

INTRODUCTION AND BASIC CONCEPT OF INCOME TAX

B.COM. S.Y. SEM- III

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TAX

A fee charged (“levied”) by a Government on –

☞ income,

☞ product (or)

☞ activity.



Types of Taxes



TYPES OF TAXES

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graph TD; A[TYPES OF TAXES] --> B["Direct Taxes  
(Governed by  
CBDT)"]; A --> C["Indirect Taxes  
(Governed by  
CBIC)"]; B --> D["Imposed on  
persons"]; D --> E["Paid directly to the  
Government"]; C --> F["Imposed on  
Goods & Services"]; F --> G["Paid to the Government  
via third person"];
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Direct Taxes
(Governed by
CBDT)

*Imposed on
persons*

*Paid directly to the
Government*

Indirect Taxes
(Governed by
CBIC)

*Imposed on
Goods & Services*

*Paid to the Government
via third person*

☞ *If tax is levied directly on the income (or) wealth of a person, then it is a direct tax.*

➡ *e.g. Income-tax, Wealth tax.*

☞ *If tax is levied on the price of a good (or) service, then it is called an indirect tax.*

➡ *e.g. Excise duty, Customs duty, Service tax and Sales tax (or) Value Added Tax.*

Tax – Duty – Cess - Surcharge

- ☞ Tax – is a payment made to the Government of a country without any return.
- ☞ Duty – is a levy on goods.
- ☞ Cess – is a tax levied for a specific purpose.
- ☞ Surcharge – is an additional tax burden to those, whose income exceeds the specified limit.
- ☞ Income tax – a levy on the income earned.
- ‘Levy’ is not a tax – it means ‘the act of charging the tax’.

DUTY

- *This is an on-border tax charged on goods (commodities (or) things that you can physically touch) either while coming into the country (or) going out of the country. Generally, a percentage of the value of the goods.*
- ☞ *The duty that is levied for goods manufactured inside the country is called as excise duty.*
- ☞ *Duty that is levied on goods imported from a foreign country is called as customs duty.*

DUTY vs TAX

➤ *Duty is a levy on goods.*

☞ *Pay the tax first and then take the goods.*

⇒ *(Prior payment).*

↗ *Ex: Excise duty, Customs duty.*

➤ *Tax is levied on other than goods.*

⇒ *(No prior payment).*

↗ *Ex: Income tax, Sales tax, Service tax.*

SURCHARGE

- *This is an additional burden to the tax being already levied.*
- ✓ *Generally, surcharge is levied for a certain period of time.*
- ✦ *For instance, the surcharge being levied on super rich in India.*
- ☞ *At present surcharge is levied –*
 - @ 10% if total income exceeds ₹ 50 lakhs*
 - @ 15% if total income exceeds ₹ 1 Crore.*

CESS

- *This is a tax on tax, levied by the Govt. for a specific purpose.*
- *Generally, cess is expected to be levied till the time the Govt. gets enough money for that purpose.*
- ☞ *The Education Cess @ 3%, is levied currently, is meant to finance basic education in the country.*

WHY ARE TAXES LEVIED?

- *The reason for levy of taxes is that they constitute the basic source of revenue to the government.*
- *Revenue so raised is utilised for meeting the expenses of government like defence, provision of education, health-care, infrastructure facilities like roads, dams, public lightings, drainage etc.*
- *The act of levying taxes is called taxation.*

Taxation

- *The persons who are taxed have to pay the taxes irrespective of any corresponding return from the goods (or) services by the government.*
- *The taxes may be imposed on the income and wealth of persons (or) corporations and the rate of taxes may vary.*
- ☞ *i.e., The categories into which we can place direct and indirect taxes are called taxation.*

☞ *Inflation is taxation without legislation.*

– *Milton Friedman*

➡ *Inflation is often called “the invisible tax”, which is hardest on the poor, elderly, savers, low-income workers, and fixed-income retirees.*

