**B.B.A. SEMESTER - IV**

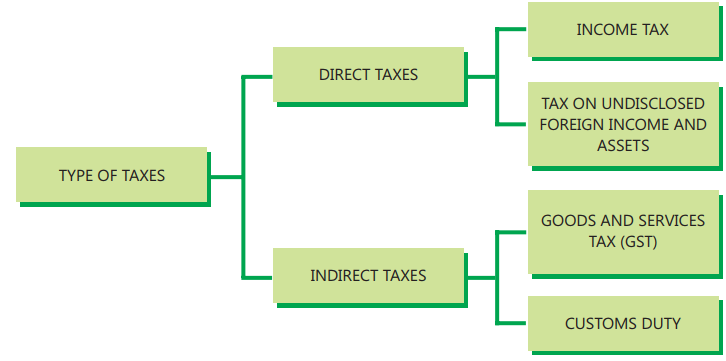
**INCOME TAX – LAW AND PRACTICE**

**UNIT 1 INTRODUCTION, RESIDENTIAL STATUS AND EXEMPT INCOME**

**CHAPTER 1 BASIC CONCEPTS AND RATES OF TAX**

**Introduction**

* Tax is amount levied by government on a product, income or activity.
* There are two types of taxes : direct taxes and indirect taxes.
* Tax levied directly on the income or wealth of a person is Direct Tax.
* Tax levied on goods or services is Indirect Tax. [here, person paying the tax passes on the incidence to another person].



* Taxes are levied because they constitute basic source of revenue to the government.
* Income-tax is the most significant direct tax in India.
* The administration of Income-tax is looked after by the Central Board of Direct Taxes [CBDT].
* Presently, the levy of Income-tax in India is governed by the Income-tax Act, 1961; which came into force on 1st April, 1962. The sections and undergo change every year with additions and deletions brought about by the annual Finance Act passed by the Parliament.
* Current study includes the amendments as per the Finance Act, 2016.
* In addition for smooth functioning, there are Income-tax Rules, Circulars and Notifications.
* Income-tax Rules ensure proper administration of the Income-tax, 1961.
* 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. Notifications are issued by the Central Government to give effect to the provisions of the Act.

**Levy of Income-tax**

* Income-tax is levied on the ***total income*** of the ***previous year*** of every ***person***.

**Concept of Income**

* The definition of income as per the Income-tax Act, 1961 is an *inclusive* definition. This means that it does not confine the scope of income but leaves room for more inclusions within the ambit of the term.
* Income, in general, means a periodic return which is generated from definite sources.
* Income normally refers to revenue receipts. There are separate provisions for tax on receipts on capital nature.
* Income earned in previous year is chargeable to tax in the assessment year.
* **Income** includes:
* Profits and gains
* Dividends
* Voluntary contributions received by trust/ institution
* Perquisite or Profit in lieu of salary
* Any special allowance or benefit
* Capital gains [gain from transfer of capital asset]
* Winning from lotteries, cross-word puzzles, races, card games or any sort of gambling
* Gift
* Assistance in the form of a subsidy or grant or cash incentive
* Income is calculated under this Act in five broad heads:

1. Income from Salary
2. Income from House Property
3. Profits and Gains from Business and Profession
4. Income from Capital Gains
5. Income from Other Sources

**5 HEADS OF INCOME**

The **total of income under each of the above heads**, after the relevant adjustments; forms the **Gross Total Income**.

* There are certain deductions available from the Gross Total Income. The final figure arrived at, after these deductions, is known as the Total Income. Tax is calculated on this *Total Income, or Taxable Income*. In other words,

|  |
| --- |
| **Total Income or Net Total Income = GTI (-) Deductions u/s 80C to 80U** |

**Important Definitions:-**

1. **Previous Year:**

Previous year is the financial year, ending on 31st March, in which income has accrued/ received. It is the financial year immediately preceding the assessment year.Generally it is a period of 12 months beginning with 1st April and ends on 31st March next [currently P. Y. 2021-22].

1. **Assessment Year:**

Assessment year is the year following the previous year. It is the year in which the income is assessed by the income tax department [currently A. Y. 2022-23].

1. **Assessee:**

Assessee means a ***person***

* by whom any *tax* or *any other sum* of money is payable under this Act
* in respect of whom any proceeding under this Act is taken
* who is deemed to be assessee
* who is deemed to be assessee in default.

1. **Assessment:**

Assessment is the procedure of determining the income of an assessee.

1. **Person:**

Person includes,

* an individual [including a minor],
* a Hindu Undivided Family [HUF],
* a company,
* a firm,
* an Association of Persons [AOP] or a Body of Individuals [BOI]
* a local authority, and
* every artificial juridical person, e.g. an idol or deity.

[Co-heirs or co-donees joining together for a common purpose would be chargeable as AOP. Co-executors or co-trustees are assessable as BOI, as their title and interest are indivisible].

