
UNIT 12 COMPUTATION OF TOTAL INCOME

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12.0 OBJECTIVES

After studying this unit you should be able to:

- compute income under individual heads;
- compute Gross Total Income;
- calculate the losses to be set off and carried forward and set off in succeeding years, and finally;
- compute the total income.

12.1 INTRODUCTION

You know the **assessee** is put to tax on the basis of his residential status. Income tax is chargeable on the 'total income' of the previous year at the rate prescribed in the Annual Finance Act for the assessment year relevant to that previous year. 'Total income' is defined as the income computed under the provisions of Income Tax Act, 1961. The same forms the basis for computing the tax payable by or refundable to the assessee. In this unit you will study how the income from different heads is computed, what deductions are allowed and how the income chargeable to tax calculated.

12.2 STEPS IN COMPUTATION OF TOTAL INCOME

The following stages are involved in the computation of total income:

- i) Computation of taxable income from each source under a **particular** head;
- ii) Computation of taxable income under each head;
- iii) Computation of gross total income;
- iv) Ascertaining the amount of deductions admissible under Chapter **VIA**; and
- v) Arriving at the Total Income.

12.3 HEADWISE COMPUTATION OF INCOME

Under the scheme of Indian Income **Tax** Act, the income of a tax-payer falls in one or more of the following heads of **income** :

- Income from salaries
- Income from house property
- Profits and gains of business or profession
- Income from capital gains
- Income from other sources.

Specific provisions are contained in the Act for computation of income under each head of income. As a broad general **principle**, in the absence of any specific mention of allowances or disallowances, income under each head is computed by deducting from the gross **profit/receipts** the expenses of revenue nature which are incidental to business (Section 37) in case of business income and which are incidental to earning **the** income in other cases.

(For detailed discussion refer to Units 5 to 10).

Income **from** different sources under each 'head of income' is to be separately computed. For example, a person may be the owner of more than one business in **which** case, the profit of each business will **be** computed separately **and** total of all will be the income under the head 'profits and gains from business or profession'. Similarly, a person may earn capital gains from more than one transaction in **which** case **gains** arising from each transfer is to be separately computed and the total of such gains will come under the head 'Capital gains'.

If there is income from one source and loss from another source falling within the same head of income the loss will be adjusted (technically known as set off) against **the income** of another source and only the net figure will be the income under the head. If, for example, there is profit of Rs. 50,000 from business 'A' and loss of Rs. 30,000 from business 'B', it is only Rs. 20,000 after such intra-head adjustment that will be 'profit from business'.

Speculation loss is, however, allowed to be set off only out of profit from another speculation business **and** not from the profit of any other business.

12.4 COMPUTATION OF GROSS TOTAL INCOME

Having computed income under individual heads (refer 12.4 above), the next step is the aggregation of income under all the heads.

If the income computed under any head or heads is a loss, such loss is allowed to be adjusted against the income under other heads. For example, if the computation under the head 'Profit and **gain** of business' is a profit of Rs. 1,00,000 and there is a loss of Rs. 30,000 under the head '**income** from house property' the loss **can** be adjusted against the business income with the result that there will be profit from business Rs. 70,000 only.

As mentioned in Para 5 of 12.3, the loss arising from speculation business cannot be set off **either** out of profit of any other business or income under any **other** head.

After the inter-head set off mentioned in Para 1 above, the next step is to **allow** set off of the past losses under business and capital gains which could not be set off in earlier years and hence carried forward in those years. Such a set off is, however, subject to the following conditions:

- loss carried forward can be set off against income under the same head, if any.
- carried forward speculation loss can be set off against speculation profits only.
- business loss can be set off against the business income only if the same business is not **discontinued**.
- loss under the head business can be carried forward to eight succeeding assessment years only but unabsorbed depreciation can be carried forward without any limitation as to time. Thus, if the loss is carried for an assessment year beyond eight years, no set off is permitted.
- loss arising from long-term capital gain can be carried forward to eight succeeding assessment years for set off against income under the head 'capital gains' only.

In the above example if there was a carried forward business loss of **Rs.** 60,000, it will be set off **against** business income of Rs. 70,000 thus reducing the income under this head is Rs. 10,000 only.

In case the carried forward business loss was Rs. 70,000 the entire loss would have been resulted **in** nil income under the business head. If the carried **forward** business loss was Rs. 80,000, it would have been set off to the extent of Rs. 70,000 and the

remaining loss of Rs. 10,000 carried forward for set off in succeeding years. This presumes that the same business is still continued in this year and the carried forward loss is not more than eight years old.

