

RESIDENCE AND SCOPE OF TOTAL INCOME

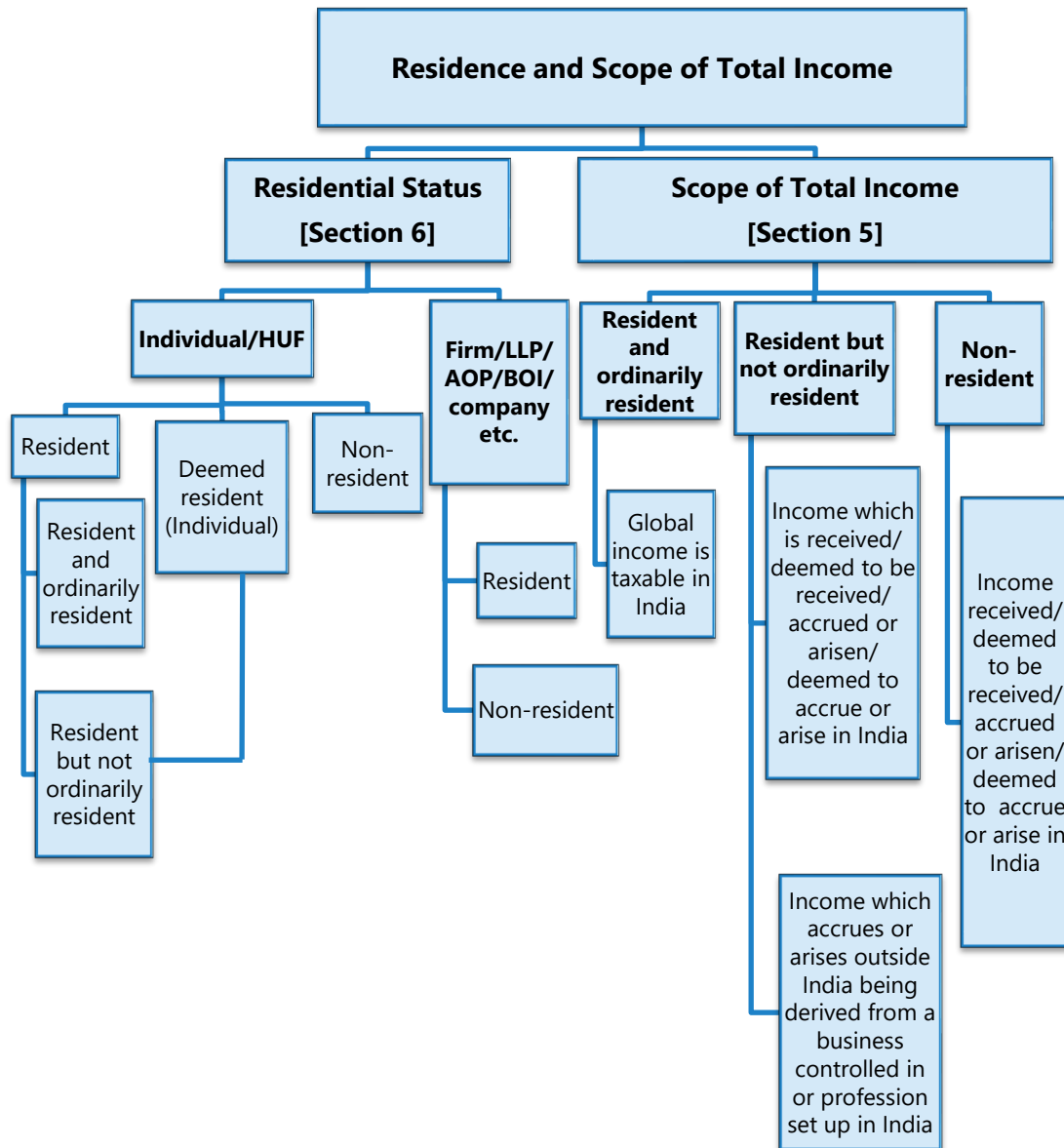


LEARNING OUTCOMES

After studying this chapter, you would be able to-

- ◆ **appreciate** the provisions for determining the residential status of different persons;
- ◆ **apply** the relevant provisions to determine the residential status of different persons;
- ◆ **examine** the scope of income of a person based on his residential status;
- ◆ **apply** the relevant provisions to determine the total income of a person based on his residential status.

CHAPTER OVERVIEW



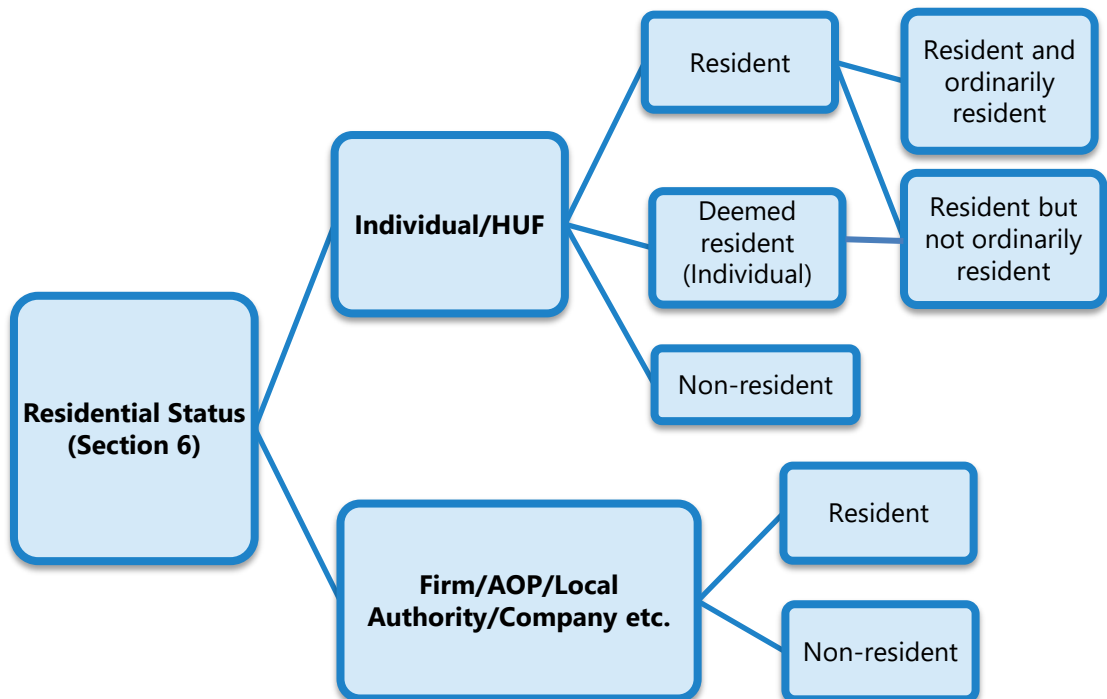
1. RESIDENTIAL STATUS [SECTION 6]

