

# CHAPTER - 1

## INTRODUCTION TO INCOME TAX

# BRIEF HISTORY OF INCOME TAX IN INDIA

- ⦿ The concept of income tax was introduced in India for the first time by the sir James Wilson in the year 1860.
- ⦿ British government in India incurred heavy losses in order to recover the expenditure incurred by the government on account of sepoy mutiny in year 1857 (first war of Indian independence).
- ⦿ Thereafter, several amendments were made in it from time to time.

# INTRODUCTION TO INCOME TAX

- ◉ Income tax is one of the most important source of revenue to the government.
- ◉ The government need money to meet the various public expenditure such as maintain law and order in the country, to safeguard the country from foreign power, to develop agriculture, to develop industries, infrastructure development, to provide education, to maintain hospitals, to promote welfare of the people. For all these, the government needs to mobilise fund from different sources.

# INCOME TAX MEANING

- ◉ Tax is a compulsory contribution made by citizen of a nation to meet various expenditure of the state.

## TYPES OF TAXES

- ◉ Direct tax
- ◉ Indirect tax
- ◉ **Direct tax:** a tax that is paid directly by an individual or an organisation to the imposing entity called direct tax.
- ◉ In other words impact and incidence is on same person.
- ◉ **Impact:** impact means burden of paying tax
- ◉ **Incidence:** person liable to pay tax to government
- ◉ **Example:** income tax, professional tax, wealth tax, property tax.

# Types of Taxes

- **Direct Tax**

1. Income Tax
2. Wealth Tax
3. Property Tax

- **Indirect Tax**

- 1. Sales Tax- It is charged at the time of supply / sale of goods
  2. Excise Duty – Levied and collected on goods manufactured in India.
  3. Customs Duty- Collected on the goods imported or exported out of the boundaries of the country.
  4. Service Tax



- **Indirect tax**: An indirect is a tax collected by an intermediary(such as a retail store) from the person who bears the ultimate economic burden of the tax (consumer).
- In other words impact and incidence is on two different persons.



# INCOME TAX SLAB RATES 2017-18

## INDIVIDUAL'S (BELOW 60 YEAR OF AGE)

<b>Taxable income</b>	<b>Tax Rate</b>
Up to Rs. 2,50,000	<i>Nil</i>
Rs. 2,50,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

# SENIOR CITIZEN ( MORE THAN 60 YEARS BUT LESS THEN 80 YEARS OF AGE)

<b>Taxable income</b>	<b>Tax Rate</b>
Up to Rs. 3,00,000	<i>Nil</i>
Rs. 3,00,000 - Rs. 5,00,000	5%
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%



# SUPER SENIOR CITIZEN ( MORE THAN 80 YEARS OF AGE)

<b>Taxable income</b>	<b>Tax Rate</b>
Up to Rs. 5,00,000	<i>Nil</i>
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

# CANONS OF TAXATION

- ◉ Adam Smith laid down principles to guide the taxing authority.
- ◉ 1) Canon of Equality
- ◉ 2) Canon of Certainty
- ◉ 3) Canon of Convenience
- ◉ 4) Canon of Economy
- ◉ 5) canon of simplicity
- ◉ 6) cannon of co-ordination
- ◉ 7) Canon of Flexibility

# Canon Of Taxation

## 1. Canon of Equity:

- ✓ Every person should pay to the government depending upon his ability to pay
- ✓ Rich people pay high ?
  - ✓ because without the protection of the government authorities (Police, Defence, etc.) they could not have earned and enjoyed their income

## 2. Canon of Certainty:

- ✓ The tax which an individual has to pay should be certain, not arbitrary
- ✓ The tax payer should know
  - ✗ In advance how much tax he has to pay
  - ✗ At what time he has to pay the tax, and
  - ✗ in what form the tax is to be paid to the government

## ➤ Canon of Convenience

According to this canon, the mode and timings of tax payment should be convenient to the tax payer. It means that the taxes should be imposed in such a manner and at the time which is most convenient for the tax payer. For example, government of India collects the income tax at the time when they receive their salaries. So this principle is also known as 'the pay as you earn method'.

## ➤ Canon of Economy

Every tax has a cost of collection. The canon of economy implies that the cost of tax collection should be minimum.

## **5) CANNON OF SIMPLICITY:**

- ⦿ Tax system should not be complicated. Calculation of taxable income and taxable liability should be simple and understandable to the tax payer.

