Topics to be Covered
Residential Status, Chargeability a. Meaning and Rules for Determining Residential status of an Assessee b. Charge of Income Tax and Scope of Total Income c. Income Exempted from Tax and Deduction under Income Tax Law d. Heads of Income and its Justification e. Tax Treatment to Salary, Perquisites etc

Residential Status and Its Determination

The **residential status** of an assessee (individual, Hindu Undivided Family (HUF), or company) is crucial in determining the extent of their income that will be taxable under the Income Tax Act. The taxation of income varies depending on whether the assessee is classified as a **Resident** or a **Non-Resident** (NR). Additionally, within the category of **Residents**, there are further classifications of **Resident and Ordinary Resident** (ROR) and **Resident but Not Ordinary Resident** (RNOR). Let's break this down in more detail:

Section 6: Residential Status of an Assessee

1. Individual (Section 6(1)):

An individual can be classified as either a **Resident** or a **Non-Resident**. The classification is based on the number of days the individual has spent in India during the relevant financial year and the preceding years.

Conditions for Resident Status:

- **Resident:** An individual is considered a Resident if they satisfy at least one of the following conditions:
    1. **Stay of 182 days or more** during the relevant financial year (i.e., from April 1 to March 31).
    2. **Stay of 60 days or more** during the relevant year, and **at least 365 days** in the preceding four years.

  Exception: For Indian citizens who leave India for the purposes of employment or business outside India or are in India for a tourist visit, the condition of staying for **60 days** is extended to **182 days** (as per amendments under the Finance Act).

- **Non-Resident (NR):** If the individual fails to satisfy the above conditions, they are considered a **Non-Resident** for that financial year.

Example: If an individual was in India for 190 days during the financial year, they will be classified as a Resident. If the individual stayed only 50 days, they would be classified as a Non-Resident.

2. Hindu Undivided Family (HUF) (Section 6(2)):

For a Hindu Undivided Family (HUF), the residential status is determined by where the **control and management** of the affairs of the family are situated. If the control and management are in India, the HUF is classified as a Resident.

- The status of the **HUF** is not dependent on the individual members' stay in India but on the location where the family's affairs are controlled and managed.

Example: If the Karta (head of the HUF) lives and operates the affairs from India, the HUF will be treated as a **Resident**.

3. Company (Section 6(3)):

A company's residential status is determined by where its **control and management** of its affairs take place.

- **Resident Company:** A company is considered a Resident if its **control and management** is wholly or partly in India. If a company's board of directors or its major decisions are controlled from India, the company is classified as a Resident.
- **Non-Resident Company:** If the company's control and management are located outside India, the company will be a Non-Resident.

Example: A company headquartered in India with its board meetings conducted in India will be treated as a **Resident** company, even if it has subsidiaries abroad.

Resident and Ordinary Resident (ROR) vs. Resident but Not Ordinary Resident (RNOR)

Once an individual is classified as a **Resident**, they may further fall under one of two categories:

1. **Resident and Ordinary Resident (ROR):**

- A **Resident and Ordinary Resident** is someone who satisfies both of the following conditions:
    1. **They are a Resident** in India (i.e., they meet the conditions for being a Resident).
    2. They have been **in India for at least 2 years** in the last 10 years before the relevant financial year.
    3. They have stayed in India for **at least 730 days** during the preceding 7 years.

ROR individuals are liable to pay tax on their **global income** (both Indian and foreign income), as their **residency** status is fully established in India.

Example: An individual who has stayed in India for 3 years during the past 10 years and 800 days during the preceding 7 years would be a **Resident and Ordinary Resident**.

2. **Resident but Not Ordinary Resident (RNOR):**
    - An individual is classified as **Resident but Not Ordinary Resident** if they satisfy the **Resident** conditions, but they do **not satisfy** the conditions to be a **Resident and Ordinary Resident**. This can happen if:
        1. They have been in India for **less than 730 days** in the last 7 years.
        2. They do not meet the **10-year criteria** for being an Ordinary Resident.

RNOR individuals are liable to pay tax only on their **income earned or received in India** and on **income accrued or arising in India**. Their **foreign income** is generally **not taxable** under Indian income tax laws.

Example: An individual who has stayed in India for 1 year during the past 10 years and for only 400 days during the last 7 years may qualify as a **Resident but Not Ordinary Resident**.