The incidence of tax on any assessee depends upon his residential status under the Act. For all purposes of income-tax, taxpayers (individuals and HUF) are classified into three broad categories on the basis of their residential status viz.

- (1) Resident and ordinarily resident
- (2) Resident but not ordinarily resident
- (3) Non-resident

Taxpayers (other than individuals and HUF) are classified into two broad categories on the basis of their residential status viz.

- (1) Resident
- (2) Non-resident



The residential status of an assessee must be ascertained with reference to each previous year. A person who is resident and ordinarily resident in one year may become non-resident or resident but not ordinarily resident in another year or *vice versa*.

The provisions for determining the residential status of assessee are:

1.1 Residential Status of Individuals

1. Residential status on the basis of number of days of stay in India -

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies **any one** of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.



- The term "stay in India" includes stay in the territorial waters of India (i.e. 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat moored in the territorial waters of India would be sufficient to make the individual resident in India.

- It is not necessary that the period of stay must be continuous or active nor is it essential that the stay should be at the usual place of residence, business or employment of the individual.

- For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.

- The residence of an individual for income-tax purpose has nothing to do with citizenship, place of birth or domicile. An individual can, therefore, be resident in more countries for tax purposes than one even though he can have only one domicile.

Exceptions:

The following categories of individuals will be treated as resident in India only if the period of their stay during the relevant previous year amounts to 182 days or more. In other words, even if such persons were in India for 60 days or more (but less than 182 days) in the relevant previous year, they will not be treated as resident due to the reason that their stay in India was for 365 days or more during the 4 immediately preceding years.

- (1) Indian citizen, who leaves India during the relevant previous year as a member of the crew of an Indian ship or for purposes of employment outside India, or
- (2) Indian citizen or person of Indian origin¹ who, being outside India comes on a visit to India during the relevant previous year.

However, such person having total income, other than the income from foreign sources [i.e., income which accrues or arises outside India (except income from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year will be treated as resident in India if -

- the period of his stay during the relevant previous year amounts to 182 days or more, or
- he has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 120 days in the previous year.



Stay in India for 120 days in the relevant P.Y. is not a standalone condition. This condition requires stay in India for 120 days in the relevant P.Y. + 365 days in the 4 years immediately preceding the P.Y.

¹A person is said to be of Indian origin if he or either of his parents or either of his grandparents was born in undivided India.

How to determine period of stay in India for an Indian citizen, being a crew member?

In case of foreign bound ships where the destination of the voyage is outside India, there is uncertainty regarding the manner and the basis of determining the period of stay in India for an Indian citizen, being a crew member.

To remove this uncertainty, *Explanation 2* to section 6(1) provides that in the case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the prescribed manner and subject to the prescribed conditions.

Accordingly, the CBDT has, *vide Notification No.70/2015 dated 17.8.2015*, inserted Rule 126 in the Income-tax Rules, 1962 to compute the period of stay in such cases.

According to Rule 126, for the purposes of section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, not include the following period:

Period to be excluded

Period commencing from		Period ending on
the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage	and	the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Meaning of certain term

Term	Meaning
Eligible voyage	A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where – (i) for the voyage having originated from any port in India, has as its destination any port outside India; and (ii) for the voyage having originated from any port outside India, has as its destination any port in India.

ILLUSTRATION 1

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2024. From the following details for the P.Y. 2024-25, determine the residential status of Mr. Anand for A.Y. 2025-26, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2024-25) is 400 days:

Particulars	Date
<i>Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand</i>	<i>6th June, 2024</i>
<i>Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand</i>	<i>9th December, 2024</i>

SOLUTION

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2024-25 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period commencing from 6th June, 2024 and ending on 9th December, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2024-25 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2025-26.

- 2. Deemed resident [Section 6(1A)]** – An individual, being an Indian citizen, having total income, other than the income from foreign sources [i.e.,

income which accrues or arises outside India (except income from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year would be deemed to be resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

However, this provision will not apply in case of an individual who is a resident of India in the previous year as per section 6(1).

Meaning of “liable to tax” – Liable to tax, in relation to a person and with reference to a country, means that there is an income-tax liability on such person under the law of that country for the time being in force. It also includes a person who has subsequently been exempted from such liability under the law of that country.



- *Only Indian citizen can be deemed resident. An individual who is not an Indian citizen but a person of Indian Origin cannot be deemed resident u/s 6(1A).*
- *Stay in India is not necessary for being a deemed resident u/s 6(1A).*

Resident and ordinarily resident/Resident but not ordinarily resident

Only individuals and HUF can be “resident but not ordinarily resident” in India. All other classes of assesseees can be either a resident or non-resident. A not-ordinarily resident person is one who satisfies any one of the conditions specified u/s 6(6).

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has, during the 7 previous years preceding the relevant previous year, been in India for a period of 729 days or less, or
- (iii) If such individual is an Indian citizen or person of Indian origin (who, being outside India, comes on a visit to India in any previous year) having total income, other than the income from foreign sources [i.e., income which accrues or arises outside India (other than income derived from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year, who has

been in India for 120 days or more but less than 182 days during that previous year, or

- (iv) If such individual is an Indian citizen who is deemed to be resident in India under section 6(1A).



