

INTRODUCTION AND BASIC CONCEPT OF INCOME TAX

B.COM. S.Y. SEM- III

BY

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TAX

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

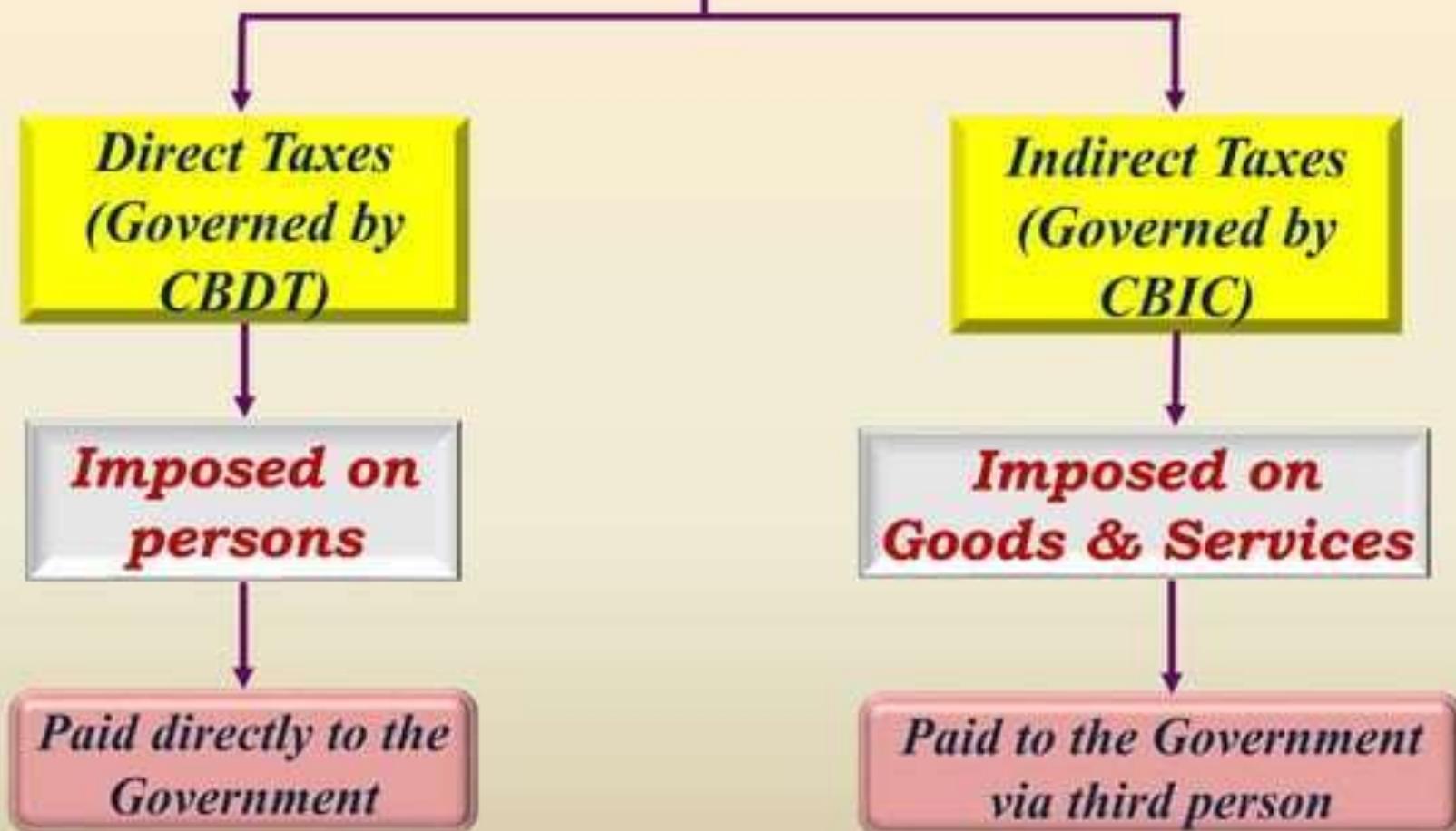
- ❖ *income,*
- ❖ *product (or)*
- ❖ *activity.*



Types of Taxes



TYPES OF TAXES



- ☞ *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 levy 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*