**Slab and Rates of Tax**

1. Slab of tax for individual (including senior citizen **non-resident**/ very senior citizen **non-resident**)/HUF/AOP/BOI/Artificial Juridical Persons:-

|  |  |
| --- | --- |
| **Slab** | **Rate of Tax** |
| Upto Rs.2,50,000/- | Nil |
| Rs.2,50,001/- to Rs.5,00,000/- | 5 % |
| Rs.5,00,001/- to Rs.10,00,000/- | 20 % |
| Above Rs.10,00,000/- | 30 % |

1. Rate structure for **Sr. Citizens Resident (whether R&OR or RBNOR)** of the age 60 years or more but less than 80 years:-

|  |  |
| --- | --- |
| **Slab** | **Rate of Tax** |
| Upto Rs.3,00,000/- | Nil |
| Rs.3,00,001/- to Rs.5,00,000/- | 5 % |
| Rs.5,00,001/- to Rs.10,00,000/- | 20 % |
| Above Rs.10,00,000/- | 30 % |

1. Rate structure for **Very Sr. Citizens Resident (whether R&OR or RBNOR)** of the age 80 years or more:-

|  |  |
| --- | --- |
| **Slab** | **Rate of Tax** |
| Upto Rs.5,00,000/- | Nil |
| Rs.5,00,001/- to Rs.10,00,000/- | 20 % |
| Above Rs.10,00,000/- | 30 % |

**NEW TAX RATES (OPTIONAL)**

|  |  |  |  |
| --- | --- | --- | --- |
| **OPTION –I (TRADITIONAL SLAB) \* OPTION –II (NEW SLAB) [FOR ALL AGE]** | | | |
| UPTO RS. 2,50,000 | NIL | UPTO RS. 2,50,000 | NIL |
| 2,5O,001-5,00,000 | 5% | 2,5O,001-5,00,000 | 5% |
| 5,0O,001-10,00,000 | 20% | 5,0O,001-7,50,000 | 10% |
| ABOVE 10,00,000 | 30% | 7,5O,001-10,00,000 | 15% |
| \* Enhanced basic exemption limit of Rs. 3L and Rs. 5L is available for Individual (Resident) aged ‘60 years or above’ and ‘80 years or above’ respectively. | | 10,0O,001-12,50,000 | 20% |
| 12,5O,001-15,00,000 | 25% |
| ABOVE 15,00,000 | 30% |

|  |  |  |
| --- | --- | --- |
| **DEDUCTION / EXEMPTION** | **OPTION I** | **OPTION II** |
| LTC | Y | N |
| HRA | Y | N |
| EXEMPTION FOR OTHER ALLOW. | Y | N |
| 16 (SALARY) | Y | N |
| 24(b) Int. on hsg loan | Y | N |
| Family Pension [57(iia)] | Y | N |
| 80C to 80U | Y | N |
| 80CCD(2) EMPLOYERS CONT TO NPS | Y | Y |

1. Rate structure for **co-operative society**:-

|  |  |
| --- | --- |
| **Slab** | **Rate of Tax** |
| Upto Rs.10,000/- | 10% |
| Rs.10,001/- to Rs.20,000/- | 20 % |
| Above Rs. 20,000/- | 30 % |

1. **Firm/LLP/Local Authority:-**

30% on the whole of the total income.

1. **Company:-**

|  |  |
| --- | --- |
| **Domestic Company** |  |
| * **Total Turnover/Gross Receipt in P.Y.17-18 < Rs.400 Crore** | 25% of Total Income |
| * **Otherwise** | 30% of Total Income |
| **Other than Domestic Company** | 40% of Total Income |

**Note:- Rebate u/s 87A shall be available subject to following conditions:-**

1. The assessee is a **Resident** **INDIVIDUAL**;
2. Total Income of is up to Rs. 5,00,000/-;
3. Rebate= Amount of Income Tax ­or **Rs. 5,000/-** w.e. is less.

[In 2nd condition TI=GTI (-) Dedu.Ch.VI-A and in 3rd condi., Amt. of Tax is WITHOUT EC/SHEC]

**B] RATES OF SURCHARGE:-**

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of Assessee** | **Rates of Surcharge\* ( as a % of ‘income tax’)** | | |
| **TI < 1 Cr.** | **1 Cr.<TI < 10 Cr.** | **TI > 10 Cr.** |
| * Individual/HUF/AOP/BOI/Artifical Juridical Persons | Nil | **15%** | 15% |
| * Firm/LLP | Nil | 12% | 12% |
| * Co-operative Society | Nil | 12% | 12% |
| * Local Authority | Nil | 12% | 12% |
| * Domestic Company | Nil | 7% | 12% |
| * Foreign Company | Nil | 2% | 5% |

* The above rates are general rates of tax. However, in respect of certain types of income, specific rates have been prescribed.

**Cess**

* Cess is to be added to the amount of tax payable as per the following details:

**2% Education Cess** Calculated on income-tax plus surcharge

**1% Secondary and Higher Education Cess** Calculated on income-tax plus surcharge

**1% Health Cess** Calculated on income-tax plus surcharge