A deemed resident u/s 6(1A) is always RNOR.

ILLUSTRATION 2

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.

- (a) Find out his residential status for the assessment year 2025-26.
- (b) Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- (c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2024-25?

SOLUTION

- (a) **Determination of Residential Status of Mr. Brett Lee for the A.Y. 2025-26:-**

Period of stay during previous year 2024-25 = 100 days

Calculation of period of stay during 4 preceding PYs (100 x 4 = 400 days)

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
Total	400 days

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2024-25 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the A.Y. 2025-26.

Computation of period of stay during 7 preceding previous years = 100 x 7 = 700 days

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
Total	700 days

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the A.Y. 2025-26 (**See Note below**).

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2024-25 relevant to the assessment year 2025-26.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2025-26.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.
- (c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds ₹ 15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2024-25, since his stay in India is 120 days

in the P.Y.2024-25 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed ₹ 15 lakh, he would be treated as non-resident in India for the P.Y.2024-25, since his stay in India is less than 182 days in the P.Y.2024-25.

ILLUSTRATION 3

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2020-21. During the financial years 2020-21 2021-22, 2022-23, 2023-24 and 2024-25, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2025-26.

SOLUTION

During the P.Y. 2024-25, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2024-25, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2024-25.

1.2 Residential status of HUF

Resident: A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India.

Non-resident: If the control and management of the affairs is situated wholly outside India, it would become a non-resident.

Meaning of the term “control and management”

- The expression ‘control and management’ referred to under section 6 refers to the central control and management and not to the carrying on of day-to-day business by servants, employees or agents.
- Control and management means de facto control and management and not merely having the right to control or manage.

- The business may be done from outside India and yet its control and management may be wholly within India. Therefore, control and management of a business is said to be situated at a place where the head and brain of the adventure is situated. Merely because the family has a house in India, where some of the members reside in the previous year, does not constitute that place as the seat of control and management of the affairs of the HUF unless important decisions concerning the affairs of the HUF are taken at that place.
- The place of control may be different from the usual place of running the business and sometimes even the registered office of the assessee. This is because the control and management of a business need not necessarily be done from the place of business or from the registered office of the assessee.
- But control and management do imply the functioning of the controlling and directing power at a particular place with some degree of permanence.

Resident and ordinarily resident/ Resident but not ordinarily resident

If Karta of resident HUF satisfies **both** the following additional conditions (as applicable in case of individual) then, resident HUF will be resident and ordinarily resident, otherwise it will be resident but not ordinarily resident.

- Karta of resident HUF should be resident in at least 2 previous years out of 10 previous years immediately preceding relevant previous year.
- Stay of Karta during 7 previous years immediately preceding relevant previous year should be 730 days or more.

ILLUSTRATION 4

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for A.Y. 2025-26.

SOLUTION

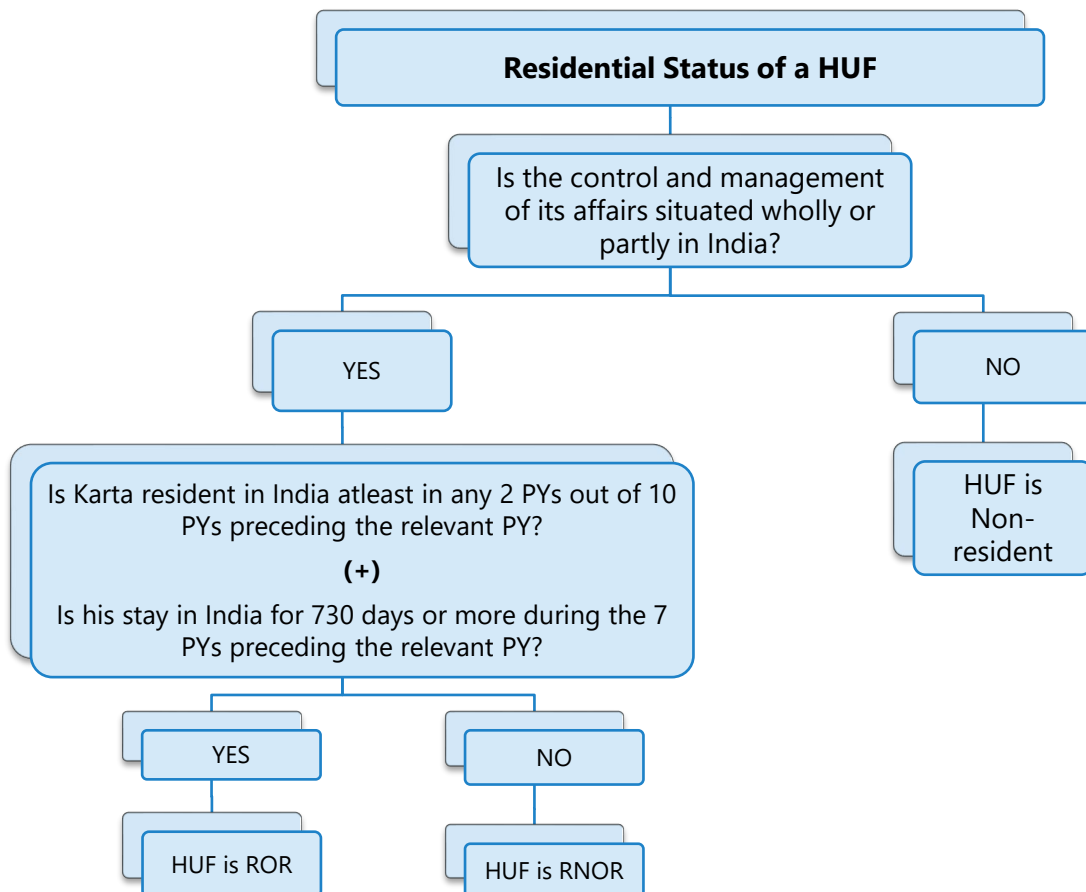
- (a) During the P.Y. 2024-25, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However,

since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2024-25 is resident but not ordinarily resident.

