**What are tax and its types?**

A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. The collected fund is then used to fund different public expenditure programs. If one fails to pay the taxes or refuse to contribute towards it will invite serious implications under the pre-defined law.

**Tax in India**

To run a nation judiciously, the government needs to collect tax from the eligible citizens; paying taxes to the local government is an integral part of everyone’s life, no matter where we live in the world. Now, taxes can be collected in any form such as state taxes, central government taxes, direct taxes, indirect taxes, and much more. For your ease, let’s divided the types of taxation in India into two categories, viz. direct taxes and indirect taxes. This segregation is based on how the tax is being paid to the government.

**Types of Taxes**

Be it an individual or any business/organization, all have to pay the respective taxes in various forms. These taxes are further subcategorized into direct and indirect taxes depending on the manner in which they are paid to the taxation authorities. Let us delve deeper into both types of tax in detail:

**Direct Tax**

* The definition of direct tax is hidden in its name which implies that this tax is paid directly to the government by the taxpayer
* The general examples of this type of tax in India are [Income Tax](https://groww.in/p/income-tax/) and Wealth Tax.
* From the government’s perspective, estimating tax earnings from direct taxes is relatively easy as it bears a direct correlation to the income or wealth of the registered taxpayers.

**Indirect Tax**

* Indirect taxes are slightly different from direct taxes and the collection method is also a bit different. These taxes are consumption-based that are applied to goods or services when they are bought and sold.
* The indirect tax payment is received by the government from the seller of goods/services.
* The seller, in turn, passes the tax on to the end-user i.e. buyer of the good/service.
* Thus the name indirect tax as the end-user of the good/service does not pay the tax directly to the government.
* Some general examples of indirect tax include sales tax, Goods and Services Tax ([GST](https://groww.in/p/gst/)), Value Added Tax (VAT), etc.

**Recent Reforms in Taxes**

In the year 2017, the government introduced Goods and Services Tax (GST) which is considered as the most revolutionary tax reform in independent India to date. Earlier also, governments levied various state and central taxes for availing various services or buying different goods. The problem with the earlier reforms was the taxation process was complex and the contradicting rules enabled some people to evade taxes through loopholes in the system. After the introduction of GST, a higher percentage of assesses was brought under the taxation umbrella and it took a toll on evaders as escaping from paying taxes became tougher.

**What is Income Tax?**

The most common type of tax that eligible citizens have to pay to the government. A part of your income is paid to the government every year and the government uses this money to fund support the growth and development activities across the country.

**Income Tax Assesse**

Any individual who is liable to file taxes and fall in the payable income tax slab is an income tax assesse. An individual who is having a regular income is exempted from paying tax if his/her include annual income is below the threshold level determined by the government from time to time or income from exempted sources such as agriculture.

**Income Tax Slabs**

As mentioned earlier, not all individuals shall pay the same amount of tax; the general rule is – the higher your income, the higher amount of tax you will have to pay. In order to ensure that tax rates and rules are fair rather than uniform, the government uses [income tax slabs](https://groww.in/p/income-tax-slab/) to determine the rate at which each individual tax assesse is liable to pay income tax.

**Income Tax Deductions**

Citizens having taxable income in excess of Rs. ₹ 2.5 lakhs are liable to pay income tax as per their applicable slab. However, there are a few tax savings options such as [ELSS](https://groww.in/p/equity-funds/elss-mutual-funds/), [Mutual Funds](https://groww.in/mutual-funds), [PPF](https://groww.in/p/savings-schemes/public-provident-fund-ppf/), [EPF](https://groww.in/p/savings-schemes/employees-provident-fund-epf/), [tax saver fixed deposits](https://groww.in/p/fixed-deposit/tax-saving-fixed-deposits/), and others that can be used to reduce the income tax payable by the individual. A majority of these tax saving schemes are available under [sections 80C](https://groww.in/p/section-80c/) and 80D of the Income Tax Act, 1961.

**Tax Deducted at Source**

[TDS](https://groww.in/p/tds/), short for Tax Deducted at Source is considered as one of the most common ways of deducting tax by the government from any salaried individual. Other cases of TDS can be seen in the case of interest provided on fixed deposits. However, in this case, also, the tax assesse can get a refund after filing the Income Tax Return (ITR).

**Tax Evasion Laws and Implications**

Various acts related to taxation have been framed by the Government of India and every citizen is liable to comply with these rules, failing which strict actions may be taken against them. Some of the sections of the taxation laws and penalties imposed for non-compliance are:

**Section 140A (1)**: If an assesse fails to pay the taxes, be it partially or wholly on principle amount of interest, he will be considered as a defaulter. The assessing officer can levy a fine equal to the arrear as per section 221 (1)

**Section 271 (C)**: In case an assesse doesn’t reveal the actual income or earning, a fine of 100% to 300% can be imposed on the defaulter in this section.

**Section 142 (1) and 143 (2)**: Under these sections, an income tax notice is sent to the defaulter and if he/she does not respond to it, the assessing officer can ask the assesse to file the return or furnish all details of assets and liabilities in writing.

**On a closing note**

Paying taxes is an integral part of all the citizens’ life and it helps in the upliftment of every section of the country by providing proper services and provisions. There are many other types of taxes such as GST, value-added tax (VAT), property tax, service tax, sales tax, entertainment tax and so on, that also constitutes government funding.

<https://www.youtube.com/watch?v=HdeI82TVQk0> vedio of warren buffet

**Exempted Income**

Section 10 of the Income Tax Act allows the computation of specific incomes as tax-free.