Charge of Income Tax and Scope of Total Income

Section 4: Charge of Income Tax

Charge of Income Tax refers to the legal imposition of tax on the income of an assessee as per the provisions of the **Income Tax Act, 1961**. This section is fundamental in determining how and when income tax will be applied to an individual, Hindu Undivided Family (HUF), company, or other entities.

Key Points:

1. **Imposition of Tax:**
    - Section 4 provides the authority under which tax is levied on an individual's income. The income of an assessee is **charged to tax** under this section, as per the rates specified in the **Income Tax Act**.
2. **Residential Status:**
    - The **residential status** of the assessee plays a critical role in determining the scope of income that will be taxed. The residential status is crucial in understanding whether the assessee will be taxed on global income or only on income sourced from India.
3. **Income of the Assessee:**
    - The **total income** of the assessee is the basis on which the tax is levied. This includes all the income accrued, received, or deemed to be received during the financial year, and the amount of tax payable is determined based on the **applicable tax slab** for that financial year.

Example:

- A **Resident** will be taxed on both their income earned in India and abroad, while a **Non-Resident** will only be taxed on their Indian-sourced income.

Section 5: Scope of Total Income

Scope of Total Income defines the extent of income that is taxable based on the **residential status** of the assessee. The scope varies for **Residents** and **Non-Residents** as follows:

For a Resident:

1. **Global Income Taxation:**
   - **Section 5(1)** of the Income Tax Act states that a **Resident** is liable to be taxed on their **total income**, which includes both **India-sourced income** and **foreign income**.
   - **Global Income:** This means that a Resident's total income comprises income earned from all sources worldwide, including income from foreign assets, foreign salary, or income earned outside India.

   Example:

   - If a resident individual earns a salary in the USA and also owns property in India, the salary earned abroad and the rental income from India will both be considered in the calculation of their **total income** in India.

For a Non-Resident (NR):

1. **Indian-Sourced Income:**
   - **Section 5(2)** specifies that a **Non-Resident** is only taxable on income that **accrues or arises** in India, or income that is **deemed to be received** in India.
   - This means that a Non-Resident is **not taxed on their foreign income** unless it has a connection to India, like a business or employment in India.
   - **Income deemed to be received in India** refers to income that is not physically received in India but is considered as if received in India due to certain provisions, such as interest income on loans made to Indian residents or rental income from property in India.

   Example:

- A **Non-Resident** who works in Dubai and earns a salary will **not be taxed** in India on that salary. However, if they own a house in India and earn rental income from it, that rental income will be **taxable** in India.

Key Differences in Scope of Total Income Based on Residential Status:

Aspect	**Resident**	**Non-Resident**
Income Earned in India	Taxable (Part of Total Income)	Taxable (Part of Total Income)
Income Earned Abroad	Taxable (Part of Total Income)	Not Taxable (unless deemed received in India)
Deemed Income (India)	Taxable (Part of Total Income)	Taxable (Part of Total Income)

Examples to Illustrate the Scope of Total Income:

1. **Resident Example:**
    - An individual is a Resident and has:
        - A salary of ₹10,00,000 earned in India
        - Rental income of ₹5,00,000 from property in the US
        - Capital gains of ₹2,00,000 from the sale of shares in a foreign company
    - Since they are a **Resident**, all of these earnings (both Indian and foreign) will be taxed in India as part of their **global income**.
2. **Non-Resident Example:**
    - A Non-Resident individual has:
        - A salary of ₹8,00,000 earned in India
        - Dividends of ₹1,00,000 received from an Indian company
        - Income of ₹3,00,000 from property rental in the UK

- As a **Non-Resident**, only the salary and rental income from the property in India will be taxed in India. The foreign income (e.g., rental income from the UK) will not be taxed in India.L

Income Exempted from Tax and Deductions under Income Tax Law

Section 10: Exemptions from Income Tax

Section 10 of the Income Tax Act, 1961 lists various types of income that are **exempted** from tax. These exemptions are granted to reduce the tax burden on certain types of income or to encourage certain activities like savings, investments, or social causes. Below are some key exemptions under **Section 10**:

1. Section 10(1): Agriculture Income

- **Exemption**: Any income derived from agricultural activities is exempt from income tax under Section 10(1).
- **Conditions**: The income must be from activities related to **agriculture**, such as the sale of crops, livestock farming, and plantation work.
- **Example**: Income from farming, sale of agricultural produce, or any earnings directly related to the land used for agricultural purposes.