- (b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2024-25.

Note – If the control and management is in India, even partially, then, the HUF would be resident in India. In such a case, the residential status of HUF would be resident but not ordinarily resident, since the Karta's stay in India is for less than 730 days in the 7 previous years immediately preceding the relevant previous year.



1.3 Residential status of firms, AoPs and Bols

Resident: A firm, AoP and Bol would be resident in India if the control and management of its affairs is situated wholly or partly in India.

Non-resident: Where the control and management of the affairs is situated wholly outside India, the firm, AoP and Bol would become a non-resident.



The residential status of the partners/ members is immaterial while determining the residential status of a Firm/AOP/BOI.

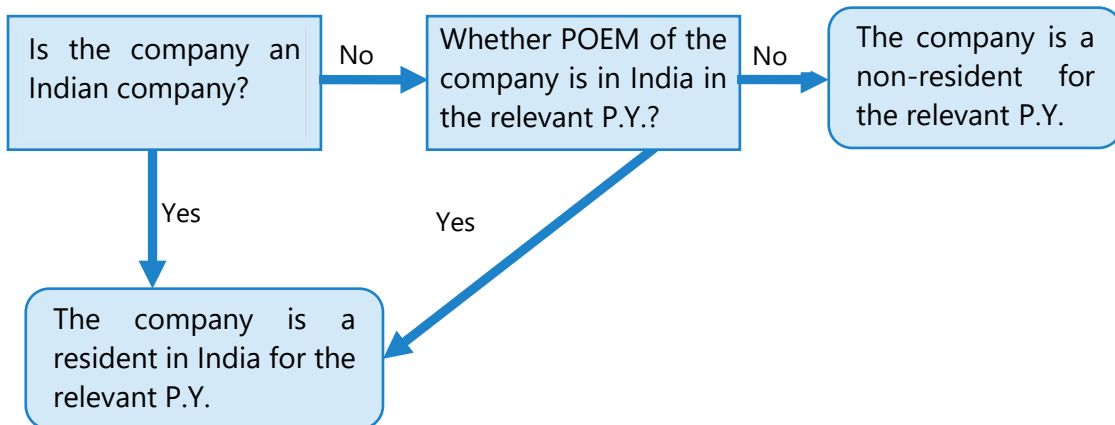
1.4 Residential status of companies

A company would be resident in India in any previous year, if-

- (i) it is an Indian company; or
- (ii) its place of effective management, in that year, is in India.

"Place of effective management" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made [Explanation to section 6(3)].

Determination of residential status of a company



Note – The guidelines issued by CBDT for determination of POEM of a foreign company and transition mechanism for a company which is incorporated outside India, which has not been assessed to tax in India earlier and has become resident in India for the first time due to application of POEM, has been provided in Chapter XII-BC. The same will be dealt with at the Final level.

1.5 Residential status of local authorities and artificial juridical persons

Resident: Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India.

Non-resident: Where the control and management of the affairs is situated wholly outside India, they would become non-residents.

2. SCOPE OF TOTAL INCOME

Section 5 provides the scope of total income in terms of the residential status of the assessee because the incidence of tax on any person depends upon his residential status in India. The scope of total income of an assessee depends upon the following three important considerations:

- (i) the residential status of the assessee;
- (ii) the place of accrual or receipt of income, whether actual or deemed; and
- (iii) the point of time at which the income had accrued to or was received by or on behalf of the assessee.

The ambit of total income of the three classes of assessee would be as follows:

(1) Resident and ordinarily resident (ROR)

The total income of an ROR would, under section 5(1), consist of:

- (i) income received or deemed to be received in India during the previous year;
- (ii) income which accrues or arises or is deemed to accrue or arise in India during the previous year; and
- (iii) income which accrues or arises outside India even if it is not received or brought into India during the previous year.

In simpler terms, an ROR has to pay tax on the total income accrued or deemed to accrue, received or deemed to be received in or outside India during the relevant previous year.

(2) Resident but not ordinarily resident (RNOR)

Under section 5(1), the total income of an RNOR would consist of –

- (i) income received or deemed to be received in India during the previous year;
- (ii) income which accrues or arises or is deemed to accrue or arise in India during the previous year; and
- (iii) income derived from a business controlled in or profession set up in India, even though it accrues or arises outside India.

Note – All other income accruing or arising outside India which is not received or deemed to be received or deemed to accrue or arise in India would not be included in his total income.

(3) Non-resident

A non-resident's total income under section 5(2) includes:

- (i) income received or deemed to be received in India in the previous year; and
- (ii) income which accrues or arises or is deemed to accrue or arise in India during the previous year.

Note: All assesseees, whether resident or not, are chargeable to tax in respect of their income accrued, arisen, received or deemed to accrue, arise or to be received in India whereas a resident alone (resident and ordinarily resident in the case of individuals and HUF) is chargeable to tax in respect of income which accrues or arises outside India.

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) and received into the NRE bank account maintained with an Indian bank shall not be included in the total income.

Residential Status and Scope of Total Income: Whether the following incomes are to be included in Total Income?

