UNIT -IV

CHAPTER-1; ASSESSMENT OF INDUIVIDUAL

Summary: After discussing about all five heads of income and computation of gross total income under respective heads and understanding the concept of clubbing of income, set off and carry foreword of losses and deductions u/s 80,now we have to compute the total income amd tax liability of an individual also known as Assessment of individual with the help of the given format and steps.

Format for Computation of total income and tasx liability of an Individual.

Particulars	Rs.	Rs.
Income From Salary		
Salary	xxxxx	
Allowances received (taxable allowances)	xxxxx	
Taxable value of perquisite	xxxxx	
	=====	
Gross Salary	xxxxx	

Less: Deduction under section 16		
Professional Tax	xxxxx	
Entertainment allowance	Xxxxx	
	=====	
Income From Salary (1)		XXXXX
Income from house property		
Adjusted net annual value	xxxxx	
Less: Deduction under section 24	xxxxx	
	=====	
Income From House Property (2)		XXXXX
Profit and gains of business and profession		
Net Profit as per profit an d loss account	xxxxx	
Add:- Income which are debited to profit and loss account but not allowable as deduction	xxxxx	

Less:- Expenditure which are not debited to profit and loss account but allowable as deduction	**xxxxx**	
Less:-Income which are credited to profit and loss account but are exempt under section 10 or taxable under any other head of income	**xxxxx**	
Add:- Income which are not credited to profit and loss account but are taxable under the head "Profit and gains of business or profession"	**xxxxx**	
	=====	
Profit and gains of business and profession (3)		XXXXX

Capital Gains

Amount of capital gain	**xxxxx**	
Less: Amount exempt under section 54 to 54H	**xxxxx**	
	=====	
Income From Capital gain (4)		XXXXX

Income from other sources

Gross Income	xxxxx	
Less: Deduction under section 57	xxxxx	
	=====	
Income From Other Sources (5)		XXXXX
		=====
Total Income (1+2+3+4+5)		XXXXX
Less:- Adjustment on account of setoff and carried forwarder of losses		XXXXX
		=====
Gross Total Income		**XXXXX**
Less:-Deduction under section 80C to 80U		XXXXX
		=====
Net Income rounded-off nearest Rupee ten		XXXXX

Computation of tax liability

Tax on net income		XXXXX
Less: Rebate		XXXXX
		=====
Balance		XXXXX
Add:-Surcharge		XXXXX
Tax and Surcharge		=====
Add:-Education Cess		XXXXX
Less:- Prepaid Taxes		
Tax deducted as sources (TDS)	**xxxxx**	
Advance Tax	**xxxxx**	
Self Assessment Tax	**Xxxxx**	XXXXX
		=====
Tax Liability / Refund		**XXXXX**

Step 1: Compute the income of an individual under 5 heads of income on the basis of his residential status.

Step 2: Income of any other person, if includible u/s 60 to 64, will be included under respective heads.

Step 3: Set off of the losses if permissible, while aggregating the income under 5 heads of income.

Step 4: Carry forward and set off of the losses of past years, if permissible, from such income.

Step 5: The income computed under Steps 1 to 4 is known as Gross Total Income from which deductions under sections 80C to 80U (Chapter VIA) will be allowed. However, no deduction under these sections will be allowed from short-term capital gain covered under section 111A, any long-term capital gain and winning of lotteries etc., though these incomes are part of gross total income.

Step 6: The balance income after allowing the deductions is known as total income which will be rounded off to the nearest Rs. 10.

Step 7: Compute tax on such Total Income at the prescribed rates of tax.

Step 8: Allow rebate of maximum Rs. 2,500 under **section 87A** in case of resident individual having total income upto Rs. 3,50,000. For details see below.

Step 9: Add surcharge @ 10% on total income exceeding Rs. 50,00,000 and upto Rs. 1 crore and 15% of such income tax in case of an individual having a total income exceeding Rs. 1 crore.

Step 10: Add education cess @ 2% and SHEC @ 2% on the tax (including surcharge if applicable).

Step 11: Allow relief under section 89, if any.(in case of salary advance or arrears of salary or arrears of pension)

Step 12: Deduct the TDS, advance tax paid for the relevant assessment year and double taxation relief under section 90, 90A or 91. The balance is the net tax payable which will be rounded of nearest ten rupees and must be paid as self-assessment tax before submitting the return of income.