2. Section 10(32): Income of Minor Child

- **Exemption**: The income of a minor child is exempt up to a certain limit when it is clubbed with the parent's income.
- **Limit**: The exemption applies to income earned by the minor child from sources other than **manual labor** or **specialized skills**. The limit for exemption is **₹1,500 per child** per year.
- **Example**: If a minor child has earned interest income of ₹5,000, ₹1,500 will be exempt, and the rest will be taxed under the parent's income.

3. Section 10(38): Long-Term Capital Gains on Listed Securities

- **Exemption**: Long-term capital gains (LTCG) arising from the sale of listed securities, equity shares, or units of mutual funds that have been held for more than 12 months are exempt under Section 10(38).
- **Conditions**: The securities must be **listed** on a recognized stock exchange, and the gains must be long-term in nature (held for more than a year).
- **Example**: If an investor sells listed shares after holding them for over a year and makes a capital gain, that gain will be exempt from tax.

4. Section 10(10D): Life Insurance Policy Proceeds

- **Exemption**: The proceeds received from a **life insurance policy** are exempt from income tax under **Section 10(10D)**, provided certain conditions are met.
- **Conditions**:
  - The policy must not be a **keyman insurance policy**.
  - The premium paid should not exceed 10% of the sum assured for policies issued after April 1, 2012.
  - If the premiums exceed 10% of the sum assured, the proceeds may be taxable.
- **Example**: The sum received by a policyholder's family on their death or maturity of the policy is **exempt from tax**.

5. Section 10(10C): Voluntary Retirement Scheme (VRS)

- **Exemption**: The compensation received by an employee under a **Voluntary Retirement Scheme (VRS)** is exempt from tax under Section 10(10C), subject to certain conditions.
- **Conditions**: The amount of compensation received must not exceed ₹5 lakh.
- **Example**: An employee who opts for VRS and receives a lump sum payment as compensation is eligible for exemption up to ₹5 lakh.

6. Section 10(14): Special Allowances and Benefits

- **Exemption**: Certain allowances and benefits granted to an employee, such as house rent allowance (HRA) or travel allowances, are **exempt** under Section 10(14).
- **Conditions**: The exemption is subject to conditions like the nature of the allowance, the actual expenditure incurred, etc.
- **Example**: HRA received by an employee is exempt under Section 10(13A), subject to specific conditions like rent paid and the salary level.

Section 80: Deductions under Income Tax Law

Section 80 provides various deductions that can be claimed by taxpayers to reduce their taxable income, and consequently, their tax liability. These deductions encourage savings, insurance, education, and other social welfare measures.

1. Section 80C: Deductions for Savings Instruments

- **Deductions**: Under Section 80C, taxpayers can claim a deduction of up to **₹1.5 lakh** in a financial year on certain savings and investment instruments.
- **Eligible Investments**:
  - **Public Provident Fund (PPF)**
  - **Life Insurance Premiums (LIC)**
  - **National Savings Certificates (NSC)**
  - **Employee Provident Fund (EPF)**
  - **5-year Fixed Deposit with banks**
  - **Tax-saving Fixed Deposits**
  - **Post Office Tax Saving Schemes**
- **Example**: If a taxpayer invests ₹1.5 lakh in a combination of eligible instruments, they can claim a full deduction of ₹1.5 lakh under Section 80C.

2. Section 80D: Deductions for Insurance Premiums

- **Deductions**: Section 80D allows a deduction for premiums paid on health insurance policies.
- **Limits**:
  - **For self/family**: ₹25,000 (₹50,000 for senior citizens).
  - **For parents**: ₹25,000 (₹50,000 for senior citizen parents).
- **Example**: If a taxpayer pays ₹30,000 for his health insurance and ₹35,000 for his parents' health insurance, they can claim a total deduction of ₹65,000.