As per the [Income Tax Act, 1961](https://www.aegonlife.com/insurance-investment-knowledge/income-tax-act-1961/), every Indian citizen who earns above a certain threshold of income is liable to pay taxes. Hence, with the drawdown of each financial year, taxpayers seek out ways to minimize their tax liabilities.

To ease the burden off the taxpayer, while encouraging them to save, invest and pay taxes, the law has listed certain incomes as exempted.

## Exemptions under Section 10 of Income Tax Act

|  |  |  |
| --- | --- | --- |
| **Section and Sub-section** | **Category** | **Exemption** |
| 10(1) | Self-employed agricultural income | No tax |
| 10(2) | Income of a member of Hindu –undivided Family | No tax |
| 10(10C) | Voluntary retirement compensation | Exempt up to Rs. 5 lakh |
| 10(10D) | Life insurance benefit including bonus | No tax |
| 10(11)(12) | Amount withdrawn from provident fund | No tax |
| 10(10BC) | Government compensation for damage due to disaster | No tax |
| 10 (13A) | House Rent Allowance (HRA) | Least of the below is exempted: Actual HRA40% of salary or 50% of salary if living in metro cities Rent paid excluding 10% of salary |
| 10(15) | Earnings of tax-free securities | No tax |

## Other Exemptions under Section 10

Salaried employees are given several benefits apart from their regular incomes. Most of these benefits are considered a part of the total income, where some of them are allowed exemption under Section 10.

1. **Special allowance under section 10(14):**Certain allowances are classified as special exemptions under Section 10 and not levied any tax. The exception is dependent on the amount authorized or the actual money utilized for the specific purpose, whichever is lower.  
   Grants under sub-section (14) of Section 10 of the Income Tax Act include:
2. **Daily allowance:**This includes daily compensation given to cover expenses incurred while on an official tour or during shifting/transferring to a new job location.
3. **Travel allowance:**This is granted to employees to cover their travel expenses while on an official tour or during the transfer of a job. It includes expenses incurred in transferring of personal belongings, etc.
4. **Helper Allowance:**This exemption is provided for the fee of the helper who has been hired to assist in performing official duties.
5. **Uniform Allowance:**In cases where an office requires wearing a uniform while on duty, the allowance is offered to cover expenses of purchase and maintenance of uniform.
6. **Conveyance Allowance:**This grant is provided to cover expenses incurred on official travelling. This does not provide reimbursement for the cost incurred for travelling from home to work.
7. **Research or Academic Allowance:**This exemption is given by education and research institutions for encouraging research or academic training, education, etc.
8. **Special allowance under Section 10(14)(ii):**

## Exempted allowances under sub-section (14)(ii) of Section 10 of the Income Tax Act

* **Climatic allowance:**This includes compensation for working in high altitude or hilly areas.
* Up to ₹800 for hills of Himachal Pradesh, Uttar Pradesh, Jammu & Kashmir and the North East.
* Deductions Up to ₹7,000/month for Siachen.
* Deductions Up to ₹300 for other high-altitude places.
* **Tribal area allowance:** Grant of ₹200 for those working in pre-classified Tribal, Schedule or Agency areas such as Karnataka, West Bengal, Madhya Pradesh, Assam, Orissa, Tamil Nadu, Bihar, Uttar Pradesh, and Tripura.
* **Border area allowance:**Under Rule 2BB of Section 10 (14)(ii), Armed Forces personnel serving in the border area, remote places or in any disturbed areas are given allowance ranging from ₹200 to ₹1,300/month.
* **Compensatory field allowance:**A grant of ₹2,600/month is permissible under Section 10 (14)(ii), provided it is given to an individual for delivering duties in unusual fields such as Nagaland, Jammu & Kashmir, Himachal Pradesh, Uttar Pradesh, Sikkim, Andhra Pradesh and Manipur.
* **Children education fund:**This Section 10 (14)(ii) exemption is given to an allowance of ₹100/child maximum up to 2 children. A hostel allowance can also be claimed for ₹300/month/child up to 2 children.
* **Counterinsurgency allowance:**This grant of ₹3,900/month in Section 10 (14)(ii) is directed to those employed in Armed Forces for counterinsurgency.
* **Island duty allowance:**An exemption under Section 10 (14)(ii) of ₹3,250/month is for members of the Armed Forces serving in the Andaman and Nicobar Islands or Lakshadweep Group of Islands.
* **Other allowances under sub-section (14)(ii) of Section 10 of the Income Tax Act include:**
* ₹800/month for underground mine workers.
* ₹4,200/month for employees in highly active areas.
* ₹1,000/month for workers in specified modified field areas.
* ₹1,600/month as transport allowance to physically disabled employees.
* ₹1,600/month as transport allowance for employees to commute between homes to the office.

Apart from the above section, you can save tax up to Rs. 46,800 under [section 80C](https://www.aegonlife.com/insurance-investment-knowledge/tax-sections-80c-80ccc-80ccd-explained/) of the income tax. [Term insurance](https://www.aegonlife.com/insurance-plans/term-insurance) is one of the most feasible ways to save tax under this section. So opt for a term policy now.

## What is a PAN?

Permanent Account Number abbreviated as PAN is a unique 10-digit alphanumeric number issued by the Income Tax Department to Indian taxpayers.

The department records all tax-related transactions and information of an individual against his unique permanent account number. This allows the taxman to link all tax-related activities with the department.

PAN primarily acts as a database for all individual transactions, such as the tax collected at source (TCS)/tax deducted at source (TDS) credits, [income](https://cleartax.in/g/terms/income) tax payments, return on gift/investments/wealth, etc. Simply put, the PAN enables the tax department to identify an individual’s tax-related transaction.

## PAN Card

The tax department issues an individual’s PAN on a physical card referred to as the PAN card. The PAN card includes information, such as the PAN number, photograph, name, and date of birth of the holder.