## **6) CANNON OF CO-ORDINATION:**

- ⦿ There should be co-ordination between the various taxes imposed by center, state and local bodies. Otherwise, there will be over lapping and causes unnecessary inconvenience to all the tax payers.

## **7) CANON OF FLEXIBILITY:**

income tax authorities should revise the tax structure at the right time in order to meet the changing needs of the economy.

# IMPORTANT DEFINITIONS

- ◉ 1. ASSESSMENT YEAR
- ◉ 2. PREVIOUS YEAR
- ◉ 3. DEFINE PERSON
- ◉ 4. ASSESSEE
- ◉ 5. DEEMED ASSESSEE
- ◉ 6. DEEMED ASSESSEE IN DEFAULT
- ◉ 7. DEFINE INCOME
- ◉ 8. GROSS TOTAL INCOME
- ◉ 9. CASUAL INCOME

## ◉ Assessee [ sec 2 (7) ]

Assessee means a person by whom any tax or any other sum of money is payable. Assessee is a person who is liable to pay any tax, fees, fine, penalty and interest under the income tax act.

## ◉ Deemed assessee

A person who is liable to pay any tax of some other person is called deemed assessee.

**Example:** 1. after death of a person, his legal representative has to pay tax.

2. a person representing a minor have to pay tax.

## ◉ Assessee in default:

When a person is responsible for doing work under the income tax act and fails to do it, he is called as 'assessee in default'.

**Example:** a person who is liable to TDS but fails to deduct it.

## ⦿ **Assessment year u/s – 2(9)**

- ⦿ Assessment year means the period of 12 months commencing on the first day of April every year and ending on 31<sup>st</sup> march of the next year. The current assessment year is 2017-2018. i.e. 1<sup>st</sup> April 2017 to 31<sup>st</sup> march 2018.

## **Person u/s – 2 (31)**

Person includes the following

- ⦿ a) An individual
- ⦿ b) A Hindu Undivided Family
- ⦿ c) A firm
- ⦿ d) An association of persons
- ⦿ e) A local authority



## ◉ **Previous year (sec 3)**

Previous year means a financial year immediately proceeding the assessment year. In other words, the year in which income is earned is known as previous year.

### **Exceptions to the general rule of previous year**

1. Income of a non-resident from shipping business (sec.172)
2. Income of persons leaving India (sec.174)
3. income of an association of person or body of individuals formed for a particular purpose or event. (sec 174A)
4. income of a person likely to transfer property to avoid tax (SEC 175)
5. Income of a discontinued business or profession (sec 176)

## ◉ **INCOME [SEC.2 (24)]**

- ◉ The term “income” means and include
- ◉ Profits and gains
- ◉ Dividend
- ◉ Voluntary contribution
- ◉ Capital gains
- ◉ Winning from lottery, crossword, puzzles
- ◉ Gift

## **CASUAL INCOME**

- ◉ Casual income is non-recurring in nature. Casual income are accidental and without any stipulation. It is a nature of unexpected.
- ◉ **Example**: winning from lottery, crossword puzzles, card games, bettings, gambling, races including horse race.

## **GROSS TOTAL INCOME (SEC. 14)**

- ◉ Income from salary
- ◉ Income from house property
- ◉ Profits and gains of business or profession
- ◉ Capital gains
- ◉ Income from other sources

## ◉ **TOTAL INCOME**

It is the gross total income reduced by all permissible deductions u/s 80C TO 80U.

Total Income = Gross total income - Deductions

# AGRICULTURAL INCOME

- ⦿ Land must be situated in India
- ⦿ agricultural purposes (basic operations like tilling of land/ digging of land, sowing of seeds, planting, harvesting, irrigation, cultivation should be carried out on the land)
- ⦿ Any rent or revenue derived from land
- ⦿ sale of replanted trees, seeds, dried tobacco leaves.
- ⦿ growing flowers and creepers and maintain nursery, tea leaves
- ⦿ land leased for grazing of animals required for agriculture purpose.