The income of each head after inter-head set off and set off of carried forward losses mentioned in Paras 2 and 3 is then aggregated to give Gross Total Income.

12.5 DEDUCTIONS UNDER CHAPTER VIA

Next step for calculation of taxable income is the deduction. The Gross Total Income is reduced by the deductions mentioned in Chapter VIA. It is important to note that such deductions cannot exceed the Gross Total Income. For detailed discussion of such deductions refer to Unit 11.

After the deductions are made the resulting figure is total income which is subjected to tax at the rate or rates mentioned in the Finance Act.

12.6 SOME ILLUSTRATIONS

Let us now study a few illustrations for clear understanding of computation of total taxable income of an individual.

Illustration

The detail of X's income during the previous year 1989-90 are as under:

- 1) Salary from a public limited company Rs. 7,000 per month. In addition he was in receipt of conveyance allowance of Rs. 1,000 per month which is claimed to be totally spent for the purpose. He was also allowed free use of a car (16 RP) owned by the employer.
- 2) He owned two properties —
 - i) Property 'A' was a commercial one let out at Rs. 2,000 per month. He paid Rs. 6,000 as municipal taxes for this property, spent Rs. 600 for collecting rent and Rs. 6,000 as interest on the amount borrowed for construction.
 - ii) Property 'B' was a residential unit construction of which was completed in the year 1988. It was let out at Rs. 1,500 per month. Municipal taxes were Rs. 3,500. He incurred expenditure on repairs Rs. 500 and paid Rs. 8,000 as interest on the amount borrowed for construction.

Calculate his' income under the relevant heads and the Gross Total Income for the year 1990-91.

Solution

	Rs.	Rs.
Salary—B'asic	84,000	
Perquisite value of car 300×12	3,600	
	87,600	
Less standard deduction	12,000	
	75,600	75,600
Income from Properties		
	Rs.	
A) Rental value	24,000	
Less : Taxes	6,000	
	18,000	
	A L V	
Less : 1/6 for		
Repairs	3,000	
Interest	6,000	

Collection Charges (being less than 6%)	<u>600</u>	9,600	8,400	
B) Rental value		18,000		
Less : taxes		<u>3,000</u>		
		15,000		
Less : for new unit		<u>3,600</u>		
	A L V	11,400		
Less : 1/6% for Repair	1,900			
Interest	<u>8,000</u>			
		<u>9,900</u>	<u>1,500</u>	<u>9,900</u>
			Gross Total Income	<u>85,500</u>

Illustration 2

'X' is a government employee getting a basic salary of Rs. 3,500 and D.A. Rs. 1,400 per month: He is allotted a government accommodation for his residence the market rent of which is Rs. 1,500 per month but he is charged Rs. 100 per month only.

During the year he purchased 1000 units of the Unit Trust of India at Rs. 13, got a dividend of Rs. 1,800 and sold them at Rs. 10 per unit. He also purchased 500 Reliance Shares at Rs. 150 and sold them at Rs. 250 per share.

He has an ancestral house property which is used by his family for self-residence.

Compute the income under relevant heads for the assessment year 1990-91.

Solution

		Rs.	Rs.
Salary — Basic		42,000	
D.A.		16,800	
Perquisite value of House		nil	
		<u>58,800</u>	
Less : standard deduction		<u>12,000</u>	46,800
Property — There is no Annual Value for self-occupied property			nil
Other sources — Dividend from UTI			1,800
Capital Gains — Short-term capital gains			
Loss on Units of UTI	(-)	3,000	
Gain on Reliance shares		<u>5,000</u>	<u>2,000</u>
		Gross Total Income	<u>50,600</u>

Illustration 3

'X' is a professor in a college getting Rs. 4,500 per month as basic salary. He earned Rs. 3,500 from examinership. He had purchased 200 shares in 1987 at Rs. 90 per share which he disposed of at Rs. 50 during the year. He also earned a short-term capital gain of Rs. 13,000 in another transaction of shares.

He also indulged in forward trading of ACC shares in which he incurred a loss of Rs. 7,000.

He has an old residential property in Alwar, — his home town which he has neither let out nor is he occupying it by reason of his employment in Delhi. The fair rental value of the property is Rs. 600 per month. He paid Rs. 1,200 as Municipal Tax and Rs. 1,000 as interest on money borrowed for improvements made in the property in 1987.

Work out the income under relevant heads for the assessment year 1990-91.

