

Taxation (F6)

India (IND)

June 2008

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows where any direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other, such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate and the broad intellectual level at which these may need to be demonstrated (*See intellectual levels below)

Reading lists

ACCA examiners will recommend study texts and text books where these are available, which students may read as part of their preparation for the exam. Relevant articles will also be published in *student accountant*.

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis

Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours because increasingly study and learning patterns and styles vary greatly between people and organisations and in different personal, professional and educational circumstances.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down in those particular papers.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Performance Management* (F5) and *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers, ACCA will publish *examinable documents* every six months to indicate exactly what regulations and legislation could potentially be assessed at the following examination session.

Knowledge of new examinable regulations will not be assessed until at least six calendar months after the last day of the month in which documents are issued or legislation is passed. The relevant cut-off date for the June examinations is 30 November of the previous year, and for the December examinations, it is 31 May of the same year.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Syllabus

(F6) IND

AIM

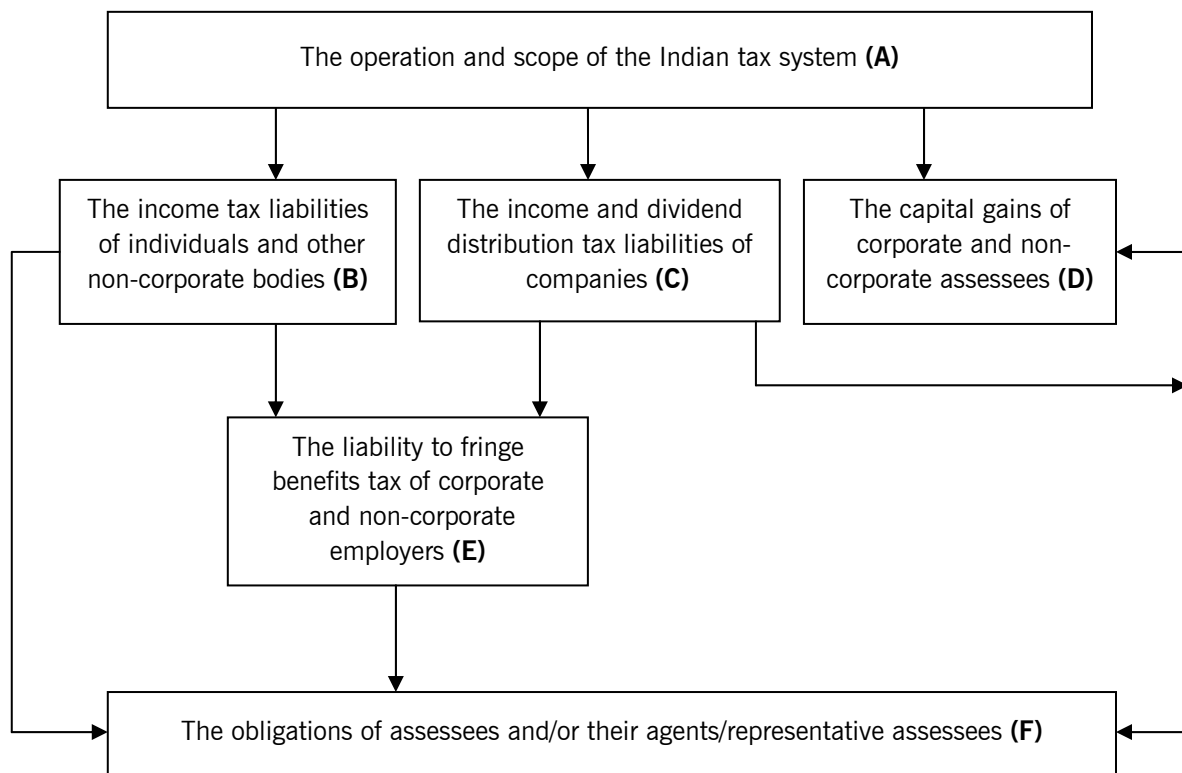
To develop knowledge and skills relating to the Indian tax system as applicable to individuals and other corporate and non-corporate bodies

MAIN CAPABILITIES

After completing this examination paper candidates should be able to:

- A** Explain the operation and scope of the Indian tax system
- B** Explain and compute the income tax liabilities of individuals and other non-corporate bodies
- C** Explain and compute the liabilities to income tax and dividend distribution tax payable by companies and corporations deemed to be companies
- D** Explain and compute the capital gains of corporate and non-corporate assesses
- E** Explain and compute the fringe benefits tax payable by corporate and non-corporate employers
- F** Identify and explain the procedures for the assessment of tax and the obligations of assesses and/or their agents and of representative assessees, including the implications of non-compliance.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

This syllabus introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses.