# EXAMPLES FOR NON – AGRICULTURE INCOME

An income not derived from land used for agricultural purpose,

- a) income from land used for storing agricultural produce
- b) income from supply of water for irrigation purposes
- c) income from stone quarries
- d) income from mining royalties
- e) income from sale of earth for brick making
- f) income from diary farming, poultry farming etc
- g) income from sale of self grown grass, tress, bamboos etc
- h) income from markets
- i) income of a buyer from a ripe crop
- j) income from interest on arrears of rent of agricultural land
- k) income from sale of spontaneously grown trees

# INCOME WHICH IS PARTIALLY AGRICULTURAL AND PARTIALLY FROM BUSINESS

Particulars	agricultural Income	Business income
Income from sale of tea grown and manufactured by the assessee in India	60%	40%
Income from rubber plants grown by the seller in India	65%	35%
Income derived from the sale of coffee grown and cured by the seller in India	75%	25%
Income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India	60%	40%

# CLASSIFICATION OF CAPITAL AND REVENUE

- ◉ Capital receipts and revenue receipts
- ◉ Capital expenditure and Revenue expenditure
- ◉ Capital loss and revenue receipts

## ◉ CAPITAL RECEIPTS

cash flow into your business, which leads to the **creation of a liability (a debt to be paid in the future)** and a decrease in company assets (resources that lead to capital gain). It does not include the profits earned during the regular course of business and which not earned on account of the trading activities.

### **EXAMPLES:**

- ◉ Additional capital introduced in the business
- ◉ Loan raised

- ◉ **REVENUE RECEIPTS:** incomes which accrue or which are received in the ordinary course of business or **day to day activates of the business**. It is recurring in nature.

### **EXAMPLES:**

- ◉ Sale proceeds of goods
- ◉ Income such as interest earned, commission earned and rent received
- ◉ Dividend received from shares
- ◉ Interest received from investment



## **CAPITAL EXPENDITURE**

Capital expenditure is the cost incurred in acquiring an assets or improving an existing asset in order to enhance its profit earning capacity. Buildings, machinery, office equipments

### **EXAMPLES:**

- ⦿ Expenditure incurred to acquire a tangible asset.
- ⦿ Expenditure in connection with the purchase of fixed asset.
- ⦿ Expenditure for extension of improvement, modification in fixed asset.

## **REVENUE EXPENDITURE**

Any expenditure incurred in the regular course of business transactions of a firm in an accounting year.

### **EXAMPLES:**

- ⦿ Expenditure incurred on the purchase of raw materials
- ⦿ Expenditure incurred for the purchase of goods meant for sale like **carriage inwards, import duty**
- ⦿ Expenditure incurred in the day to day running business like **wages, salaries, rent, rates, tax, office expenses.**

# CAPITAL LOSS

The losses which arise on the account of **sale of fixed assets or on issue of shares at a discount** or the losses which do not arise in the course of regular business.

**Example:** loss on sale of office furniture.

# REVENUE LOSS

The losses that arise during the normal course of business, revenue loss relate to trading asset.

**Example:** bad debts. depreciation, loss due to falling of market prices

# INCOME TAX AUTHORITIES

- ◉ CBDT
- ◉ CIT
- ◉ A.O

## **CENTRAL BOARD OF DIRECT TAX (CBDT)**

- ◉ Establish in the year 1963.
- ◉ It is the top most authority in the direct tax.
- ◉ It is created by central government.
- ◉ It works under ministry of finance.

### **Powers and functions of CBDT**

- ◉ It provides the rules and regulations for IT act.
- ◉ It provides orders for subordinates for the proper administration of IT act.
- ◉ It has complete control on authorises.

# COMMISSIONER OF INCOME TAX (CIT)

- ◉ They **act as an assistant commissioner for income tax**
- ◉ They have the **power to control the staff of income tax department.**
- ◉ **Transfer** of case subordinate from one authority to another authority.
- ◉ To give instructions to **assessing officer.**
- ◉ If the notice has been issued to any **taxpayer but he has failed to obey the notice.** In this case commissioner income tax may impose penalty on that person.

# ASSESSING OFFICER (A.O)/ INCOME TAX OFFICER (ITO)

- ◉ ITO is the person with whom an assessee comes into direct contact.
- ◉ He can impose the penalty on non payment.
- ◉ To inspect register of companies.
- ◉ To inspect fraudulent activates in companies.

# EXPAND

- ◉ PAN - permanent account number.
- ◉ ITAT - Income tax appellate tribunal
- ◉ CCIT - Chief commissioner of income tax
- ◉ CBDT- central board of direct tax
- ◉ TDS - Tax deducted at source
- ◉ TRO - Tax recovery officer
- ◉ AO - Assessing officer.