Solution

	Rs.	Rs.
Salary-Basic	54,000	
Less standard deduction	<u>12,000</u>	
Business — Speculation in share		32,000
Other sources — Examinership		(-) 7,000
Capital Gains		3,500
Long-term loss on share	(-) 8,000	
Less deduction u/s 48(2)	<u>8,000</u>	
	nil	
short-term gain on shares	<u>13,000</u>	<u>13,000</u>
	Gross Total Income	58,500

- N.B.—** 1) The Annual Value of property of this type is Nil and there can be no loss computed in respect of such properties (Sec. 23(3)).
- 2) The speculation loss can be set off duly against speculation profit. Hence not deducted in working out Gross Total Income.

Illustration 4

'X' is a salaried employee in a private sector enterprise in Delhi getting Rs. 4,000 per month. He was also provided with a free furnished residence which was hired by the employer at Rs. 3,000 per month. The cost of furnishing was Rs. 50,000. In addition he was allowed free the services of a watchman, a gardener and a sweeper who were paid Rs. 2,400, 2,400 and 1,800 per year respectively by the employer.

He earned a capital gain (short-term) of Rs. 10,000 from sale of a plot of land, In 1985 he had incurred a short-term capital loss, out of which Rs. 6,000 was carried forward.

Find his Gross Total Income.

Solution

	Rs.	Rs.
Salary	48,000	
Perquisite value of house	17,000	
Perquisite value of Watchman	2,400	
Perquisite value of Gardener	2,400	
Perquisite value of Sweeper	<u>1,800</u>	
	71,600	
Less standard deduction	<u>12,000</u>	59,600
Income from Business or Profession		
Consultancy charges		25,000
Capital Gains		
Short-term	10,000	
Less set off of carried forward loss	<u>6,000</u>	4,000
	Gross Total Income	88,600

Illustration 5

The following are the particulars of income of 'X'.

- 1) He is employed in a public sector undertaking on a salary of Rs. 10,000 per month.
- 2) He was allowed arrears of salary amounting to Rs. 20,000 which relates to the past two years.

- 3) During the year he availed of leave travel concession for going to Goa and Second Class AC fare amounting to Rs. 5,600 was reimbursed by the employer for him and his family.
- 4) He was paid Rs. 4,000 as premium on medical.
- 5) He paid profession tax to the State Government amounting to Rs. 1,000.
- 6) He is insured for Rs. 50,000 and pays a life insurance premium of Rs. 7,000 per annum.
- 7) He contributed Rs. 3,000 per month to the Provident Fund.

Work out the total income for the assessment year 1990-91. What would have been the position of the above details were for assessment year 1991-92.

Solution

	Rs.	Rs.
Salary—Basic	1,20,000	
Arrears	30,000	
Medical Ins. Premium	4,000	
	1,44,000	
Less standard deduction	12,000	
Less Profession tax	1,000	
	13,000	
		1,31,000
	Gross Total Income	1,31,000
Less deductions		
U/S 80-D	3,000	
UIS 80-C		
LIP	5,000	
PF	36,000	
	41,000 restricted to 40,000	
First 6000 — 100%	6,000	
Next 6000 — 50%	3,000	
Next 28000 — 40%	11,200	
	20,200	23,200
	Total Income	1,07,800

Assessment Year 1991-92

		Rs.
Gross total income as worked above		1,31,000
Less deduction uls 80-D		3,000
		1,28,000
	Total Income	1,28,000

Tax will be calculated on Rs. 1,28,000. Out of the tax so calculated, rebate of Rs. 8,200 (20% of 41,000) will be allowed.

N.B. The assessee could have claimed relief under Section 89 in respect of arrears of salary.

Illustration 6

Mr. 'Y' who was an employee with a private sector enterprise on a monthly salary of Rs. 7,500 plus dearness allowance of Rs. 1,500 retired after 20 years of completed service on 31st August, 1989 and received the following amount on retirement.

- i) a) Accumulated balance in Recognised Provident Fund including employer's contribution and interest thereon Rs. 3,60,000.
- b) Encashment of four months accumulated leave Rs. 30,000.

- c) Gratuity amounting to Rs. 1,00,000.
- ii) He owned a residential property which was constructed in May 1987: The same was let out at Rs. 4,000 per month. He paid Rs. 12,000 as municipal taxes and spent Rs. 3,000 on collection of rent.
- iii) During the year he deposited Rs. 20,000 under the National Saving Scheme of the Government of India.
- iv) He has a handicapped son and spent Rs. 10,000 on his medical treatment.
- v) He made the following donations during the year —
 National Defence Fund Rs. 5,000
 Bombay Hospital Rs. 10,000
- Find out his total income for the assessment year 1991-92.

