Rules for Computation of Net Agricultural Income

Rule 1.—

Agricultural income of the nature referred to in sub-clause (a) of clause (1A) of section 2 of the Income-tax Act shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from other sources" and the provisions of sections 57 to 59 of that Act shall, so far as may be, apply accordingly.

Provided that sub-section (2) of section 58 shall apply subject to the modification that "the reference to section 40A therein shall I be construed as not including a reference to sub-sections (3) and (4) of section 40A.

Rule 2.—

Agricultural income of the nature referred to in sub-clause (b) or sub-clause (c) of clause (1A) of section 2 of the Income-tax Act [other than income derived from any building required as a dwelling-house by the receiver of the rent or revenue of the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c)] shall be computed as if it were income chargeable to income-tax under that Act under the head "Profits and gains of business or profession" and the provisions of , sections 30, 31, 32, 36, 37, 38, 40, 40A [other than sub-sections (3) and (4) thereof], 41, 43, 43A, 43B and 43C of the Income-tax Act shall, so far as may be, apply accordingly.

Rule 3.—

Agricultural income of the nature referred to in sub-clause (c) of clause (1A) of section 2 of the Income-tax Act, being income derived from any building required as a dwelling-house by the receiver of the rent or revenue or the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c) shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from house property" and the provisions of sections 23 to 27 of that Act shall, so far as may be, apply accordingly.

Rule 4.—

Notwithstanding anything contained in any other provisions of these rules, in a case—

(a) where the assessee derives income from sale of tea grown and manufactured by him in India, such income shall be computed in accordance with rule 8 of the Income-tax Rules, 1962, and sixty per cent, of such income shall be regarded as the agricultural income of the assessee;

(b) where the assessee derives income from sale of centrifuged latex or cenex or latex based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, re-milled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed by him from rubber plants grown by him in India, such income shall be computed in accordance with rule 7A of the Income-tax Rules, 1962, and sixty-five per cent, of such income shall be regarded as the agricultural income of the assessee;

(c) where the assessee derives income from sale of coffee grown and manufactured by him in India, such income shall be computed in accordance with rule 7B of the Income-tax Rules, 1962, and sixty per cent, or seventy-five per cent., as the case may be, of such income shall be regarded as the agricultural income of the assessee.

Rule 5.—

Where the assessee is a member of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) which in the previous year has either no income chargeable to tax under the Income-tax Act or has total income not exceeding the maximum amount not chargeable to tax in the case of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) but has any agricultural income, then, the agricultural income or loss of the association or body shall be computed in accordance with these rules and the share of the assessee in the agricultural income or loss so computed shall be regarded as the agricultural income or loss of the assessee.

Rule 6.—

Where the result of the computation for the previous year in respect of any source of agricultural income is a loss, such loss shall be set off against the income of the assessee, if any, for that previous year from any other source of agricultural income.

Provided that where the assessee is a member of an association of persons or a body of individuals and the share of the assessee in the agricultural income of the association or body, as the case may be, is a loss, such loss shall not be set off against any income of the assessee from any other source of agricultural income.

Rule 7.—

Any sum payable by the assessee on account of any tax levied by the State Government on the agricultural income shall be deducted in computing the agricultural income.

Rule 8.—

(1) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 2014, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous year's relevant to the assessment years commencing on the 1st day of April, 2006 or the 1st day of April, 2007 or the 1st day of April, 2008 or the 1st day of April, 2009 or the 1st day of April, 2010 or the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013, is a loss, then, for the purposes of sub-section (2) of section 2 of this Act,—

- **(i)** the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2006, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2007 or the 1st day of April, 2008 or the 1st day of April, 2009 or the 1st day of April, 1, 2010 or the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013,
- **(ii)** the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2007, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2008 or the 1st day of April, 2009 or the 1st day of April, 2010 or the 1st day of April, 2011or the 1st day of April, 2012 or the 1 st day of April, 2013,
- **(iii)** the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2008, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2009 or the 1st day of April, 2010 or the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013,
- **(iv)** the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2009, to the extent, if any, such loss has not been set off against the agricultural income for the

previous year relevant to the assessment year commencing on the 1st day of April, 2010 or the 1st day of April, 2011or the 1st day of April, 2012 or the 1st day of April, 2013,

(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1 st day of April, 2010, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2011 or the 1st day of April, 2012 or the 1 st day of April, 2013,

(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2011, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2012 or the 1st day of April, 2013,

(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2012, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2013,

(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2013,

shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 2014.

