

RS-70

# MIM II (2015-16)

Prof. FARIDA KATRAK

O/C

**INCOME TAX** :- Tax on total income at the rate prescribed by the finance act, of a person for a year (previous year) relevant to an assessment year.

Steps to determine Total Income :

- 1) Residential Status
- 2) Income under various heads [exclude exemptions]
- 3) Aggregate Incomes
- 4) Add :- Clubbed Income.
- 5) Less :- BIF Losses
- 6) Gross Total Income.
- 7) Less :- Deductions

Total Income or Taxable Income.

**PERSON** [Section 2(31)]

An Individual, HUF, Company, Partnership firm, LLP [Limited Liability Partnership], Association of Persons [AOP] or Body of Individuals [BOI], Local Authorities and Artificial Juridical Person.

**PREVIOUS YEAR and ASSESSMENT YEAR** : [P.Y & A.Y]

**Ay** :- A 12 month period commencing from the 1<sup>st</sup> of April.

**P.Y** :- It is the financial year preceding the assessment year.

Example :- Business Setup  $\rightarrow$  1/10/2014.  
Commencement  $\rightarrow$  1/12/2014

Previous year starts from Business Setup date.  
 $\therefore$  Previous year will be 1/10/2014.

ASSEESSE :- A person who is required to pay tax.

ASSESSMENT :- A procedure followed by assessing officer to determine the tax payable

COMPANY :-

a) Domestic Company : Company registered in India or the company that has made arrangements for declaration of dividends in India.

Declaration of dividends  $\rightarrow$  maintain shareholder's register in India.

b) Foreign company :- Any company that is not a domestic company is a foreign company.

INCOME :- [Section 2 (24)]

1) Inclusive definition.

2) Need not be regular.

3) Revenue Receipts and not capital receipts

4) Accrual Basis or Receipt Basis  $\rightarrow$  as per the method of a/c.

Capital Receipts → In exchange of source of income.  
Revenue Receipts → Profits from operations of business

\* RESIDENTIAL STATUS :-

Individual } → Resident  
HUF } ROR RNOR. Non Resident

Others → Resident Non Resident.

Individual :

Tests to determine whether an individual is Resident or Non Resident.

1) Basic Test :- Either of the following two tests has to be fulfilled for Resident.

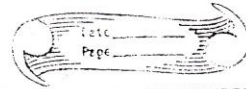
a) In India for 182 days or more.

b) 60 days in India during previous year +  
365 days in India during 4 years preceding  
the previous year.

Example :-

ASSESSMENT YEAR	PREVIOUS YEAR	# Days.
2015 - 2016	2014 - 2015	72
2014 - 2015	2013 - 2014	100
2013 - 2014	2012 - 2013	200
2012 - 2013	2011 - 2012	165
2011 - 2012	2010 - 2011	0





∴ The person is Resident as per (b).

∴  $(72 > 60) + (365 \text{ days in 4 preceding previous years})$ .

Exceptions to basic test (b)

a) An Indian citizen who leaves India for the purpose of Employment outside India or as a crew member of an Indian ship.

b) An Indian citizen or a person of Indian origin who is visiting India.

2) Additional Tests [Both the tests has to be fulfilled]

a) Resident in 2 years of the preceding 10 previous years.

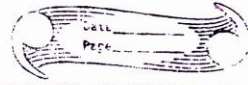
b) In India for 730 days in preceding 7 previous years.

If either of 'a' or 'b' fails, the individual is RNOR.

[HUF] :

Resident if : Management and control of its affairs is wholly or partly in India.

For ROR: Additional tests that are applicable to individual; but in this case applicability is on the



Deemed to accrue or arise in India.

- Business Connection.
- Property / capital Asset in India.
- Transfer of property / capital asset in India.
- Salary for services rendered in India.
- Salary for services rendered abroad
  - Citizen of India.
  - Govt. Employee.
- Dividends declared in India.
- Interest, Royalty or fees for technical services is used in India.

