UNIT-II

COMPUTATION OF INCOME UNDER DIFFERENT HEADS -I

1. Define Salary. What are the basis of charge?

Ans. The term salary is defined under section 17 (1) of the income tax act to include following received by an employee from his employers, during the previous year:

(i) Wages;
(ii) Any annuity or pension;
(iii) Any gratuity;
(iv) Any fee, commission, perquisite or profit in lieu of salary or in addition to any salary or wages;
(v) Any advance of salary;
(vi) Any payment received by an employee in respect of any period of leave not availed by him;
(vii) The portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognized provident fund to the extent it is taxable;
(viii)Transferred balance in a recognized provident fund to the extent it is taxable and
(ix)Contribution by the central government to the account of an employee under a pension scheme referred to in section 80CCD.

Basis of Charge of Salary Income:

Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier. Under Section 15, the following incomes are chargeable to Income-tax under the head ‘Salaries’:
(i)any salary due from an employer or a former employer to an assessee in the previous year whether paid or not;
(ii)any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him;
(iii)any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer if not charged to income-tax for any earlier previous year.

The same is explained in the table given below

Nature of Salary	Is it Taxable as income of the Previous Year
Salary becomes due during the previous year (whether paid during the same year or not)	Yesb
Salary is received during the previous year (whether it becomes due in a subsequent year)	Yes
Arrears of salary received during the previous year although it pertains to one of the earlier years and the same were not taxed earlier on due basis	Yes
Arrears of salary received during the previous year although it pertains to one of the earlier years but the same were taxed earlier on due basis	Yes

2. Explain the different forms of salary.

Ans. The salary for the purpose of calculation of income from salary includes:
(i) **Wages**: Any amount received by a person for work done or job rendered is called wages. It may be received under the name of Pay, Basic Pay, Salary, Basic Salary or Remuneration.

(ii) Annuity or Pension: Any amount received by employee from past employer after attaining the age of retirement or superannuation is fully taxable under the Salary.

(iii) Gratuity: Any sum received by employee from his past employer as a token of gratitude of services rendered in past is called gratuity. It is exempted up to a certain limit.

(iv) Fee: Any amount received from employer under the name of fee is also fully taxable.

(v) Commission: Any commission given by employer to employee is fully taxable.

(vi) Bonus: Bonus is fully taxable under the head salaries on receipt basis. In case arrears of bonus are received in a previous year, these are fully taxable.

(vii) Perquisite: Any benefit or amenity allowed by employer to employee is called perquisite.

(viii) Profit in lieu of or in addition to salary: Any cash payment received by employee from employer is called profit in lieu of salary.

(ix) Leave Encashment: Any salary in lieu of leaves received during service is fully taxable.

(x) Advance Salary: In case an assessee receives some salary in advance in a previous year and which was actually not due in that year shall be taxable in the year of receipt.

(xi) Arrears of Salary: Any amount of salary received from the present or past employer during the relevant previous year and which relates to some earlier previous years, is treated as arrears of salary. It is taxable in the year in which received and not the year to which it belongs.

3. Define Allowance. What are the different forms of allowance?

Ans. Meaning of Allowance [Section 17(3): The term allowance has been derived from the word to allow. As per Oxford dictionary the word allowance means any amount or sum allowed regularly. As such allowance is given in cash along with salary by the employer. These allowances are given to an employee to meet some specific type of loss or expenditure of the employee or to help him to meet certain type of expenses.

Different Forms of Allowances: Allowances are divided into three categories on the basis of their tax treatment. These are:

(A) Fully Exempted Allowance: Some of the allowances, usually paid to Government servants, judges and employees of UNO are not taxable. These are:

(i) Allowances paid to Govt. servants abroad: When servants of Government of India are paid an allowance while serving abroad, such income is fully exempt from taxes.

(ii) Sumptuary allowances: Sumptuary allowances paid to judges of HC and SC is not taxed.

(iii)Allowance paid by UNO: Allowances received by employees of UNO are fully exempt from tax.

(iv)House rent allowance paid to judges: When a judge receives house rent allowance, it is not taxable.