PAN has a typical format of ABCTY1234D. The first three characters, i.e. ‘ABC’ in the above number is an alphabetic series ranging between AAA and ZZZ. The 4th character, i.e. ‘T’, represents the PAN holder’s status. The alphabet ‘T’ represents Trust, ‘F’ for Firm, ‘H’ for HUF, ‘P’ for Individual, ‘C’ for Company etc. The 5th character, i.e. ‘Y’, represents the first alphabet the PAN holder’s last name. The next four characters are sequential digits ranging between 0001 and 9999. The 10th character, i.e. ‘D’, is an alphabetic check digit that runs from A to Z.

## Is PAN Mandatory?

The Income Tax Department has mandated the use of PAN on the return of income on all tax-related transactions. PAN is an integral aspect when it comes to tracking the transactions and monitoring the inflow and outflow of an individual’s money.

Also, the government has mandated the linking of PAN with Aadhaar. The deadline for linking of PAN with Aadhaar is 31 March 2020. In the same line, the Finance Minister, in the Union Budget 2020, proposed to instantly allot PAN to individuals on the [basis](https://cleartax.in/g/terms/basis) of their Aadhaar.

Central Board of Direct Taxes(CBDT)

1. **Functions and Organization**

The Central Board of Direct Taxes is a statutory authority functioning under the Central Board of Revenue Act, 1963. The officials of the Board in their ex-officio capacity also function as a Division of the Ministry dealing with matters relating to levy and collection of direct taxes.

1. **Historical Background of C.B.D.T.**

The Central Board of Revenue as the apex body of the Department, charged with the administration of taxes, came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1.1.1964. This bifurcation was brought about by constitution of two Boards u/s 3 of the Central Board of Revenue Act, 1963.

1. **Composition and Functions of CBDT**

The Central Board of Direct Taxes consists of a Chairman and following six Members: -

* 1. Chairman
  2. Member (Income Tax & Revenue)
  3. Member (Legislation)
  4. Member (Admn.)
  5. Member (investigation)
  6. Member (TPS & system)
  7. Member (Audit & Judicial)

1. **Jurisdiction (Zonal)**
   1. Chairman
   2. Member (IT&C) Chennai, Hyderabad, Bengaluru, Kochi & Pr. CCIT (Exemptions)
   3. Member (L) NWR, Delhi, UP (East), UP (West) & Uttarakhand
   4. Member (Admn.) Mumbai, Pune, Nagpur, Pr. DGIT (Vig.), Pr. DGIT (HRD) & Pr. DGIT (Trg.)
   5. Member (Inv.) All DGsIT (Inv.), all CCsIT (Central) and DGIT (I&CI)
   6. Member (R&TPS) Kolkata, Guwahati, Patna, Bhubaneshwar, Pr. DGIT (Admn. & TPS)
   7. Member (A&J) Ahmedabad, Jaipur, Bhopal, Pr. DGIT (L&R) & Pr. DGIT (Logistics).

**Rates of Taxes**

## Types of Income Tax payers

he Income tax Act has classified the types of taxpayers in categories so as to apply different tax rates for different types of taxpayers.  
Taxpayers are categorized as below:

* Individuals, Hindu Undivided Family (HUF), Association of Persons(AOP) and Body of Individuals (BOI)
* Firms
* Companies

Further, Individuals are broadly classified into residents and non-residents. Resident individuals are liable to pay tax on their global income in India i.e. income earned in India and abroad. Whereas, those who qualify as Non-residents need to pay taxes only on income earned or accrued in India. The residential status has to be determined separately for tax purposes for every financial year on the basis of the individual tenor of stay in India.Resident Individuals are further classified into below mentioned categories for tax purposes-

* Individuals less than 60 years of age
* Individuals aged more than 60 but less than 80 years
* Individuals aged more than 80 years

## Types of Income / Heads of Income

Everyone who earns or gets an income in India is subject to income tax.(Yes, be it a resident or a non-resident of India ).For simpler classification, the Income tax department breaks down income into five main heads:

|  |  |
| --- | --- |
| **Head of Income** | **Nature of Income covered** |
| Income from Other Sources | Income from savings bank account interest, fixed deposits, winning in lotteries is taxable under this head. |
| Income from House Property | Income earned from renting a house property is taxable under this head of income. |
| Income from Capital Gains | Surplus Income from sale of a capital asset such as mutual funds, shares, house property etc is taxable under this head of Income. |
| Income from Business and Profession | Profits earned by self employed individuals, businesses , freelancers or contractors & income earned by professionals like life insurance agents, chartered accountants, doctors and lawyers who have their own practice, tuition teachers are taxable under this head. |
| Income from Salary | Income earned from salary and pension is taxable under this head of income |

## Taxpayers and income tax slabs

Each of these taxpayers is taxed differently under the Indian income tax laws. While firms and Indian companies have a fixed rate of tax calculated on their tax profits, the individual,HUF, AOP and BOI taxpayers are taxed based on the income slab they fall under. People’s incomes are grouped into blocks called tax brackets or tax slabs. And each tax slab has a different tax rate.Rate at which income is charged to tax increases with increase in income. Budget 2020 introduced a ‘New tax regime’ for the Individuals and HUF taxpayers :

