

Income Tax : Basic Concept

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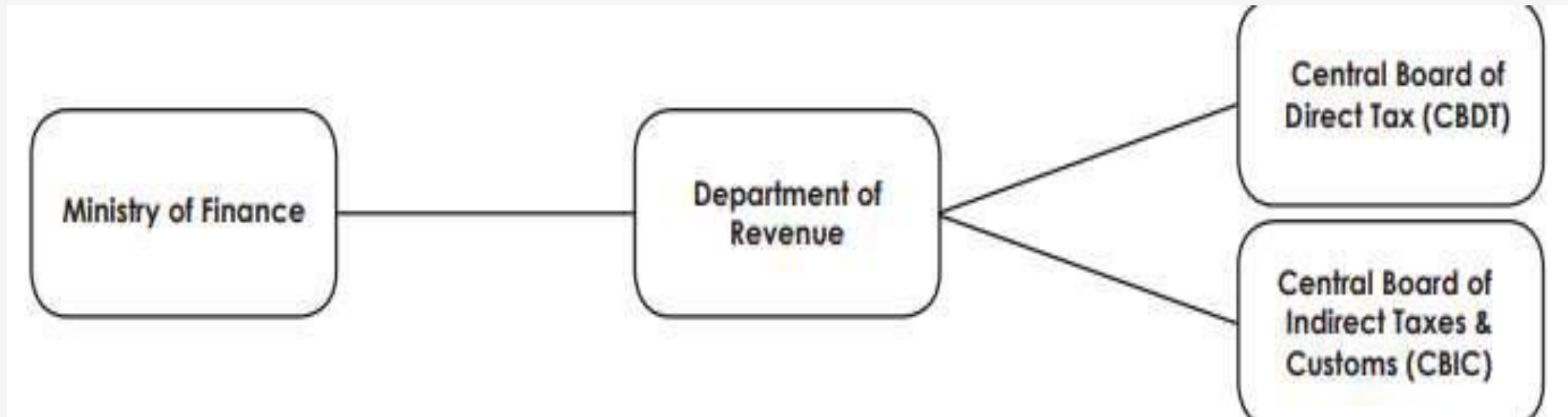
INTRODUCTION

- Tax is a **compulsory financial charge** levy by the government on income, service , commodity etc.
- It is the basic **source of revenue** for the government.
- In India income tax **is introduced in 1860 by sir James Wilson**.
- The law of income tax act **is governed by the Income Tax Act 1961 and** has been brought into force with 1 April 1962

DIRECT TAX & INDIRECT TAX

- Tax, of which incidence and impact fall on the same person, is known **as Direct Tax, such as Income Tax.**
- **Progressive in nature** i.e., higher tax are levied on person earning higher income and vice versa.
- On the other hand, tax, of which incidence and impact fall on two different persons, is known **as Indirect Tax**, such as GST,
- **Regressive in nature** i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.

ADMINISTRATION OF TAX LAWS



Both of the Boards have been constituted under the Central Board of Revenue Act, 1963

BASIC PRINCIPLES FOR CHARGING INCOME TAX

- Income of the previous year of a person is charged to tax in the **immediately following assessment year**.
- Rate of tax is applicable as specified by the **Annual Finance Act of that year**, the Income Tax Act itself has prescribed specific rates, e.g. **Lottery income is to be taxed @ 30% (Sec.115BB), Long term capital gain is to be taxed @ 20% (Sec.112), short term capital gain on listed shares u/s 111A is to be taxed @ 15%, etc.**

Previous year v/s Assessment year

- **Previous year** : The year in which income is earned is known as previous year
- **Assessment year** : The year in which income is taxable is known as assessment year.

Previous = Assessment year

- Income of **non resident from shipping.**
- Income of **persons leaving India either permanently or for a long period of time.**
- Income of association of persons or a body of individuals or artificial juridical persons **formed for short duration.**
- Income of a **person trying to Hostile his assets with a view to avoiding payment of tax.**
- Income of a **discontinued business.**

Person Under section 2 (31)

Person" includes- (i) an individual, (ii) a Hindu undivided family, (iii) a company, (iv) a firm, (v) an association of persons or a body of individuals, whether incorporated or not, (vi) a local authority, and (vii) every artificial juridical person, not falling within any of the preceding sub- clauses;

i) **Individual:** It refers to a natural human being whether male or female, minor or major.

(ii) **Hindu Undivided Family.** It is a relationship created due to operation of Hindu Law. The manager of HUF is called "Karta" and its members are called 'Coparceners'.

(iii) **Company.** It is an artificial person registered under Indian Companies Act 1956 or any other law.