(B) Fully Taxable Allowance:

Taxable allowances are allowances that are treated as a part of salary and are not either fully or partially exempted under any sections of Income Tax. These are:
(i) Dearness Allowance.
(ii) City Compensatory Allowance.
(iii) Capital Compensatory Allowance.
(iv) Lunch Allowance.
(v) Tiffin Allowance.
(vi) Marriage Allowance.
(vii) Family Allowance.
(viii) Deputation Allowance.
(ix) Wardenship Allowance.
(x) Non-practicing Allowance.
(xi) Project Allowance.
(xii) Overtime Allowance.
(xiii) Fixed Medical Allowance.
(xiv) Entertainment Allowance for non-govt. Employees.
(xv) Servant Allowance.
(xvi) Holiday Trip Allowance.
(xvii) Transport Allowance for normal employees.

(C) Partial Taxable Allowance:

1. House Rent Allowance: Sometimes the employer does not provide rent-free accommodation but instead makes a provision to pay some amount in cash, so that the employee may be compensated to some extent as far as is concerned. The amount of cash paid is known as House Rent Allowance. An amount equal to the minimum of the following three items is exempted from tax u/s 10(13A). The three items are:
(i) 50% of salary in case of Mumbai, Kolkata, Delhi and Chennai and 40% of salary in case of all other cities, or
(ii) Actual House Rent Allowance received, or
(iii) Actual Rent paid minus 10% of salary.

2. Entertainment Allowance: This allowance is fully taxable. But u/s 16(ii) a deduction is allowed to Govt. Employees for an amount equal to least of the followings:
(i) Statutory Limit Rs. 5000, or
(ii) $1/5^{th}$ of basic salary only, or
(iii) Actual Entertainment Allowance received.

3. Allowance covered u/s 10(14)(i) i.e. Official Allowance: These allowances are given to meet employee's expenses incurred in performances of his official work or duties:

(i) Helper Allowance: It **is** exempted up to actual expenditure incurred on engaging a helper.
(ii) Uniform Allowance: It is exempted up to actual expenditure incurred on acquiring or maintaining of the official duties.
(iii) Academic Research Allowance: It is exempted up to actual expenditure incurred on research.
(iv)Conveyance Allowance: It is exempted up to actual expenditure incurred in performance of official duties.
(v) Travelling Allowance: It is exempted up to actual expenditure incurred for the purposes of employment.
(vi) Daily Allowance: It is also exempted up to ordinary daily charges incurred.

4. Allowance covered u/s 10(14)(ii) i.e. Personal Allowance: Following are the prescribed allowances for the purposes of Section 10(14)(ii) along with prescribed amount of exemption:
(i) Any Special Allowance in the nature of Composite Hill Compensatory Allowance/ High Attitude Allowance/ Snow Bound Area Allowance: Exemption allowed upto Rs. 300 p.m. to Rs.7000 p.m.
(ii) Any Special Compensatory Allowance in the nature of Border Area Allowance/ Remote Area Allowance/ Disturbed Area Allowance: Exemption allowed upto Rs. 200 p.m. to Rs.1300 p.m.
(iii) Compensatory Field Area Allowance: Exemption allowed upto Rs. 2600 p.m.
(iv) Compensatory Modified Field Area Allowance: Exemption allowed upto Rs. 1000 p.m.
(v) Compensatory Active Field Area Allowance: Exemption allowed upto Rs. 4200 p.m.
(vi) Underground Allowance given to coal mine workers: Exemption allowed upto Rs. 800 p.m.
(vii) Island Duty Allowance given to Armed Forces posted in Andaman & Nicobar and Lakshadweep group of islands: Exemption allowed upto Rs. 3250 p.m.
(viii) Transport Allowance for Specified Handicapped Employees: Exemption allowed upto Rs. 3200 p.m.
(ix) Tribal Area Allowance: This allowance is exempted upto Rs.200 p.m. in the States of Madhya Pradesh, Tamil Nadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa. **(x)Any Running Flight Allowance:** It is exempted upto 70% of such allowance or Rs.10,000 p.m. whichever is less.
(xi) Children Education Allowance: It is exempted upto Rs.100 p.m. per child but maximum of two children.
(xii) Hostel Expenditure Allowance: It is exempted upto Rs.300 p.m. per child but maximum of two children.

5. What is Provident Fund? What are the different types of provident fund?
Ans. The word Provident means to provide for the future, hence this fund is to provide for the future. This fund is created by a amount deducted from the salary of the employee every month at a certain rate and the employer also makes his own contribution to this fund. These contributions are invested to earn interest, which is also credited to the employee's provident fund account. When an employee retires from his service, he receives this amount in lump-sum along with interest on it. If unfortunately, the employee dies during the tenure of his service, the amount of this fund is received by his wife or legal heirs.

