

Deductions from Gross Total Income

Question 1

Explain how contributions to political parties are deductible in the hands of corporate and non-corporate assessee under the income-tax law.

Answer

Section 80GGB provides for deduction of any sum contributed in the previous year by an Indian company to a political party.

Section 80GGC provides for deduction of any sum contributed by any other person to a political party. However, this deduction will not be available in respect of sum contributed by a local authority and every artificial juridical person, wholly or partly funded by the Government.

Deduction under sections 80GGB and 80GGC would be available in respect of contributions made to a political party registered under section 29A of the Representation of the People Act, 1951.

Note: For the purpose of section 80GGB, the word "contribute" shall have the same meaning assigned to it under section 293A of the Companies Act, 1956, which provides that –

- (a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
- (b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.

However it may be noted that as per section 37(2B), no allowance shall be allowed in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party. It is only after computation of gross total income, contribution to a registered political party is allowed as deduction under section 80GGB to a company.

Question 2

The gross total income of Mr. Nepal for the Assessment Year 2013-14, was ₹ 12,00,000. He has made the following investment/payments during the year 2012-13-

	Particulars	₹
1.	L.I.C. premium paid (Policy value ₹ 1,00,000) (taken on 1.04.2005)	25,000
2.	P.P.F. amount paid	25,000
3.	Repayment of housing loan to Indian Bank	50,000
4.	Payment made to L.I.C. pension fund	20,000
5.	Medical insurance premium for self, wife and dependent children.	18,000
6.	Medicclaim premium for parents (aged over 80 years)	30,000

Compute eligible deduction under Chapter VI-A for the Assessment Year 2013-14.

Answer

Computation of eligible deduction under Chapter - VI A of Mr. Nepal for A.Y. 2013-14

Particulars	₹	₹
Deduction under Section 80C		
LIC premium paid ₹ 25,000 [Limited to 20% of policy value, since policy has been taken before 1.04.2012 (20% x ₹ 1,00,000)]	20,000	
Contribution to P.P.F.	25,000	
Repayment of housing loan to Indian Bank	<u>50,000</u>	
	95,000	
Deduction under Section 80CCC		
Payment to LIC Pension Fund	<u>20,000</u>	
	1,15,000	
Eligible deduction limited to ₹ 1,00,000 as per section 80CCE		1,00,000
Deduction under Section 80D		
Payment of medical insurance premium ₹ 18,000 for self, wife and dependent children. Deduction limited to ₹ 15,000.	15,000	
Medical insurance premium paid for parents ₹ 30,000 (limited to ₹ 20,000, being the limit applicable for senior citizens)	<u>20,000</u>	<u>35,000</u>
Eligible deduction under Chapter VI A		<u>1,35,000</u>

Question 3

Fill in the blanks having regard to the provisions of the Income-tax Act, 1961:

- (i) For new two, three and four star hotels started in the specified districts on or after 1.4.2008, tax holiday of years is available under section 80-ID.

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- (ii) Mr. Z has paid a sum of ₹ 65,000 on 30.11.2012 as tuition fees to a university in Australia. The amount deductible under section 80C for A.Y. 2013-14 is ₹
- (iii) Where an individual has repaid in the second year, ₹ 20,000 towards principal and ₹ 60,000 towards interest on eligible education loan from an approved bank, the deduction available under section 80E is ₹
- (iv) Deduction under Section 80GGC in respect of contribution to approved political parties given by a local authority partly funded by the Government is.....
- (v) The maximum qualifying limit for deduction under section 80C, 80CCC and 80CCD(1) is ₹

Answer

- (i) Five
(ii) Nil.
(iii) ₹ 60,000
(iv) Nil / not allowed.
(v) ₹ 1,00,000

Question 4

Mr. Chaturvedi having gross total income of ₹ 6,35,000 for the financial year 2012-13 furnishes you the following information:

- (i) Deposited ₹ 50,000 in tax saver deposit in the name of major son in a nationalized bank.
(ii) Paid ₹ 25,000 towards premium on life insurance policy of his married daughter.
(iii) Contributed ₹ 10,000 to Prime Minister's National Relief Fund.
(iv) Donated ₹ 20,000 to a Government recognized institution for scientific research by a cheque.