In this syllabus, candidates are introduced to the rationale behind and the functions of the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as income tax from self employment, employment and investments of individuals and other non-corporate bodies; the income tax and dividend distribution tax liabilities of companies; the fringe benefits tax liability of employers; and the capital gains arising on the disposal of assets by both corporate and non-corporate assessees.

Having covered the core areas of the basic taxes, the candidate should be able to compute tax liabilities, explain the basis of their calculations, apply simple tax planning techniques for individuals, other non-corporate bodies and companies and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

DETAILED SYLLABUS

A The Indian tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal sources of revenue law and practice
4. Tax avoidance and tax evasion.

B Income tax liabilities of individuals and other non-corporate bodies

1. The scope of income tax
2. Income from employment (salary)
3. Income from a business, profession or vocation
4. Income from property

5. Income from other sources
6. The comprehensive computation of the income and tax liability of the different categories of assessee
7. The use of exemptions, deductions and reliefs in deferring and minimising income tax liabilities

C Income tax liabilities of companies

1. The scope of corporate income tax
2. Determination of the taxable income of companies
3. The comprehensive computation of the income tax liability of companies
4. Dividend distribution tax
5. The use of exemptions and reliefs in deferring and minimising the income tax liabilities of companies

D Capital gains

1. The scope of the taxation of capital gains
2. The principles of computing gains and losses
3. Specific provisions relating to certain types of assets
4. The computation of the capital gains of corporate and non-corporate assesses
5. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

E Fringe benefits tax

1. The scope of fringe benefits tax
2. The valuation of fringe benefits and computation of liability

F The procedures for assessment and obligations of assessee and/or their agents and of representative assessee

1. The system of assessment and the making of returns
2. The time limits for the payment of tax, including advance tax and withholding taxes
3. The procedures relating to enquiries, tax audit, appeals, revision and disputes
4. Penalties for non-compliance

APPROACH TO EXAMINING THE SYLLABUS

The paper will be mainly computational and will have five questions, all of which will be compulsory.

Questions 1 will focus on a non-corporate assessee and question two will focus on a corporate assessee. The two questions will be for a total of 55 marks with one of the questions being for 30 marks and the other for 25 marks.

Question 3 will be for 15 marks and will focus on capital gains for either a corporate or non-corporate assessee.

Questions 4 and 5 will be on any areas of the syllabus and will be for 15 marks each.

Capital gains may be examined in questions other than Question 3, for example as part of a corporate or individual income tax scenario.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

Study Guide

A THE INDIAN TAX SYSTEM

1. The overall function and purpose of taxation in a modern economy

- a) Describe the purpose (economic, social etc.,) of taxation in a modern economy.^[1]

2. Different types of taxes

- a) Identify the different types of capital and revenue tax.^[1]
- b) Explain the difference between direct and indirect taxation.^[1]

3. Principal sources of revenue law and practice

- a) Describe the overall structure of the Indian tax system.^[1]
- b) Appreciate the distribution of powers of taxation under the Constitution of India between the Centre and the States (lists I and II).^[1]
- c) State the different sources of revenue law.^[1]
- d) Appreciate the interaction of the Indian tax system with that of other countries/tax jurisdictions.^[1]

4. Tax avoidance and tax evasion

- a) Explain the difference between tax avoidance and tax evasion.^[1]
- b) Explain the need for an ethical and professional approach.^[1]

Excluded topics

- *Anti avoidance legislation*
- *Detailed knowledge of double taxation agreements / avoidance procedures*

B INCOME TAX LIABILITIES OF INDIVIDUALS AND OTHER NON-CORPORATE BODIES

1. The scope of income tax

- a) Explain how the residence of an individual is determined.^[2]
- b) List and define the categories of non-corporate taxpayer and the rules relating to the determination of their tax residence.^[2]
- c) Explain the different bases by which income arising is charged to tax in the hands of individuals and other non-corporate tax payers according to their different categories of residential status.^[2]
- d) Explain the concepts of previous year and accounting year, and their relevance to the assessment year.^[2]
- e) List the 'Heads of Income' and explain their relevance for the purposes of taxation.^[2]