Provident Funds are of four kinds:
(i) Statutory Provident Fund: It is a Provident Fund to which the Indian Provident Fund Act 1925 applies. Generally, this Provident Fund is maintained by Government or Semi-Government offices, like local authorities, universities, other recognised educational institutions, statutory corporations

and nationalised banks, etc.
The employer's contribution towards the employee's statutory provident fund and the amount of interest earned on the accumulated balance of such fund is not included in the employee's income. The employee's own contribution will qualify for deduction u/s 80C.

(ii) Recognised Provident Fund: As the name suggests, it is a fund to which the Commissioner of Income Tax has given the recognition as required under the Income Tax Act. Generally, this fund is maintained by industrial undertakings, business houses banks, etc.
The employer's contribution over and above 12% of employee's salary will be included in the employee's salary income for tax purposes.
The employee's contribution towards this fund will qualify for deduction u/s 80C.
Interest on such fund exempted upto 9.5%, but interest credited over and above such rate is included in employee's salary income.

(iii) Unrecognised Provident Fund: It is the fund which is not recognised by the Commissioner of Income Tax. The employee and employer both contribute towards this fund.
The employer's contribution and interest on the accumulated credit balance of the fund are not to be included in employee's salary income from year to year.
The employee's contribution towards this fund will qualify for deduction u/s 80C.

(iv) Public Provident Fund: So far all these funds were for the salaried people. On July 1, 1968 a new fund known as public provident fund was started so that self-employed people may also enjoy the benefit of deduction u/s 80C. Self-employed people are doctors, lawyers, accountants, accountants, actors, traders, pensioners. This fund can suit all types of pockets and its working is also very simple. The interested people can open their account in SBI, its subsidiaries and other nationalised banks. The subscription can be between Rs.500 and Rs. 150,000 in one year. At one time one can deposit in multiples of 50 and in one month only one deposit is possible and, in the year, minimum subscription should be Rs.500 and the maximum Rs.1,50,000.

6. Define Perquisites. What are the different types of perquisites?

Ans. Definition of 'Perquisites' as per [Section 17(2)]: Perquisite may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. It also denotes something that benefits a man by going into his own pocket. Perquisites may be provided in cash or in kind.

Under section 17(2) Perquisites are of following types:

(i) The value of rent-free accommodation provided to the assessee by his employer [sec. 17(2)(i)].

(ii) The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer [sec. 17(2)(ii)].

(iii) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases:

(a) by a company to an employee who is a director thereof;

(b) by a company to an employee, being a person who has substantial interest in the company;

(c) by any employer (including a company) to an employee to whom provisions of (i) and (ii) above do not apply and whose income under the head "Salaries" exclusive of the value of all benefits or amenities not provided for by way of monetary benefits, exceeds Rs. 50,000 [sec. 17(2)(iii)];

(iv) Any sum paid by the employer in respect of any obligation which but for such payment would have been payable by the assessee [sec. 17(2)(iv)];

(v) Any sum payable by the employer, whether directly or through a fund other than a recognised provident fund or approved superannuation fund or a deposit-linked insurance fund, to affect an assurance on the life of the assessee or to effect a contract for an annuity [sec. 17(2)(v)];

(vi) The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee [sec. 17(2)(vi)];

(vii) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds Rs. 1,50,000 [sec. 17(2)(vii)]; and

(viii) The value of any other fringe benefit or amenity as may be prescribed [sec. 17(2)(viii)].

7. Mention any ten perquisites which are exempted for all employees.
Ans. The following are the perquisites which are exempted for all types of employees:
(i) Free medical facilities as given u/s 17(2).
(ii) Free refreshments during working hours.
(iii) Free recreational facilities.
(iv) Provision of telephone whether basic or cellular exclusively for official use.
(v) Free meals provided in remote area.
(vi) Free education, training or refresher course for employees.
(vii) Leave travel concession if given twice in a block of 4 years.
(viii) Free ration received by members of armed forces.
(ix) Perquisites allowed by Government to its employees posted abroad.
(x) Rent free house given to an officer of Parliament, a Union Minister, and a leader of Opposition in parliament.
(xi) Employer's contribution to staff group insurance scheme.
(xii) Computers, laptops given to an employee for official/ personal use.