3. Section 80E: Deduction for Interest on Education Loans

- **Deductions**: Section 80E provides a deduction for the interest paid on loans taken for higher education.
- **Conditions**:
  - The loan must be taken for the education of the taxpayer, their spouse, or children.
  - The deduction is available for **interest** paid on loans (not for the principal).
  - There is no limit on the amount of deduction, and it is available for up to **8 years** or until the interest is fully paid, whichever is earlier.
- **Example**: If a taxpayer pays ₹50,000 as interest on a loan for their child's education, the entire ₹50,000 can be deducted under Section 80E.

4. Section 80G: Deduction for Donations to Charitable Institutions

- **Deductions**: Section 80G allows a deduction for donations made to certain **charitable institutions** and **funds**.
- **Conditions**: The institutions must be recognized by the Income Tax Department.
- **Example**: Donations to institutions like the Prime Minister's National Relief Fund or recognized charitable institutions can be deducted under this section.

5. Section 80GG: Deduction for Rent Paid (If No HRA Received)

- **Deductions**: Section 80GG provides a deduction for rent paid by individuals who are not receiving **House Rent Allowance (HRA)**.
- **Conditions**:
    - The taxpayer must not own any residential property in the place of employment.
    - The deduction is limited to **₹5,000 per month** or 25% of total income, whichever is lower.
- **Example**: If a taxpayer pays ₹10,000 as rent but does not receive HRA, they can claim a deduction of ₹5,000 per month under Section 80GG.

6. Section 80TTA: Deduction for Interest on Savings Accounts

- **Deductions**: Section 80TTA allows a deduction of up to ₹10,000 on interest earned from savings bank accounts.
- **Example**: If a taxpayer earns ₹12,000 interest on a savings account, they can claim a deduction of ₹10,000 under this section.

7. Section 80U: Deduction for Disabled Individuals

- **Deductions**: This section allows a deduction for taxpayers with physical disabilities.
- **Conditions**:
    - A deduction of ₹75,000 is available for individuals with **disability** and **₹1,25,000** for those with severe disability (100% disability).
- **Example**: A person with severe disability can claim a deduction of ₹1,25,000 under Section 80U.

1. Section 80B: Deduction for Investment in Units of UTI or Mutual Funds

- **Deduction**: This section allows a deduction for investments made in the units of **Unit Trust of India (UTI)** or specified mutual funds.
- **Conditions**: The investment must be made in certain **specified funds**, and the deduction is available for the amount invested, subject to the overall limit under Section 80C.

- **Example**: If an individual invests ₹50,000 in a specified mutual fund, the entire amount can be deducted from the taxable income, subject to the limit of Section 80C.

2. Section 80CCG: Rajiv Gandhi Equity Savings Scheme (RGESS)

- **Deduction**: This section offers a **50% deduction** on the amount invested in **equity shares** or **mutual funds** under the **Rajiv Gandhi Equity Savings Scheme (RGESS)**.
- **Eligibility**:
    - Applicable to **new investors** with an annual income of up to ₹12 lakh.
    - Investment must be in specified securities under RGESS.
- **Maximum Deduction**: The maximum deduction available is **₹25,000**.
- **Example**: If an individual invests ₹50,000 in RGESS, they can claim a deduction of ₹25,000 under Section 80CCG.

3. Section 80E: Deduction for Interest on Education Loans

- **Deductions**: Deduction for interest on loans taken for higher education.
- **Conditions**:
    - Available for individuals who have taken loans for themselves, their spouse, or children.
    - Deduction is only available on the **interest portion** of the loan, and there is no cap on the deduction.
    - The deduction is available for **8 consecutive years** or until the interest is fully paid, whichever is earlier.
- **Example**: If a taxpayer pays ₹50,000 in interest on an education loan, they can claim a full deduction of ₹50,000.

4. Section 80GGA: Deduction for Donations for Scientific Research or Rural Development

- **Deduction**: This section provides deductions for donations made to organizations that are involved in scientific research or rural development.
- **Conditions**: Donations must be made to specified organizations or institutions, and the amount donated must be used for scientific or rural development.

- **Example**: If a taxpayer donates ₹10,000 to an eligible institution for rural development, they can claim a deduction for the full amount.

