39)]
|          | Certain grants etc. received by a subsidiary from its Indian holding company engaged in the business of generation or transmission or distribution of power [Section 10(40)]
|          | Specified income of certain notified bodies or authorities which have been established under a treaty or an agreement [Section 10(42)]
| 44       | Income received by any person on behalf of NPS Trust [Section 10(44)]
| 46 to 50 | Specified income of notified entities not engaged in commercial activity [Section 10(46)]
|          | Income of notified infrastructure debt funds [Section 10(47)]
|          | Income received by certain foreign companies in India in Indian currency from sale of crude oil to any person in India [Section 10(48)]
|          | Income arising to a foreign company on account of storage of crude oil [Section 10(48A)]
|          | Income arising to a foreign company on account of sale of leftover stock of crude oil [Section 10(48B)]
|          | Income of the National Financial Holdings company Limited [Section 10(49)]
|          | Income arising from any specified service chargeable to equalization levy [Section 10(50)].

4. Heads of income and the provisions governing computation of income under different heads

| Salaries | - |
| Income from house property | - |
1. Income computation and disclosure standards (ICDSs) notified under section 145;
2. The provisions contained in the following sections given hereunder:

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>33AB</td>
<td>Tea Development Account/Coffee Development Account/Rubber Development Account</td>
</tr>
<tr>
<td>33ABA</td>
<td>Site Restoration Fund</td>
</tr>
<tr>
<td>35ABA</td>
<td>Expenditure for obtaining right to use spectrum for telecommunication services</td>
</tr>
<tr>
<td>35ABB</td>
<td>Expenditure for obtaining licence to operate telecommunication services</td>
</tr>
<tr>
<td>35DD</td>
<td>Amortisation of expenditure in case of amalgamation or demerger</td>
</tr>
<tr>
<td>35E</td>
<td>Deduction of expenditure on prospecting and development of certain minerals</td>
</tr>
</tbody>
</table>
| 36(1)/(viia)/(viii)/ (xii)/(xiii)/(xiv)/(xvii) | • Special provision for bad and doubtful debts made by Banks, Public Financial Institution, State Financial Corporation, State Industrial Investment Corporation [Section 36(1)(viia)]
  • Deduction for Special Reserve created and maintained by Specified Entities engaged in eligible business [Section 36(1)(viii)]
  • Deduction for expenditure incurred by entities established under any Central, State or Provincial Act [Section 36(1)(xii)]
  • Deduction in respect of banking cash transaction tax [Section 36(1)(xiii)]
  • Deduction of contribution by a public financial institution to Credit guarantee fund trust for small industries [Section 36(1)(xiv)]
  • Deduction of expenditure incurred by a co-operative society for purchase of sugarcane at price fixed by the Government [Section 36(1)(xvii)] |
<p>| 40(a)(ib) | Consideration paid or payable to a non-resident for specified service on which equalization levy is deductible under Chapter VIII of the Finance Act, 2016 and such levy has not deducted or after deduction has not been paid on or before the due date of filing return of Income. |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Special provisions for deduction in case of business for prospecting etc. for mineral oil</td>
</tr>
<tr>
<td>43C</td>
<td>Special Provision for Computation of Cost of Acquisition of Certain Assets</td>
</tr>
<tr>
<td>43D</td>
<td>Special Provision in case of income of Public Financial Institutions, public companies etc.</td>
</tr>
<tr>
<td>44</td>
<td>Insurance Business</td>
</tr>
<tr>
<td>44A</td>
<td>Special provision for deduction in the case of trade, professional or similar association</td>
</tr>
</tbody>
</table>
| 44B to 44DB | • Special provision for computing the profits and gains of shipping business in case of non-residents [Section 44B]  
• Special provision for computing profits and gains in connection with the business of exploration etc., of mineral oils [Section 44BB]  
• Special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents [Section 44BBA]  
• Special provision for computing profits and gains of foreign companies engaged in the business of civil construction etc. in certain turnkey power projects [Section 44BBB]  
• Deduction of head office expenditure in the case of non-residents [Section 44C]  
• Special provisions for computing income by way of royalties etc. in case of non-residents [Section 44DA]  
• Special provision for computing deductions in the case of business reorganisation of co-operative banks [Section 44DB] |
<table>
<thead>
<tr>
<th>Capital gains</th>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>47(via)/ (viia)/ ( viab)/ (vic)/ (vica)/ (vicb)/ (vicc)/(viia)/ (xa)/(xii)/ (xiii)/(xiiia)/ (xiiib)/(xiv)/ (xv)/(xvii)</td>
<td>• Any transfer of a capital asset in a scheme of amalgamation by amalgamating foreign company to the amalgamated foreign company [Section 47(via)]&lt;br&gt;• Any transfer of a capital asset, in a scheme of amalgamation of a banking company with a banking institution [Section 47(viia)]&lt;br&gt;• any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company[Section 47(viab)]&lt;br&gt;• Any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerged foreign company to the resulting foreign company [Section 47(vic)]&lt;br&gt;• any transfer in a business reorganisation, of a capital asset by the predecessor co-operative bank to the successor co-operative bank [Section 47(vica)]&lt;br&gt;• any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by him in the predecessor co-operative bank if the transfer is made in consideration of the allotment to him of any share or shares in the successor co-operative bank [Section 47(vicb)]&lt;br&gt;• any transfer in case of a demerger of a capital asset, being a share of a foreign company[Section 47(vicc)]&lt;br&gt;• Any transfer of bonds of an Indian company or Global Depository Receipts purchased in foreign currency [referred to in section 115AC(1)] [Section 47(viia)]&lt;br&gt;• Any transfer by way of conversion of Foreign Currency Exchangeable Bonds into shares or debentures of a company [Section 47(xa)].&lt;br&gt;• Any transfer of land under a scheme prepared and sanctioned under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985, by a sick industrial company which is managed by its workers’ co-operative [Section 47(xii)]</td>
<td></td>
</tr>
</tbody>
</table>
- Any transfer of a capital asset or intangible asset by a firm to a company, where a firm is succeeded by a company, or any transfer of a capital asset where an AOP or BOI is succeeded by a company consequent to demutualisation or corporatisation of a recognised stock exchange in India [Section 47(xiii)]
- Any transfer of a membership right by a member of recognised stock exchange in India for acquisition of shares and trading or clearing rights in accordance with a scheme for demutualization or corporatisation approved by SEBI [Section 47(xiiia)]
- Any transfer of a capital asset or intangible asset by a private company or unlisted public company to a LLP [Section 47(xiiib)]
- Any transfer of a capital asset or intangible asset where a sole proprietary concern is succeeded by a company [Section 47(xiv)]
- Any transfer in a scheme for lending of any securities under an agreement or arrangement which is subject to SEBI guidelines [Section 47(xv)].
- Any transfer of a capital asset being share of a SPV to a business trust in exchange of units allotted by the trust to the transferor [Section 47(xvii)]