8. Mention the perquisites which are taxable for all employees.
Ans. The following are the perquisites which are taxable for all types of employees:
(i) Rent free house.
(ii) Concessional Rent House.
(iii) Obligation of employee met by employer.
(iv) Any amount of life insurance premium paid by employer on the life of employee during the previous year.
(v) Value of specified security or sweat equity shares allotted or transferred.
(vi) Contribution to approved superannuation fund of the employee in excess of Rs.1,50,000.
(vii) Other fringe benefits:
(a) Interest free or concessional loan.

(b) Travelling, touring and accommodation.
(c) Food or beverages facility.
(d) Gift or voucher or token facility.
(e) Credit Card facility.
(f) Club facility.
(g) Use of movable assets.
(h)Transfer of movable assets.
(ix) Any other benefit or amenity.

9. Mention the perquisites which are taxable for specified employees.
Ans. The following are the perquisites which are taxable for specified employees:
(i) Car, or any other automotive conveyance.
(ii) Services of domestic servants including sweeper, watch-man, gardener, personal attendant provided by employer.
(iii) Gas, water and electricity facility.
(iv) Education facility for children.
(v) Free transport allowed by employer engaged in transport business.
(vi) Medical facility.

10. Write a note on deduction from salary income.
Ans. Following are the deduction from gross salary:
(A) Deductions out of gross salary (Section 16):
(i) Standard Deduction u/s 16: With effect from A.Y. 2019-20 standard deductions has been reintroduced to all employees and pensioners. The standard deduction shall be least of the following two amounts:
1. Rs. 40,000 p.a. or 2. Salary earned/ pension earned.

(ii) Entertainment Allowance to Govt. Employees: U/S 16(ii) a deduction is allowed to Govt. Employees for an amount equal to least of the followings:
(i)Statutory Limit Rs. 5000, or
(ii)1/5th of basic salary only, or
(iii)Actual Entertainment Allowance received.

(iii) Tax on Employment u/s 16(iii): In case any amount of professional tax is paid by the employee or by his employer on his behalf it is fully allowed as deduction.

(B)Deduction U/S 80C Out Of Gross Total Income: Amount saved and deposited by the employee in following savings schemes shall qualify for deduction u/s 80C:
(i) Deposits made in Provident Funds: Amount deposited by the employee in Statutory Provident Fund or Recognised Provident Fund during the previous year fully qualifies for deduction.
But amount deposited in public Provident Fund during the previous year shall qualify up to a maximum of Rs. 1,50,000.

(ii) Payment of Life Insurance Premium: Actual amount of premium deposited by the employee or on his behalf by his employer or 10% or 20% of sum assured whichever is less shall qualify for deduction.

(iii) **Amount deposited in the Sukanya Samridhi Account:** Amount deposited in Sukanya Samridhi Account shall qualify for this deduction subject to overall limit prescribed u/s 80C.

(iv) **Payment made towards Group Insurance:** Any amount deducted and deposited by employer towards employee's group insurance shall fully qualify for deduction.

(v) **Deposits made in approved Superannuation Fund:** Amount deposited during the previous year shall qualify for deduction.

(vi) **Payment for a deferred annuity:** Any payment for deferred annuity fully qualifies for deduction.

(vii) **Deposits made in Unit Linked Insurance Plan (ULIP):** Any amount deposited in ULIP of UTI or LIC mutual fund shall fully qualify for deduction.

(ix) **Amount invested in National Savings Certificate (NSC)-VIII Issue or IX Issue:** Any amount invested in NSC-VIII issue or IX issue fully qualifies for deduction.

(x) **Amount invested in National Saving Scheme (NSS) 1992:** Any amount invested in NSS-1992 fully qualifies for deduction. Etc.

11. **What is gratuity? Explain the tax treatment of gratuity.**

Ans. Gratuity refers to a lumpsum payment made by a employer to his employee at the time of leaving job in appreciation of his legal and loyal services. Earlier it was a voluntary payment but now it has become a sort of compulsory payment for Government employees, semi-government employees, and all other employees working in banks, universities, colleges, factories etc.

Tax treatment of gratuity:

(A) Government Employees: Any death-cum-retirement gratuity received by a government employee is fully exempt.

(B) Non- Government Employees:

(I)Non- Government Employees receiving gratuity under Payment of Gratuity Act 1972 (POGA): Any gratuity received by such an employee shall be exempt to the extent of least of the following:

(a) 15 days salary (7 days in case of employees working in seasonal factories) for each completed year of service or part thereof in excess of six months on the basis of monthly salary last drawn;
(b) Notified limit Rs. 20,00,000;
(c) Gratuity actually received by the employee.