5. Section 80GG: Deduction for Rent Paid (If HRA is not received)

- **Deduction**: Deduction for rent paid for residential accommodation where the taxpayer does not receive House Rent Allowance (HRA).
- **Conditions**:
    - The taxpayer cannot own any residential property in the location where they work.
    - The maximum deduction is ₹5,000 per month or 25% of total income, whichever is lower.
- **Example**: If an individual pays ₹12,000 per month as rent and does not receive HRA, they can claim a deduction of ₹5,000 under Section 80GG.

6. Section 80G: Deduction for Donations to Charitable Institutions

- **Deduction**: Deduction for donations made to registered charitable institutions and funds.
- **Conditions**: The institutions must be recognized by the Income Tax Department, and the donation amount should be a cash or cheque donation.
- **Example**: If a taxpayer donates ₹20,000 to a recognized charity, they can claim a deduction for the full amount or a percentage of the donation, depending on the institution.

7. Section 80JJA: Deduction for Employment of New Workmen

- **Deduction**: Deduction for employing new workmen by a business.
- **Conditions**: The employer must have employed at least 100 or more new workmen, and the workmen must be paid **wages** as per the prescribed limits.
- **Example**: If a business employs 200 new workmen and complies with the conditions, they can claim deductions on wages paid.

8. Section 80QQB: Deduction for Income from Patents

- **Deduction**: This section allows a deduction of up to **₹3 lakh** for royalty income earned by an individual from a **patent**.

- **Conditions**:
    - The individual must be the inventor or author of the patent.
    - The income should be from patents registered under the **Patents Act, 1970**.
- **Example**: If an individual earns ₹3,50,000 as royalty income from a patent, they can claim a deduction of ₹3,00,000 under Section 80QQB.

9. Section 80RRB: Deduction for Income from Royalty on Patents

- **Deduction**: Section 80RRB provides deductions to **inventors** of patents for the royalty income they receive from patents.
- **Conditions**:
    - The patent must be granted under the **Patents Act, 1970**.
    - The maximum allowable deduction is **₹3 lakh** per year.
- **Example**: An inventor receiving ₹4,00,000 in royalty can claim a deduction of ₹3,00,000 under Section 80RRB.

10. Section 80U: Deduction for Disabled Individuals

- **Deduction**: Section 80U allows a deduction for individuals who are **physically disabled** or suffering from **mental disabilities**.
- **Conditions**:
    - A **₹75,000** deduction for persons with a disability (40% disability).
    - A **₹1,25,000** deduction for persons with a severe disability (100% disability).
- **Example**: A person with a severe disability can claim a ₹1,25,000 deduction under Section 80U.

11. Section 80TTA: Deduction for Interest on Savings Accounts

- **Deduction**: Section 80TTA allows a deduction of up to **₹10,000** on interest earned from savings accounts held in a bank, post office, or co-operative society.
- **Conditions**:
    - The deduction is available only on interest from **savings accounts** (not from fixed deposits).

- **Example**: If a taxpayer earns ₹12,000 in interest from a savings account, they can claim a deduction of ₹10,000 under this section.

12. Section 80U: Deduction for Persons with Disabilities

- **Deductions**: For individuals with **disabilities**, the taxpayer can claim a deduction under Section 80U.
- **Conditions**:
  - ₹75,000 for a person with **disability**.
  - ₹1,25,000 for a person with a **severe disability**.
- **Example**: A person with a 100% disability can claim a ₹1,25,000 deduction.

13. Section 80TTA: Deduction for Interest on Savings Accounts

- **Deductions**: Section 80TTA provides a deduction of up to ₹10,000 for interest earned on savings accounts in banks, co-operative societies, and post offices.
- **Conditions**: This deduction is only available for interest income from savings accounts, not for fixed deposits or other investment incomes.
- **Example**: A taxpayer who earns ₹9,000 as interest on their savings account can claim the full ₹9,000 as a deduction under Section 80TTA.

Heads of Income Under the Income Tax Act

The **Income Tax Act, 1961** provides five main heads under which income is taxed in India. These heads are classified to determine the taxability of different sources of income. Here's a detailed explanation of each:

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1. Income from Salaries (Section 15)

Meaning:
This head encompasses all income received by an individual from an employer-employee

relationship. It includes wages, salary, pension, gratuity, allowances, bonuses, and any other form of compensation paid by the employer.