<table>
<thead>
<tr>
<th>47A</th>
<th>Withdrawal of exemption in certain cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>49</td>
<td>Sub-sections consequent to excluded clauses of section 47 and sub-section (2ABB) relating to cost of acquisition of share/s of a company on redemption of GDRs referred under section 115AC(1)(b) Sub-section (5) of section 49, cost of acquisition of an asset declared under the Income Declaration Scheme, 2016.</td>
</tr>
<tr>
<td>54G</td>
<td>Exemption of Capital gains on transfer of assets in cases of shifting of industrial undertaking from urban area</td>
</tr>
<tr>
<td>Section</td>
<td>Particulars</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>54GA</td>
<td>Exemption of capital gains on transfer of certain capital assets in case of shifting of an industrial undertaking from an urban area to any SEZ</td>
</tr>
<tr>
<td>54GB</td>
<td>Exemption of capital gains on transfer of residential property if the sale consideration is used for subscription in equity of an eligible start-up to be used for purchase of new plant and machinery</td>
</tr>
<tr>
<td>55(2)(ab)</td>
<td>Cost of acquisition in respect of capital asset, being equity share or shares allotted to a shareholder of a recognised stock exchange of India under a scheme for demutualization or corporatization</td>
</tr>
</tbody>
</table>

### Income from Other Sources

5. Income of other persons included in assessee’s total income

Section 65: Liability of person in respect of income included in the income of another person