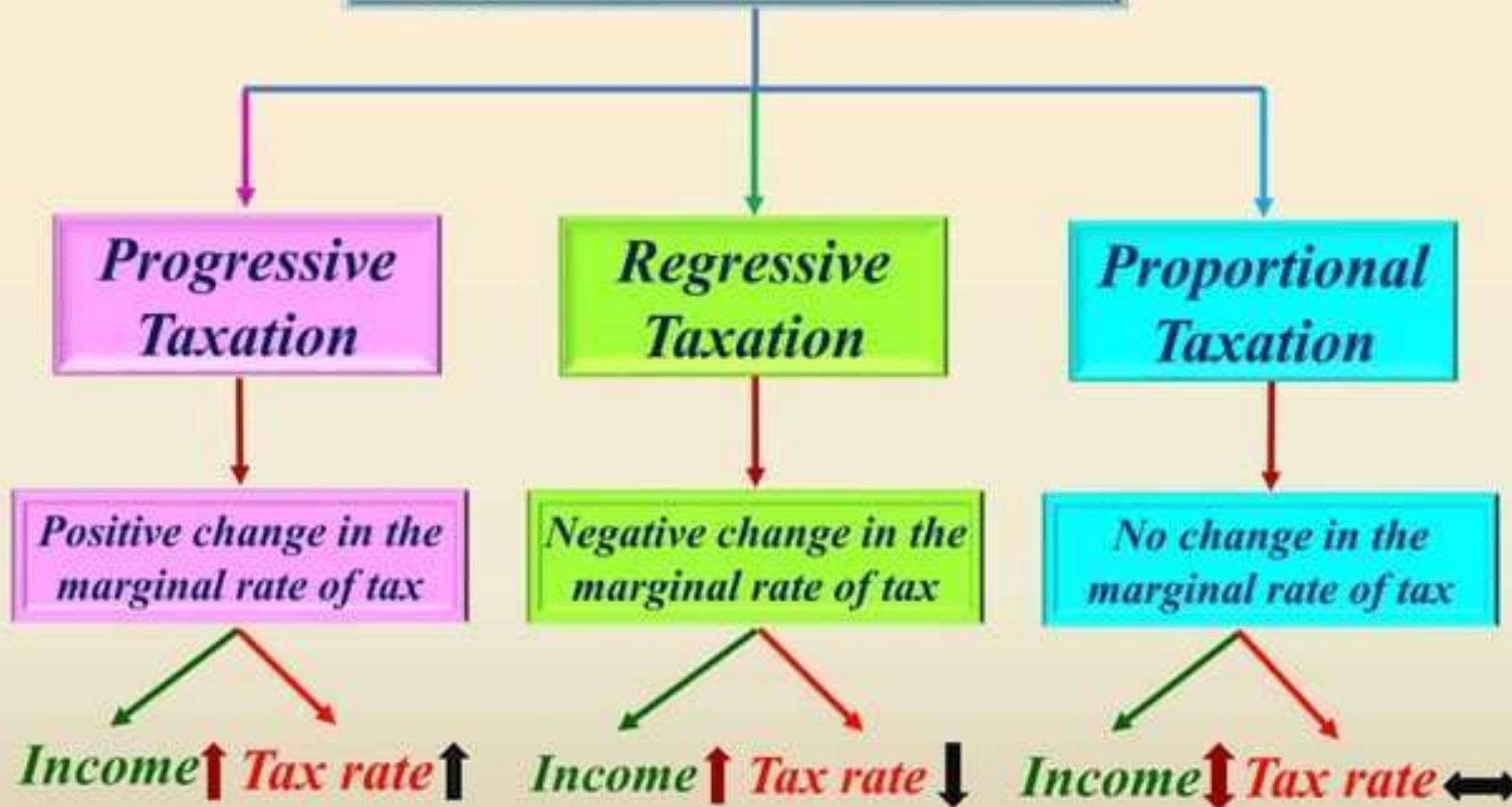
☞ *Inflation is often called “the invisible tax”, which is hardest on the poor, elderly, savers, low-income workers, and fixed-income retirees.*

– *Robert Kiyosaki.*

Taxation System



Types of Taxation



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 became 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 assessee.*
- *The department is bound by the circulars. While such circulars are not binding the assessee, 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

**Previous Year
2017-18**

**Assessment
Year 2018 -19**

1 / 4 / 2017

31 / 3 / 2018

1 / 4 / 2018

31 / 3 / 2019

- ☞ 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

**Previous Year
2017-18**

**Assessment Year
2018-19**

10 / 10 / 2017

31 / 3 / 2018

1 / 4 / 2018

31 / 3 / 2019

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.*