(2) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 2015, or, if by virtue of any provision of the Income-tax Act, income-tax is to be charged in respect of the income of a period other than the previous year, in such other period, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous year relevant to the assessment years commencing on the 1st day of April, 2007 or the 1st day of April, 2008 or the 1st day of April, 2009 or the 1st day of April, 2010 or the 1st day of April, 2011 or the 1st day of April, 4 2012 or the 1st day of April, 2013 or the 1st day of April, 2014, is a loss, then, for the purposes of sub-section (10) of section 2 of this Act,—

(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2007, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2008 or the 1st day of April, 2009 or the 1 st day of April, 2010 or the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013 or the 1st day of April, 2014,

(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2008, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2009 or the 1st day of April, 2010 or the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013 or the 1st day of April, 2014,

(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2009, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2010 or the 1st day of April, 2011 or the 1 st day of April, 2012 or the 1st day of April, 2013 or the 1st day of April, 2014,

(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2010, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2011 or the 1st day of April, 2012 or the 1st day of April, 2013 or the 1st day of April, 2014,

(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2011, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2012 or the 1st day of April, 2013 or the 1st day of April, 2014,

(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2012, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2013 or the 1st day of April, 2014,

(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2013, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2014,

(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2014, shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 2015.

(3) Where any person deriving any agricultural income from any source has been succeeded in such capacity by another person, otherwise than by inheritance, nothing in sub-rule (1) or sub-rule (2) shall entitle any person, other than the person incurring the loss, to have it set off under sub-rule (1) or, as the case may be, sub-rule (2).

(4) Notwithstanding anything contained in this rule, no loss which has not been determined by the Assessing Officer under the provisions of these rules or the rules contained in the First Schedule to the Finance Act, 2006 or of the First Schedule to the Finance Act, 2007 or of the First Schedule to the Finance Act, 2008 or of the First Schedule to the Finance (No.2) Act, 2009 or of the First Schedule to the Finance Act, 2010 or of the First Schedule to the Finance Act, 2011 or of the First Schedule to the Finance Act, 2012 or of the First Schedule to the Finance Act, 2013 shall be set off under sub-rule (1) or, as the case may be, sub-rule (2).

Rule 9.—

Where the net result of the computation made in accordance with these rules is a loss, the loss so computed shall be ignored and the net agricultural income shall be deemed to be nil.

Rule 10.—

The provisions of the Income-tax Act relating to procedure for assessment (including the provisions of section 288A relating to rounding off of income) shall, with the necessary modifications, apply in relation to the computation of the net agricultural income of the assessee as they apply in relation to the assessment of the total income.

Rule 11.—

For the purposes of computing the net agricultural income of the assessee, the Assessing Officer shall have the same powers as he has under the Income-tax Act for the purposes of assessment of the total income.

Wealth Tax

Assets [Sec. 2(ea)]

Assets includes property of every description, movable or immovable are defined in Section 2(*ea*) as follows —

(1) Guest House, Residential House or Commercial Building [Sec. 2(ea)(i)]

The following are treated as "assets" -

(i) Any building or land appurtenant thereto whether used for commercial or residential purposes or for the purpose of guest house

(ii) A farm house situated within 25 kilometers from the local limits of any municipality (whether known as a municipality, municipal corporation, or by any other name) or a cantonment board.

The following are not included in "Assets":

(a) A house meant exclusively for residential purposes and which is allotted by a company to an employee or an officer or a director who is in whole-time employment, having a gross annual salary of less than ₹10,00,000;

(b) Any house for residential or commercial purposes which forms part of stock-in-trade;

(c) Any house which the assessee may occupy for the purposes of any business or profession carried on by him;

(d) A residential property that has been let out for a minimum period of 300 days in the previous year;

(e) Any property in the nature of commercial establishments or complexes.

State whether following property are asset or not -

Particulars	Whether assets u/s 2(ea)(i)	Reason
A residential house given on rent for 300 days during the Previous Year	No	Residential house rented for more than 300 days are excluded from the definition of assets.
A residential house given on rent for 299 days during the Previous Year	Yes	Residential house rented for less than 300 days.
A commercial house given on rent for 320 days during the Previous Year	Yes	Commercial house falling under the category of commercial establishments.
A guest house of the company dealing in furniture	Yes	Guest house covered under the definition of assets.
Farm house situated within 25 k.m. of Howrah/ Municipal board	Yes	Farm house (to be measured aerially) covered under the definition of assets.
Factory building used for own business	No	House which the assessee occupy for the purposes of own business or profession carried on by him is