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>67A</td>
<td>Method of computing a member’s share in income of association of persons or body of individuals</td>
</tr>
<tr>
<td>72A</td>
<td>Carry forward and set-off of accumulated business losses and unabsorbed depreciation in certain cases of Amalgamation/ Demerger, etc.</td>
</tr>
<tr>
<td>72AA</td>
<td>Provisions relating to carry forward and set-off of accumulated losses and unabsorbed depreciation of a banking company against the profit of a banking institution under a scheme of amalgamation</td>
</tr>
<tr>
<td>72AB</td>
<td>Provisions relating to carry forward and set-off of accumulated loss and unabsorbed depreciation in business reorganisation of co-operative banks</td>
</tr>
<tr>
<td>75</td>
<td>Losses of Firms</td>
</tr>
<tr>
<td>78</td>
<td>Carry forward and set-off of losses in case of change in constitution of firm or succession</td>
</tr>
<tr>
<td>79</td>
<td>Carry forward and set-off of losses in case of certain companies</td>
</tr>
</tbody>
</table>
### 7. Deductions from gross total income

#### Deductions in respect of certain income:

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-IA to 80-IE</td>
<td>Profit-linked deductions under Chapter VI-A</td>
</tr>
<tr>
<td>80JJA</td>
<td>Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste.</td>
</tr>
<tr>
<td>80LA</td>
<td>Deduction in respect of certain incomes of Offshore Banking units and International Financial Services Centers</td>
</tr>
<tr>
<td>80P</td>
<td>Deduction in respect of income of co-operative societies</td>
</tr>
</tbody>
</table>

### 8. Computation of total income and tax liability of Individuals

**Section 5A** – Apportionment of income between spouses governed by Portuguese Civil Code

**Provisions relating to Alternate Minimum Tax**

### 9. Advance tax, tax deduction at source and introduction to tax collection at source

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
</table>
| 194LB to 194LD | • Income from Infrastructure Debt Fund [Section 194LB]  
• Income from units of business trust [Section 194LBA]  
• Income in respect of units of investment fund [Section 194LBB]  
• Income in respect of investment in securitization trust [Section 194LBC]  
• Income by way of interest payable to non-residents by Indian company [Section 194LC]  
• Income by way of interest on certain bonds and government securities payable to a Foreign Institutional Investor or a Qualified Foreign Investor [Section 194LD] |
<p>| 195      | Other sums (payable to non-residents)                                                                                                           |</p>
<table>
<thead>
<tr>
<th>10. Provisions for filing return of income and self-assessment</th>
<th>Table: 196A to 196D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>196A to 196D</td>
</tr>
<tr>
<td></td>
<td>• Income in respect of units of non-residents [Section 196A]</td>
</tr>
<tr>
<td></td>
<td>• Income from units referred to in section 115AB [Section 196B]</td>
</tr>
<tr>
<td></td>
<td>• Income from foreign currency bonds or shares of Indian company [Section 196C]</td>
</tr>
<tr>
<td></td>
<td>• Income of Foreign Institutional Investors from securities [Section 196D]</td>
</tr>
</tbody>
</table>

Sections 139(4A) to 139(4F) dealing with provisions for filing of return of charitable or religious trusts, research institutions, political party, university, college or other institution, business trust, investment fund.
## CONTENTS

### MODULE – 1
- Chapter 1: Basic Concepts
- Chapter 2: Residence and Scope of Total Income
- Chapter 3: Incomes which do not form part of Total Income

### MODULE – 2
- Chapter 4: Heads of Income

### MODULE – 3
- Chapter 5: Income of Other Persons included in Assessee’s Total Income
- 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: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source
- Chapter 10: Provisions for filing Return of Income and Self-assessment

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# DETAILED CONTENTS : MODULE – 1

## CHAPTER – 1: BASIC CONCEPTS

<table>
<thead>
<tr>
<th>Learning Outcomes</th>
<th>1.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter Overview</td>
<td>1.2</td>
</tr>
</tbody>
</table>

### Contents:

1. **Introduction** ................................................................. 1.3  
   1.1 What is Tax? ................................................................. 1.3  
   1.2 Why are Taxes Levied? .................................................. 1.3  
   1.3 Power to levy taxes ...................................................... 1.3  
   1.4 Overview of Income-tax law in India ............................. 1.4  
   1.5 Levy of Income-tax ...................................................... 1.7  

2. **Important Definitions [Section 2]**.................................... 1.14  
   2.1 Assessee [Section 2(7)] ................................................ 1.14  
   2.2 Assessment [Section 2(8)] ............................................. 1.15  
   2.3 Person [Section 2(31)] .................................................. 1.15  
   2.4 Income [Section 2(24)] ............................................... 1.20  
   2.5 India [Section 2(25A)] .................................................. 1.25  
   2.6 Maximum marginal rate and Average Rate of tax ............ 1.25  