Excluded topics

- *Special provisions relating to the taxation of trusts, executors and administrators, charitable and religious institutions, and co-operative societies*
- *Special provisions relating to the income of non-residents from shipping, the operation of aircraft, exploration etc., of mineral oils, turnkey projects and royalties*
- *Double taxation relief*

2. Income from employment (salary)

- a) Recognise the income taxable under the head of 'salary'.^[2]
- b) Recognise the treatment to be given to salary received in advance and/or in arrears.^[2]
- c) Recognise income that is specifically exempted.^[2]
- d) Distinguish between perquisites and other benefits, which are not subject to tax, subject to income tax and subject to fringe benefits tax.^[2]

- e) Compute the amount of benefits assessable on the employee.^[2]
- f) Recognise the allowable expenses and deductions specific to employment income.^[2]
- g) Compute the amount of income assessable.^[2]
- h) Explain the treatment of receipts under share option schemes.^[2]
- i) Explain the treatment of pensions, payments received from provident funds and other retirement benefits.^[2]
- j) Explain the responsibilities of employers for the withholding of tax at source.^[2]

3. Income from a business, profession or vocation

- a) Recognise the income taxable under the head of 'profits or gains from a business or profession'.^[2]
- b) Explain and distinguish between a capital receipt and a revenue receipt.^[2]
- c) Explain the treatment of income from 'speculative business'.^[2]
- d) Recognise the expenditure which is deductible, partially deductible and non-deductible against business and professional income.^[2]
- e) Explain and compute the deductions available for expenditure (both revenue and capital) on scientific research.^[2]
- f) Depreciation allowances ^[2]
 - i) Identify the types of tangible and intangible assets for which depreciation allowances can be claimed
 - ii) Compute depreciation allowances at the appropriate rates
 - iii) Explain the treatment of unused depreciation allowances
- g) Compute the amount of income assessable.^[2]

- h) Losses.^[2]
 - i) Understand how losses (including losses from speculative business) can be set-off and carried forward
 - ii) Explain the restrictions that can apply to the carry forward of losses.
- i) Partnerships ^[2]
 - i) Explain how a partnership is assessed to tax
 - ii) Distinguish between a partnership (firm) and an association of persons
 - iii) Explain and compute the amounts paid to partners that are allowable as a deduction in computing the taxable income of a partnership
 - iv) Compute the assessable profits of a partnership, including where there is a change in partners or profit sharing ratio; and on the dissolution of the firm or discontinuation of business
- j) Explain the circumstances in which a business can change its accounting year after the first assessment to tax.^[2]
- k) Explain the operation of the presumptive taxation regime.^[2]

4. Income from property

- a) Recognise the income taxable under the head of 'property'.^[2]
- b) Explain the concept of 'annual value' and how it is determined.^[2]
- c) Recognise the allowable deductions and exemptions specific to property income.^[2]
- d) Compute the amount of income assessable.^[2]
- e) Understand how property losses can be offset.^[2]

5. Income from other sources

- a) Recognise the income taxable under the head of 'other sources'.^[2]
- b) Recognise the allowable deductions and exemptions specific to other income.^[2]

c) Compute the amount of income assessable.^[2]

6. The comprehensive computation of the income tax liability of the different categories of assessee

- a) Prepare a computation of total income.^[2]
- b) Identify the types of income which do not form part of total income.^[2]
- c) Explain and compute the deductions and rebates allowable against total income (ss 80C, 80 CCA, 80 CCB, 80CCC,80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80U).^[2]
- d) Understand the relevance of agricultural income to the computation of both total income and of tax payable.^[2]
- e) Understand the principles of aggregation of family income as applied to spouses, minor children (clubbing) and other family members.^[2]
- f) Explain the treatment of a Hindu undivided family (HUF) for income tax purposes, including the applicable conditions and restrictions.^[2]
- g) Compute the amount of income tax, surcharge and education cess payable by individuals, Hindu undivided families (HUFs), partnership firms and associations of persons.^[2]
- h) Recognise and apply the effect of withholding tax on payments of business and professional income.^[2]
- i) Explain the system of advance tax and compute the amount of payments required.^[2]