Solution

Basic (Apr.-Aug.)			37,500	
D.A. (Apr.-Aug.)			7,500	
Gratuity	1,00,000			
Lessexempt — 112 months salary for 20 years 7500×10	<u>75,000</u>			
			<u>25,000</u>	
			<u>70,000</u>	
Less standard deduction			<u>12,000</u>	58,000
Income from House Property				
		Rs.	Rs.	
Rental value		48,000		
Less Tax		<u>12,000</u>		
		36,000		
Less for new construction		<u>3,600</u>		
ALV			32,400	
Less 1/6 for repairs	5400			
Less collection charges (Ltd. to 6%)	<u>1944</u>		<u>7,344</u>	25,056
			Gross Total Income	<u>83,056</u>
Less deductions				
U/S 80-CCA — deposit under NSS			20,000	
U/S 80-DD — exp, on handicapped son'			6,000	
U/S 80-G —donation N.D.F. Bombay Hospital	2500			
(Qualifying amount restricted to 10% of 83056 — ,26000, i.e., 5706)	<u>2,853</u>		<u>5,353</u>	<u>31,353</u>
			Total Income	<u>51,703</u>
			Rounded off to	51,700

Illustration 7

The proprietor of Amrit Kirana Store has a profit of Rs. 13,800 from business. He is owner of several properties, the details of which are given below:

- i) Property 'A' is a shop which is let out at Rs. 2,000 per month. Municipal tax paid . Rs. 4,000.
- ii) Property 'B' is residential unit construction in 1987 let out at Rs. 3,000 per month. Municipal taxes paid Rs. 12,000, The property remained vacant in the last three months.
- iii) Property 'C' is self-occupied constructed in April, 1988, municipal assessment of this property is Rs. 25,000 per month. Taxes paid are Rs. 10,000. Interest payable on amount borrowed for construction is Rs. 7,000.

During the year part re-payment of Rs. 15,000 was made to the Bank towards loan taken for property 'B'.

He contributed Rs. 1,000 per month to the Public Provident Fund. He also contributed Rs. 5,000 towards 'Jiwan Dhara' annuity policy of LIC.

He made a donation of Rs. 5,001 to the National Children's Fund.

Find out his total income for the assessment year 1990-91. What will be the total income if the above details relate to assessment year 1991-92.

Solution

Income from properties

	Rs.	Rs.	Rs.
Prop. A— Rental value	24,000		
Less tax	4,000		
	<u>20,000</u>		
Less 1/6 for repairs	<u>3,333</u>	16,667	
Prop. B— Rental value	36,000		
Less tax paid	12,000		
	<u>24,000</u>		
Less for new unit	<u>3,600</u>		
	20,400		
ALV	20,400		
Less 1/6 for repair	3,400		
Less vacancy allowance 3/12 of 20400	<u>5,100</u>	11,900	
	8,500		
Prop. C — Annual Value	Nil		
Less interest	(-) 5,000	(-) 5,000	
			23,567
Income from business			
Profit from Amrit Kirana			13,800
			<u>37,367</u>
	Gross Total Income		37,367
Less deduction			
U/S 80-C — Refund of Loan	10,000		
P.P.F.	<u>12,000</u>		
	<u>22,000</u>		
4000 — 100% ... 6,000			
6000 — 50% ... 3,000			
10000 — 40% ... 4,000	13,000	13,000	
U/S 80-CCA — Contribution to Jiwan Dhara		5,000	
U/S 80-G — 50% of 5001		<u>2,500</u>	
			20,500
Total Income for 1990-91			<u>16,867</u>
			(Rounded, off to 16,870)

For assessment year **1991-92**

Gross total income	37,367
Less deduction	
U/S 80-CC A	5,000
U/S 80-G	<u>2,500</u>
	<u>7,500</u>
	29,867
	(Rounded off to 29,870)

N.B. — Tax will be computed on 29870 and a rebate up to an amount equal to 20% of 22,000, i.e., Rs, 4,400 will be allowed. Since the tax on Rs. 29,870 will be less than Rs. 4,400, no tax will be payable neither any refund will be allowed.

Illustration 8

A has following investments:

- i) Fixed deposit of Rs. 50,000 @ 11% in a bank.

- ii) 1000 Units of UTI of Rs. 10 each. Dividend declared 18%.
 - iii) Fixed deposit of Rs. 1,00,000 with D.C.M. Ltd. at 14% per annum.
 - iv) Deposit of Rs. 50,000 under National Saving Scheme yielding interest at 11%.
 - v) National Savings Certificate VI Issue of the face value of Rs. 90,000 purchased in earlier years. Interest accrued during the year Rs. 14,000.
 - vi) 2000 shares of G.E. Shipping of Rs. 10 each. Dividend declared 20%.
- Find his total income for the year 1991-92.