Scope of total Income	Resident and Ordinarily Resident (ROR)	Resident but not Ordinarily Resident (RNOR)	Non-Resident
Income received or deemed to be received in India during the previous year	Yes	Yes	Yes
Income accruing or arising or deeming to accrue or arise in India during the previous year	Yes	Yes	Yes
Income accruing or arising outside India during the previous year	Yes, even if such income is not received or brought into India during the previous year	Yes, but only if such income is derived from a business controlled in or profession set up in India; Otherwise, No.	No

ILLUSTRATION 5

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the A.Y. 2025-26, if he is:

- (i) Resident and ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident

	Particulars	₹
(a)	Short term capital gains on sale of shares of an Indian Company, received in Germany	15,000

(b)	Dividend from a Japanese Company, received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from land in Gujarat	25,000

SOLUTION**Computation of total income of Mr. Anirudh for the A.Y. 2025-26**

Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
	₹	₹	₹
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

- (i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	75,000
Less: Deduction under section 24 (30% of ₹ 75,000)	22,500
Income from house property	52,500

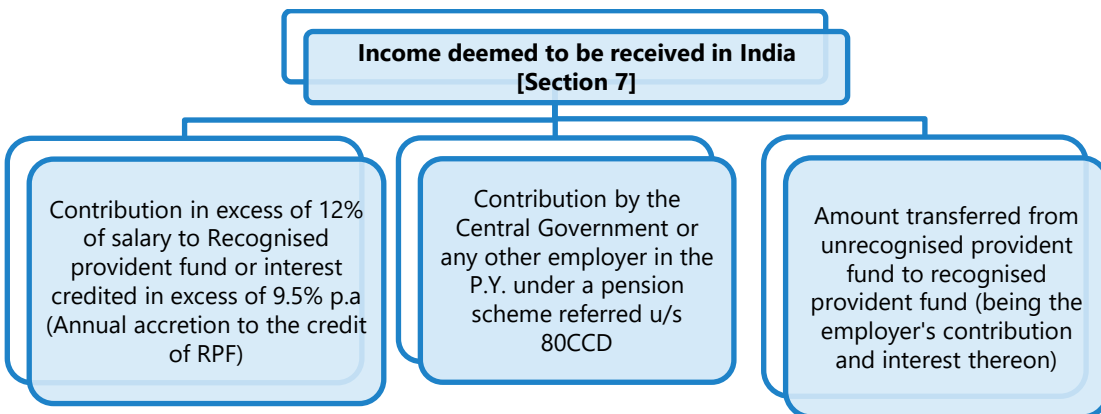
- (ii) Agricultural income is exempt under section 10(1).

2.1 Meaning of “Income received or deemed to be received”

All assesseees are liable to tax in respect of the income received or deemed to be received by them in India during the previous year irrespective of -

- (i) their residential status, and
- (ii) the place of its accrual.

Income is to be included in the total income of the assessee immediately on its actual or deemed receipt. The receipt of income refers to only the first occasion when the recipient gets the money under his control. Therefore, when once an amount is received as income, remittance or transmission of that amount from one place or person to another does not constitute receipt of income in the hands of the subsequent recipient or at the place of subsequent receipt.



2.2 Meaning of Income ‘accruing’ and ‘due’

Accrue refers to the right to receive income, whereas due refers to the right to enforce payment of the same. In other words, when the right to receive income

becomes vested in the assessee, it is said to accrue or arise. For e.g. salary for work done in December will accrue throughout the month, day to day, but will become due on the salary bill being passed on 31st December or 1st January.

Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become due for payment on the specified dates.

Example : *Interest on Government securities is usually payable on specified dates, say on 1st January and 1st July. In all such cases, the interest would be said to accrue from 1st July to 31st December and on 1st January, it will fall due for payment.*

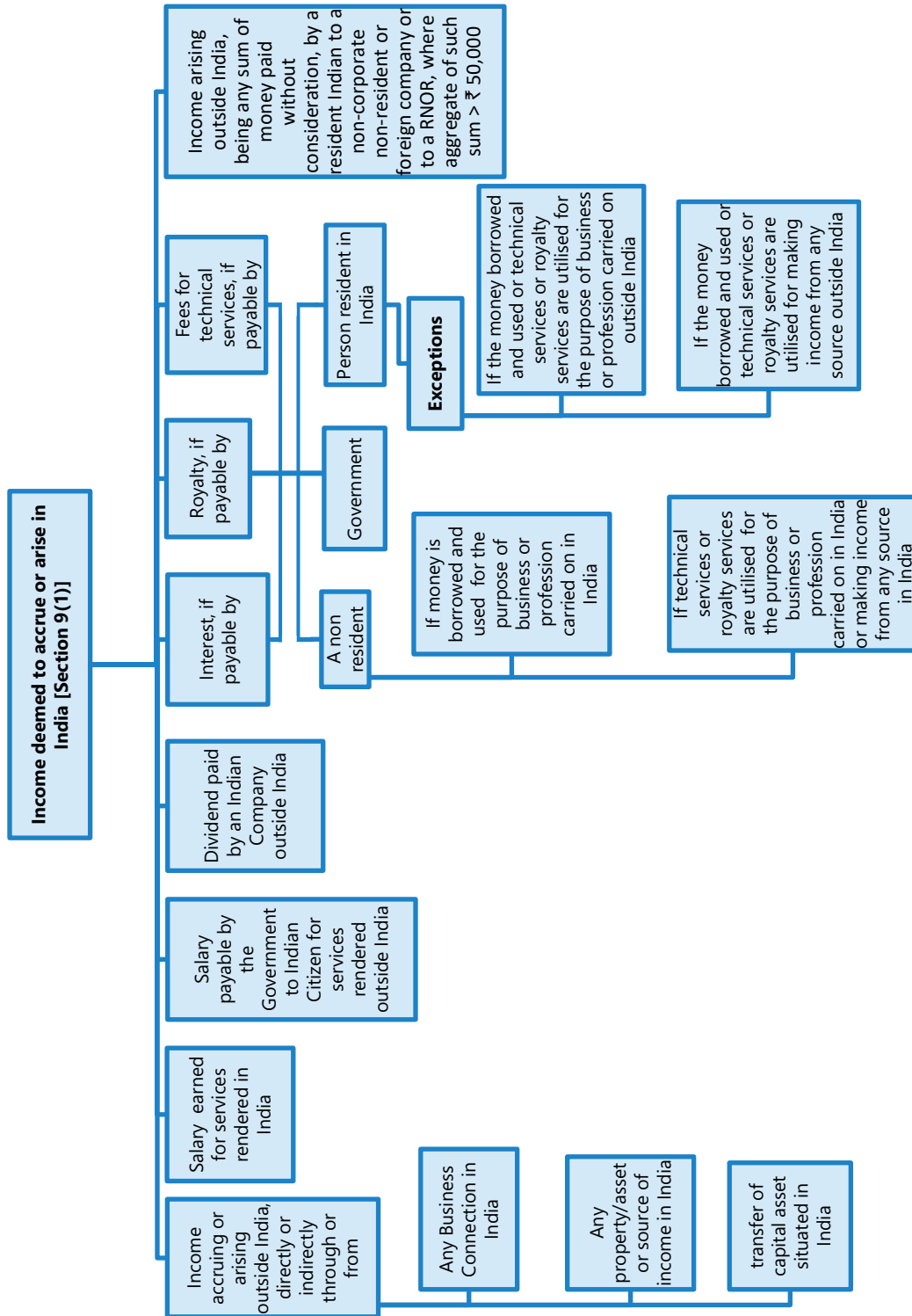
It must be noted that income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation.