Key Components:

- **Salary**: Regular payments made by the employer for the work performed.
- **Wages**: Typically a fixed sum paid to employees, often hourly, weekly, or monthly.
- **Bonus**: Additional payments made based on the performance or on special occasions.
- **Gratuity**: A sum of money paid to an employee when they retire or leave after a specific period of service.
- **Pension**: Regular payments made to retired employees.
- **Allowances**: Such as house rent allowance (HRA), transport allowance, dearness allowance (DA), etc.

Taxable Amount:
The entire amount received by an employee as salary is subject to tax. However, certain exemptions and deductions (like HRA, standard deduction, etc.) are available under this head.

Deductions:

- **Standard Deduction**: A flat deduction of ₹50,000 is available on the salary income, which reduces taxable salary income.
- **HRA (House Rent Allowance)**: Exemption under Section 10(13A) is available on HRA, subject to certain conditions.

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2. Income from House Property (Section 22)

Meaning:
This head covers income earned from property that is owned by the taxpayer. It includes income from renting or leasing out house property. However, income from agricultural land is not taxable under this head.

Key Points:

- **Gross Annual Value (GAV)**: The income received from renting out property.
- **Deductions**:
  - **Standard Deduction**: 30% of the **Net Annual Value** (after deducting municipal taxes paid) is allowed as a standard deduction for repairs, maintenance, etc.
  - **Interest on Home Loan**: Deduction under Section 24(b) of up to ₹2 lakh per year for interest paid on loans taken for purchasing or constructing a house.

Taxable Amount:

- **Gross Annual Value (GAV)** is calculated based on the rent expected to be received or the market value of the property.
- **Net Annual Value (NAV)** is the GAV after deducting municipal taxes.

Example:
If a taxpayer rents out a house for ₹20,000 per month, the GAV would be ₹240,000 annually. After deducting municipal taxes (e.g., ₹10,000), the NAV would be ₹230,000, and the taxpayer can claim deductions on maintenance (30% of ₹230,000) and interest on home loans.

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3. Profits and Gains of Business or Profession (Section 28)

Meaning:
Income generated from business or professional activities falls under this head. It includes income from any trade, commerce, or profession, whether carried out by an individual, HUF, partnership firm, or company.

Key Points:

- **Business Income**: Earnings from buying, selling goods, providing services, or any activity aimed at earning profits.
- **Professional Income**: Earnings from providing specialized services, such as those by lawyers, doctors, consultants, etc.

Taxable Amount:
The income is calculated after deducting business-related expenses such as:

- Cost of goods sold
- Rent
- Salaries
- Office supplies
- Depreciation on assets
- Interest on business loans

Deductions:
The taxpayer can claim deductions for expenses related to the business or profession to reduce taxable income. Examples of deductions include:

- Depreciation on assets (Section 32)
- Interest on loans taken for business purposes
- Expenses related to the operation of the business like salaries, rent, etc.

Example:
If a consultant earns ₹5,00,000 and has expenses of ₹1,50,000 (for office rent, salaries, etc.), the taxable income would be ₹3,50,000.

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4. Capital Gains (Section 45)

Meaning:
Income arising from the sale or transfer of **capital assets** (e.g., property, shares, bonds, jewelry, etc.) is taxed under this head. The **capital gain** is calculated as the difference between the **sale price** and the **cost of acquisition** of the asset.

Key Points:

- **Capital Assets**: Any property, whether movable or immovable, such as land, building, shares, bonds, etc.
- **Types of Capital Gains**:
  - **Short-term Capital Gains (STCG)**: Gains from assets held for less than 36 months (for most assets, except immovable property which is 24 months for STCG).
  - **Long-term Capital Gains (LTCG)**: Gains from assets held for longer than the specified period (36 months or 24 months).

Taxable Amount:

- **Short-term Capital Gains** are taxed at a rate of **15%** (on sale of listed securities, units, etc.) and **10%** on LTCG above ₹1 lakh (for listed shares and securities).
- **Long-term Capital Gains**: Taxed at a reduced rate, such as **20%** with indexation benefits.

Deductions/Exemptions:

- **Section 54**: Exemption for LTCG arising from the sale of residential property if the proceeds are reinvested in purchasing or constructing another residential property.
- **Section 54EC**: Exemption for long-term capital gains arising from the sale of land or buildings if invested in bonds issued by NHAI or REC.