Solution

Income from other sources

Int. on F.D. in Bank	5500	
Int. on F.D. with DCM	14000	
Int. on NSC	14000	
Div. from UTI	1800	
Div. from G.E. Shipping	<u>4000</u>	
Gross Total Income		39,300
Less deduction u/s 80-L		
7000 + 1800 + 3000		<u>11,800</u>
	Total Income	<u>27,500</u>

N.B. — Rebate of an amount equal to 20% of Rs. 14,000 (accumulated interest on N.S.C. VI issue) will be allowed u/s 88 out of the tax computed on the above total income. Since the tax on 27500 is less than Rs. 2800, there will be neither any tax payable nor refund allowable to the assessee.

12.7 LET US SUM UP

The assessee pays tax on his total income. This total income is nothing but the aggregate of taxable income from each head i.e., salaries, house property, business and profession, capital gains and income from other source.

From this aggregate income the carried forward losses are set off and the permissible deductions u/s 80 are allowed. The resulting figure is the taxable income of the assessee.

12.8 TERMINAL QUESTIONS/EXERCISES

Questions

- 1) What steps are involved in calculation of total taxable income of an individual?

Exercises

- 1) 'X' is employed with ABC (P) Ltd., Delhi on a monthly salary of Rs. 4,600 and D.A. Rs. 1,400. He has been provided with a free unfurnished residence belonging to employer and also the services of a gardener. He is entitled to free medical treatment in a dispensary maintained by the Company and free refreshment during working hours. He also gets conveyance allowance of Rs. 1,000 per month which he claims to spend for company's work.

He contributes Rs. 2,000 per month to a recognized provident fund. During the year, he purchased National Savings Certificate VIII issue of Rs. 5,000. He has a handicapped son whose capacity to be engaged in gainful employment is substantially affected.

Find out his total income for the assessment year 1990-91 and the tax rebate admissible to him.

(Answer: Salary income Rs. 65,520. total income Rs. 54,900).

- 2) 'X' is the owner of several properties the details of which are given below:
- i) Property A — constructed in 1987 — used for self-residence — Municipal rental value Rs. 4,000 per month — Municipal tax paid Rs. 10,000 — Interest paid on money borrowed for construction Rs. 12,000.
 - ii) Property B — Ancestral — Let out at Rs. 2,000 per month for residential purpose — Municipal rental value Rs. 1,000 per month — Tax paid Rs. 2,000 — Insurance premium Rs. 2,000.
 - iii) Property C — Office premises — Constructed in 1988 — Let out at Rs. 5,000 per month. Taxes paid Rs. 15,000 — Interest paid on money borrowed for construction Rs. 40,000. Property remained vacant for last two months.

He contributed Rs. 2,000 per month to the Public Provident Fund and deposited Rs. 20,000 under the National Savings Scheme. He made a donation of Rs. 5,000 to the National Defence Fund.

Work out his total income for 1990-91 and the tax rebate admissible to him.

(Answer: Income from house property Rs. 1,333).

- 3) 'X' is employed in a public sector undertaking on salary of Rs. 7,000 and a dearness allowance of Rs. 1,000 per month. He was provided with a rent free accommodation (hired by the employer at 4,500 per month), free use of furniture costing Rs. 1,00,000, free gas and electricity and free use of a chauffeur driven ambassador car.

He had a deposit of Rs. 1,00,000 in the bank at 11%, shares of the face value of 50,000 on which 15% dividend was declared, Units of UTI of the value of Rs. 70,000 on which 18% dividend was declared and NSCs purchased two years back on which interest of Rs. 11,000 accrued.

He invested Rs. 30,000 in the purchase of shares which formed part of the new eligible issue of a manufacturing company.

Work out his total income for 1990-91 and 1991-92 (presuming that the facts remain the same) as also the tax rebate admissible for 1990-91.

(Answer: Taxable income Rs. 76,300 for 1990-91 and Rs. 84,800 for 1991-92).

- 4) 'X' is a 40% partner in a firm where his share was determined at 1,12,000. He also runs a poultry farm from where a profit of Rs. 66,000 accrued. He is living in a rented house paying Rs. 4,000 per month as rent. He contributed Rs. 10,000 towards the 'Jiwan Dhara' annuity plan of the LIC and deposited Rs. 35,000 under the National Savings Scheme. He also purchased NSCs VIII issue of the value of Rs. 10,000. Find out the total income for the assessment year 1990-91 and on the same facts for 1991-92 as also the tax rebate admissible for 1990-91. (Answer: Taxable income for 1990-91 Rs. 1,06,000 and for 1991-92 Rs. 1,04,000)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.