## What is the Existing / Old tax regime?

The old tax regime provides 3 slab rates for levy of income tax which are 5%, 20% tax rate and 30% for different brackets of income. The individuals have been given the option to continue with this Old tax regime and they can claim deductions of allowances like Leave Travel Concession (LTC), House Rent Allowance (HRA), and certain other allowances. Additionally, deductions for tax saving investments as per section 80C (LIC, PPF ,NPS etc) to 80U can be claimed. Standard deduction of Rs 50,000, deduction for interest paid on home loan.  
Tax slab rates applicable for Individual taxpayer below 60 years for Old tax regime is as below:

|  |  |  |
| --- | --- | --- |
| **Income Range** | **Tax rate** | **Tax to be paid** |
| Up to Rs.2,50,000 | 0 | No tax |
| Between Rs 2.5 lakhs and Rs 5 lakhs | 5% | 5% of your taxable income |
| Between Rs 5 lakhs and Rs 10 lakhs | 20% | Rs 12,500+ 20% of income above Rs 5 lakhs |
| Above 10 lakhs | 30% | Rs 1,12,500+ 30% of income above Rs 10 lakhs |

There are two other tax slabs for two other age groups: those who are 60 and older and those who are above 80.A word of note: People often misunderstand that if they earn let’s say Rs.12 lakhs, they will be paying a 30% tax on Rs.12 lakhs i.e Rs.3,60,000. That’s incorrect. A person earning 12 lakhs in the progressive tax system, will pay Rs.1,12,500+ Rs.60,000 = Rs. 1,72,500. Check out the income tax slabs for previous years and other age brackets.

## Income Tax Slabs under new tax regime

From the FY 2020-21, a new tax regime is available for individuals and HUFs with lower tax rates and zero deductions/exemptions. Individuals and HUF have the option to choose the new regime or continue with the old regime.The new tax regime is optional and the choice should be made at the time of filing the ITR. If the old regime is continued than all the deductions/exemptions as available can be availed by the taxpayer. The income tax slabs under the new tax regime are:

|  |  |  |  |
| --- | --- | --- | --- |
| **New regime slab rates** | | **Existing regime slab rates** | |
| Income from Rs 2.5 lakh to Rs 5 lakh | 5% | Income from Rs 2.5 lakh to Rs 5 lakh | 5% |
| Income from Rs 5 lakh to Rs 7.5 lakh | 10% | Income from Rs 5 lakh to Rs 10 lakh | 20% |
| Income from Rs 7.5 lakh to Rs 10 lakh | 15% | Income above Rs 10 lakh | 30% |
| Income from Rs 10 lakh to Rs 12.5 lakh | 20% |  |  |
| Income from Rs 12.5 lakh to Rs 15 lakh | 25% |  |  |
| Income above Rs 15 lakh | 30% |  |  |

Most of the deductions like deductions and exemptions are not allowed if the taxpayers opts for the New Tax regime. However, he exemptions and deductions available under the new regime are:

* Transport allowances in case of a specially-abled person.
* Conveyance allowance received to meet the conveyance expenditure incurred as part of the employment.
* Any compensation received to meet the cost of travel on tour or transfer.
* Daily allowance received to meet the ordinary regular charges or expenditure you incur on account of absence from his regular place of duty.

## Exceptions to the Tax Slab

One must bear in mind that not all income can be taxed on slab basis. Capital gains income is an exception to this rule. Capital gains are taxed depending on the asset you own and how long you’ve had it. The holding period would determine if an asset is long term or short term. The holding period to determine nature of asset also differs for different assets. A quick glance of holding periods, nature of asset and the rate of tax for each of them is given below.

|  |  |  |
| --- | --- | --- |
| **Type of capital asset** | **Holding period** | **Tax rate** |
| [House Property](https://cleartax.in/s/house-property/) | Holding more than 24 months – Long Term Holding less than 24 months – Short Term | 20% Depends on slab rate |
| Debt mutual funds | Holding more than 36 months – Long Term Holding less than 36 months – Short Term | 20% Depends on slab rate |
| Equity mutual funds | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | Exempt (until 31 March 2018) Gains > Rs 1 lakh taxable @ 10% 15% |
| Shares (STT paid) | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | Exempt (until 31 March 2018)Gains > Rs 1 lakh taxable @ 10% 15% |
| Shares (STT unpaid) | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | 20% As per Slab Rates |
| FMPs | Holding more than 36 months – Long Term Holding less than 36 months – Short Term | 20% Depends on slab rate |

## Residents and non residents:

Levy of income tax in India is dependent on the residential status of a taxpayer. Individuals who qualify as a resident in India must pay tax on their global income in India i.e. income earned in India and abroad. Whereas, those who qualify as Non-residents need to pay taxes only on their Indian income. The residential status has to be determined separately for every financial year for which income and taxes are computed.

# **MEANINGS, DEFINITIONS AND FEATURES OF INCOME — INCOME TAX ACT,1961**

i) DEFINITION: The definition of the term “income” in section 2(24) is inclusive and not exhaustive. Therefore, the term “income” not only includes those things which are included in section 2(24) but also includes such things which the term signifies, according to its general and natural meaning. Before discussing the definition of income given in section 2(24), it is imperative to know meaning of “income” as generally understood.

ii) MEANING: The term income simply means something which comes in. It is a periodical return with regularity or expected regularity. Income does not only refer to monetary return but also includes non-monetary returns. It includes value of benefits and perquisites as well. All such incomes are to taxed unless otherwise it is specifically exempted by any such provisions of the Act.

iii) FEATURES OF INCOME: A study of the following broad principles will be helpful for understanding the concepts of income:

a) REGULAR AND DEFINITE SOURCE – The term “income” connotes a periodical monetary return coming in with some sort of regularity or expected regularity from definite sources.

b) INCOME MUST COME FROM OUTSIDE – No one can earn income from himself. There can be no income from transactions between head office and branch office. Contributions made by members for the mutual benefit and found surplus cannot be termed as income of such group.