Therefore, Taxable Gratuity = Gratuity Received – Exempt.

(II)Non- Government Employees receiving gratuity not covered under Payment of Gratuity Act 1972 (POGA): Any gratuity received by such an employee shall be exempt to the extent of least of the following:

(b)½ month salary for every completed year of service on the basis of average salary drawn during 10 months immediately preceeding the month of retirement.

(b) Notified limit Rs. 20,00,000;
(c) Gratuity actually received by the employee.

Therefore, Taxable Gratuity = Gratuity Received – Exempt.

12. Define Annual Value. How is it determined?
Ans. Section 23(1) of Income Tax Act has defined the word annual value, as "the sum for which the property might reasonably be expected to let from year to year". The annual is the value which any one can fetch from the market under the prevailing circumstances such as local conditions, the demand for house, municipal valuation, type and standard of construction, rent for similar type of house in the similar type of locality, etc.
Thus, the annual value does not mean the rent received or rental value of the house but the notional rent at which house can reasonably be let out.

Determination of Annual Value/ Annual Rental Value (ARV): The annual value of house property can be determined in the following manner in different type of situations are:

(A) Annual Value of Let Out House Property:

(1) House Property is let out for full year and there is no vacancy or unrealised rent:
Step-I: Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.
Step-II: Such ERV is compared with actual rent received or receivable and whichever is higher is ARV.

(2) House Property is let out for full year and there is vacancy:
Step-I: Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.
Step-II: Such ERV is compared with actual rent received or receivable and whichever is higher is ARV.
Step-III: Such ARV is reduced by loss due to vacancy.

(3) House Property is let out and there is unrealised rent:
Step-I: Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.
Step-II: Such ERV is compared with actual rent received or receivable (after deducting unrealised rent) and whichever is higher is ARV.

(4) House Property is let out and there is both vacancy and unrealised rent:
Step-I: Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.
Step-II: Such ERV is compared with actual rent received or receivable (after deducting unrealised rent) and whichever is higher is ARV.
Step-III: Such ARV is reduced by loss due to vacancy.

(5) If House Property is let out for a part of the year because it is either purchased or constructed during the previous year: Take all the rental values only for that period for which house property is in existence or owned by assessee during the previous year. Compare them and select ARV accordingly.

(A) Annual Value of Self-Occupied House Property:

(1) Only one house under own occupation: ARV is taken as nil.

(2) More than one house under own occupation: ARV of one house is taken as nil and other house/houses are deemed to be let.

(3) House Property consists of various independent units and one is under own occupation and others are let out: ARV of one unit is taken as nil and other unit/units are treated as let out.

(4) House Property is partly let out and partly self-occupied: If units are inseparable and it is treated as one house then no benefit of self-occupation shall be allowed. But if units are separable, each unit or part is to be treated as a separate house and it shall get respective treatment.

(5) House Property is let out for part of the year and under occupation for part of the year: Whole property is treated is let out house property and no benefit of self-occupancy shall be allowed. But actual rent is taken only for number of months house property is actually let out. As such it gets same treatment as for unrealised rent.

13. Explain the following terms:
(i)Municipal Rental Value (ii) Fair Rental Value (iii) Standard Rent (iv) Expected Rental Value (v) Actual Rent (vi) Real Rental Value.

Ans. (i)Municipal Rental Value (MRV): For the purposes of levying local taxes the local authority i.e. Municipal Corporation/ Committee etc. conducts a periodical survey of the house properties in their local limits. On the basis such survey of the rental values are fixed which serves as the basis for levying tax. The rental value so fixed is called Municipal Rental Value.

(ii) Fair Rental Value (FRV): It is the rental value a house property can fetch. It is based on the rent prevailing for similar type of accommodation in same or similar type of locality. It is based on the principal that rent prevailing in same locality for similar sized property is almost the same. Such rental value is called Fair Rental Value.

(iii) Standard Rent: The rent fixed under Rent Control Act. If the standard rent has been fixed for any property under the Rent Control Act, the owner cannot expect to get a rent higher than the standard rent fixed under the Rent Control Act.

(iv) Expected Rental Value (ERV): The ERV shall be determined as under:
(a) In case standard rent has not been fixed: Compare MRV, FRV and Actual Rent, whichever is higher shall be treated as ERV.
(b) In case standard rent has been fixed: Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.