LECTURE # 2 Date :- 08/07/2015.

Question Sheet 1 :-

SR.	Question	ROR	RNDR	NR.
1.	Interest on UK Development Bonds. [50% Recd. in India]. Amt :- 10,000. ⇒ For. ROR → fully taxable. RNDR → 50% taxable since 50% recd in India. [category :- 5] and similarly for NR.	10,000	5000	5000.
2.	Income from Business in Chennai [50% Recd in India] Amount : 20,000. ⇒ category :- 3. → fully taxable.	20,000	20,000	20,000

Head or Karta.

Company

- a. Indian Company → Always Resident.
- b. Other Company → Resident if management and control of its affairs wholly in India.

Other Persons.

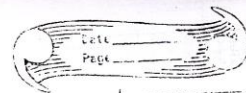
Resident if Management and control of its affairs wholly or partly in India.

Residential Status	R.O.R	R.N.O.R	NR
1. Income Received in India.	✓	✓	✓
2. Income deemed to be received in India.	✓	✓	✓
3. Income accruing / arising in India.	✓	✓	✓
4. Income deemed to accrue / arise in India.	✓	✓	✓
5. Income accruing / arising outside India.	✓	✓ if business controlled in India or Profession setup in India.	-





Question	Amt.	ROR	RNOR	NR
3. Profit on sale of shares of an Indian company; Recd in London ⇒ Category :- (4) Capital Gains. Fully taxable.	20,000	20,000	20,000	20,
4. Dividend from British Company Received in London. ⇒ Income Recd. outside India. Category :- (5) ROR: Fully taxable. RNOR & NR: Not taxable.	5000	5000	0	0
5. Profits on sale of plant at Germany [50% profits recd in India] ⇒ ROR: Category (1,5) ∴ 50% Recd. in India; for RNOR & NR = 50% taxable. Category (5).	40,000	40,000	20,000	20
6. Income earned from business in Germany, controlled from Delhi, [40,000 recd in India] ⇒ ROR → fully taxable. RNOR → since controlled in India; fully taxable. NR → Amt. Recd in India is taxable. Category :- (5) and (1)	70,000	70,000	70,000	40



SR.	Question	Amt	ROR	RNOR	NR.
7.	Profits from business in Delhi managed entirely from London ⇒ category (4)	15000	15000	15000	15000
8.	Rent from Property in London deposited in Bank at London, later remitted in India. ⇒ category (5) RNOR & NR - not taxable as it is not 1 <sup>st</sup> point of receipt.	50,000	50000	0	0
9.	Interest on debentures in an Indian Company, received in London category :- (4).	12,000	12,000	12,000	12,000
10.	Fees for technical services rendered in India, recd. in London. category (4).	8000	8000	8000	8000
11.	Profits from business in Mumbai managed from London category (4)	26,000	26000	26000	26000
12.	Pension for services rendered in India; recd in Burma category (4)	4000	4000	4000	4000



Question	Amount	ROR	RNOR	NR
13. Income from property in Pakistan, received there. ⇒ Category <u>(5)</u>	16,000	16,000	0	0
14. Income from agricultural land in Nepal recd there and brought to India. ⇒ Category <u>(5)</u>	18,000	18,000	0	0
15. Income from profession in Kenya which was setup in India, recd there, spent in India. ⇒ Category <u>(5)</u> ∴ Profession is setup in India, fully taxable to RNOR.	5000	5000	5000	0
16. Interest on savings bank deposit in State Bank of India. Category <u>(1)</u>	10,000	10,000	10,000	10,000
17. Income from business in Russia, controlled from Russia. ⇒ Category <u>(5)</u>	20,000	20,000	0	0
Total :-	349,000	349,000	215,000	180,000
∴ ROR → 349,000/-				
RNOR → 215,000/-				
NR → 180,000/-				