

CHAPTER-1

INCOME TAX – AN INTRODUCTION

A. BASIC CONCEPTS

MEANING OF TAX:

It is a compulsory extraction of money made by the Governments (the Central, State and Local Governments) from its Citizens. By virtue of legislative authority the State is empowered to impose tax on its general public.

TAX - DEFINITIONS:

According to Prof. Taylor “Taxes are compulsory payments to governments without expectations of direct return or benefit to the tax payer”.

Dr. Dalton defines that “a tax is a compulsory contribution imposed by the public authority irrespective of the exact amount of service to the tax payer in return and not imposed as a penalty for any legal offence”.

METHODS OF TAXATION:

The following are the methods of taxation, viz., Progressive Method, Proportional Method, and Regressive Method.

- In case of Progressive Method, whenever the income increases, tax liability increases in absolute terms.
- Under Proportional Method, when income increases, tax liability also increases in the same proportion.
- Under Regressive Method, Tax liability falls down when income increases.

INCIDENCE OF TAX – MEANING:

‘Incidence of tax’ refers to the person who finally pays the amount of tax to Government. In order to be an effective tax structure, the incidence should be equitably divided among the various sections of the people.

MEANING OF INCOME TAX:

Any levy or tax imposed on Total Income of a Person who may be an Assessee or not, earned during the Previous Year, and assessed during the Assessment Year.

MEANING AND DEFINITION OF PERSON U/S 2(31) OF THE INCOME TAX ACT:

Sec. 2(31) of Income Tax Act defines ‘Person’ as:

- a) an individual (either male or female; minor or major)
- b) a Hindu Undivided Family (following either Dhayabagha or Mithakshara school of thought);
- c) a Firm (a Partnership firm assessed as Firm or Association of Persons)
- d) a Company (either private limited or public companies)
- e) an Association of Persons or a Body of Individuals, whether incorporated or not;
- f) a Local Authority (Corporation, Municipality, Panchayats etc..) and
- g) Every other artificial juridical person.

HINDU UNDIVIDED FAMILY- MEANING:

HUF or Hindu Undivided Family is a relationship created due to operation of

hindu Law. The manager of HUF is called 'Karta' or 'Manager' and its members are known as Coparceners. In order to call a family as HUF, it must have undivided ancestral property and existence of coparcenaries' system.

PREVIOUS YEAR – MEANING:

Previous Year refers to the current financial year in which the taxable income is earned. In other words it is the year in which taxable income is earned, or it is that financial year which precedes the assessment year. Current Assessment year is 01.04.2024 – 31.03.2025. So, the previous year is 01.04.2023 – 31.03.2024.

ASSESSMENT YEAR - MEANING:

Assessment Year means the period of twelve months commencing from 1st day of April every year and ending on 31st March of next year. In other words, it is the financial year in which the taxable income of previous year is assessed. Hence it is the succeeding financial year to the previous year. Current Assessment year is 01.04.2024 – 31.03.2025.

TOTAL INCOME – MEANING:

Incomes are to be computed under the heads Salaries, House Property, Business or Profession, Capital Gains and Other Sources. These incomes are put together called as Gross Total Income. From the Gross Total Income, various deductions u/s 80 be allowed. Balance of Income, if any, is known as Total Income.

MEANING OF GROSS TOTAL INCOME:

Gross Total Income is the resultant amount, after adjusting losses and various deductions available under section 80, from the aggregate amount of taxable incomes under different heads such as Salaries, House Property, Business or Profession, Capital Gains, Other Sources and income of other persons to be assessed in the name of the assessee under clubbing provisions.

CASUAL INCOME – MEANING:

Casual income is one which cannot be earned regularly, as there is less possibility of earning this income repetitively.

In some cases, it is purely decided by chance, not on the talent of the persons involved e.g., winnings from lotteries, crossword puzzles, races including horse races, card games and any sort of gambling or betting of any form.

EXPANSION OF APO AND BOI:

AOP : Association of Persons

BOI : Body of Individual

INCOME- DEFINITION:

Income includes U/s. 2 (24) of Income Tax Act

- I. Profits and gains
- II. Dividends
- III. Voluntary contributions received by a charitable or religious trust
- IV. The value of perquisites or profits in lieu of salary
- V. Any specific allowances or benefit granted to the assessee for the performance of his duties.
- VI. Any allowances granted to the assessee to meet his personal expenses
- VII. Any capital gain

- VIII. Insurance profits
- IX. Winning from lotteries, crossword puzzles, races including horse races and games etc.
- X. Perquisite

THE OBJECTIVES OF TAXATION:

- a) To Enhance savings and investment in the country
- b) To aim at Rapid Economic Development
- c) To create employment opportunities.
- d) To make the distribution of tax burden in a progressive manner.
- e) To improve the efficiency of market rather than distort it.
- f) To use the fiscal policy for stabilization and growth objectives.
- g) To implement the tax system effectively
- h) To reduce the cost of collection of taxes.