With a view to removing difficulties and clarifying doubts in the taxation of income, *Explanation 1* to section 5 specifically provides that an item of income accruing or arising outside India shall not be deemed to be received in India merely because it is taken into account in a balance sheet prepared in India.

Further, *Explanation 2* to section 5 makes it clear that once an item of income is included in the assessee's total income and subjected to tax on the ground of its accrual/deemed accrual, it cannot again be included in the person's total income and subjected to tax either in the same or in a subsequent year on the ground of its receipt - whether actual or deemed.

2.3 Income deemed to accrue or arise in India [Section 9]

Certain types of income are deemed to accrue or arise in India even though they may actually **accrue or arise outside India**.



The categories of income which are deemed to accrue or arise in India are:

(1) Any income accruing or arising to an assessee in any place outside India whether directly or indirectly

- through or from any business connection in India,
- through or from any property in India,
- through or from any asset or source of income in India or
- through the transfer of a capital asset situated in India

would be deemed to accrue or arise in India. **[Section 9(1)(i)]**

In the case of a non-resident, the following shall not, however, be deemed to accrue or arise in India [Explanation 1 to section 9(1)(i)]:

- (i) In the case of a business, in respect of which all the operations are not carried out in India [Explanation 1(a) to section 9(1)(i)]:** In the case of a business of which all the operations are not carried out in India, the income of the business deemed to accrue or arise in India shall be only such part of income as is reasonably attributable to the operations carried out in India. Therefore, it follows that such part of income which cannot be reasonably attributed to the operations in India, is not deemed to accrue or arise in India.
- (ii) Purchase of goods in India for export [Explanation 1(b) to section 9(1)(i)]:** In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.
- (iii) Collection of news and views in India for transmission out of India [Explanation 1(c) to section 9(1)(i)]:** In the case of a non-resident, being a person engaged in the business of running a news agency or of publishing newspapers, magazines or journals, no income shall be deemed to accrue or arise in India to him through or from activities which are confined to the collection of news and views in India for transmission out of India.
- (iv) Shooting of cinematograph films in India [Explanation 1(d) to section 9(1)(i)]:** In the case of a non-resident, no income shall be deemed to accrue or arise in India through or from operations which are confined to the shooting of any cinematograph film in India, if such non-resident is :

- (a) an individual, who is not a citizen of India or
 - (b) a firm which does not have any partner who is a citizen of India or who is resident in India; or
 - (c) a company which does not have any shareholder who is a citizen of India or who is resident in India.
- (v) **Activities confined to display of rough diamonds in SNZs [Explanation 1(e) to section 9(1)(i)]:** In the case of a foreign company engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any special zone notified by the Central Government in the Official Gazette in this behalf.

Income from property, asset or source of income in India

Any income which arises from any property (movable, immovable, tangible and intangible property) would be deemed to accrue or arise in India.

Examples:

1. *Hire charges or rent paid outside India for the use of the machinery or buildings situated in India,*
2. *Deposits with an Indian company for which interest is received outside India etc.*
3. *Mr. X, resident in New York, USA, has a house property situated in India which has been given on rent by him. Rent receivable/ received by Mr. X would be taxable in India whether such rent is received by him in India or outside India as the house property is situated in India.*

Income through transfer of a capital asset situated in India

Capital gains arising through the transfer of a capital asset situated in India would be deemed to accrue or arise in India in all cases irrespective of the fact whether

- (i) the capital asset is movable or immovable, tangible or intangible;
- (ii) the place of registration of the document of transfer etc., is in India or outside; and
- (iii) the place of payment of the consideration for the transfer is within India or outside.

(2) Income from salaries earned in India [Section 9(1)(ii)]

Income, which falls under the head "Salaries", is deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India would be treated as earned in India.

Further, any income under the head "Salaries" payable for rest period or leave period which is preceded and succeeded by services rendered in India, and forms part of the service contract of employment, shall be regarded as income earned in India.

(3) Income from salaries payable by the Government for services rendered outside India [Section 9(1)(iii)]

Income from 'Salaries' which is payable by the Government to a citizen of India for services rendered outside India would be deemed to accrue or arise in India.

The following conditions have to be satisfied to treat such income as deemed to accrue or arise in India:

- Income should be chargeable under the head 'Salaries';
- The payer should be Government of India;
- The recipient should be an Indian citizen, whether resident or non-resident in India;
- The services should be rendered outside India.

However, allowances and perquisites paid or allowed outside India by the Government to an Indian citizen for services rendered outside India is exempt, by virtue of section 10(7).



Exemption under section 10(7) would be available to an assessee irrespective of the regime under which he pays tax.

ILLUSTRATION 6

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2024-25. He has received the following income for the F.Y. 2024-25:

S. No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for A.Y. 2025-26.

SOLUTION

As per section 6(1), Mr. David is a non-resident for the A.Y. 2025-26, since he was not present in India at any time during the P.Y. 2024-25.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt under section 10(7) in the hands of Mr. David.