– *Robert Kiyosaki.*

Taxation System



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graph TD; A[Taxation System] --> B[Direct Tax]; A --> C["Indirect Tax = GST  
(Except customs)"]; B --> D[Income Tax]; B --> E[Corporate Tax]; C --> F[Intra-State Supplies]; C --> G[Inter-State Supplies]; F --> H[CGST]; F --> I[SGST]; G --> J[IGST];
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Direct Tax

*Income
Tax*

*Corporate
Tax*

*Indirect Tax = GST
(Except customs)*

*Intra-State
Supplies*

*Inter-State
Supplies*

CGST

SGST

IGST

Types of Taxation

*Progressive
Taxation*

*Positive change in the
marginal rate of tax*

Income ↑ *Tax rate* ↑

*Regressive
Taxation*

*Negative change in the
marginal rate of tax*

Income ↑ *Tax rate* ↓

*Proportional
Taxation*

*No change in the
marginal rate of tax*

Income ↑ ↓ *Tax rate* ↔

Digressive Taxation

- ✍ *A tax is called digressive when the rate of progression in taxation does not increase in the same proportion as the increase in income.*
- *In this case, the rate of tax increases upto a certain limit, after that a uniform rate is charged.*
- ☞ *Digressive tax is a combination of progressive and proportional taxation.*
- ☞ *This type of taxation is often used in case of income tax.*
- ☞ *This is the case of income tax in India.*

INCOME TAX ACT 1961

INCOME TAX

You earn it

&

The Government

takes a part (a big part) of it.

➤ *Income tax was first introduced in India in 1860 by the British ruler **James Wilson** (who become the **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.*

☞ *At present, the **Income Tax Act 1961** is force in India. The present **Income Tax Act** was enacted in 1961, which came into force on **1st April 1962**.*

➡ *This Act of 1961 has since been amended number of times.*

What is Income Tax?

- ☞ *It is a tax on Income.*
- ☞ *It is revenue for government & indicates outflow of cash for a person who is liable to pay the tax.*
- ☞ *Income-tax is a tax levied on the total income of the previous year of every person.*

Income-tax Act, 1961

- *The Act determines which persons are liable to pay tax and in respect of which income.*
- *The sections lay down the law of income tax and the schedules lay down certain procedures and give certain lists, which are referred to in the sections.*
- *However, the Act does not prescribe the rates of Income Tax.*
- *The rates of Income-tax are prescribed every year by the Finance Act (popularly known as “The Budget”).*

The Finance Act

- ☞ *Every year, the Finance Minister of the Government of India presents the Budget to the Parliament.*
- ☞ *Part A of the budget speech contains the proposed policies of the Government in fiscal areas.*
- ☞ *Part B of the budget speech contains the detailed tax proposals.*
- ☞ *In order to implement the above proposals, the Finance Bill is introduced in the Parliament.*
- ☞ *Once the Finance Bill is approved by the Parliament and gets the assent of the President, it becomes the Finance Act.*

Income-tax Rules, 1962

- ☞ The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).*
- ☞ The CBDT is empowered to make rules for carrying out the purposes of the Act.*
- ☞ For the proper administration of the Income-tax Act, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.*
- ☞ To amend the Act, an amendment Bill has to be passed in the Parliament.*
- ☞ In case of a conflict between the Act and the Rules, the provisions of the Act shall prevail.*

Circulars and Notifications

- *Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions.*
- *These circulars are issued for the guidance of the officers and/or assesseees.*
- *The department is bound by the circulars. While such circulars are not binding the assesseees, they can take advantage of beneficial circulars.*

Case Laws and Doctrine of Precedents

- *Case Laws are the decisions of the various Income-tax Appellate Tribunals (ITAT) and the High Courts (HC) and the Supreme Court (SC).*
- *Decisions of the SC are binding on all lower Courts and tax authorities in India.*
- *HC decisions are binding only in the states which are within the jurisdiction of that particular High Court.*
- *Decisions of one HC has persuasive powers over other HCs when deciding similar issues.*
- *ITAT can be a Single Member Bench (SMC) (or) a two member bench (or) a Special Bench (or) a Third Member Bench.*