Note: Assume that the gross total income of Mr. Chaturvedi does not include any income under the head 'Profits and gains of business or profession'.

Compute the total income of Mr. Chaturvedi for the assessment year 2013-14.

Answer

Computation of total income of Mr. Chaturvedi for the A.Y.2013-14

Particulars	₹	₹
Gross total income		6,35,000
Less: Deductions under Chapter VI-A		
(i) Deposit of ₹ 50,000 in tax saver deposit in the name of major son in a nationalized bank – Fixed deposit in the	-	

	name of son does not qualify for deduction under section 80C		
(ii)	Premium on life insurance policy of his married daughter - Eligible for deduction under section 80C	25,000	
(iii)	Contribution of ₹ 10,000 to PM's National Relief Fund, eligible for 100% deduction under section 80G	10,000	
(iv)	Payment of ₹ 20,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA since the payment is made by way of cheque	<u>20,000</u>	<u>55,000</u>
	Total Income		<u>5,80,000</u>

Question 5

State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

- (i) During the financial year 2012-13, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000.

Answer

- (i) **True** :The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, *inter alia*, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- (ii) **True** : Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) **False** : There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **False** : Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹ 14,000.

Question 6

Explain whether any deduction is available from the gross total income of a company in respect of any contribution given to a political party.

Answer

Any sum contributed by an Indian company in the previous year to any political party shall be allowed as deduction under section 80GGB while computing its total income. For the purposes of this section, the word "contribute" has the meaning assigned to it under section 293A of the Companies Act, 1956. Accordingly,

- (i) any donation/subscription/payment caused to be given by a company on its behalf or on its account to a person who is carrying on any activity which is likely to effect public support for a political party is deemed to be a contribution for political purpose.
- (ii) any amount of expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed –
 - (a) where such publication is by or on behalf of a political party, to be a contribution of such amount to such political party, and
 - (b) where such publication is not by or on behalf of but for the advantage of a political party, to be a contribution for a political purpose.

Students may note that expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party is not eligible for deduction as per section 37(2B). However, such contribution is now deductible under section 80GGB in the case of companies and under section 80GGC in the case of other assessees (except local authority and every artificial juridical person which wholly or partly funded by the Government).

Question 7

Discuss the allowability of the following:

- (i) *Rajan has to pay to a hospital for treatment ₹ 42,000 and spent nothing for life insurance or for maintenance of handicapped dependant.*
- (ii) *Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of handicapped dependant.*
- (iii) *Rajan has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of handicapped dependant.*

Answer

- (i) The deduction of ₹ 50,000 under section 80DD is allowed in full, irrespective of whether the expenditure was actually incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,00,000.

- (ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim ₹ 50,000 since the deduction of ₹ 50,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,00,000.
- (iii) Section 80DD allows a deduction of ₹ 50,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 50,000 even though the total amount incurred/deposited is ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,00,000.

Question 8

For the Assessment year 2013-14, the Gross Total Income of Mr. Chaturvedi, a resident in India, was ₹ 2,68,240 which includes long-term capital gain of ₹ 45,000 and Short-term capital gain of ₹ 8,000. The Gross Total Income also includes interest income from saving bank deposits with banks of ₹ 12,000. Mr. Chaturvedi has invested in PPF ₹ 60,000 and also paid a medical insurance premium ₹ 11,000. Mr. Chaturvedi also contributed ₹ 15,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2013.