		excluded from the definition of assets.
A residential flat allotted to its employee by a Individual/HUF where the salary of the employee is ₹9,99,000 p.a.	Yes	A residential house **which is allotted by a company** to an employee having a gross annual salary of less than ₹10,00,000 is not an asset.
A residential flat allotted to its employee by a company where the salary of the employee is ₹9,99,000 p.a.	No	A residential house which is allotted by a company to an employee who is in whole-time employment, having a gross annual salary of less than ₹10,00,000 is not an asset.
A residential flat allotted to its employee (having substantial interest) by a company where the salary of the employee is ₹ 9,99,000 p.a.	No	A residential house which is allotted by a company to an employee who is in whole-time employment, having a gross annual salary of less than ₹10,00,000 is not an asset.
A commercial shop let out to its whole time director by a company where the salary of the employee is ₹9,99,000 p.a.	Yes	A house meant **exclusively for residential purposes** and **which is allotted** by a company to an employee having a gross annual salary of less than ₹10,00,000.
A residential flat let out to its whole time director by a company where the salary of the employee is ₹9,99,000 p.a.	Yes	A house meant exclusively for residential purposes and **which is allotted** by a company to an employee having a gross annual salary of less than ₹10,00,000.
A residential flat let out to its Part time director by a company where the salary of the employee is ₹9,99,000 p.a.	Yes	A house meant exclusively for residential purposes and which is allotted by a company to an employee or an officer or a director who is in **whole-time employment**, having a gross annual salary of less than ₹10,00,000.
A shop held by an individual as stock in trade	No	Any house for residential or commercial purposes which forms part of stock-in-trade.
A commercial establishment let out for 290 days during the Previous Year	No	Any property in the nature of commercial establishments or complexes – Not an assets.

(2) Motor Cars [Sec. 2(ea)(ii)]

Motor car is an "asset", except the following -

(a) Motor cars used by the assessee in the business of running them on hire;

(b) Motor cars treated as stock-in-trade.

In the case of a leasing company, motor car is an asset.

"Motor car" covers all motor vehicles other than heavy vehicles.

State whether following property are asset or not –

Particulars	Whether assets u/s 2(ea)(ii)	Reason
Motor car held as fixed asset in a company engaged in the business of iron & steel	Yes	Neither motor car has not been used by the assessee in the business of running them on hire nor it is treated as stock - in - trade.
Motor car held as fixed asset in a company used by an employee for personal purpose	Yes	Neither motor car has not been used by the assessee in the business of running them on hire nor it is treated as stock- in - trade.
Motor car held by an individual as personal effect	Yes	Neither motor car has not been used by the assessee in the business of running them on hire nor it is treated as stock- in - trade.
Motor car held as stock in trade	No	Motor cars treated as stock-in-trade are not assets.
Motor car held by an individual/HUF/Company for running them on hire	No	Motor cars used by the assessee in the business of running them on hire are not assets.

(3) Jewellery, bullion, furniture, utensils of gold, silver, etc. [Section 2(ea)(iii)]

Jewellery, bullion, furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals are treated as "assets".

For this purpose, "jewellery" includes -

(a) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stones, and whether or not worked or sewn into any wearing apparel;

(b) precious or semi-precious stones, whether or not set in any furniture, utensils or other article or worked or sewn into any wearing apparel.

The following are not included in "Assets":

(a) Where any of the above assets (i.e., jewellery, bullion, utensils of gold, etc.) is used by an assessee as stock-in-trade, then such asset is not treated as "assets" under section 2(ea) (iii).

(b) Jewellery does not include the Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by Central Government.

State whether following property are asset or not -

Jewellery	Whether assets u/s 2(ea)(iii)	Reason
Gold biscuit (not held as stock in trade)	Yes	Jewellery, **bullion,** furniture, utensils or **any other article made wholly or partly of gold**, silver, platinum or any

		other precious metal or any alloy containing one or more of such precious metals are treated as "assets.
Silver made furniture held for house hold purpose	Yes	Jewellery, bullion, **furniture**, utensils or any other article **made wholly or partly of gold, silver**, platinum or any other precious metal or any alloy containing one or more of such precious metals are treated as "assets.
Jewellery given as security for business loan	Yes	Ownership of the Jewellery is with the assessee. So it is assessed in the hand of the assessee as on the valuation date.
Gold furniture held by a company used for office purpose	Yes	Jewellery, bullion, furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals are treated as "assets. No matter whether it is used for official purpose or not.
Golden necklace of house-wife	Yes	Jewellery, bullion, furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals are treated as "assets.
Jewellery held as stock in trade	No	Where jewellery, bullion, utensils of gold, etc. is used by an assessee as stock-in-trade, then such asset is not treated as "assets.
Jewellery held for personal purpose converted into stock in trade as on the valuation date.	No	Where jewellery, bullion, utensils of gold, etc. is used by an assessee as stock-in-trade, then such asset is not treated as "assets.

(4) Yachts, boats and aircrafts [Sec. 2(ea)(iv)]

Yachts, boats and aircrafts (other than those used by the assessee for commercial purposes) are treated as "assets".

State whether following property are asset or not -

Aircraft	Whether assets u/s 2(ea)(iv)	Reason
Aircraft used for hiring purpose	No	Aircraft used for commercial purposes.
Aircraft used for personal purpose	Yes	Yachts, boats and aircrafts (other than those used by the assessee for commercial purposes) are treated as "assets".
Aircraft given to manager by a company dealing in readymade garments	Yes	Aircraft used for personal purposes.
Aircraft held by Indian Air Lines	No	Indian Airlines used aircraft for commercial purposes.

(5) Urban land [Sec. 2(ea)(v)]

An "urban land" is an assets whether it is agricultural land or non-agricultural land.