(v) Actual Rent: It is the rent actually received by the owner of the house property from the tenant. In case tenant pays composite rent i.e. rent of building, plant and machinery, furniture etc. and rent is separable, actual rent is reduced by the amount of rent of plant and machinery, furniture etc. Balance is actual rent of house property.

(vi) Real Rental Value (RRV): In case cost of common facilities such as lift and pump maintenance, salary of common gardener and watchman, lighting of common stairs and corridors and water and electricity bills (if not included in rent) are borne by the owner and rent includes the cost of these items. Such cost is reduced out of actual rent received and balance is called Real Rental Value.

14. What are the deductions allowed from the annual value in computing taxable income from house property?

Ans. While calculating house property income, deductions are allowed out of Net Annual Value (NAV). These deductions are as follows:

(i) Standard Deduction u/s 24(a): It is an adhoc/ flat deduction out of NAV in respect of certain expenses of the owner of the house property connected with earning of rental income like rent collection charges, insurance of house, repair of house etc. It is allowed @30% of NAV.

(ii) Interest on House Loan u/s 24(b): House loan means loan taken for purchase, repairs or renovation, etc. of house property. Interest paid / payable on housing loan is allowed as deduction while computing house property income. The tax treatment of interest on housing loan can be explained as follows:

(A) Let out/ deemed to be let out house: While calculating house property income in respect of such house property, interest on loan taken for purchase/construction/renovation etc. of such house property is allowed as deduction in full. There is no maximum limit in respect of such interest.

(B) In case of self-occupied house property: Although the NAV is taken as nil in respect of self-occupied house property, yet interest on loan taken for purchase/construction/repairs/renovation etc. of such house property is still allowed as deduction in the following manner:

1. If loan is taken before 1-4-1999: Interest on loan is allowed upto a maximum of Rs.30,000.

2. If loan is taken on or after 1-4-1999: Interest on loan is allowed upto a maximum of Rs.200,000 provided the following conditions are satisfied:

(a) the loan is taken for the purpose of purchase or construction;

(b) the construction or acquisition of house is completed within 5 years;

(c) the borrower obtains a certificate from the lender specifying the amount of interest payable. In case failure of above conditions interest on loan is allowed as deduction upto a maximum of Rs.30,000.

(iii) Interest of Pre-construction period: Interest of pre-construction period is deductible in five equal instalments. The first instalment is deductible in the year in which construction of property is completed or in which property is acquired. For this purpose, pre-construction period means the period commencing on the date of borrowing and ending on (a) March 31 immediately prior to the date of completion of construction/date of acquisition or (b) date of repayment of loan, whichever is earlier.

15. Write a note on exempted income from house property.

Ans. Under section 10 of the Income-tax Act 1961 following incomes from house property are exempted from tax. These incomes are not to be included in the total income of assessee. Hence no tax is payable on such incomes. These incomes are: -

(I)Agricultural House Property [Section 2(1)(c)]: Income from such house property which is situated on or in the immediate vicinity of agricultural land which is used for agricultural purposes by cultivator is exempted from tax.

(II) House property held for charitable purposes [Section 11): Any income from a house property held for charitable or religious purposes e.g. rent from shops owned by a temple is also exempted.

(III) Self-Occupied but Vacant House [Section 23(3)]: In case an assessee keeps one of his own houses reserved for self-occupation but is living in a rented house elsewhere due to his employment or profession the income from such house is taken to be NIL.

(IV) **House used for Own Business or Profession:** There is no income chargeable to tax under this head from such house property.

(V)Property held by Registered Trade Union [Section 10(24)]: Income from a house property owned by a registered trade union is not to be included in its G.T.I.

(VI) Income from House Property held by following shall be exempted:

(a) House property held by a local authority.
(b) House property held by a scientific research institution.
(c) House property held at a political party.
(d) House property held by a university and any other educational institution working for spreading education and not to earn profit.
(e) House property held by a hospital or medical institution working for the spreading of medical services to people and is not meant for earning profit.

(VII) One House Property (a palace) owned by a former ruler of Indian states: Ex-rulers of Indian states may own many palaces but only one palace of their choice shall be treated as a self-occupied house and shall be exempted.

(VIII) One Self-Occupied House: In case assessee owns one residential house, the net annual value of the same shall be taken as nil but in case he owns more than one house, then only one of his choices but normally of higher value shall be treated as a self-occupied one and other/others are treated as deemed to be let out.