

INCOME TAX-I

B.Com Professional – 5th Sem

(According to MRSPTU)

Unit & Chapter wise Table of the Contents:

Units	Chapters	Topics
Unit-1	Chapter-1.1	Introduction & Basic Concepts
	Chapter-1.2	Residential Status
	Chapter-2.1	Revenue & Capital
	Chapter-2.2	Basis of Charge
	Chapter-3.1	Exempted Incomes under section – 10
Unit-2		Computation of Income under different heads of Income
	Chapter- 2.1	Salaries
	Chapter-2.2	House property
	Chapter-2.3	Profit and gains of business or profession
	Chapter-2.4	Capital gains
	Chapter-2.5	Income from Other sources

Unit-3	Chapter-3.1	Total Income and Tax Computation
	Chapter-3.2	Income of other persons including in Assesses total income
	Chapter-3.3	Aggregator of income and set off and carry forward charge
Unit-4	Chapter-4.1	Deductions from gross total income
	Chapter-4.2	Rebates and reliefs
	Chapter-4.3	Computation of total income of individuals only

Unit-1

➤ Chapter-1 :

Introduction & Basic Concepts

- 1.1 Tax
- 1.2 Income Tax

➤ Chapter-2 : Revenue & Capital

- Receipts
- Expenditure
- Loss

➤ Chapter-3 : Basis of Charge

- Residential Income
- Scope of total income on the basis of residential status.

➤ Chapter-4 : Exempted Income

- Under section 10 (related to individuals only)

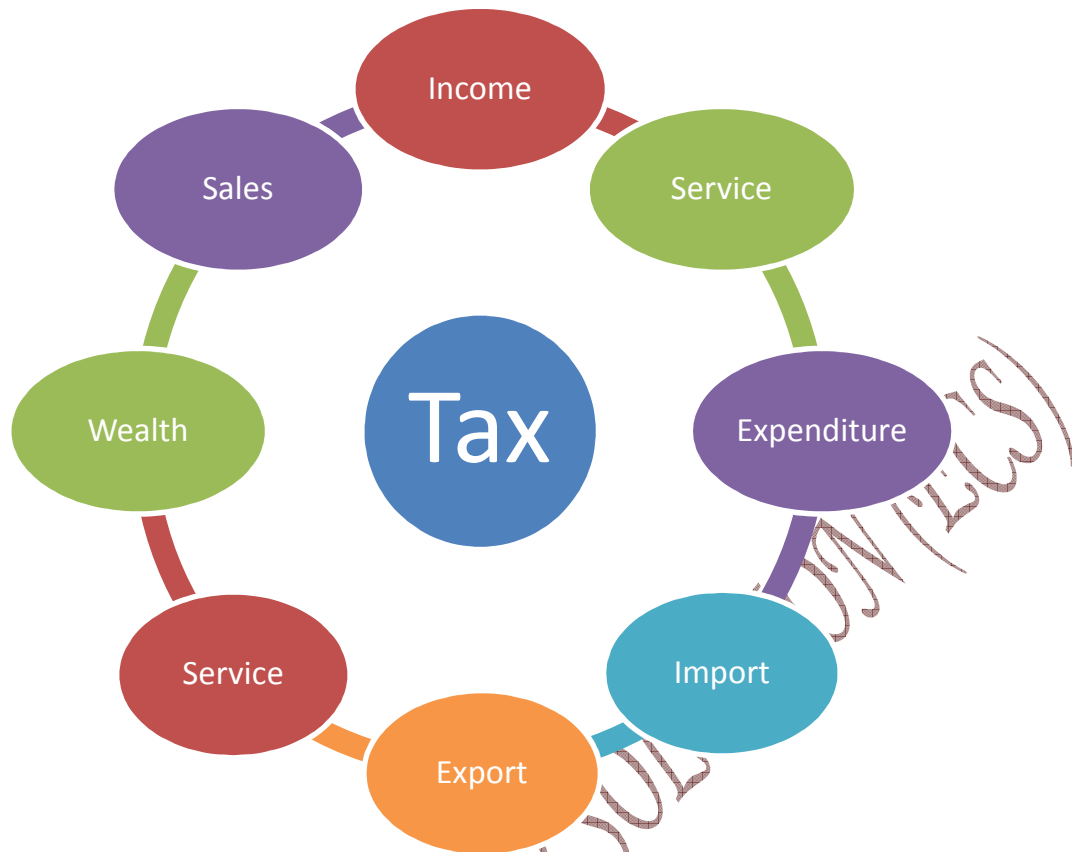
Chapter – 1

Introduction & Basic Concepts

TAXES

Meaning of Tax:

Tax is a financial charge imposed on individuals or legal entity by the Government in pursuant to its legislative authority. A number of taxes have been imposed by various Governments covering different aspects such as income, wealth, sales, expenditure, services provided, production, import, export etc. The purpose of taxation is to finance government expenditure.