Urban land means land situated in —

(i) Any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee, or any other name) or a cantonment board and which has a population of not less than 10,000;

(ii) Any area within distance (to be measures aerially) given below-

≥ 2 kilometers from the local limits of any municipality/ cantonment board as referred above	Population more than 10,000 but not more than 1 lakh.
≥ 6 kilometers from the local limits of any municipality/ cantonment board as referred above	Population more than 1 lakh but not more than 10 lakh.
≥ 8 kilometers from the local limits of municipality/ cantonment board as referred above	Population more than 10 lakh

- "Population" means the population according to the last preceding census of which the relevant figures have been published before the valuation date.

The following are not included in "Assets":

(i) Land classified as agricultural land in the records of the Government and used for agricultural purposes; or

(ii) Land on which construction of a building is not permissible under any law for the time being in force in the area in which such land is situated; or

(iii) The land occupied by any building which has been constructed with the approval of the appropriate authority; or

(iv) Any unused land held by the assessee for industrial purposes for a period of 2 years from the date of its acquisition by him; or

(v) Any land held by the assessee as stock-in-trade for a period of 10 years from the date of its acquisition by him.

State whether following property are asset or not -

Particulars	Whether assets u/s 2(ea)(v)	Reason
Land situated within the jurisdiction of a municipality or a cantonment board, which has a population of 9,900 as per the last census [< 10,000]	No	Population is less than 10,000.
Urban land on which a building is constructed with permission	No	The land occupied by any building which has been constructed with the approval of the appropriate authority is not an asset.
Urban land on which a building is not constructed however construction is permitted under the law.	Yes	Land on which construction of a building is not permissible under any law for the time being in force in the area in which such land is situated is not an asset. Hence the urban land is fall under the category of assets.
Urban land on which a building (residential or commercial) is constructed without the approval of appropriate authority	Yes	The land occupied by any building which has been constructed with the approval of the appropriate authority is not an asset.
Urban land held as stock in trade acquired in 1997	Yes	The land is held by the assessee as stock-in-trade for more than 10 years.
Urban land held as stock in trade acquired in 2011	No	The land is held by the assessee as stock-in-trade for less than 10 years.
Urban unused land acquired for industrial purpose on 17th July, 2013.	No	Unused urban land held by the assessee for industrial purposes for less than 2 years from the date of its acquisition.
Urban unused land acquired for industrial purpose on 17/7/2005	Yes	Unused urban land held by the assessee for industrial purposes for more than 2 years from the date of its acquisition.
Urban land acquired for industrial purpose on 17th July, 2013 for the time being used for agricultural purpose	Yes	The assets has been used for agriculture purpose.

(6) Cash in hand [Sec. 2(ea)(vi)]

In case of individual and HUF, cash in hand on the last moment of the valuation date in excess of ₹50,000 is an 'asset'. In case of companies, any amount not recorded in books of account is 'asset'.

State whether following property are asset or not -

Particulars	Whether assets u/s 2(ea)(vi)	Reason
Bank balance in Current account	No	**For Individual –** cash in hand in excess of ₹50,000 is an 'asset. **For Company -** any amount not recorded in books of account is 'asset'.
Cash balance at the end of financial year deposited in Bank at the last moment.	No	**For Individual –** cash in hand in excess of ₹50,000 is an 'asset. **For Company -** any amount not recorded in books of account is 'asset'.
X Ltd. has physical cash balance of ₹60,000, the same amount is shown in the cash book	No	**For Individual –** cash in hand in excess of ₹50,000 is an 'asset. **For Company -** any amount not recorded in books of account is 'asset'.
Mr. X has physical cash balance of ₹60,000, the same amount is shown in the cash book	Yes, upto ₹10,000	**For Individual –** cash in hand in excess of ₹50,000 is an 'asset. **For Company -** any amount not recorded in books of account is 'asset'.
Mr. X has physical cash balance of ₹30,000 and balance in current account of ₹45,000	No	**For Individual –** cash in hand in excess of ₹50,000 is an 'asset. **For Company -** any amount not recorded in books of account is 'asset'.

Illustration:

Whether the following assets are "asset u/s 2(ea) of the Wealth Tax Act 1957

Particulars	Resident
Urban land on which a building (residential or commercial) is constructed with the approval of an appropriate authority	No
Urban land on which a building (residential or commercial) is constructed without the approval of appropriate authority	Yes
Shares, debentures, fixed deposits in bank, plant & machinery, units of a mutual fund, amount recoverable from the Government, sundry debtors, Goodwill and Stock in trade	No