Gross Total Income of Mr. David for A.Y. 2025-26

Particulars	₹
Salaries (computed)	5,00,000
Income from other sources (Interest on fixed deposit in India)	1,00,000
Gross Total Income	6,00,000

(4) Dividend paid by an Indian company outside India [Section 9(1)(iv)]

Dividends paid by an Indian company outside India is deemed to accrue or arise in India and would be taxable in the hands of shareholders.

(5) Interest [Section 9(1)(v)]

Under section 9(1)(v), an interest is deemed to accrue or arise in India if it is payable by -

- (i) the Government;
- (ii) a person who is resident in India;

Exception: Where it is payable in respect of any debt incurred or money borrowed and used for the purposes of a business or profession carried on by him outside India or for the purposes of making or earning any income from any source outside India, it will not be deemed to accrue or arise in India.

- (iii) a person who is a non-resident, when it is payable in respect of any debt incurred or moneys borrowed and used for the purpose of a business or profession carried on in India by him.

Exception: Interest on moneys borrowed by the non-resident for any purpose in India other than a business or profession, will not be deemed to accrue or arise in India.

Example : *If a non-resident 'A' borrows money from a non-resident 'B' and invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.*

(6) Royalty [Section 9(1)(vi)]

Royalty will be deemed to accrue or arise in India when it is payable by -

- (i) the Government;
- (ii) a person who is a resident in India

Exception: where it is payable in respect for the transfer of any right or the use of any property or information used or for the utilization of services for the purposes of a business or profession carried on by such person outside

India or for the purposes of making or earning any income from any source outside India; or

- (iii) a person who is a non-resident, only when the royalty is payable in respect of any right, property or information used or services utilised for purposes of a business or profession carried on in India or for the purposes of making or earning any income from any source in India.

Important points:

- (1) Lumpsum royalty not deemed to accrue arise in India:** Lumpsum royalty payments made by a resident for the transfer of all or any rights (including the granting of a licence) in respect of **computer software** supplied by a non-resident manufacturer along with computer hardware under any scheme approved by the Government under the Policy on Computer Software Export, Software Development and Training, 1986 shall not be deemed to accrue or arise in India.
- (2) Meaning of Royalty:** The term 'royalty' means consideration (including any lumpsum consideration but excluding any consideration which would be the income of the recipient chargeable under the head 'Capital gains') for:
 - (i) the transfer of all or any rights (including the granting of licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
 - (v) the use or right to use any industrial, commercial or scientific equipment²;

²but not including the amounts referred to in section 44BB containing presumptive tax provisions relating to non-resident engaged in the business of exploration, etc., of mineral oils, which will be dealt with at the final level.

- (vi) the transfer of all or any rights (including the granting of licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting.

Note: Consideration for sale, distribution or exhibition of cinematographic films is covered within the scope of royalty.

- (vii) the rendering of any service in connection with the activities listed above.

The definition of 'royalty' for this purpose is wide enough to cover both industrial royalties as well as copyright royalties. The definition specially excludes income which should be chargeable to tax under the head 'capital gains'.

(3) Consideration for use or right to use of computer software is royalty within the meaning of section 9(1)(vi)

The consideration for use or right to use of computer software is royalty by clarifying that, transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

(4) Consideration in respect of any right, property or information – Is it royalty?

Royalty includes and has always included consideration in respect of any right, property or information, whether or not,

- (a) the possession or control of such right, property or information is with the payer;
- (b) such right, property or information is used directly by the payer;
- (c) the location of such right, property or information is in India.

(5) Meaning of Process: The term "process" includes and shall be deemed to have always included transmission by satellite (including up-linking, amplification, conversion for downlinking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret.

(7) Fees for technical services [Section 9(1)(vii)]

Any fees for technical services will be deemed to accrue or arise in India if they are payable by -

- (i) the Government,
- (ii) a person who is resident in India

Exception: Where the fees are payable in respect of technical services utilised in a business or profession carried on by such person outside India or for the purpose of making or earning any income from any source outside India.

- (iii) a person who is a non-resident, only where the fees are payable in respect of services utilised in a business or profession carried on by the non-resident in India or where such services are utilised for the purpose of making or earning any income from any source in India.

Fees for technical services means any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel). However, it does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'.

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services to be taxed irrespective of territorial nexus (Explanation to section 9)

Income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not –

- (i) the non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

ILLUSTRATION 7

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

SOLUTION

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The *Explanation* below section 9(2) clarifies that income by way of, *inter alia*, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

(8) Any sum of money paid by a resident Indian to a non-corporate non-resident or foreign company or to a resident but not ordinarily resident in India [Section 9(1)(viii)]

Income arising outside India, being any sum of money paid without consideration, by an Indian resident person to a non-corporate non-resident or foreign company or to a RNOR would be deemed to accrue or arise in India if the same is chargeable to tax under section 56(2)(x) i.e., if the aggregate of such sum received by a non-corporate non-resident or foreign company or a RNOR exceeds ₹ 50,000.

You may refer to Unit 5 of Chapter 3 where chargeability of any sum of money received is discussed in detail.



This deeming provision applies to only sum of money paid outside India to a non-corporate non-resident or foreign company or to a RNOR, and not in respect of property, movable or immovable, transferred outside India without consideration or for inadequate consideration to a non-corporate non-resident or foreign company or a RNOR.