- **For Illustrations and problems. Refer Gaur &Narang**

For video lectures: https://www.youtube.com/watch?v=7zlnii-WDvE

https://www.youtube.com/watch?v=49z6k-pHkJ8 (part-1)

https://www.youtube.com/watch?v=0zRR1fcUwHg (part-2)

CHAPTER-2. Alternate Minimum Tax

MAT stands for Minimum Alternate Tax and AMT stands for Alternate Minimum Tax. Initially the concept of MAT was introduced for companies and progressively it has been made applicable to all other taxpayers in the form of AMT.

At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all. Due to increase in the number of zero taxpaying companies, MAT was introduced by the Finance Act, 1987 with effect from assessment year 1988-89. Later on, it was withdrawn by the Finance Act, 1990 and then reintroduced by Finance (No. 2) Act, 1996, wef 1-4-1997.

Objective :

The objective of introduction of MAT is to bring into the tax net "zero tax companies" which in spite of having earned substantial book profits and having paid handsome dividends, do not pay any tax due to various tax concessions and incentives provided under the Income-tax Law.

Since the introduction of MAT, several changes have been introduced in the provisions of MAT and today it is levied on companies as per the provisions of section 115JB.

Provisions:

As per the concept of MAT, the tax liability of a company will be higher of the following:

Tax liability of the company computed as per the normal provisions of the Income-tax· Law, i.e., tax computed on the taxable income of the company by applying the tax rate applicable to the company.

Tax computed @ 18.5% (plus surcharge and cess as applicable) on book profit (manner· of computation of book profit). The tax computed by applying 18.5% (plus surcharge and cess as applicable) on book profit is called MAT.

Higher of the two is applicable; Mat Credit may be carried forward to next 15 Years.

Note: MAT is levied at the rate of 9% (plus surcharge and cess as applicable) in case of a company, being a unit of an International Financial Services Centre and deriving its income solely in convertible foreign exchange.

Meaning of Book Profit :

As per Explanation 1 to section 115JB(2) "book profit" for the purposes of section 115JB means net profit as shown in the statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013 as increased and decreased by certain items:

Computation of Book Profit with Practical examples will discuss in Article no. 14 in detail

Following are the few examples:

1. The taxable income of Sohrab Spinning Mills Limited. Computed as per the provisions of Income-tax Act is Rs. 8,40,000. Book profit of the company computed as per the provisions of section 115JB is Rs. 18,40,000. What will be the tax liability of Sohrab Spinning Mills Ltd. (ignore cess and surcharge)?

The tax liability of a company will be higher of: (i) Normal tax liability, or (ii) MAT. Normal tax rate applicable to an Indian company is 30% (plus cess and surcharge as applicable). Tax @ 30% on Rs. 8,40,000 will amount to Rs. 2,52,000 (plus cess). Book profit of the company is Rs. 18,40,000. MAT liability (excluding cess and surcharge) @ 18.50% on Rs.18,40,000 will come to Rs. 3,40,400. Thus, the tax liability of Sohrab Spinning Mills Ltd. will be Rs. 3,40,400 (plus cess as applicable) being higher than the normal tax liability.

2. The taxable income of Shreyan Paper Mills. Ltd. computed as per the provisions of Income-tax Act is Rs. 28,40,000. Book profit of the company computed as per the provisions of section 115JB is Rs. 18,40,000. What will be the tax liability of Shreyan Paper Mills Ltd. (ignore cess and surcharge)?

The tax liability of a company will be higher of: (i) Normal tax liability, or (ii) MAT. Normal tax rate applicable to an Indian company is 30% (plus cess and surcharge as applicable). Tax @ 30% on Rs. 28,40,000 will amount to Rs. 8,52,000 (plus cess). Book profit of the company is Rs. 18,40,000. At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all. Due to increase in the number of zero taxpaying companies, MAT was introduced by the Finance Act, 1987 with effect from assessment year 1988-89. Later on, it was withdrawn by the Finance Act, 1990 and then reintroduced by Finance (No. 2) Act, 1996, wef 1-4-1997.

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