In the cash book of an individual/HUF opening balance as on the valuation date is ₹1,85,000 out of which the assessee deposits ₹1,35,000 in his current account with the Citi Bank before the closure of banking hours on the same day (no other inflow and outflow of cash as on the same day).	Since, at the time of valuation i.e. last moment of valuation date the cash balance is only ₹50,000 hence assets u/s 2(ea) shall be taken as Nil.
Motor cars used by a person in the business of running them on hire to tourists (Indian or foreign citizen) or to other person.	No, since the cars are used for running them on hire.
Residential house owned by a company and allotted to a part time director whose salary is ₹1,00,000 p.a.	Yes, as the director is not a whole time director.
Farm house which is not situated within 25 kms of any municipality or a cantonment board.	No
Diamond held as stock in trade	No
Diamond held as Fixed asset	Yes
Diamond held as a personal asset by a business man	Yes
Guest house held as stock-in-trade by a property dealer	No
Guest house (not held as stock-in-trade) for entertaining personal guests	Yes
Farm house which is situated 30 kilometers from local limits of Delhi but within 6 kilometers from Faridabad	Yes
Factory building, office building and godown building used for the purpose of carrying on own business or profession	No
Factory building and godown building given on rent	Yes, if it is letout less than 300 days.
Residential house owned by an individual (or Hindu undivided family) and allotted to one of his full-time employees whose salary (including commission, bonus and allowances) is ₹ 83,332 per month	Yes, house is allotted by individual or HUF.
Residential house owned by a company and allotted to a part-time director whose salary is ₹ 6,00,000 per annum	Yes, house was not allotted to full time director.
Residential house owned by a company and allotted to one of its officers/employees/full-time directors whose salary (including commission, bonus and allowances) is : ₹ 83,333.00 per month ₹ 83,334.00 per month	 No Yes

A residential or commercial building held as stock-in-trade	No
Residential house owned by a company and allotted to an employee/full-time director (or managing director) whose salary is less than ₹ 10,00,000 per annum and who owns 90 per cent equity share capital in the company	No
A commercial complex having 20 offices given on rent by the owner	No
A multi-storey office complex given on rent	No
A residential house given on rent for 300 days during 2014-15	No
Motor car (Indian as well as foreign) held as :	
a. stock-in-trade	No
b. fixed assets	Yes
c. personal asset by a salaried employee	Yes
d. personal asset by a businessman	Yes
e. fixed asset by a company and given for business use to full-time-employee or a director drawing less than ₹10,00,000 per annum	Yes
Motor cars used by a person in the business of running them on hire to tourists (Indian or foreign citizens) or to other persons	No
Silver, gold, jewellery, bullion, etc., owned by a jeweller (as stock-in-trade)	No
Gold owned by an individual (not as stock-in-trade)	Yes
Gold/silver furniture held by a company (not as stock-in-trade)	Yes
Aircraft used by a manufacturing company having turnover of ₹400 crore for use by its directors	No
Aircraft owned by an individual (not as stock-in-trade) for giving it on lease to others	No
Urban land on which a building (residential or commercial) is constructed :	
a. with the approval of an appropriate authority	No

b. without the approval of an appropriate authority	Yes
Urban land on which construction is not permitted	No
Vacant urban land (on which construction is permissible) owned by a person since 1990	Yes
Urban land held as stock-in-trade and which was acquired — a. on June 1, 2004 b. on June 1, 2005	 Yes No
Urban unused land held by an assessee, for industrial purposes (whether or not construction is started) and which was acquired : a. on April 1, 2013 b. on March 31, 2013	 No Yes
Urban land held by an assessee for industrial purposes (as construction of factory will be started during November 2014, it is used for agricultural purposes on temporary basis) and it was acquired on — a. April 1,2012 b. March 31, 2012	 Yes Yes
Land acquired in 1965 (it may be used for construction of any building — residential or commercial) and a. situated within the jurisdiction of a municipality having population of less than 10,000 b. situated within the jurisdiction of a municipality having population of 10,000 or more	 No Yes

Negative List in Service Tax

According to section 65B(34) of the of the Finance Act, 1994, "negative list" means the services which are listed in section 66D of the Act. Services mentioned in the negative list are not liable to service tax. The negative list comprises of the following services:

(a) Services by Government or a local authority excluding the following services to the extent they are not covered elsewhere—

(i) services by the Department of Posts by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government;

(ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;

(iii) transport of goods or passengers; or

(iv) support services, other than services covered under clauses (i) to (iii) above, provided to business entities;

(b) Services by the Reserve Bank of India;

(c) Services by a foreign diplomatic mission located in India;

(d) Services relating to agriculture by way of—

(i) agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or testing;

(ii) supply of farm labour;

(iii) processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market;

(iv) renting or leasing of agro machinery or vacant land with or without a structure incidental to its use;

(v) loading, unloading, packing, storage or warehousing of agricultural produce;

(vi) agricultural extension services;

(vii) services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce;

(e) Trading of goods;

(f) Any process amounting to manufacture or production of goods

(g) Selling of space for advertisements in print media;

[Prior to **amendment made by Finance (no. 2) Act, 2014**, selling of space or time slots for advertisements other than advertisement broadcast by radio or television was in negative list. Thus before amendment, only TV/ Radio advertisement were taxable.]