ILLUSTRATION 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Particulars	Amount (₹)
<i>Interest on UK Development Bonds, 50% of interest received in India</i>	10,000
<i>Income from a business in Chennai (50% is received in India)</i>	20,000
<i>Short term capital gains on sale of shares of an Indian company, received in London</i>	20,000
<i>Dividend from British company received in London</i>	5,000
<i>Long term capital gains on sale of plant at Germany, 50% of gains are received in India</i>	40,000
<i>Income earned from business in Germany which is controlled in Delhi (₹ 40,000 is received in India)</i>	70,000
<i>Profits from a business in Delhi but managed entirely from London</i>	15,000
<i>Income from house property in London deposited in a Bank at London, brought to India (Computed)</i>	50,000
<i>Interest on debentures in an Indian company, received in London</i>	12,000
<i>Fees for technical services rendered in India but received in London</i>	8,000
<i>Profits from a business in Mumbai, managed from London</i>	26,000
<i>Income from property situated in Nepal received there (Computed)</i>	16,000
<i>Past foreign untaxed income brought to India during the previous year</i>	5,000
<i>Income from agricultural land in Nepal, received there and then brought to India</i>	18,000

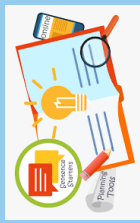
<i>Income from profession in Kenya which was set up in India, received there but spent in India</i>	5,000
<i>Gift received on the occasion of his wedding</i>	20,000
<i>Interest on savings bank deposit in State Bank of India</i>	12,000
<i>Income from a business in Russia, controlled in Russia</i>	20,000
<i>Dividend from Reliance Petroleum Limited, an Indian Company</i>	5,000
<i>Agricultural income from a land in Rajasthan</i>	15,000

SOLUTION**Computation of total income for the A.Y. 2025-26**

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
	₹	₹	₹
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-

Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled in Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

LET US RECAPITULATE



(I) Residential status of an individual

(1) Section	(2) 6(1)	(3) 6(1)	(4) 6(1)	(5) 6(1)	(6) 6(1A)
Main conditions	All individuals [Other than (3), (4) and (5)] [Either (a) or (b) should be satisfied for being a resident]	Indian citizen leaving India in relevant P.Y. for employment or as member of crew of Indian ship	Indian citizen or PIO residing outside India visiting India during the relevant P.Y. and having total income (excl. Income from foreign sources) ≤ ₹ 15 lakh	Indian citizen or PIO residing outside India during the relevant P.Y. and having total income (excl. Income from foreign sources) > ₹ 15 lakh	Deemed resident – Indian citizen whose total income (excl. Income from foreign sources) > ₹ 15 lakh, who is not liable to tax in any other country
(a) ≥ 182 days in the relevant P.Y.	√	√	√	√	X
(b) ≥ 60 days in the relevant P.Y. + ≥ 365 days in 4 immediately preceding PYs	(OR) √	X	X	≥ 120 days in the relevant P.Y. + ≥ 365 days in 4 immediately preceding PYs	X
Additional conditions	Section 6(6)				
(i) ≥ 730 days in 7 immediately preceding PYs	If both (i) and (ii) are satisfied, ROR. Otherwise RNOR				
(ii) Resident for ≥ 2 years out of the 10 immediately preceding PYs	i.e., if either (i) or (ii) are satisfied or neither (i) nor (ii) are satisfied, RNOR.				
	Section 6(6)		Section 6(6)		Section 6(6)
	By default individual resident due to fulfillment of second condition above		By default RNOR, if individual becomes resident due to the fulfillment of modified second condition above		By default RNOR

Notes -

- (1) Section 6(1A) would not apply in case of an individual who is said to be resident in India in the previous year under section 6(1).
- (2) A person is said to be of Indian origin if he or either of his parents or either of his grandparents was born in undivided India
- (3) "Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

(II) HUF [ROR/RNOR/non-resident]

A HUF would be **resident in India** if the **control and management** of its affairs is situated **wholly or partly in India**.

If the **control and management** of the affairs is situated **wholly outside India**, it would become a **non-resident**.

If the HUF is resident, then the satisfaction or otherwise of additional conditions by Karta would determine whether the HUF is **ROR** or **RNOR**.

If Karta satisfies both the additional conditions [(i) & (ii)] in (I) above, then, the HUF would be ROR. Otherwise, the HUF would be RNOR.

(III) Firms , AoPs and Bols [Resident/Non-resident]

(i) A firm, AoP or Bol would be **resident in India**, if the **control and management** of its affairs is situated **wholly or partly in India**.

(ii) If the **control and management** of the affairs is situated **wholly outside India**, they would become a **non-resident**.

(IV) Companies [Resident/Non-resident]

(i) A company would be **resident in India** in any previous year, if it is an Indian company or its place of effective management (POEM) in that year, is in India.

(ii) If the company is not an Indian Company and its POEM is also not in India in that year, it would become a non-resident for that year.

Section 5 [Scope of Total Income]		
Resident and Ordinarily Resident	Resident but not Ordinarily Resident	Non-Resident
<p>Income received/ deemed to be received/accrued or arisen/deemed to accrue or arise in or outside India</p> <p>In short, the global income is taxable.</p>	<p>Income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India;</p> <p style="text-align: center;">AND</p> <p>Income which accrues or arises outside India being derived from a business controlled in or profession set up in India.</p>	<p>Income received/ deemed to be received/accrued or arisen/deemed to accrue or arise in India.</p>



TEST YOUR KNOWLEDGE

1. Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2025-26.
2. Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2023 for permanent settlement. What will be his residential status for A.Y. 2025-26?
3. Mr. Ramesh & Mr. Suresh are brothers, and they earned the following incomes during the F.Y. 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2025-26 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

4. *Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus".*
5. *Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:*
 - (i) *Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.*
 - (ii) *Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.*
 - (iii) *Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).*
 - (iv) *Royalty paid by a resident to a non-resident in respect of a business carried on outside India.*
 - (v) *Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.*

ANSWERS

1. Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -
 - (i) He has been in India during the previous year for a total period of 182 days or more, or
 - (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2025-26.

2. Mr. Dey is a resident in A.Y. 2025-26 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2024-25.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person, *inter alia*;

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2024-25 (A.Y. 2025-26), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2024-25. He was resident only in the P.Y. 2023-24. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 546 days [366 days in P.Y. 2023-24 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2024-25, which is less than 730 days.

3. **Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2025-26**

S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000

2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	70,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
2. In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - (i) Income received or deemed to be received in India; and
 - (ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

3. Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
5. Income from house property -

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @30%	30,000	18,000
Net income from house property	70,000	42,000

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

6. In case of an individual, interest upto ₹ 10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA.
4. This statement is correct.

As per *Explanation* to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

- (i) non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

5. Taxability of receipts

	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,25,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 75,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as

			deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

