TRINITY COLLEGE FOR WOMEN NAMAKKAL

Department of Commerce

INCOME TAX LAW AND PRACTICE -I

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INTRODUCTION:

Income Tax was introduced in India for the first time in the year 1860 by Sir James Wilson. He introduced it in order to meet the losses sustained by the government. The Income Tax Act 1961 came into force with effect from 1st April 1962.Tax is the important sources of revenue to the government. Taxes are more important way of collecting funds for government activities. Tax revenues are very useful to manage the economic activities in number of ways. Taxes are not only source of revenue to government but also useful to control inflation and improving balance of trade in country. Taxation policy of the country plays a vital role in the working of the country. While framing the taxation policy it has to be confirmed that it is in accordance with our economic and social objectives.

MEANING OF TAX:

A tax is a compulsory contribution from the person to the state to defray the expenses incurred in common interest of all without any reference to the special benefits conferred.

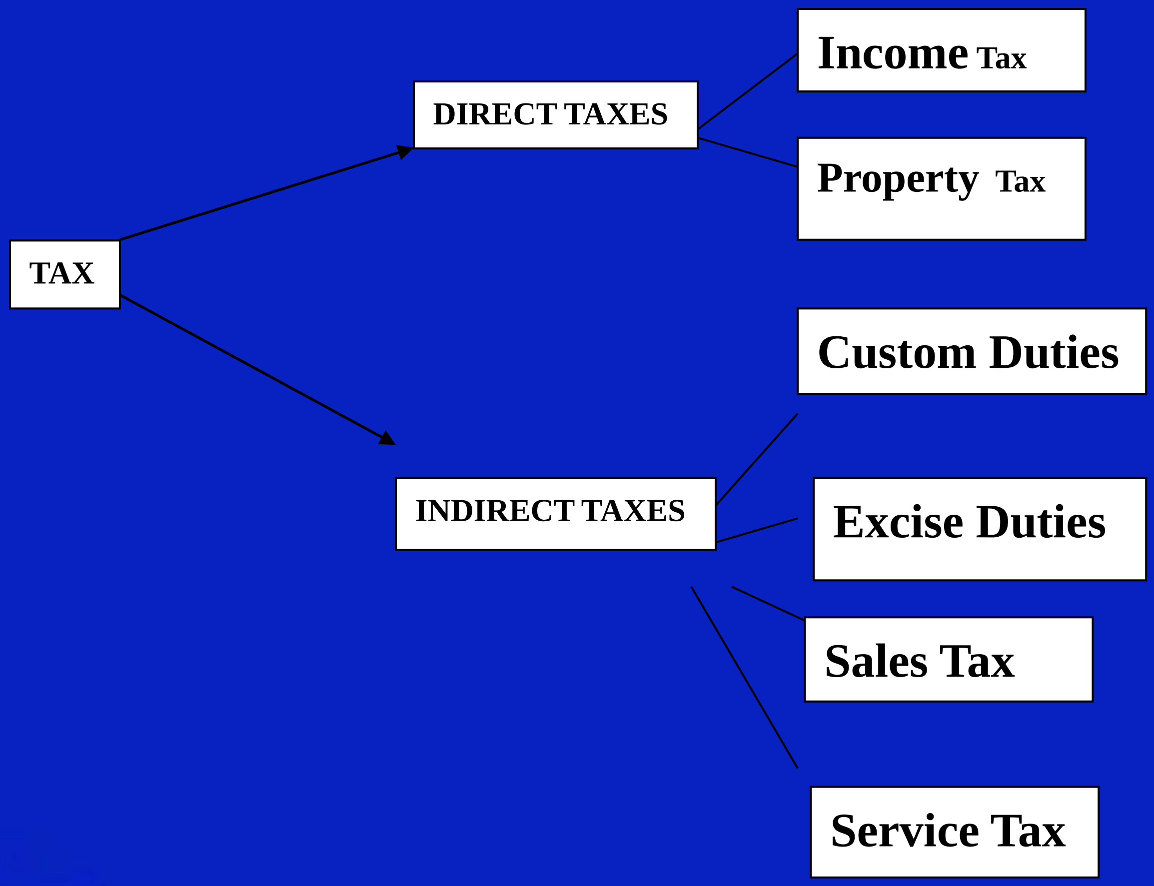
MEANING OF INCOME TAX:

Income Tax is a tax on the income of an individual or an entity. Income Tax may be explained as, "Every person, who is an Assessee and whose total income exceeds the maximum exempted limit, shall be chargeable to income tax at the rates prescribed in the Finance Act". Such income tax shall have to be paid on the total income of the previous year in the relevant assessment year. The tax is a payment that has to be made by an individual or other person to central government, state government and local authority. Tax is based on certain well established rules such as

i) Income earned ii) Property owned iii) Expenditure made

CLASSIFICATION OF TAXES:

Taxes may be classified into two types:



CANONS OF TAXATION:

- a) Canon of Equality:
- b) Canon of Certainty:
- c) Canon of Economy:
- c) Canon of Economy:
- d) Canon of Convenience:
- e) Canon of Productivity:
- f) Canon of Simplicity:
- g) Canon of Diversity:
- h) Canon of expediency:
- i) Canon of Co-ordination

ASSESSMENT YEAR:

Assessment year is defined as "the period of twelve months starting from 1st day of April and ending on 31st march of the next year". The current assessment year starts from 1st April and ends on 31st March.