c) RECEIPT VS. ACCRUAL – Income arises either on receipt basis or on accrual basis. Income may accrue to a taxpayer without its actual receipt. Moreover, in some cases, income is deemed to accrue or arise to a person without its actual accrual or receipt.

d) TAINTED INCOME – The income-tax law does not make any distinction between income accrued or arisen from a legal source and income tainted with illegality. Assessment of illegal income does not grant him immunity from the applicability of the provisions of other Act.

e) DISPUTED TITLE – Income-tax assessment cannot be held up or postponed merely because of existence of a dispute regarding the title of income.

f) TEMPORARY OR PERMANENT – Whether the income is permanent or temporary, it is immaterial from the tax point of view. Even temporary income is taxable.

g) DIVERSION OF INCOME BY OVERRIDING TITLE VS. APPLICATION OF INCOME —

Any expenditure/ investment, after income is received, is application of income. “Income” under the Income-tax Act, which is chargeable to tax, is income before application of income. Any expenditure investment out of such income is deductible only if it is permitted by a provision under the Income-tax Act or Income-tax rules.

               Diversion of income means that a part of the income or whole of such income does not reach to assessee. It is diverted to some other person due to some legal obligation.

h) LUMP SUM RECEIPT — Income, whether received in lump sum or in instalments, is liable to tax. For instance , arrears of bonus, received in lump sum, is income and is taxable as salary.

i) TAX-FREE INCOME – If a person receives tax—free income on which tax is paid by the person making payment on behalf of the recipient, it has to be grossed up for inclusion in his total income.

j) VOLUNTARY RECEIPTS – The receipts which do not arise from the exercise of a profession or business or do not amount to remuneration and are made for reasons purely  of personal nature are not  included in the scope of total income. Receipt on account of dharmada, gaushala, and pathshala is not income and, therefore, not liable to tax.

k) INCOME INCLUDES LOSS – Income includes loss. While income, profits and gains represent “plus income”, losses represent “minus income”.

l) TREATMENT OF GIFTS – W.e.f. 1-10-2009 in case of individual or H.U.F., subject to certain exceptions, the following three kinds of gifts are treated as income under the head other sources u/s 56(2)(vii) ;

                A)     MONETARY GIFTS: Any sum of money received from any person or persons without consideration exceeding Rs.50000 in aggregate during a previous year, then

                           INCOME = THE WHOLE OF SUCH SUM OF MONEY

                B)     GIFT OF IMMOVABLE PROPERTY: Any immovable property received from any person without consideration having stamp duty value exceeding Rs.50000, then

          INCOME = THE STAMP DUTY VALUE OF SUCH IMMOVABLE PROPERTY

                C)      GIFT OF PROPERTY (SPECIFIED) OTHER THAN IMMOVABLE PROPERTY

                 CASE I – without consideration: Any property (specified) other than immovable property received from any person without consideration, the aggregate F.M.V of which exceeds Rs.50,000, then

      INCOME = THE WHOLE OF THE AGGREGATE F.M.V OF SUCH PROPERTY

                CASE II – For inadequate consideration: Any property (specified) other than immovable property received from any person for inadequate consideration i.e., for a consideration less than the aggregate F.M.V. of the property and such consideration is less than the aggregate F.M.V of the property by an amount exceeding Rs.50000, then

        INCOME = THE AGGREGATE F.M.V OF SUCH PROPERTY – ACTUAL                                         CONSIDERATION

However, the above gift received from a relative, On the occasion of marriage of individual, under will/inheritance, in contemplation of death of the payer, received from specified funds/institutions are not treated as income of the recipient.

## What is Gross Income?

Gross income refers to the total income earned by an individual on a paycheck before taxes and other deductions. It comprises all incomes received by an individual from all sources – including wages, rental income, interest income, and [dividends](https://corporatefinanceinstitute.com/resources/knowledge/finance/dividend/). For example, if the revenue earned by an individual for rendering consultancy services amounts to $300,000, the figure represents the gross income earned by that individual.



For businesses, gross income can also be referred to as gross profit when preparing financial statements for companies, and it equals the revenues from the sale of goods or services less the [cost of goods sold](https://corporatefinanceinstitute.com/resources/knowledge/accounting/cost-of-goods-sold-cogs/).

The revenue sources may comprise income from selling goods and services, intellectual properties, income from rental property, capital gains from investments, etc. The gross profit is a line item in the [profit and loss statement](https://corporatefinanceinstitute.com/resources/knowledge/accounting/profit-and-loss-statement-pl/).

### How to Calculate Gross Income

The gross income of an individual is often a figure required by lenders when deciding whether or not to advance credit to an individual. The same applies to landlords when determining whether a potential tenant will be able to pay the rent on time. It is also the starting point when calculating [taxes](https://www.irs.gov/) due to the government.

#### Gross Income for an Individual

The gross income for an individual is the amount of money earned before any deductions or taxes are taken out. An individual employed on a full-time basis has their annual salary or wages before tax as their gross income. However, a full-time employee may also have other sources of income that must be considered when calculating their income.

For example, any dividends on stocks held by an individual should be factored into the gross income. Other incomes that should be considered include income from rental property and [interest income](https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-income/) from investments and savings.

**Example**

Assume that John earns an annual income of $100,000 from his financial management consultancy work. John also earns $70,000 in rental income from his real estate properties, $10,000 in dividends from shares he owns at Company XYZ, and $5,000 in interest income from his savings account. John’s income can be calculated as follows:

Gross Income = 100,000 + 70,000 + 10,000 + 5,000 =**$185,000**

#### Gross Income for a Business

Gross profit is an item in the income statement of a business, and it is the company’s gross margin for the year before deducting any indirect expenses, interest, and taxes. It represents the revenue that a company earned from selling its goods or services after subtracting the direct costs incurred in producing the goods being sold.

