Income tax Law and Practice - I

Meaning

A income tax is a tax that Governments impose on income generated by Business and individuals within their Jurisdiction. By Law, taxpayers must file an income tax return annually to determine their tax obligations.

Definition

According to HUGH DALTON Defines as "tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any Legal offence.

Income tax act, 1961 :-

Income tax act 1961 is an act to (Levy), administrate, Collect & Recover Income tax in India. It came into force from 1st April 1962.

Basic concepts of tax :

"Income tax is Levied on the total income of the previous year of every person"

Assessee

An assessee is a taxpayer means a person who under the income tax act is subject to pay taxes or any other sum of money, as defined, as under section 2(7) of the act.

Person (2[31])

1. Individual:- It refers to a Natural human being whether male or female, minor or major.

2. Hindu undivided Family (HUF)

It is a relationship created due to operation of Hindu Law. The head of HUF is called "Karta" and its members are called coparcener.

3. Company:- It is an artificial person registered under Indian Companies act 1956 or any other Law.

4. Firm: It is entity which comes into existence as a Result of partnership agreement between persons to share profit of the business carried on by all or any one of them.

5. Association of Persons or Body of Individuals (AOP, BOI)

A group of individual (natural Persons) who carries on some activities with the objective of earning Some income.

6. Local Authority

Municipality, Panchayat, Cantonment Board, port trust etc, are called Logal Authorities.

7. Artificial and Juridical person

A public corporation established under Special Act of Legislature. ~~and~~

For example, University, Thirumala Thirupathi Devasthanam and Bar Council of Chennai.

Assessment year (2020-21)

Assessment Year means the period of twelve months commencing on the first day of April every year and ending on last day of march of next year. (For Ex.) The current assessment year starting on 1st April 2020 and ending on 31st march 2021

Previous year (2019-20)

Previous year means the financial year immediately preceding the Assessment year. A Taxpayer's income of the previous year is assessed to tax in the assessment year. Thus, for the current assessment year 2020-21, the relevant previous year will be the finacial year 2019-20, ie, 1st April 2019 to 31 march 2020.

Income [Sec. 2 (24)]

According to section 2(24) of the Income tax act, 1961. The term Income includes the following items.

1. Profit and gains.

2. Dividend.

3. Voluntary contributions received by a trust.

4. The value of perquisites or profit in Lieu of salary.

5. Any ~~special~~ Allowances granted to Meet personal expenses for the Increased cost of Living.

6. Any special allowances granted to The assessee to meet personal expenses.

7. the Value of Benefit obtained from Company by a Director.

8. Any capital gains.

9. Insurance Profit

10. Casual income.

11. Voluntary Contribution received by Non-Profit organisation. Such as University, Hospital, etc. The Annual Receipts of which do not exceed Rs. 1 Crore.

Total Income [Or]
Gross total Income [Sec. 14]

For the purpose of Income tax and Computation of total Income, all Income Shall be classified under the following heads of Income:

1. Income from salary

2. Income from House property.

3. Profit and gain of Business or Profession

4. Income from capital gains.

5. Income from other sources.

The sum of income computed under the above five heads. After making Adjustments for set off and carry forward of losses. is known as <u>gross total Income.</u>

<u>Agricultural Income</u> [U/S 10(1)]

As per section 10(1), Agricultural Income earned by the taxpayer in India is exempt from tax. Agricultural income is defined U/S 2(1A) of the Income tax act.

Agricultural income generally means:-

(a) Any rent or revenue derived from Land which is Situated in India and is used for agricultural purposes.

(b) Any Income derived from such Land by agriculture operations including Processing of Agriculture produce so as to render it fit for the market or Sale of such Produce.

(c) Any income derived from saplings or seedings grown in a nursery shall be deemed to be agricultural Income.

Casual Income [U/S 56(2)(ib)]

It is a receipts in the Nature of windfall being received by Chance, without any Stipulation Contract, Calculation, estimation or design.

For the purpose of taxation, U/S it includes the following winnings,

(i) Lotteries,

(ii) Crossword puzzle.

(iii) Races including Horse Races.

(iv) Card Games and other Games,

(v) Gambling or Betting.

<u>Capital Receipt and Revenue Receipt</u>

Receipt means any amount received by the assessee. the taxability of the receipt depends upon its Nature. It may be capital receipt or revenue receits.

Generally capital receipts are exempt from tax (except in the case of capital gains) whereas revenue receipts are taxable (except in the case of exemption U/S 10)

Examples of Capital Receipts

Following are the important items of receipts which comes under the meaning of Capital Receipts:-

(i) Sales of fixed assets.

(ii) Sale of Non trade investments.

(iii) Sale of technical know How.

(iv) Issue of shares and Debentures.

(v) Loan borrowed from banks and other institutions

(vi) Receipts of Proceeds of LIC policy on Maturity.

(vii) Compensation received from acquisition of Land by Government.

(viii) Compensation for cancellation of a License for the business by the Government.