Answer

Computation of total income and tax payable by Mr. Chaturvedi

Particulars	₹	₹
Gross total income including long term capital gain		2,68,240
Less : Long term capital gain		<u>45,000</u>
		2,23,240
Less : Deductions under chapter VI-A:		
Under section 80C in respect of PPF deposit	60,000	
Under section 80D (it is assumed that premium is paid by otherwise than by cash and since the amount paid is less than ₹ 20,000, it is fully deductible)	11,000	
Under section 80G (See Note-1 & 2 below)	7,112	
Under section 80TTA (See Note-3 below)	<u>10,000</u>	<u>88,112</u>
Total income (excluding long term capital gains)		<u>1,35,128</u>
Total income (including long term capital gains)		1,80,128
Total income (rounded off)		1,80,130
Tax on total income (including long-term capital gains of ₹ 45,000) (See Note-4)		Nil

Notes :

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	2,23,240
Less : Deduction under section 80C, 80D & 80TTA	81,000
	1,42,240
10% of the above	14,224
Contribution made	15,000
Lower of the two eligible for deduction under section 80G	14,224
Deduction under section 80G – 50% of ₹ 15,000	7,112

- As per amendment made by Finance Act, 2012, deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 10,000. Therefore the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Section 80TTA has been inserted by Finance Act, 2012. As per this section, deduction upto ₹ 10,000 is allowed, *inter alia*, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.
- As per section 112, the unexhausted basic exemption limit can be exhausted against long-term capital gains. Therefore, since the total income of ₹ 1,80,130 (inclusive of long-term capital gains of ₹ 45,000) is less than the basic exemption limit of ₹ 2,50,000, there would be no tax liability.

Question 9

State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80-IB, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under sections 80-ID or 80-IE of the Act.

Answer

- False** : Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 80-IB.
- True** : As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, *inter alia*, section 80-ID or 80-IE.

Question 10

Can a Primary Co-operative Agricultural and Rural Development Bank claim deduction under section 80P in respect of income derived from the business of banking?

Answer

Sub-section (4) to section 80P provides that the provisions of section 80P shall not apply to any co-operative bank, other than, *inter alia*, a primary co-operative agricultural and rural development bank (PCARB). Thus, a PCARB is entitled to claim deduction under section 80P in respect of income derived from the business of banking.

Question 11

Deduction under section 80CCD is available only to individuals employed by the Central Government. Discuss the correctness of this statement.

Answer

The deduction under section 80CCD is available to the individuals employed by the Central Government or any other employer. With effect from A.Y. 2010-11, the deduction has been extended to self-employed individuals also. Therefore, the statement is incorrect.

Question 12

Mr. Abhik, an individual, made payment of health insurance premium to GIC in an approved scheme. Premium paid on his health is ₹ 10,000 and his spouse's health is ₹ 15,000 during the year 2012-13. He also paid health insurance premium of ₹ 25,000 on his father's health who is a senior citizen and not dependent on him. The payments have not been made by cash. Compute the amount of deduction under section 80D available to Mr. Abhik from his gross total income for the assessment year 2013-14.

Answer

Mr. Abhik will be eligible to claim deduction under section 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. Therefore, the amount of deduction under section 80D would be –

Particulars	₹
On health insurance premium paid on the health of himself and his spouse (₹ 10,000 + ₹ 15,000 = ₹ 25,000, but restricted to ₹ 15,000)	15,000
On health insurance premium paid on the health of his father, ₹ 25,000 but restricted to ₹ 20,000 in the case of a parent, who is a senior citizen (whether dependent or not)	<u>20,000</u>
Total deduction under section 80D	<u>35,000</u>