7. The use of exemptions, deductions and reliefs in deferring and minimising income tax liabilities

- a) Explain the use of exemptions, deductions and reliefs arising under the provisions of law in deferring and minimising tax liabilities, including any conditions attaching thereto; viz: ITA s.10, ss.80 A, 80 AB, 80 AC, 80 C, 80 CCA, 80 CCB, 80 CCC (modified), 80 CCD, 80 D, 80 DD, 80 DDB, 80 E, 80 G, 80 GG, 80

GGA, 80 GGB, 80 GGC, 80 H, 80 HHA, 80 HHB, 80 HHBA, 80 HHF, 80 I, 80 IA, 80 IAB, 80 IB, 80 IC, 80 JJA, 80 LA, 80 O, 80 P, 80 Q, 80 QQA, 80 QQB, 80 RRB, 80 X, 86, 88 E, 89.^[2]

C INCOME TAX LIABILITIES OF COMPANIES

1. The scope of corporate income tax

- a) List the categories of corporate taxpayer.^[1]
- b) Define a company; a company in which the public are substantially interested; a domestic company; a foreign company; an Indian company and a deemed company.^[1]
- c) Explain the principle of 'uniform accounting year'.^[1]
- d) Explain how the residence of a company is determined.^[2]
- e) Explain the different bases by which income is charged to tax in the hands of resident and non-resident corporate tax payers.^[2]

Excluded topics

- *Special provisions relating to tax on the income received from venture capital companies and venture capital funds*
- *Special provisions relating to business income from shipping, the operation of aircraft, insurance, and prospecting etc. of mineral oils*

2. Determination of the taxable income of companies

- a) Profits chargeable to income tax as business income ^[2]
- i) Compute business income (as for individual income tax)
- ii) Explain and apply the special provisions that apply in the case of transactions between related companies one or more of which is non-resident
- iii) Understand the restrictions on the carry forward of losses in the case of controlled (private) companies where there has been a change in shareholding.

- b) Compute the profits chargeable to income tax as non-business income (as for individual income tax).^[2]
- c) Explain and apply the incentives available to exporters.^[2]
- d) Explain and apply the special provisions applicable to undertakings located in specified places and of particular types.^[2]

Excluded topics

- *Incentives for infrastructure builders and operators*

3. The comprehensive computation of the income tax liability of companies

- a) Prepare a computation of total income.^[2]
- b) Identify the types of income which do not form part of total income.^[2]
- c) Explain and compute the allowable deductions from total income (ss80G and 80GGE).^[2]
- d) Understand the relevance of agricultural income to the computation of both total income and of tax payable.^[2]
- e) Compute the amount of income tax, surcharge and education cess payable.^[2]
- f) Recognise and apply the effect of withholding tax on payments made to and by companies.^[2]
- g) Explain the system of advance tax and compute the amount of payments required.^[2]
- h) Minimum Alternative Tax ^[2]
 - i) Explain the concept of minimum alternative tax (MAT) and the situations in which it will apply
 - ii) Compute the tax base for the purposes of MAT
 - iii) Compute the amount of income tax, surcharge and education cess payable
 - iv) Understand the system whereby credit is given for MAT paid

4. Dividend distribution tax

- a) Explain and compute the charge to dividend distribution tax payable by companies.^[2]

5. The use of exemptions and reliefs in deferring and minimising the income tax liabilities of companies.^[2]

The use of exemptions and reliefs is implicit within all of sections 1 to 3 of part C of the syllabus concerning corporate income tax

D CAPITAL GAINS

1. The scope of the taxation of capital gains

- a) Define the term 'capital asset' and 'transfer'.^[1]
- b) Distinguish between short term and long term assets and their treatment for tax purposes.^[1]
- c) Recognise the transactions which do not result in a taxable capital gain.^[1]
- d) Explain how capital gains are charged to tax in the hands of individuals, other non-corporate tax payers and companies with different categories of residential status.^[1]