A detailed analysis:

Nature of advertisement	**W.e.f. 01-10-2014**	**Before 01-10-2014**
1. Sale of space or time for advertisement to be broadcast on radio or television	Taxable	Taxable
2. Sale of time slot by a broadcasting organization	Taxable	Taxable
3. Advertisement in/on internet websites	Taxable	Not taxable
4. Advertisement in/on out-of-home media,	Taxable	Not taxable
5. Advertisement in/on film screen in theatres,	Taxable	Not taxable
6. Advertisement in/on bill boards	Taxable	Not taxable
7. Advertisement in/on conveyances	Taxable	Not taxable
8. Advertisement in/on buildings,	Taxable	Not taxable
9. Advertisement in/on cell phones	Taxable	Not taxable
10. Advertisement in/on Automated Teller Machines,	Taxable	Not taxable
11. Advertisement in/on tickets,	Taxable	Not taxable
12. Advertisement in/on public places	Taxable	Not taxable
13. Advertisement in/on stadium (e.g. cricket stadium)	Taxable	Not taxable
14. Aerial advertising	Taxable	Not taxable
15. Advertisement in "Goods and Service Tax Cases" - A weekly magazine on Indirect Tax Laws [it amounts to 'newspaper', as it contains public news (i.e., legal news) and comments thereon]	Not taxable	Not taxable
16. Advertisement in/on commercial publications, being business directories or yellow pages or trade catalogues ['Not covered in 'book'; not Print Media]	Taxable	Not taxable
17. Advertisement in newspaper [Print Media]	Not taxable	Not taxable
18. Advertisement in Book on Tax Laws [Print Media]	Not taxable	Not taxable
19. Advertisement in pamphlets [it amounts to 'print media' and therefore, it is in negative list]	Not taxable	Not taxable

Illustration: Compute taxable value and service tax from the following amounts (exclusive of service tax) received by M/s Q Ltd. (Ignore small service provider exemption)

	Particulars	₹ lakhs
1.	Preparation of advertisement	2.00
2.	Canvassing advertisement	5.00
3.	Publication of advertisement in law journal published by it	3.00
4.	Internet advertisement charges	1.00

Solution:

Computation of service tax liability

	Particulars	₹ lakhs
1.	Preparation of advertisement — Not specified in negative list	2.00
2.	Canvassing advertisement — Not specified in negative list	5.00
3.	Publication of advertisement in law journal published by it — law journal is 'newspaper, hence print media and therefore not taxable	—
4.	Internet advertisement charges — Not specified in negative list	1.00
	Total taxable value	**8.00**
	Service tax @12.36%	**0.99**

(h) Service by way of access to a road or a bridge on payment of toll charges;

(i) Betting, gambling or lottery;

(j) Admission to entertainment events or access to amusement facilities;

(k) Transmission or distribution of electricity by an electricity transmission or distribution utility;

(l) Services by way of—

(i) pre-school education and education up to higher secondary school or equivalent;

(ii) education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force;

(iii) education as a part of an approved vocational education course;

(m) Services by way of renting of residential dwelling for use as residence;

(n) Services by way of —

(i) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount;

(ii) inter se sale or purchase of foreign currency amongst banks or authorised dealers of foreign exchange or amongst banks and such dealers;

(o) Service of transportation of passengers, with or without accompanied belongings, by—

(i) a stage carriage;

(ii) railways in a class other than—

(A) first class; or

(B) an air-conditioned coach;

(iii) metro, monorail or tramway;

(iv) inland waterways;

(v) public transport, other than predominantly for tourism purpose, in a vessel between places located in India; and

(vi) metered cabs or auto rickshaws;

[The expression 'radio taxi' removed from negative list and made taxable vide Finance (No. 2) Act, 2014 w.e.f. 01.10.2014 and abatement of 60% provided. The abatement of 60% is allowed only if Cenvat credit on inputs, input services and capital goods, used for providing the taxable service, has not been taken under the provisions of the Cenvat Credit Rules, 2004]

Example: If X Ltd. collected ₹ 5 lakhs (exclusive of taxes) for the month ending March, 2015 for transport of passengers in radio taxi, the value of taxable service will be ₹ 2 lakhs (₹ 5 lakhs – 60% of ₹ 5 lakhs). The said service is not within the negative list and therefore liable to service tax. But the service is eligible for abatement of 60%, if Cenvat credit is ignored.

(p) Services by way of transportation of goods—

(i) by road except the services of—

(A) a goods transportation agency; or

(B) a courier agency;

(ii) by an aircraft or a vessel from a place outside India to the first customs station of landing in India; or

(iii) by inland waterways;

(q) Funeral, burial, crematorium or mortuary services including transportation of the deceased.

BUY BACK OF SHARES

Buy back is repurchasing of its own shares by a company. It generally results in restructuring of capital structure.

Companies Act, 2013

All the buy-back related provisions are mentioned in Section 68 and Section 69 of Companies Act, 2013.