Example:

If a taxpayer sells a plot of land for ₹50,00,000, which was purchased for ₹30,00,000 three years ago, the capital gain is ₹20,00,000. This gain may be subject to tax based on the holding period and exemptions available.

5. Income from Other Sources (Section 56)

Meaning:
This is a **residual head** for income that does not fall under any of the other four heads. It includes income such as:

- **Interest** on savings or fixed deposits.
- **Dividends** received from companies.
- **Lottery winnings**, **gifted income**, etc.

Key Points:

- **Interest Income**: Taxable under this head for interest earned on savings or fixed deposits.
- **Dividends**: Dividend income exceeding ₹10 lakh is subject to tax at a rate of **10%**.
- **Gifts**: Gifts received in excess of ₹50,000 from non-relatives are taxable.
- **Other incomes**: Income from sources like lottery, race horses, and gambling winnings are taxed under this head.

Taxable Amount:

- All such incomes are subject to tax unless specified as exempt. For example, dividend income up to ₹10 lakh is exempt under Section 10(34).

Deductions:

- **Section 80TTA**: A deduction of ₹10,000 is available for interest on savings accounts.

Example:
If a person wins ₹2,00,000 from a lottery, that amount would be taxable under this head. However, if the interest income from a savings account is ₹15,000, they can claim ₹10,000 as a deduction under Section 80TTA.

Summary of the Five Heads of Income:

Head of Income	Description	Examples
Income from Salaries (Section 15)	Income earned from an employer-employee relationship.	Salary, pension, bonuses, gratuity, allowances.
Income from House Property (Section 22)	Income earned from owning and renting out house property.	Rental income from property.
Profits and Gains of Business or Profession (Section 28)	Income earned from business or professional activities.	Business profits, professional fees.
Capital Gains (Section 45)	Income from the sale of capital assets.	Sale of property, shares, bonds, etc.
Income from Other Sources (Section 56)	Income that doesn't fall under any of the other four heads.	Interest, dividends, gifts, lottery winnings.

Tax Treatment of Salary, Perquisites, and Allowances Under the Income Tax Act

Under the Income Tax Act, the taxation of **salary**, **perquisites**, and **allowances** is clearly defined. These elements form a significant part of an individual's income, and their tax treatment can vary depending on their nature, purpose, and other specific conditions.

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1. Salary (Section 15)

Meaning:
Salary income refers to the remuneration received by an individual for services rendered in an employer-employee relationship. It includes all forms of income received regularly from an employer, whether in cash or kind.

Taxability:

- **When Taxable**: Salary is taxable when it is either **received** or **due**, whichever occurs first.
- **Components of Salary**:
    - **Basic Salary**: The fixed, agreed-upon sum paid regularly.
    - **Bonus**: Additional payments that are made on special occasions, typically based on performance.
    - **Allowances**: Extra payments made for specific purposes (e.g., house rent, travel).
    - **Gratuity**: A lump sum amount paid to an employee on retirement, which may be exempt under certain conditions (subject to Section 10).
    - **Pension**: Regular payments made to employees after retirement, which are taxable.
    - **Arrears of Salary**: If salary is received in arrears, it is taxable in the year in which it is received.

Deductions Available:

- **Standard Deduction**: A deduction of ₹50,000 is available from salary income under Section 16.
- **Professional Tax**: Deduction of professional tax paid by the taxpayer can be claimed.

Example:
An employee with a monthly salary of ₹1,00,000 would be taxed on ₹12,00,000 annually, before considering any deductions such as the standard deduction or allowances.

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2. Perquisites (Section 17)

Meaning:
Perquisites (or perks) are benefits or facilities provided by the employer to the employee in addition to the regular salary. These could include housing, vehicles, or personal expenses borne by the employer. While some perquisites are fully taxable, others may be either exempt or partially exempt based on specific conditions.