EXERCISES

1. *Mr. Srivastav, aged 72 years, paid medical insurance premium of ₹ 22,000 by cheque and ₹ 1,000 by cash during May, 2012 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. He would be entitled to a deduction under section 80D of a sum of -*
 - a) ₹ 22,000
 - b) ₹ 20,000
 - c) ₹ 15,000
2. *Mr. Ramesh pays a rent of ₹ 5,000 per month. His total income is ₹ 2,40,000 (i.e. Gross Total Income as reduced by deductions under Chapter VI-A except section 80GG). He is also in receipt of HRA. He would be eligible for a deduction under section 80GG of an amount of -*
 - a) ₹ 24,000
 - b) ₹ 36,000
 - c) Nil
3. *The deduction allowable under section 80LA in respect of eligible income of Offshore Banking Units and International Financial Services Centre is -*
 - a) 50% of such income for 5 consecutive assessment years
 - b) 100% of such income for 10 consecutive assessment years
 - c) 100% of such income for 5 consecutive assessment years and 50% of such income for 5 consecutive assessment years thereafter
4. *The deduction under section 80QQB in respect of royalty income of authors of certain books is subject to a maximum limit of -*
 - a) ₹ 1,00,000
 - b) ₹ 3,00,000
 - c) ₹ 5,00,000
5. *The deduction under section 80-IC permissible to an undertaking or an enterprise, being a company located in the State of Himachal Pradesh, which newly commences business of manufacture or production of an article or thing other than what is specified in the Thirteenth Schedule is-*
 - a) 100% of profits for the first 5 assessment years and 25% of the profit for the next 5 assessment years thereafter
 - b) 100% of profits for the first 5 assessment years and 30% of the profit for the next 5 assessment years thereafter
 - c) 100% of profits for the first 10 assessment years

6. Under section 80GGB, deduction is allowable in respect of contribution to political parties by -
 - a) any person other than local authority and every artificial juridical person wholly or partly funded by the Government
 - b) Local authority and every artificial juridical person wholly or partly funded by the Government
 - c) An Indian company
7. ₹ 1 lakh is the maximum qualifying limit for deduction under -
 - a) Section 80C alone.
 - b) Sections 80C and 80CCC
 - c) Sections 80C, 80CCC and 80CCD(1)
8. Write short notes on -
 - (i) Deduction in respect of royalty income on patents
 - (ii) Deduction in respect of royalty income of authors of certain books.
 - (iii) Deduction in respect of royalty income on patents.
 - (iv) Deduction from Gross Total Income under section 80GG.
9. What is the deduction available from the gross total income of a company in respect of any contribution given to a political party?
10. Who are the assesseees eligible to claim deduction under section 80LA? What is the quantum of deduction available under this section? What are the conditions to be fulfilled for claiming such deduction?
11. Discuss the provisions of section 80-IAB relating to deduction in respect of profits and gains derived by an undertaking or enterprise engaged in the development of a special economic zone.
12. What are the special provisions in respect of certain undertakings or enterprises in certain special category states as laid down under section 80-IC.
13. What are the conditions to be fulfilled by a convention centre to be eligible for deduction under section 80-ID?
14. List the conditions to be satisfied for claiming deduction under section 80E.
15. Medical insurance premium paid is deductible under section 80D. What are the conditions to be fulfilled to claim such deduction and what is the maximum deduction that can be claimed if such conditions are fulfilled?
16. Write briefly about the provisions regarding deductions from gross total income in respect of medical treatment of dependent disabled under section 80DD of the Income-tax Act, 1961 and in respect of medical treatment of assessee himself/dependent under section 80DDB of the Income-tax Act, 1961.

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17. *List out the conditions for availing deduction under section 80QQB of Income-tax Act, 1961.*
18. *Discuss briefly about the deductibility of interest on loan taken for higher education, under section 80E of the Income-tax Act, 1961.*
19. *State the special provisions in respect of certain undertakings or enterprises in certain special category states as laid down under Section 80-IC of the Act.*
20. *Explain the deduction in respect of donations for Scientific Research and Development under section 80GGA of the Income-tax Act, 1961.*
21. *Briefly explain provisions of section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability.*

Answers

1. b; 2. c; 3. c; 4. b; 5. b; 6. c; 7. c