PREVIOUS YEAR:

Previous year refers to twelve months immediately preceeding the particular assessment year. In other words, the year in which income is earned is known as previous year

PERSON:

i) An Individual:
ii) A Hindu Undivided Family:
iii) Company:
iv) Firm:
v) Association of Persons:
vi) Body of Individuals:
vii) Local Authorities:
viii) Artificial and Judicial Persons

ASSESSEE:

Assessee refers any person who is liable to pay any tax or any other sum of money (interest, fine, and penalty) under the Income Tax Act 1961 is called Assessee. The term Assessee means any persons whose accounts are taken for assessment whether by voluntarily or compulsorily.

TYPES OF ASSESSEE

i) Ordinary Assessee:
ii) Deemed Assessee:
iii) Assessee in Default:

INCOME [Sec.2 (24)]:

Definition: According to section 2 (24) of the Income Tax Act, 1961 the term income includes the following items:

i) Profits and gains
ii) Dividend
iii) Voluntary contributions received by a trust
iv) The value of perquisites or profits in lieu of salary
v) Any special allowances granted to the Assessee to meet personal expenses
vi) Any allowances granted to meet the personal expenses for the increased cost of living.
vii) The value of benefit obtained from a company by a director.
viii) The value of any benefit obtained by any representative Assessee.
ix) Any income chargeable under the head business.
x) Any value of benefits from profession
xi) Any capital gains
xii) Insurance profit
xiii) Casual incomes
xiv) Any sum received under Key Man Insurance Policy

BASIS OF CHARGE

Tax is levied on total income of Assessee. Under the provisions of Income Tax Act, 1961 the total income of each person is based upon his residential status. Section 6 of the Act divides the assessable persons into three categories:

i) Resident and ordinarily resident ii) Resident but not ordinarily resident

iii) Non resident

BASIC CONDITIONS: Sec 6 (1) To find out whether an individual is Resident or Non Resident in India during the previous year, the following Basic Conditions shall be applied:

a. First Basic Condition:

Individual Assessee must be in India for at least 182 days or more during the relevant previous year. (or)

b. Second Basic Condition:

Individual Assessee must be in India for at least 60 days or more during the relevant previous year and 365 days or more during 4 years immediately preceeding the relevant previous year.

If an individual Assessee fulfills any one of the basic condition, he/she is said to be resident in India.

If an individual Assessee not fulfills any one of the basic condition, he/she is said to be non-resident in India.

ADDITIONAL CONDITIONS: Sec 6 (6)

If an individual Assessee becomes resident in India, the following Additional conditions shall be applied to find out whether an individual Assessee is Resident and Ordinarily Resident or Resident but Not Ordinarily Resident:

First Additional Condition:

Individual Assessee must be Resident in India for 2 years out of 10 previous year preceeding the current previous year

Second Additional Condition

Stay in India for 730 days or more during 7 previous year immediately preceeding the current previous year

If an individual Assessee satisfies both the additional conditions, he/ she is said to be resident and ordinary resident in India.

If an individual Assessee satisfies one or none of the additional conditions, he/ she is said to be resident but not ordinary resident in India.

NON RESIDENT

If an individual does not satisfied any one of the basic conditions , he/she is said to be a non resident

DEFINITION OF SALARY: U/S 17 (1)

The term “salary” includes

i) Wages

ii) Any annuity or pensions

iii) Any gratuity

iv) Any fees, commission, perquisites or profit in lieu of salary or in addition to salary or wages

v) Any advance salary

vi) Any payment received by an employee in respect of leave not availed by him during service.

vii) The total sum accredited to the credit of employees recognized provident fund to the extent chargeable to tax.

viii) Transferred balance in a recognized provident fund to the extent it is taxable.

ALLOWANCES: Allowances is a fixed amount of money given along with salary in order to meet some particular requirement connected with the services rendered by the employee. It is taxed on due or receipt basis. Allowances are generally classified into three categories.

1. Fully taxable allowance:
2. Partly taxable and partly exempted allowances
3. Fully exempted allowances

INCOME FROM HOUSE PROPERTY:
MEANING:

Section 22 of the Income Tax Act 1961 deals with house property income. The Income from houses, buildings, bungalows, godowns etc. is to be computed and assessed to tax under the head “Income from House Property”. The income under this head is not based upon the actual income from the property but upon notional income or the annual value of that building.

POINTS SHOULD BE NOTED WHILE CALCULATING HOUSE PROPERTY INCOME

a) **Building or land appurtenant thereto**
b) **b) Annual Value:**
c) **c) The Assessee should be the owner of the property**
d) **d) Property not used for the purposes of Assessee’s business or profession**
e) **e) Dispute about ownership**
f) **f) Letting out of building along with furniture**
g) **g) Sub Letting**

BUSINESS [SECTION 2(13)]

Business simply means any economic activity carried for earning profits. Section 2(13) has defined the term as " any trade, commerce , manufacture or any adventure or concern in the nature of trade, commerce and manufacture".

Adventure in the nature of trade: Profits arising from an isolated transaction are taxable as business profits, if it is treated as an adventure in the nature of trade, commerce or manufacture.

PROFESSION [SECTION 2(36)]

A Profession is an occupation requiring purely intellectual skill or manual skill controlled by the intellectual skill of the operator. Lawyers, Doctor, Auditor, engineer, accountant, surgeon etc, are the some of the examples of profession which includes vocation. So profession refers to those activities where the livilihood is earned by the persons through their intellectual or manual skill. U/S 2(36) profession includes vocation.

VOCATION

Vocation simply means a way of living for which one has special fitness. A Vocation does not involve any organized or systematic activity like business. So vocation simply means any type of activity in which a person is engaged and he earns his livilihood from such activity. Music, Dancing, writing books and contribution of articles to journal constitute the vocation.

THANK YOU

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