Power of Company to purchase its own securities

The company can purchase its own shares or other specified securities out of —

(a) its free reserves

(b) the securities premium account; or

(c) the proceeds of the issue of any shares or any other specified securities.

No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Conditions for buy-back of shares or other specified securities

No company shall purchase its own shares or other specified securities as per sec 68(1) of Companies Act,2013 unless —

(a) the buy-back is authorised by its articles of association.

(b) a special resolution has been passed at a general meeting of the Company authorising the buy-back.

Buy-back with Board of Directors' approval

Provisions of sec 68 (1) clause (b) shall not apply where —

(i) buy-back is 10% or less of the total paid-up equity capital and free reserves of the Company and

(ii) such buy-back has been authorised by the Board of Directors by means of a resolution passed at its meeting.

Limit on buy-back

- The buy – back is twenty 25% or less of the total paid-up capital and free reserves of the company.
- All the shares or other specified securities for buy-back shall be fully paid-up.
- The ratio of the aggregate of secured and unsecured debts owned by the company after buy-back shall not be more than twice the paid-up capital and free reserve i.e. Debt-Equity Ratio shall not exceed 2:1
- Central Govt. may by order notify a higher ratio.
- No offer of buy-back under sec 68(2) shall be made within a period of 1 year reckoned from the date of the preceding offer of buy-back, if any.
- Every buy-back should be completed within 1 year from the date of passing of the Special Resolution or the Board Resolution.

Mode of buy-back

- From the Existing Security Holders on a proportionate Basis through Tender offer,
- From the Open Market through
- By purchase of Securities issued to Employees pursuant to a Scheme of Stock Option or Sweat Equity.
- Where a company purchases its own shares out off free reserves , or securities premium account it shall transfer a sum equal to the nominal value of the shares so purchased to the Capital Redemption Reserve Account; and
- It shall disclose details of such transfer in its balance sheet.

What are the accounting entries for Buyback of Equity Shares?

Transaction	Journal Entry
1. Amount due on Buyback on Equity Shares	Equity Share Capital A/c Dr. Premium on Buyback A/c Dr. To Equity Shareholders A/c
2. Sourcing / Providing for Premium payable on Buyback	Securities Premium A/c Dr. Profit and Loss A/c Dr. General Reserve A/c Dr. Other Reserves A/c Dr. To Premium on Buyback A/c
3. Transferring Divisible Profit to Capital Redemption Reserve Account, to the extent of Nominal Value of Shares bought back	Profit and Loss A/c Dr. General Reserve / Revenue Reserves A/c Dr. Other Divisible Profits A/c Dr. (e.g. Dividend Equalisation Reserve) To Capital Redemption Reserve A/c
4. Payment to Equity Shareholders	Equity Shareholders A/c Dr. To Bank A/c

Example: 1

- The share capital of M Ltd. consists of 1,00,000 equity shares of ₹10 each, and
- 25,000 preference shares of ₹100 each, fully called up.
- Its Securities Premium account shows a balance of ₹40,000 and
- General Reserve of ₹7,00,000.
- The company decides to buy-back 30,000 equity shares of ₹12 each.
- For this purpose, it utilises the securities premium in full and general reserve to the extent necessary.

Pass the necessary journal entries only showing the effects on the securities premium account and the general reserve account.

Particulars	Dr. (₹)	Cr. (₹)
Equity Share Capital A/c Dr.	3,00,000	
Securities Premium A/c Dr.	40,000	

General Reserve A/c Dr. To, Equity Shareholders A/c (Being the amount due to equity shareholders for buying-back of 30,000 equity shares)	20,000	 3,60,000
General Reserve A/c Dr. To, Capital Redemption Reserve A/c (Being the nominal amount or equity shares bought back transferred)	3,00,000	 3,00,000

No of shares to be bought back

The maximum number of shares to be bought back is determined as the least of 'number of shares' arrived by performing the following tests:

1. Share outstanding test

2. Resource test

3. Debt Equity ratio test.

1. Share outstanding test:

(a) Ascertain the number of shares (Paid up share capital)

(b) 25% of the number of shares is eligible for buy back with the approval of share holders.

2. Resource test:

(a) Ascertain shareholders funds (Capital + Free reserves)

(b) Ascertain number of shares as follows = Share holders funds /Buy back price

3. Debt Equity ratio test:

After buy back, the company has to maintain a debt equity ratio of 2:1

(a) Compute total borrowed funds

(b) Ascertain the minimum equity (shareholders funds)

(c) Ascertain present equity (share holders funds)

(d) Compute maximum possible dilution in equity in Step (a) – Step(b)

(e) Calculate the number of shares = Amount in step (d)/Buy back price.

On determination of quantum of buy back, the shares are bought from public at the buyback price.

Amount paid in excess of the cost of the share will be debited to reserves after adjusting against securities premium, if any available as usual.

A transfer is to be made to capital redemption reserve equivalent to capital redeemed also.