Direct costs can include expenses such as labor costs, equipment used in the production process, supply costs, cost of raw materials, and shipping costs. Taxes are not deducted since they are not directly related to the production and sale of the product.

The formula for calculating the gross income, or gross profit, of a business is as follows:

##### Gross Income = Gross Revenue – Cost of Goods Sold

**Example**

Assume that the gross revenue of ABC, a paint manufacturing company, totaled $1,300,000, and the expenses were as follows:

* Cost of raw materials: $150,000
* Supply costs: $60,000
* Cost of equipment: $340,000
* Labor costs: $150,000
* Packaging and shipping: $100,000

The gross profit is calculated as follows:

Gross Income = (1,300,000) – (150,000 + 60,000 + 340,000 + 150,000 + 100,000)

= (1,300,000) – (800,000) =**$500,000**

### Gross Income vs. Net Income

**Gross income** is the sum of all incomes received from providing services to clients before deductions, taxes, and other expenses.

On the other hand, **net income** is the profit attributable to a business or individual after subtracting all expenses. For a company, net income is calculated by subtracting all the business expenses such as taxes due, advertising costs, and interest expenses, plus any eligible deductions like professional and legal fees.

If the net income is a positive value, it is a profit, but if it is negative, then it shows that the business incurred a loss.

If the difference between gross profit and net income is significantly high, it shows that the business incurs many expenses. In such a situation, the business should review its expenses to eliminate unnecessary expenses and reduce necessary expenses.

For an individual, net income is the income earned after deducting state and federal taxes, social security taxes, health insurance, etc.

### More Resources

CFI is the official provider of the global[Financial Modeling & Valuation Analyst (FMVA)®](https://corporatefinanceinstitute.com/certifications/financial-modeling-valuation-analyst-fmva-program/) certification program, designed to help anyone become a world-class financial analyst. To keep advancing your career, the additional CFI resources below will be useful:

* [Capital Gain](https://corporatefinanceinstitute.com/resources/knowledge/finance/capital-gain/)
* [Income Tax Payable](https://corporatefinanceinstitute.com/resources/knowledge/finance/income-tax-payable/)
* [Remuneration](https://corporatefinanceinstitute.com/resources/careers/compensation/remuneration/)
* [Tax Deductible](https://corporatefinanceinstitute.com/resources/knowledge/finance/tax-deductible/)

## How to calculate your total income

Your total income is your gross income from all sources less certain deductions, such as expenses, allowances and reliefs.

If you are married or in a civil partnership and jointly assessed, your spouse's or civil partner's income is included in total income.

If you earn deposit interest or dividend income, you must use the gross figures when calculating total income.

* For deposit interest, this is the amount before the deduction of  [Deposit Interest Retention Tax (DIRT).](https://www.revenue.ie/en/additional-incomes/dirt/who-is-charged-dirt.aspx)
* For dividends, this is the amount before the deduction of [Dividend Withholding Tax (DWT).](https://www.revenue.ie/en/companies-and-charities/dividend-withholding-tax/index.aspx)

If the total income received by is less than the exemption limit, you will not pay any income tax.

* Example

John and Alice are 68 and 70 and earned income from the following sources in 2020:

|  |  |
| --- | --- |
| *John's income* | |
| **PAYE income** | €15,000 |
| **Deposit interest income received (net amount)** | €1,950 |
| *Alice's income* | |
| **Rental profit** | €10,000 |
| **Dividend income received (net amount)** | €4,000 |

|  |  |  |
| --- | --- | --- |
| *Their total income is calculated as follows* | | |
| **PAYE Income** |  | €15,000 |
| **Rental Profit** |  | €10,000 |
| **Deposit Interest Income Gross (€1,950 is 65%)** | (€1,950 ÷ 65) x 100 | €3,000 |
| **Dividend Income Gross (€4,000 is 80%)** | (€4,000 ÷ 80) x 100 | €5,000 |
| **Total Income** |  | **€33,000** |

As John and Alice are both 65 or over and their total income for the period is under the exemption limit of €36,000, they are exempt for [Income Tax (IT)](https://www.revenue.ie/en/jobs-and-pensions/calculating-your-income-tax/index.aspx) for 2020.

Both John and Alice may also be subject to the [Universal Social Charge (USC)](https://www.revenue.ie/en/jobs-and-pensions/usc/index.aspx) which is calculated separately from IT.

In this example Alice has not applied for her DIRT exemption from her Financial Institution. For details on how to claim this exemption see [Deposit Interest Retention Tax (DIRT) Exemption](https://www.revenue.ie/en/additional-incomes/dirt/index.aspx).

# The five income heads under Income Tax Act



**1**/5

## ​Income from salary

Income from salary includes wages, pension, annuity, gratuity, fees, commission, profits, leave encashment, annual accretion and transferred balance in recognised Provident Fund (PF) and contribution to employees pension account.

Getty Images



**2**/5

## ​Rental incomes

Rental Income from properties owned by a person other than those which are occupied by him are charged as income from house property. If property is vacant then a notional income is included under this head.

ThinkStock Photos



**3**/5

## ​Income from business/profession

Income from business or profession includes profit/loss from a business entity or a profession, any interest, salary or bonus to a partner of a firm.

Getty Images



**4**/5

## ​Capital gains

Income from capital gains includes long term capital gains (LTCG) and short term capital gains (STCG) on sale of any capital assets.