Definitions

- *Section 2 gives definitions of various terms referred to in the Act.*
- *Definitions can be inclusive definitions (or) exclusive definitions.*
- *Definition of one term may lead to the definition of another term.*

➤ *Some of the important definitions contained in the Act are of:*

☞ *Person;*

☞ *Assessee;*

☞ *Assessment Year;*

☞ *Previous Year;*

☞ *Assessment;*

☞ *Income;*

☞ *Dividend.*

Important Terms

☞ *Income*

☞ *Assessee*

☞ *Assessment Year (A.Y. 2018-19)*

☞ *Previous Year (P.Y. 2017-18)*

☞ *Residential Status*

☞ *Gross Total Income*

☞ *Deductions*

☞ *Total Income*

Income- Sec.2(24)

➤ *Income means some monetary returns periodically received from some definite sources.*

➤ *i.e., it is an earning (or) continuing income from the business (or) from a definite source.*

➤ *It includes –*

- ☞ *Incomes in cash;*
- ☞ *Incomes in kind;*
- ☞ *Gifts.*

Assessee

According to sec. 2(7) assessee means:

☞ A person liable to pay any tax (or) any other sum of money under this Act.

➤ Every person :

- 1. who is assessable in respect of income (or) loss of another person, (or)*
- 2. who is deemed to be an assessee, (or)*
- 3. who is deemed to be assessee in default.*

PERSON : Sec. 2(31)

➤ *According to law an assessee is a person by whom any tax is payable.*

Person includes -

- ☞ *An individual;*
- ☞ *A firm;*
- ☞ *A HUF;*
- ☞ *A company;*
- ☞ *An Association of Persons (AOP) (or)
Body of Individuals (BOI);*
- ☞ *A local authority;*
- ☞ *Any artificial and juridical person not
included in the above category.*


Income Tax liability of a person

- Residential status of a person decides income tax liability.*
- ☞ Previous year is the year in which the income is earned.*
- ☞ Assessment year is the year in which the income is taxed.*
 - ☞ AY consist of 12 months which commences on the 1st day of April immediately after the previous year.*

ASSESSMENT


➤ *It is a process of determining the **correctness of income** of an assessee and of assessing the **amount of tax** payable by him and procedure for imposing tax liability.*

Assessment year [Sec.2(9)]

 *This means the year commencing on the 1st day of April every year and ending on 31st march of the next year.*

 *The current Assessment Year is 2018-19.*

Previous year [Sec.3]

 *Previous year means the financial year immediately preceding the assessment year.*

 *The current Previous Year is 2017-18.*

Previous Year and Assessment Year



- ☞ The year in which the income is earned is known as *Previous Year (PY)* and
- ☞ The year in which the income earned is taxed is called *AY*.
- ☞ i.e., Income earned in the PY is taxed in the AY.

➤ **PY in the case of newly started business –**

☞ *In case of a newly set up business during a financial year, the previous year shall be the period beginning with the date of such setting up and ending with the said financial year. i.e., the immediately following March 31st.*

☞ *Date of starting the business is 10-10-2017* ☞



Total Income and Tax Payable

- ✧ *Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The step by step procedure of computation of total income for the purpose of levy of income-tax.*
- ✧ *Step 1 Determination of residential status;*
- ✧ *Step 2 Classification of income under different heads;*
- ✧ *Step 3 Exclusion of income not chargeable to tax;*
- ✧ *Step 4 Computation of income under each head;*
- ✧ *Step 5 Clubbing of income of spouse, minor child etc.;*
- ✧ *Step 6 Set-off (or) carry forward and set-off of losses;*
- ✧ *Step 7 Computation of Gross Total Income;*
- ✧ *Step 8 Deductions from Gross Total Income;*
- ✧ *Step 9 Total income;*
- ✧ *Step 10 Application of the rates of tax on the total income;*
- ✧ *Step 11 Surcharge;*
- ✧ *Step 12 Education cess and secondary and higher education cess;*
- ✧ *Step 13 Advance tax and tax deducted at source.*