

Basic concepts of Income Tax

SUBJECT: INCOME TAX LAW AND ACCOUNTS

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Important Definitions used in Income Tax

1. Income

- **Profits and gains**
- **Dividend, interest, etc**
- **Voluntary contribution received by a trust created for charitable or religious purpose**
- **Salary, allowance & perquisites**
- **Capital gains**
- **Winning from lotteries, crossword puzzles, races, card games, etc**
- **Sum received from employees as PF contribution**
- **Sum received under a Keyman insurance policy**

2. Assessment - Section 2(8)

- **It is the process of computation of total income of an assessee in the PY and the determination of the tax liability**

Accelerated Assessment

- **Every assessee is liable to be assessed during the assessment year in respect of the income earned during the previous year.**
- **But in certain circumstances an assessee shall be assessed during the year in which he earned the income**
- **In other words, an assessee is liable to pay tax in the PY itself.**

Accelerated Assessment applying Circumstances

- **Income of non-resident shipping business Sec 172:** income derived in India will be taxed in the year of its earning @7 1/2%
- **Income of persons leaving India Sec 174:** an individual may leave India during the current year without any present intension of returning to india, the income of such a person up to the date of departure should be taxed
- **Income of an AOP or BOI formed for a particular purpose Sec 174 A:** when the event or purpose is likely to be dissolved in the current year, income up to the date of its dissolution is taxable in the current year itself.
- **Transfer of property to avoid tax Sec 175:** if a person is likely to transfer his property to avoid tax, the AO shall charge income tax during the PY itself.
- **On discontinuance of a business or profession Sec**

3. Person Section 2 (31)

- **Individual**
- **Hindu Undivided Family (HUF)**
- **Company**
- **Firm (Partner Firm)**
- **Association of Persons or Body of Individuals**
- **Local Authorities**
- **Every Artificial Juridical Person**

4. Assessee Sec 2(7)

- **Who is liable to pay tax or any sum of money (interest or penalty)**
- **In respect of whom any proceedings under this Act have been taken for assessment of income**
- **In respect of whom any proceedings under this Act have been taken for assessment of loss sustained by him or for the refund amount due to him**
- **Who is deemed to be an assessee**
- **Who is deemed to be an assessee in default**

Deemed Assessee

- **A person who is considered as an assessee for some other persons or representative of some other persons**
- **Eg: parent in respect of minor child**
 - Legal representative of a deceased person**
 - Agent of a person residing outside India**

Assessee in Default

- **When a person is liable to do a work or duty under this Act and if he fails to do that**
- **Eg: an employer is liable to deduct tax at source on payment of salary to his employees. If he fails to do that he is an assessee in default**

5. Agricultural Income Sec 2(1A)

- **Any rent or revenue derived from the land which is situated in India**
- **And is used for agricultural purposes**
- **Any income derived from such land by agricultural operations , or**
- **Any process or sale of such produce and**
- **Any income from a farm house,etc**

6. Gross Total Income (GTI) Sec 80 B (5)

- **Total of 5 heads of income is GTI**
 - **Income from salary**
 - **Income from House Property**
 - **Profits or Gains from Business or Profession**
 - **Capital Gains**
 - **Income from Other Sources**

7. Total Income Sec 2(45)

- **Total Income = GTI - Deductions under Sec 80**
- **It is the income on which Income Tax is calculated**
- **It is also known as Taxable Income**

8. Maximum Marginal Rate of Tax

Sec 29 C

- **Rate of tax including surcharge applicable to the highest slab of income of an individual, AOP, BOI as specified in the Finance Act each year**
- **Present maximum rate for an individual - 30%**

9. Casual Income

- **Any receipt of casual or non-recurring nature is called casual Income**
- **Eg: winning from lotteries**
 - Crossword puzzles**
 - Card games**
 - Betting**

Features of Income Tax

- **Direct Tax**
- **Annual tax**
- **Collected by the Central Government**
- **Income is calculated under 5 heads**
- **Tax rate is fixed by the Annual Finance Act**
- **Any income whether legal or illegal is taxable**