Getty Images



**5**/5

## ​Income from other sources

Income from other sources includes interest on bank deposits and securities, dividend, royalty income, winning on lotteries and races and gifts received among others.

|  |
| --- |
| **Definition of Word 'Salary' or Income by way of Salary [Section 17(1)]** |
| According to Section 17(1) salary includes the following amounts received by an employee from his employer, during the previous year :   1. Wages; 2. any annuity or pension; (Family pension received by heirs of an employee is taxable under income from other sources); 3. any gratuity; 4. any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages; 5. any advance of salary; 6. any payment received by an employee in respect of any period of leave not availed of by him; (Leave encashment or salary in lieu of leave); 7. the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under Rule 6 of part A of the Fourth Schedule; and 8. the aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of Rule 1] of Part A of the Fourth Schedule, of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax, under sub-rule (4) there, i.e., taxable portion of transferred balance from unrecognised provident fund to recognised provident fund. 9. the contribution made by the Central Government or any other employer in the previous year, to the account of an employee under a pension scheme referred to in Section 8OCCD.   **The above definition of word ‘salary’ U/s 17(1) includes the above mentioned items. These can be explained in following manner :**   1. **Wages**—any amount received by a person for work done or job rendered is called wages. It may be received under the name of ‘Pay’, ‘Basic Pay’, ‘Salary’, ‘Basic salary’ or ‘Remuneration’. It may be for actual work or leave salary or actually received or due during the relevant previous year. Salary in lieu of Notice. It is fully taxable uls 15 if received during the relevent previous year. 2. **Any Annuity or Pension**—Any amount received by employee from past employer after attaining the age of retirement or superannuation is fully taxable. It may be received direct as pension or out of a superannuation fund created by employer; in both cases it is taxable. 3. **Any Gratuity**—Any sum received by employee from his past employer as a token of gratitude for services rendered in past is called gratuity. This amount is exempted upto certain limits given u/s 10(10) and it is dealt with in this very chapter at a later stage. 4. 1. **any Fee**—any amount received from employer under the name of fee is also fully taxable.    2. **any Commission**—any commissions given by employer to employee is fully taxable. Any commission received by a director for standing guarantee for repayment of loan, and if he is not employee of the company, shall be taxable under “Income from other sources”. In case commission is given to an employee and it is paid as a fixed percentage of turnover achieved by such employee, such commission shall also be treated as part of the salary for all practical purposes. [Gestener Duplicators (P) Ltd. vs. C.I. T. (1979) SC).    3. **any Bonus**—Bonus is fully taxable under the head ‘Salaries’ on receipt basis. In case arrears of bonus are received in a previous year, these are fully taxable. Bonus can be of two types :   **Statutory Bonus**—It is received under some legal or contractual obligation and is fully taxable. Gratuitous Bonus—It is a casual benefit and is taxable as a receipt from employer and having no other implication.   * 1. **any Perquisite**—Any benefit or amenity allowed by employer to employee. These are explained in detail later in this chapter u/s 17(2).   2. **any Profit in lieu of or in addition to salary**—any cash payment received by employee from employer is called profit in lieu of salary and these are explained later in this chapter u/s 17(3).  1. any salary in lieu of leave received during service is fully taxable. 2. **any advance salary**—In case an assessee receives some salary in advance in a previous year and which was actually not due in that year shall be taxable in the year of receipt. It does not include any loan or advance taken from employer. |

# **Allowances - Meaning and Types under the head 'Salary' Income**

Allowance is a fixed monetary amount paid by the employer to the employee for meeting some particular expenses, whether personal or for the performance of his duties. These allowances are generally taxable and are to be included in the gross salary unless a specific exemption has been provided in respect of any such allowance. Specific exemptions in respect of allowances are provided under the following sections:

1. House Rent Allowance — Section 10(13A)
2. Prescribed special allowances — Section 10(14)

The above allowances shall be exempt either in full or upto a certain limit and the balance, if any, shall be taxable and thus included in gross salary.

The treatment of some of the Allowances is as under:

## House Rent Allowance [Section 10(13A) and Rule 2A]

Quantum of Exemption: Minimum of following three limits:

|  |  |  |
| --- | --- | --- |
|  | **Mumbai / Kolkata / Delhi / Chennai** | **Other Cities** |
| (i) | Allowance actually received | Allowance actually received |
| (ii) | Rent paid in excess of 10% of salary | Rent paid in excess of 10% of salary |
| (iii) | 50% of Salary | 40% of Salary |

|  |
| --- |
| The exemption in respect of HRA is based upon the following factors:  (1) Salary  (2) Place of residence  (3) Rent paid  (4) HRA received. |

## Prescribed Allowances which are Exempt to a certain extent [Section 10(14)] :

Prescribed allowances which are exempt under section 10(14) are of the following two types:

1. Special allowances for performance of official duties: These allowances are not in the nature of a perquisite within the meaning of section 17(2) and are specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of duties of an office or employment of profit. These allowances will be exempt the extent such expenses are actually incurred for that purpose. [Section 10(14)(i)].
2. Allowances to meet personal expenses: These allowances are granted to the employee to meet his personal expenses either at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides. These allowances are exempt to the extent prescribed. [Section 10(14)(ii)].

## Special Allowances which are Exempt to the extent of actual amount received or the amount spent for the performance of the duties of an office or employment of profit, whichever is less:

These allowances are:

1. Travelling allowance: Any allowance granted to meet the cost of travel on tour or on transfer of duty. "Allowance granted to meet the cost of travel on transfer" includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.
2. Daily allowance: Any allowance, whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty;
3. Conveyance allowance: Any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit, provided that free conveyance is not provided by the employer. Expenditure incurred on journey from residence to office and back to residence shall not be treated as expenditure incurred on conveyance in performance of official duties;
4. Helper allowance: Any allowance, by whatever name called, granted to meet the expenditure incurred on a helper where such helper is engaged for the performance of the duties of an office or employment of profit;
5. Academic allowance: Any allowance, by whatever name called, granted for encouraging academic, research and training pursuits in educational and research institutions;
6. Uniform allowance: Any allowance, by whatever name called, granted to meet the expenditure incurred on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of profit.