REGULATORY OBJECTIVES OF TAXATION:

- a) Regulating consumption
- b) Regulating production
- c) Regulating imports and exports
- d) Regulating effects of Inflation, depression etc.

MEANING OF AN ASSESSEE:

Assessee means a person, by whom any tax is payable, whose income exceeds basic exemption limit.

- a) In respect of whom any proceedings have been taken for the assessment of his or income of some other person
- b) Representative Assessee (a person can be assessed on behalf of a minor, lunatic, deceased person as deemed to be an assessee)
- c) Assessee in default: The disbursing officer who fails to deduct tax out of source if he is required to deduct TDS.

TYPES OF ASSESSEE:

Assessee may be of three types, viz., Ordinary Assessee, Deemed to be an Assessee and Assessee in Default.

- a) **Ordinary Assessee:** Ordinary Assessee means a person by whom any tax is payable or whose income exceeds basic exemption limit during the previous year and who is liable to pay tax; or a person in respect of whom any proceedings have been taken for the assessment of his income or income of some other person.
- b) **Deemed to be an Assessee or Representative Assessee:** If a person is assessed in respect of income of a minor, lunatic, deceased person he is said to be deemed to be an assessee.
- c) **Assessee in default:** The disbursing officer who fails to deduct tax out of source if he is required to deduct TDS.

THE SOURCES OF INCOME OF AN INDIVIDUAL:

An individual may have either any one or all of the following sources of income, viz.,

- d) Amount received on retirement from Statutory provident fund or Recognised provident fund is fully exempt.
- e) Daily allowance received by M.P, M.L.A., or M.L.C is fully exempt.
- f) Perquisites and allowances paid by the Government to its employees for services rendered outside India.
- g) Scholarship received from Government, University, Board or Trust etc.,
- h) Any payment made in cash or in kind under any awards instituted by the Government
- i) Pension received by certain winners of gallantry awards
- j) Income from on palace of a former ruler
- k) Income of scientific research association
- l) Income of some Professional Institutions
- m) Income of Institutions established for development of Khadi and Village Industries.

C. CAPITAL OR REVENUE

CAPITAL EXPENDITURE – MEANING:

Capital Expenditure means any expenditure incurred to acquire a fixed asset or in connection with installation of fixed asset and a payment made to discharge a capital liability. For example amount spent on purchase of machinery or land etc.

REVENUE EXPENDITURE – MEANING:

Revenue Expenditure means any expenditure incurred as price of goods purchased for resale; an expenditure incurred to discharge a revenue liability (e.g. compensation given on termination on buying or selling contract) ; an expenditure to earn an income (e.g. salary of the staff, advertisement expenses etc.); any expenditure incurred on keeping an asset in running condition (repair and maintenance expenses).

CAPITAL INCOME OR RECEIPT – MEANING:

If a receipt is associated with fixed asset or any sum received in compensation for the termination of source of income; any expenditure incurred to give a pride associated in owning an asset and not for resale, such receipts are called as capital receipts.

REVENUE INCOME OR RECEIPT – MEANING:

If a receipt is associated with circulating asset (stock-in-trade, work-in-progress etc); or any sum received in substitution of income (damages received for the violation of rights); any amount received for loss of future income, such receipts are called as revenue receipts.

DIFFERENCE BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE:

BASIS FOR COMPARISON	CAPITAL EXPENDITURE	REVENUE EXPENDITURE
a. Definition	Expenditure incurred for acquiring assets, to enhance the capacity of an existing asset that results in increasing its life-span.	Expense incurred for maintaining the day to day activities of a business
b. Tenure	Long Term	Short term
c. Value Addition	Enhances the value of an existing asset	Does not enhance the value of an existing asset

THEORY QUESTIONS:

A. SHORT QUESTIONS:

1. What is Tax? (April 2015, November 2018)
2. Define the term Tax. (April 2013, 2014, 2017, Nov. 2016)
3. State the methods of taxation. (Nov. 2015)
4. What is meant by incidence of tax? (Nov. 2015)
5. What do you mean by Income Tax? (April 2014)
6. Who is a Person of the Income Tax Act? (or) Define the term Person u/s 2(31) of the Income tax act. (Nov. 2010, 2012, 2014, April 2013, 2016)
(Nov. 2013, 2015)
7. Write a short note on HUF. (Nov. 2011, April 2013, 2017)
8. What is Previous Year? (Nov. 2010, 2012, 2014, April 2012, 2013)
9. What is Assessment Year? (April 2011)
10. What is Total Income? (Nov. 2012, 2013, April 2016)
11. What is Gross Total Income? (April 2013, 2014, 2017, Nov. 2016)