3. **Previous Year and Assessment Year** ............................... 1.26  
   3.1 Assessment year [Section 2(9)] ...................................... 1.26  
   3.2 Previous year [Section 3] ............................................... 1.26  
   3.3 Previous year for undisclosed sources of income .......... 1.27  
   3.4 Certain cases when income of a previous year will be assessed in the previous year itself ........... 1.29  

4. **Charge of Income-tax** ...................................................... 1.30  
   4.1 Rates of Income-tax ...................................................... 1.31  
   4.2 Surcharge .................................................................... 1.35  
   4.3 Rebate for resident individuals having total income of up to ₹ 3.5 lakh ........ 1.40  

**Exercise** ............................................................................. 1.41  
**Let us Recapitulate**............................................................. 1.43  
**Test Your Knowledge** ....................................................... 1.47  

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CHAPTER – 2: RESIDENCE AND SCOPE OF TOTAL INCOME

Learning Outcomes ........................................................................................................................... 2.1
Chapter Overview ............................................................................................................................. 2.2

Contents:
1. Residential Status ........................................................................................................................ 2.3
   1.1 Residential status of Individuals .......................................................................................... 2.3
   1.2 Residential status of HUF .................................................................................................. 2.9
   1.3 Residential status of firms and association of persons ..................................................... 2.11
   1.4 Residential status of companies ....................................................................................... 2.11
   1.5 Residential status of local authorities and artificial juridical persons ......................... 2.12
2. Scope of Total Income .............................................................................................................. 2.12
   2.1 Meaning of “Income received or deemed to be received” ............................................. 2.15
   2.2 Meaning of income ‘accruing’ and ‘arising’ ...................................................................... 2.16
   2.3 Income deemed to accrue or arise in India ...................................................................... 2.17

Exercise ........................................................................................................................................... 2.31
Let us Recapitulate ....................................................................................................................... 2.41
Test Your Knowledge .................................................................................................................... 2.43

CHAPTER – 3: INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

Learning Outcomes ........................................................................................................................... 3.1
Chapter Overview ............................................................................................................................. 3.2

Contents:
1. Introduction .................................................................................................................................... 3.3
   1.1 Exemption under section 10 vis-a-vis Deduction under Chapter VI-A ...................... 3.3
   1.2 Exemptions which are discussed under the relevant chapters .................................. 3.4
2. Incomes not included in Total Income [Section 10] ................................................................. 3.5
   2.1 Agricultural income [Section 10(1)] ................................................................................. 3.5
   2.2 Amounts received by a member from the income of the HUF [Section 10(2)] .............. 3.15
   2.3 Share income of a partner [Section 10(2A)] ................................................................. 3.16
   2.4 Interest on notified securities and bonds issued to non-residents [Section 10(4)] .... 3.16

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2.5 Interest on savings certificates to non-residents [Section 10(4B)] ..............3.17
2.6 Remuneration received by individuals, who are not citizens of India [Section 10(6)] ................................................................................................................3.17
2.7 Payments to Bhopal Gas Victims [Section 10(10BB)] ..................................3.18
2.8 Compensation received on account of disaster [Section 10(10BC)] ..............3.18
2.9 Payment from Sukanya Samriddhi Account [Section 10(11A)] .....................3.19
2.10 Educational scholarships [Section 10(16)] .........................................................3.19
2.11 Payments to MPs & MLAs [Section 10(17)] ..........................................................3.19
2.12 Awards for literary, scientific and artistic works and other awards by the Government [Section 10(17A)] .................................................................3.20
2.13 Pension received by recipient of gallantry awards [Section 10(18)] ..............3.20
2.14 Income of member of a scheduled tribe [Section 10(26)] .................................3.20
2.15 Specified income of a Sikkimese Individual [Section 10(26AAA)] .................3.20
2.16 Tea board subsidy [Section 10(30)] ....................................................................3.21
2.17 Other subsidies [Section 10(31)] ..........................................................................3.21
2.18 Income from units from the Administrator of specified undertaking / specified company / mutual fund specified in clause (23D) [Section 10(35)] ..........................................................................................................................3.21

3. Tax Holiday for Newly Established Units in Special Economic Zones [Section 10AA] .................................................................................................................................3.22

4. Restrictions on allowability of expenditure [Section 14A] ..................................3.27

Exercise .......................................................................................................................3.29

Let us Recapitulate .....................................................................................................3.35

Test Your Knowledge .................................................................................................3.37