The above allowances shall be exempt to the extent of minimum of the following:

1. Actual Allowance Received.
2. Actual amount spent for the purposes of duties of office or employment.

### **Allowances to meet Personal Expenses :**

These allowances can be of the following two types:

## 1. Allowances which are Exempt to the extent of amount received or the limit specified, whichever is less:

***(a) Children Education Allowance:***Exempt upto actual amount received per child or ₹100 p.m. per child upto a maximum of 2 children, whichever is less.

**(b) Hostel Expenditure Allowance:** Exempt upto actual amount received per child or ₹300 p.m. per child upto a maximum of two children, whichever is less.

**(c) Tribal area, Scheduled Area/Agency area allowance:** Exempt upto actual amount received or ₹200 per month, whichever is less.

**(d) Special compensatory hilly area allowance or high altitude allowance etc.:** Exemption varies from ₹300 to ₹7,000 per month.

**(e) Border area, remote area allowance, disturbed area allowance, etc.:** (as per given later): Exemption varies from ₹200 p.m. to ₹1,300 p.m.

**(f) Compensatory field area allowance:**Exempt to the extent of ₹2,600 p.m.

**(g) Compensatory, modified field area allowance:** Exempt to the extent of ₹1,000 p.m.

**(h) Counter insurgency allowance granted to members of armed forces:**Exempt to the extent of ₹3,900 p.m.

**(i) Transport allowance:** Any transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty, to the extent of ₹1,600 per month. However, such transport allowance granted to an employee, who is blind or deaf and dumb or orthopaedically handicapped with disability of lower extremities, is exempt to the extent of ₹3,200 p.m. instead of ₹1,600.

**(j) Underground allowance:** Any underground allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines shall be exempt to the extent of ₹800 p.m.

**(k) High altitude (uncongenial climate) allowance:** Given to the member of the armed forces for altitude of 9000 ft to 15000 ft ₹1,060 p.m. and for altitude above 15000 ft ₹1,600 p.m.

**(l) Special compensatory highly active field area allowance granted to members of armed forces:** Exempt to the extent of ₹4,200 p.m.

**(m) Island (duty) allowance:** Given to the member of the armed forces in the Andaman & Nicobar and Lakshadweep Group of Islands exempt to the extent of ₹3,250 p.m.

## 2. Allowance which is exempt to the extent of certain percentage of amount received

**Allowance allowed to transport employees working in any transport system:** If any fixed allowance is given by the employer to the employee who is working in any transport system, to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another, the amount of exemption shall be ..

* 70% of such allowance or
* ₹10,000 p.m., whichever is less.

## Treatment of Entertainment Allowance

This deduction is allowed only to a Government employee. Non-Government employees shall not be eligible for any deduction on account of any entertainment allowance received by them.

In case of entertainment allowance, the Assesse is not entitled to any exemption but he is entitled to a deduction under section 16(ii) from gross salary. Therefore, the entire entertainment allowance received by any employee is added in computation of the gross salary. The Government employee is, then, entitled to deduction from gross salary under section 16(ii) on account of such entertainment allowance to the extent of minimum of the following 3 limits.

1. Actual entertainment allowance received during the previous year.
2. 20% of his salary exclusive of any allowance, benefit or other perquisite.
3. ₹5,000.

## Allowances which are exempt in case of certain persons

1. Allowances to a citizen of India, who is a Government employee, rendering services outside India. [Section 10(7)]
2. Allowances to High Court judges under section 22A(2) of the High Court Judges (Conditions of Service) Act, 1954.
3. Sumptuary allowance given to High Court and the Supreme Court judges. Sumptuary allowance are in the nature of entertainment allowance.
4. Allowance received by an employee of United Nations Organisation (UNO) from his employer.

## Allowances which are fully taxable

All other allowances excepting those discussed in preceding paras, are fully taxable. Some of such allowances are enumerated as under:

1. Dearness Allowance (DA)
2. City Compensatory Allowance (CCA)
3. Medical Allowance: Fully taxable, irrespective of whether any amount has been spent on medical treatment or not.
4. Lunch Allowance/tiffin allowance
5. Overtime Allowance
6. Servant Allowance
7. Warden Allowance
8. Non-practising Allowance
9. Family Allowance



[**http://incometaxmanagement.com/Pages/Tax-Ready-Reckoner/GTI/Salary/Meaning-and-Types-of-Perquisites-Section-17-2.html**](http://incometaxmanagement.com/Pages/Tax-Ready-Reckoner/GTI/Salary/Meaning-and-Types-of-Perquisites-Section-17-2.html)

**UNIT-III**

**Income from House property:** <https://www.slideshare.net/kshitij_gupta1995/income-from-house-property-61874615#:~:text=The%20annual%20value%20of%20property,not%20used%20by%20the%20assessee>

**Income from Business and profession:** <https://www.slideshare.net/RAJESHJAIN65/profit-gains-from-business-or-profession?next_slideshow=1>

UNIT-IV

CAPITAL GAINS: <https://www.slideshare.net/mdharoonrasheed/income-from-capital-gains>

Capital gains: <https://groww.in/p/capital-gains/>

https://groww.in/p/capital-gains/

**Income from other sources:** <https://taxguru.in/income-tax/notes-income-sources.html>

**UNIT-V**

**ASSESSMENT OF AN INDIVIDUAL**

SET OFF AND CARRY FARWARD: <https://cleartax.in/s/set-off-carry-forward-losses>