

How is PPF different from RPF?

Q) I run a small business from home. I have heard the Income Tax Act has a provision under which I can declare 5% of my sales as profit without having to maintain records. Can you tell me about this scheme?

—**Ravi Karnad**

A) There is a special scheme in the Income Tax Act for estimating the profits of small retail traders whose annual turnover does not exceed Rs 40 lakh. Under the scheme, 5% of the total turnover during the financial year will be treated as net profit and the tax will be calculated on that. For instance, if the annual turnover of a trader is Rs 30 lakh, then Rs 1.5 lakh will be treated as his net profit for the year from business and tax will be levied on this amount.

For individual assesseees, no further deduction will be allowed from this amount. However, in case of partnership firms, salary to working partners and interest on their capital can be further allowed as a deduction, subject to limits specified for them.

Further details of this scheme can be found under Section 44AF of the Income Tax Act.

Q) I have been transferred from Delhi to Mumbai. My employer provided me rent-free accommodation in Delhi and I will get the same in Mumbai also. But I need to retain my home in Delhi for two months. What will be my income tax liability?

—**Roshun Silva**

A) The Income Tax Act provides relief in such cases. If an employee is provided with accommodation at the new place of posting while retaining the old accommodation for not more than 90 days, only the property with lower value is taxed. The value of residential accommodation at the two places of posting will be determined according to the rules applicable to each place. This relief is granted only for a period of 90 days. For longer periods, the perquisites value of both accommodations will be included in the salary and taxed accordingly.

Q) How is public provident fund (PPF) different from recognised

provident funds (RPF)? Can I withdraw any amount from my PPF account? Will this amount be exempt from tax?

—G. Suresh

A) The tenure of the PPF is usually 15 years; an RPF continues as long as you are employed. A PPF account, unlike the RPF, has no employer's contribution. You can extend the PPF term by blocks of five years. Any receipt from the PPF account, including interest, is fully exempt from tax under Section 10 (11) of the Income Tax Act. You cannot make any withdrawal from the PPF account for the first five years; one withdrawal a year is allowed from the sixth year onwards. Withdrawal from a PPF account is limited to 50% of the balance in the account. If you extend the account beyond 15 years, you can withdraw up to 60% of the balance.

Q) I have let out my house on rent. The tenant pays the municipal taxes. Can I claim the same as a deduction?

—Deep Singh

A) Municipal taxes are paid by the occupier of the house. Since the taxes are paid by the tenant, the owner cannot claim a deduction. The deduction on municipal taxes paid for past or future years can be claimed in the year in which they are paid.

Q) I am retired and have written a few books on Hindi literature, which will be published soon. The publisher has paid me a lump sum. Is the entire amount taxable or do I qualify for an exemption?

—Manoj Gadgil

A) You can claim deduction in respect of income from royalty under Section 80QQB. The amount of deduction allowed is the total amount received from the publisher or Rs 3 lakh, whichever is lower. The ceiling is not per book but per author, and covers income from all books published or unpublished during the year. To claim the deduction, you will have to furnish a certificate along with the return of income in Form 10CCD, verified by the publisher who is paying the royalty.

Q) Is it true that tax exemption is allowed on long-term capital gains on shares? What about long-term losses made in share trading? Can they be set off from taxable income?

—Robin Davis

A) You get a tax exemption on long-term capital gains if shares are traded through a recognised stock exchange and if securities transaction tax is deducted on the sale transaction. Long-term capital loss can be set off only against long-term capital gain and not against any other income. Short-term capital loss can be set off against both long- and short-term capital gains.

A loss that cannot be set off in the same year can be carried forward to a maximum of eight assessment years, immediately succeeding the assessment year for which loss was first computed. Long-term and

short-term capital losses are separately carried forward. To avail of this benefit, the return must be filed on or before the due date.

Q) I changed my job in August and have got Form 16 from my previous employer. Should I submit it to my new employer? Will the new employer give me a consolidated Form 16 at the end of the year? Do I need to inform the new employer of the tax saving investments made earlier?

—**Viren Singh**

A) You need to submit a photocopy of the Form 16 received from your previous employer to the new employer. This allows your new employer to take into account your total income and deduct tax accordingly. This ensures that your tax can be correctly calculated and will also help your new employer to work out the monthly tax deduction at source (TDS) amount.

Non-disclosure of income from a previous employer generally results in lower deduction of TDS, as both employers assume basic income tax exemption. However, your new employer will issue you a Form 16 detailing the payment made by them. At the time of filing your return, you will need to account for both the forms.

Q) I recently won Rs 25,000 on a television game show. Is this taxable? Can I claim deduction of expenses incurred by me to attend the show?

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Abhijeet Mitra

A) Winnings from games (including game shows) are taxable under the head "Income from Other Sources". No deduction is allowed on expenses incurred in connection with such an income. Deductions under Section 80C—savings made in tax-saving instruments—are also not available. Winnings from games are taxed at 30% plus surcharge and cess, under Section 115BB. In this case, you will have to pay tax on the entire Rs 25,000 even if tax has been deducted at source and you do not actually receive the entire amount.

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