(iv) **Firm.** It 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. Though, a partnership firm does not have a separate legal entity, yet it has been regarded as a separate entity under Income Tax Act. Under Income Tax Act, 1961, a partnership firm can be of the following two types

(i) a firm which fulfill the conditions prescribed u/s 184.

(ii) A firm which does not fulfill the conditions prescribed u/s 184. It is important to note that for Income Tax purposes, a limited liability partnership (LLP) constituted under the LLP Act, 2008 is also treated as a firm.

Person u/s 2(31)

(v) **Association of Persons or Body of Individuals.** Co-operative societies, MARKFED, NAFED etc. are the examples of such persons. When persons combine together to carry on a joint enterprise and they do not constitute partnership under the ambit of law, they are assessable as an association of persons. Receiving income jointly is not the only feature of an association of persons. There must be common purpose, and common action to achieve common purpose i.e. to earn income. An AOP. can have firms, companies, associations and individuals as its members.

A body of individuals (BOI) cannot have non-individuals as its members. Only natural human beings can be members of a body of individuals.

vi) **Local Authority.** Municipality, Panchayat, Cantonment Board, Port Trust etc. are called local authorities.

(vii) **Artificial Juridical Person.** A public corporation established under special Act of legislature and a body having juristic personality of its own are known to be Artificial Juridical Persons. Universities are an important example of this category.

AGRICULTURAL INCOME section 2(1A)

Meaning:

- Agricultural income is **defined under section 2(1A) of the Income Tax Act, 1961.**
- According to this Section, agricultural income generally means:
 - (a) Any rent or revenue derived from land **which is situated in India and is used for agricultural purposes.**
 - (b) Any income derived from such land by agriculture operations **including sale of such produce.**
 - (c) Any income attributable to a farm house
 - (d) Any income **derived from seedlings grown in a nursery** shall be deemed to be agricultural income.

FOLLOWING CONDITIONS MUST BE MET TO TREAT INCOME AS AGRICULTURAL INCOME The land must be **situated in India.**

- The land must be **used for agricultural operations.**
- The receiver of the **income must have interest in the land.** If the person purchase the standing crops and after cutting it sells in the market then such income is not treated as agricultural income.
- Direct income from agriculture is treated as agricultural income** for exg. Salary from a farm manger or dividend from a company engaged in agriculture is not agricultural income.

Important points regarding computation of Agricultural Income

- Agricultural income **by way of rent or revenue derived from the land which is situated in India** and is used for agricultural purpose then such income shall be treated as “income from other sources”
- Agricultural income **from agricultural building chargeable to income tax under the head “income from house property”**
- **Any other agricultural income** chargeable under the head “profit and gains from business and profession “
- **If there is a loss of agricultural income** then such loss shall be carried forward upto 8 years.
- Capital gain arising **from the transfer of agricultural land shall not be treated as agricultural income.**

Examples of Non-Agricultural Income

- Income from poultry farming.
- Income from bee hiving.
- Any dividend that an organization pays from its agriculture income.
- Income from the sale of spontaneously grown trees.
- Income from dairy farming.
- Purchase of standing crop.
- Income for land used for storing agricultural produce.
- Income from fisheries .

ASSEESSE Section 2(7)

"assess" dictionary meaning of which is "to evaluate or estimate the value".

" assessee" means a person by whom any tax or any other sum of money is payable under this Act, and includes-

- (a) every person in respect of whom any proceeding under this Act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person;
- (b) every person who is deemed to be an assessee under any provision of this Act;
- (c) every person who is deemed to be an assessee in default under any provision of this Act;

Term assessee includes actual as well as deemed assesses under provisions of Act

Income Section 2(24)

Income is money that an individual or business receives in exchange for providing a good or service or through investing capital under section 2 (24) "income" includes—(i) profits and gains;

(ii) dividend;

(iii) the value of any perquisite or profit in lieu of salary taxable under clauses (2) and (3) of section 17;

(iv) the value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;

(v) any sum chargeable to income-tax under clauses (ii) and (iii) of section 28 or section 41 or section 59;

(vi) any capital gains chargeable under section 45;

(vii) the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society, computed in accordance with section 44 or any surplus taken to be such profits and gains by virtue of provisions contained in the First Schedule

Gross Total INCOME (GTI) section (4)

The Term Gross total mean means the aggregate incomes Computed Under the following five head

- Salaries Under section (15 to 17)
- House Property under section (19 to 27)
- Profit & Gains of Business or Profession Under section (28 to 44)
- Capital Gain Under section (45 to 55)
- Other source Under section (56 to 59)

After aggregating income under various head losses are adjusted & resultant figure is called Gross total income.

Total Income Under section 2(45)

- Total income means the amount left after making the deduction U/S 80C To 80U from gross total income.
- It is also called as net taxable Income
- Net Taxable income is rounded off for calculating income tax in multiple of rs 10