2. The principles of computing gains and losses

- a) Explain the meaning of 'value of consideration' and recognise the situations when this will not equal the cash or kind received.^[2]
- b) Explain the meaning of 'cost' and recognise the situations when this will not equal the amount actually expended.^[2]
- c) Recognise the circumstances in which indexation will be applicable.^[2]

3. Specific provisions relating to certain types of assets

- a) Shares and securities, including units in mutual funds ^[2]
 - i) Understand the special rules applicable to the definition of long term assets
 - ii) Understand the special rules applicable to the determination of holding periods and dates of transfer

iii) Understand the effect of rights issues, bonus issues and options on the computation of gains

b) Understand the special treatment of insurance moneys received.^[2]

c) Business assets ^[2]

i) Explain the treatment of stock in trade converted to a capital asset and vice versa

ii) Explain the treatment of assets transferred by a partner to a partnership firm and vice versa

iii) Understand the treatment of gains arising on the disposal of business assets, including slump sales

Excluded topics

- *Acquisition of immovable properties in certain cases of transfer to counteract evasion of tax.*
- *Purchase by Central Government of immovable properties in certain cases of transfer*

4. The computation of the capital gains of corporate and non-corporate assessees

a) Compute the amount chargeable to income tax under the head 'capital gains'.^[2]

b) Explain the treatment of capital losses, including the restrictions on the carry forward of losses.^[2]

c) Distinguish between the incidence of tax on short term and long term gains.^[2]

5. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

a) Explain the reliefs available to defer and minimise tax liabilities where sales proceeds/gains are re-invested, including the conditions attaching thereto; viz: ss. 54D, 54E, 54 EA, 54EB, 54EC, 54ED, 54G, 54H.^[2]

E FRINGE BENEFITS TAX

1. The scope of fringe benefits tax

a) Identify the employers which are subject to fringe benefits tax.^[1]

b) Identify the benefits which are subject to fringe benefits tax.^[1]

2. The valuation of fringe benefits and computation of liability

a) Recognise the different bases on which taxable fringe benefits are valued.^[2]

b) Compute the value of fringe benefits and the tax payable thereon.^[2]

c) Describe the obligations of employers to file a return of fringe benefits and to pay advance fringe benefit tax.^[2]

G. THE PROCEDURES FOR ASSESSMENT AND OBLIGATIONS OF ASSESSEES AND/OR THEIR AGENTS AND OF REPRESENTATIVE ASSESSEES

1. The system of assessment and the making of returns

a) Describe the income tax authorities and their powers.^[1]

b) Explain and apply the features of the assessment procedure as it applies to individuals and other non-corporate assessees.^[2]

c) Explain and apply the features of the assessment procedure as it applies to companies.^[2]

d) Explain who can be treated as an agent of an assessee, a legal representatives and a representative assessee, and their respective obligations and liabilities.^[1]

e) Describe the procedure for the allotment and usage of a permanent account number and the consequences of not obtaining or using such a number.^[2]

2. The time limits for the payment of tax, including advance tax and withholding taxes

- a) Recognise the time limits that apply to the filing of returns, the making of claims and the making, rectification and revision of assessments.^[2]
- b) Explain the consequences of the non-filing of a return and/or non-compliance with a notice.^[2]
- c) Recognise the due dates for payment of tax, including advance tax and withholding taxes.^[2]
- d) List the information and records that assessees need to retain for tax purposes.^[2]

3. The procedures relating to enquiries, tax audit, appeals, revision and disputes

- a) Explain the powers of the tax authorities to enquire and revise returns.^[2]
- b) Describe the appellate authorities and their powers.^[2]
- c) Explain the procedures for dealing with appeals and disputes.^[2]

Excluded topics

- *Provisions relating to searches and seizures and special procedure for assessment in search cases covered by chapter XIV B of the Income Tax Act 1961*
- *Settlement of cases*
- *Advance rulings*

4. Penalties for non-compliance

- a) Identify the circumstances in which interest will be levied and calculate the amount payable.^[2]
- b) Identify the circumstances in which penalties will be levied.^[2]

Excluded topics

- *Penalties imposable*
- *Offences and prosecutions*

READING LIST

Income tax law and practice – Kanga and Palkhiwala

Income tax – A.C. Sampath Iyengar – revised by Mr. S Rajarathanam

Taxman's student guide to Incometax Act, Incometax Rules

Income tax law – Pithisaria and Chaturwedi