Definitions:

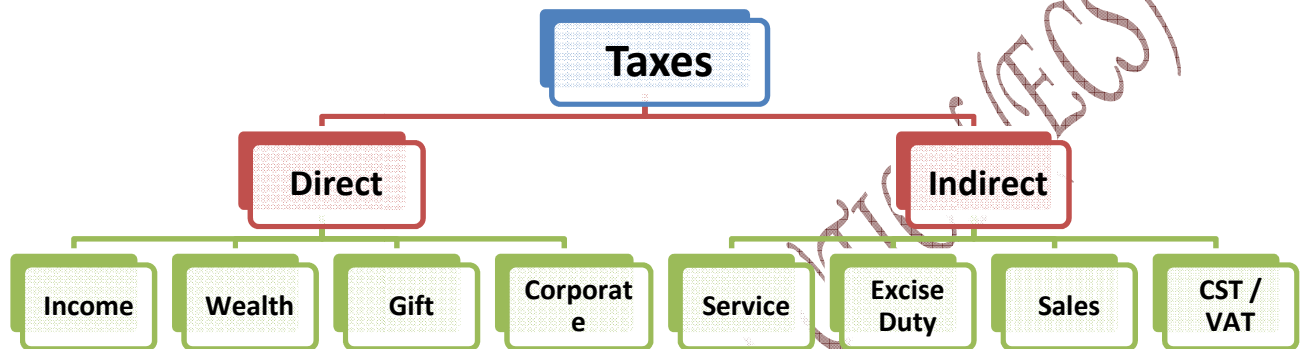
A tax may be defined as

“a compulsory extraction made by General Government from the general public.”

“A fee charged (or levied) by a government on a product, income, or activity.”

Types of Taxes:

Basically, there are **two types** of Taxes i.e. **Direct & Indirect Tax**. Direct Taxes are a kind of **Income Tax, Wealth Tax, Corporate Tax, or Gift** while Indirect Taxes are **Service Tax, Sales tax, Central Sales Tax, Value Added Tax, Central Excise Duty, Customs Duty, State Excise Duty, or Security Transaction Tax**.



- **Direct Taxes:** A tax which is **born and paid directly** by the **person on whom it is impose** is a direct tax e.g., Income Tax, Wealth Tax, Gift Tax, etc. It is directly paid by the tax payer to the government **without any intermediary** and it comes from own pocket.
- **Indirect Taxes:** If a tax is **passed on by the tax payer to some other person**, it is an indirect tax e.g. Sales Tax, Value Added Tax (VAT) etc. It is not directly paid by the person on whom it is levied, but is paid indirectly **through the medium** of other persons.

Taxes to be imposed by:

Indian Taxation system is one of the world's largest taxation system in terms of its wide application on large number of people and other business entities. It is well structured system **derived from the Indian Constitution**. According to **Article 265** of Constitution of India, the **Government (Central, State or Local Authority) has the right to levy taxes** on individuals and other artificial bodies.

Thus, every tax to be charged in India has to be backed by the law passed by the Parliament or State Legislature and any tax charged without the constitutional authority shall be void ab initio.

INCOME TAX

Meaning of Income Tax:

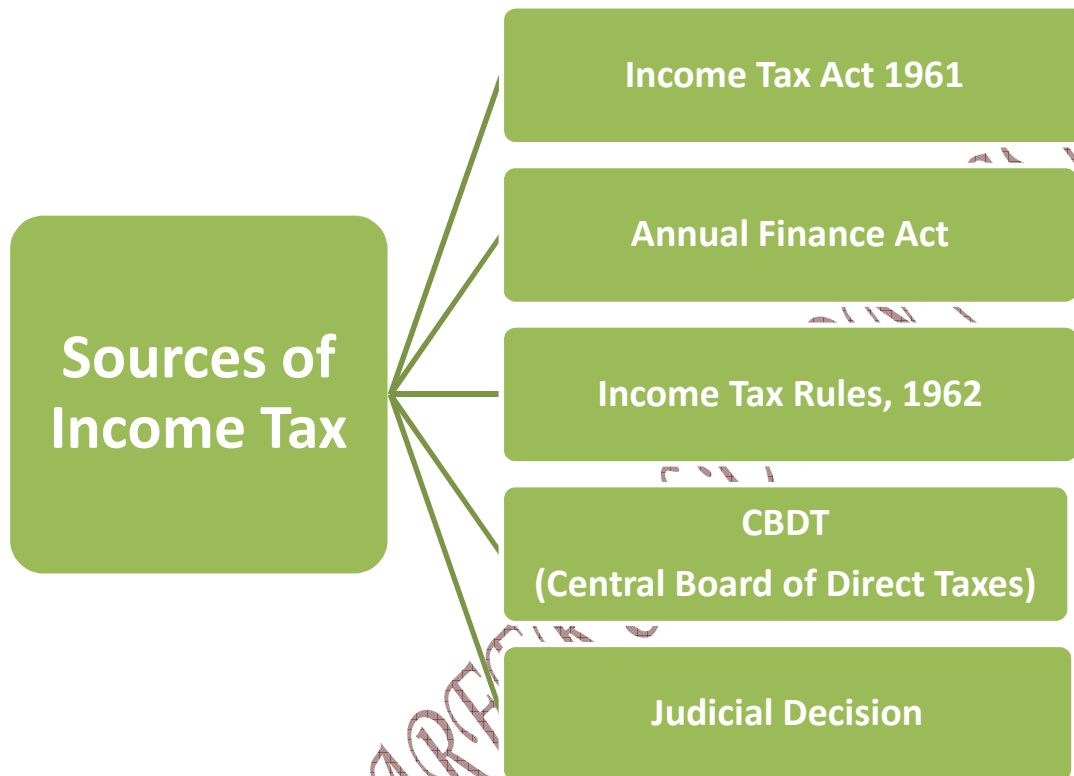
Income Tax is an important type of tax which is found practically in all most all the countries of the world. It is a tax on Income, gain or profits earned by a person (Individuals or other Artificial Legal Entities)