Taxable Perquisites:
The following perquisites are subject to tax:

- **Rent-Free Accommodation** (Section 17(1)): If the employer provides rent-free accommodation, it is treated as a perquisite. The value of the accommodation is calculated based on a formula that takes into account the salary of the employee, the location of the property, and whether the accommodation is owned or rented by the employer.
    - If the employer owns the accommodation, the taxable value is calculated as:
        - 15% of the employee's salary (including basic and allowances, but excluding bonuses and overtime) or
        - The actual rent paid by the employer (whichever is less).
    - If the employer rents the accommodation, the taxable value is the rent paid by the employer, reduced by 10% of the salary.
- **Free or Concessional Medical Treatment (Section 17(2))**:
    - Medical treatment provided to the employee or their family members is taxable unless it is provided by the employer under the condition of a recognized medical plan or facility.
    - However, treatment in a hospital is exempt if it is for ailments like heart diseases, cancer, etc., and is in line with medical insurance policies.
- **Car Provided by Employer**:
    - If the employer provides a car for personal use, it is considered a perquisite. The taxable value is calculated based on factors like the engine capacity of the car, maintenance costs, and whether the car is used for business purposes or not.
- **Stock Options (ESOPs)**:
    - If an employer grants stock options (Equity-Linked Incentive Schemes) to an employee, the perquisite is taxed at the time of exercise, i.e., when the employee exercises the stock options.

Exempt Perquisites: Certain perquisites are **exempt** from taxation under Section 17(2), including:

- **Employer-paid contributions to retirement funds** (e.g., provident fund, pension funds).
- **Reimbursement of telephone or mobile bills** (if used for office work).
- **Employer-provided laptops or computers** for work purposes.

3. Allowances (Section 10)

Meaning:
Allowances are amounts paid by the employer to the employee for specific purposes, such as travel, accommodation, or house rent. These are usually paid in addition to the basic salary.

Taxability of Allowances:
Some allowances are fully taxable, while others are either **partially exempt** or **exempt** under certain conditions specified in Section 10 of the Income Tax Act. Key allowances and their tax treatments are:

- **House Rent Allowance (HRA) (Section 10(13A))**:
  This allowance is paid to employees to meet their rental expenses. The exemption available for HRA depends on various factors:
  1. Actual rent paid by the employee.
  2. Salary and HRA received.
  3. The location of the rented accommodation (metro or non-metro).

  Formula for HRA Exemption:
  The least of the following three values is exempt from tax:

  4. Actual HRA received.
  5. Rent paid in excess of 10% of the salary.
  6. 50% (for metro cities) or 40% (for non-metro cities) of the salary.
- **Travel Allowance (Section 10(14))**:
  This allowance is given to employees for traveling expenses incurred while performing duties. Travel allowances are exempt to the extent that they are used for travel purposes. However, if the employee receives more than the actual expenses, the excess amount is taxable.
- **Children Education Allowance (Section 10(14))**:
  A certain amount (currently ₹100 per month per child) is exempt from tax when it is paid

by the employer to meet the education expenses of the children of the employee. However, if the employee receives more than the exempted amount, the excess is taxable.

- **Special Allowance (Section 10(14))**: Special allowances for specific purposes, like uniform allowance, are exempt if they are spent for the intended purpose.
- **Other Allowances**: Other allowances, such as **leave travel concession** (LTC), **medical allowance**, and **foreign allowance**, are either partially or fully exempt depending on the purpose and conditions under which they are paid.

Summary of Tax Treatment of Salary, Perquisites, and Allowances

Component	**Tax Treatment**
Salary	Taxable when received or due, whichever is earlier.
Perquisites	Taxable unless specifically exempt (e.g., rent-free accommodation, car, etc.).
Allowances	Some allowances (e.g., HRA) are partially exempt based on certain conditions.
Medical Reimbursement	Exempt if provided under a medical policy or for treatment of certain diseases.
Children's Education	Exempt up to a limit of ₹100 per month per child.
Travel Allowance	Exempt to the extent of actual travel expenses.

Service	Description
Dissertation	**Comprehensive support for dissertation writing, including topic selection, research, and structuring.**
Research Papers	**Assistance in creating well-researched and professionally written research papers.**
Assignments	**Help with completing assignments on various legal subjects.**
Notes	**Provision of detailed and easy-to-understand notes to aid study and exam preparation.**
Internship Diaries	**Structured internship diaries, detailing daily activities, learning experiences, and reflections.**
Internship Certificate	**Guidance on obtaining and drafting internship certificates for documentation purposes.**
Plagiarism Report	**Provision of plagiarism reports to ensure content originality and authenticity.**
Memorials	**Assistance in drafting memorials for moot court competitions, following professional standards.**