Example: 2

- XYZ Ltd. has the following capital structure on of 31st March
- Equity Share capital (Shares of ₹ 10 each) ₹300 Crores
- Reserves & Surplus:

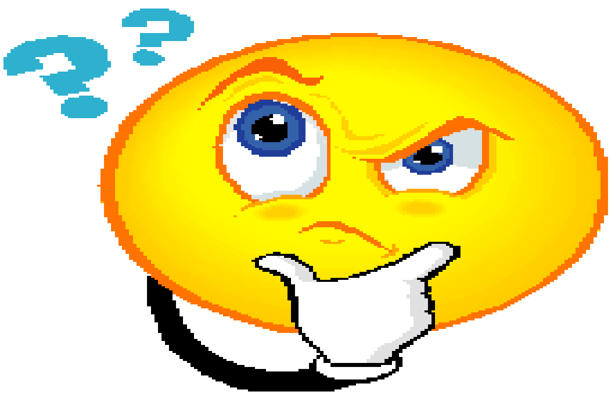
General Reserve	₹270 Crores
Security Premium	₹100 Crores
Profit and Loss A/c	₹50 Crores
Export Reserve (Statutory reserve)	₹80 Crores
Loan Funds	₹800 Crores

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2014 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

The market price was hovering in the range of ₹ 25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next 3 months.

- **If borrowed funds were 1,200 Lakhs, and 1,500 Lakhs respectively would your answer change?**



1: Shares outstanding test

Particulars	**Amount (₹)**
a. No. of shares outstanding	30 crores
b. 25% of shares outstanding	7.5 crores

2: Resources test

Particulars	Amount (₹)
a. Paid up capital	300 Crores
b. Free reserves	420 Crores
c. Shareholders fund (a+b)	720 Crores
d. 25% of shareholders fund	180 Crores
e. Buyback price per share	30
f. Number of shares that can be bought back	6 Crores

3: Debt Equity ratio test

Particulars	Situation I	Situation II	Situation III
Borrowed Funds	800	1,200	1,500
Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
Present equity	720	720	720
Maximum possible dilution in equity	320	120	N.A.
Maximum shares that can be bought back @ ₹ 30/- per share	10.67	6	Buy-back is not possible

Maximum shares that can be bought back

Particulars	Situation I	Situation II	Situation III
a. Shares outstanding test	7.5	7.5	7.5
b. Resource test	6	6	6
c. Debt-Equity ratio test	10.67	4	-
d. Maximum number of shares for buy-back – least of the above	6	4	-

Statistical Tools to Analyse Financial Statement

Trend analysis is one of the tools for the analysis of the company's financial statements for the investment purposes.

In a trend analysis, the financial statements of the company are compared with each other for the several years after converting them in the percentage.

According to **Simpson and Kafka, "Trend, also called secular or long-term trend, is the basic tendency of the series…….to grow or decline over a period of time. The concept of trend does not include short range oscillations, but rather the steady movement over a long time."**

Trend is the general, smooth, long term average tendency. It is not that increase or decrease should be in one direction throughout. But an overall tendency may be up or downward or stable. These tendencies are results of some external forces that are merely steady for a long period or change very gradually over a long period.

The method of least square is used here to illustrate the trend in the following examples:

Example:

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Sales Value (₹ in crores)	672	824	967	1204	1464	1758	2057

Fit a straight line trend for the above data and estimate the sales value (in ₹ crores) for the year 2017-18.

Solution:

Let the straight line trend is represented by the equation y = a + bt. The values of a and b will be determined by solving the normal equations

$\sum y = na + b\sum t$ and

$\sum yt = a\sum t + b\sum t^2$

Here, since the number of years is odd the mid year, i.e. year 2010-11 is taken as original and one year as unit.

Fitting of Straight Line Trend

Year	Sales Value (₹ crores) (y)	t = Year-2010-11	t^2	yt
2007-08	672	-3	9	-2016
2008-09	824	-2	4	-1648
2009-10	967	-1	1	-967
2010-11	1204	0	0	0
2011-12	1464	1	1	1464
2012-13	1758	2	4	3516
2013-14	2057	3	9	6171

$\therefore \sum t = 0, \sum t^2 = 28, \sum yt = 6520, n = 7, \sum y = 8946$

From normal equation, 8946=7a+b×0 or 8946=7a or a=1278

6520=a×0+b×28 or 6520=28b or b=232.9

Then the trend equation is y=1278+232.9t with origin year 2010-11 and t unit =1 year.

The value of t for 2017-18 will be 7. Hence the estimate for the year 2017-18 is y=1278+232.9×7= 1278+1630.3= 2908.3 (₹ crores).

Note: When the number of years is even the origin is placed in the midway between the two middle years and the unit is taken to be ½ year instead of one year. With this change of origin and scale we have again

$$\sum t = 0 \text{ and } a = \frac{\sum y}{n} \text{ and } b = \frac{\sum yt}{\sum t^2}$$