Income Tax is a tax on year taxable income of a person levied by the Central Government at prescribed rates.

Income tax is one of the direct tax and it is levied on the incomes of individuals, HUF, unregistered firms and other associations of peoples.

TAX collected by the central Government for each financial year on the total income of an assessee earned during the previous year is called Income-Tax.

Source of Income tax –Law in India



Salient Features of Income Tax:

Levied as per the constitution of India: The seventh schedule to the Article 246 of the constitution of India authorises the Central Government to 'impose tax on income other than Agricultural income'.

Direct Tax: Income Tax is a direct tax as the liability to pay or deposit the tax is on same person who has earned the income.

Levied by Central Government: The power to charge the income tax on the Income other than Agricultural Income is on Central Government.

Origination of Income Tax: The history of Income Tax in India is about 150 years old.

Wide scope: The scope of Taxation is not only with individuals but also with firm.

Charged at prescribed rate(s): The rate of Income tax differ for different persons and is charged at prescribed rate under annual Finance Act, and Income Tax Act.

Annual Tax: Income tax is an annual tax because it is the income of a particular year which is chargeable to tax.

Tax on Taxable Income: It is a tax on income includes salary income, house property income, business/ profession income, capital gains and other sources income.

Tax exemption limit: there are certain incomes which are specifically exempt from income tax.

Income of 'Previous Year' is assessable in 'Assessment Year': Income earned during a particular financial year is assessed to tax in the immediately following financial year. The return of previous year's income is filed in the relevant assessment year.

Applicability: Income tax is applicable throughout India including the State of Jammu and Kashmir.

1860-1886: This period was a period of experiments in the context of income-tax and then in **1886, the first Income-tax Act** came into existence.

History of Income Tax in India

- ☐ Income tax was **first introduced in India in 1860 by the British ruler James Wilson** (who become 1st India's Finance Member), in order to meet heavy expenses and losses suffered by the rulers due to India's first freedom movement of 1857. It was introduced as a temporary revenue measure only for five years.
- ☐ The **history** of Income tax in India can be divided into **three periods:**

❖ **1860-1885**

DEFINITIONS:

Agricultural Income: Section- 2(1A) defines “Agricultural Income” as-

- A.** Any Rent, Tax or Revenue obtained from land which is situated in India and is used for Agriculture purpose.
- B.** Income obtained from agricultural land which is obtained-
 - From agriculture,
 - From any activity done for making agricultural produce for sale, or
 - From selling agricultural produce.
- C.** Income of house built upon or adjacent to any agricultural land situated in India and which satisfied the following conditions:
The Building

D. Any income derived from sapling/seedling grown in a nursery shall be deemed to be agricultural income.

Tax Liability of Agricultural Income:

Section-10 (1) exempts agricultural income from income-tax. Though the agricultural income is exempt and it is not included in calculation of total Income of an assessee but to levy tax on agricultural income, an indirect way is applicable on it and the concept is called as Partial integration of taxes. The scheme of partial integration of non-agricultural income with agricultural income is applicable if the following conditions are satisfied:-

It is applicable to individuals, HUF, unregistered firms, AOP, BOI and artificial persons.

The net agricultural income should exceed Rs. 5,000 for the year and Non-agricultural income should not exceed the maximum amount chargeable to

tax. (e.g. Rs. 3,00,000 for senior citizens, Rs. 5,00,000 for super senior citizens, Rs. 2,50,000 for all other individuals and HUFs).

Income Treated as Agricultural Income	Income Not Treated as Agricultural Income
Income from sale of replanted trees.	Income from poultry farming/dairy farming/mines/plantation companies.
Rent received for agricultural land.	Income from bee hiving/ butter and cheese making.
Income from growing flowers and creepers.	Income from sale of spontaneously grown trees.
Share of profit of a partner from a firm engaged in agricultural operations.	Receipts from TV serial shooting in farm house are not agriculture income.
Interest on capital received by a partner from a firm engaged in agricultural operations.	Dividend paid by a company out of its agricultural income.
Income derived from sale of seeds.	Purchase of standing crop.

Assessee: Section-2(7) of this Act defined 'Assessee'.

According to it, "Assessee means such person the calculation of whose income comes within the provisions of this Act."

Assessee includes-

- One who is to be assessed for the income or loss or recovery of amount of any other person, or
- One who has been held to be assessee, or
- One who is deemed to be an assessee due to any default under this Act. Also, a person who is liable to pay income tax in respect of income earned by another.

Types of Assessee

Assessment Year

Assessment Year: According to Section 2 (9),

“the period of twelve months beginning from the 1st April of every year”.

In India, Government maintains its accounts for a period of 12 months

i.e. from 1st April to 31st March every year.

For example: the assessment year of **2015-16** shall be the period from **1st April, 2015 to 31st March, 2016.**

Previous Year

Previous Year: Section 2 (34) r.w Section 3, of this Act,

“the financial year immediately preceding the assessment year.”

Or

“the year in which income is earned is called Previous Year.”

The term ‘Previous Year’ is very important because it is the income earned during previous year which is to be assessed to tax in the assessment year.

For example, For the **assessment year 2016-17** (1st April, 2016 to 31st March 2017), the **previous year should be the financial year 2015-16** (1st April, 2015 to 31st March, 2016).

In case of the establishment of new business or trade or any source of income has come into existence, then under such situation the previous year shall begin from the date of establishment of such business, profession or source and end with the completion of related financial year.

Person :

According to **Section- 2 (31),**

A person includes a **natural as well as an artificial or a judicial** person.

According to the **Section-2 (31)** of Income Tax Act, A **person includes:**

- ☐ **An Individual**
- ☐ **HUF** (Hindu Undivided family)
- ☐ **A Company or Firm**
- ☐ **AOP** (Association of Persons) or **BOI** (Body of Individuals), whether incorporated or not
- ☐ **A local Authority** (Panchayats, Municipal Corporation, Port Trusts etc.)
- ☐ **An Artificial or Juridical Person** (LIC. any University etc.)

The word person is a very wide term and embraces in itself the following:

An Individual: An individual means a natural person or a human being whether male or female, minor or major.

HUF (Hindu Undivided Family): It is a relationship created due to operation of Hindu Law. The manager of HUF is known as 'Karta' and its members are known as 'Coparceners'.

or

HUF means Hindu Undivided family which consists of all person lineally descended from a common ancestor including their wives and unmarried daughters.

A Company: A company is an artificial person registered under the Indian Companies Act 1956 or any other law.

A Firm: A Firm is an entity which comes into existence as a result of partnership agreement between persons to share profits of the business carried on by all or any one of them.

AOP (Association of Persons): An "Association of persons" is the one in which two or more persons i.e. an Individual and a Company or two or more companies, join for a common purpose or common action with a view to produce income, profits or gains.

BOI (Body of Individual): A Body of Individual has to consists of individuals only. Only natural persons or human beings can be members of a body of individuals.

Local Authority: Local Authority includes Municipality, Panchayat, Port Trust, Cantonment Board, District Board etc.

Artificial Juridical Person: It includes every artificial judicial (legal) person, not falling within any of the proceeding sub clauses. A public corporation established under special Act of legislature and a body having juristic personality of its own are known as an Artificial Juridical Persons. An idol, Universities, Guru Granth Sahib, Trust and Deity etc. Some important examples of this category.

Gross Total Income: Gross total income means aggregate amount of taxable income computed under five heads of income i.e.

- **Salaries,**
- **House property,**
- **Business & profession,**
- **Capital Gains and**
- **Other sources.**

In other words, Gross Income means the total income computed in accordance with the provisions of this Act before making any deduction under section-80C to 80U.

G.T.I. = Salary Income + House Property + Business or Profession Income + Capital gains + Other sources Income + Clubbing of Income- Set-off of Losses

Total income: Total Income means the total amount of income referred in section 5, computed in the manner laid down in this Act.

In other words, Total Income means the income remaining after allowing deductions under Chapter VI A (i.e., under 80C to 80U) from Gross Total Income.

Total Income = Gross Total Income – Deduction under Chapter VI A