


**DIRECT TAXES –
LAW AND PRACTICE**

MODULE I

INTRODUCTION TO INCOME TAX




INTRODUCTION

- Tax is a compulsory extraction of money from people, by an authority, to be spent for the common benefit of the society. There are taxes imposed by the central government, state government, local authorities. It is the duty of the people to pay tax and it is the right of the government to levy tax.
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Objectives of taxation

- Generation of revenue needed for government.
 - Prevention of concentration of money in the hands of a few.
 - Increase the habit of savings and productive investment by the people.
 - Speedy economic development.
 - Generation of employment opportunities.
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Classification of tax

Direct tax

- Impact and incidence on same person.
- No intermediary between government and tax payer.
- Example: income tax

Indirect tax

- Impact and incidence on different persons.
 - There is intermediaries like traders, service providers.
 - Example: gst
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tax law in India

- 1860 - Income tax was first introduced by James Wilson.
- 1922 – income tax department organized.
- 1924 – central board of revenue act constituted the board as a statutory body.
- 1940 – excess profit tax introduced.
- 1947 – business profits enacted (for the period 1-4-1946 to 31-3-1949).
- 1961 – income tax act passed.
- 1962 – income tax rules framed.
- 2016 – 15% surcharge introduced, rebate amount increased from 2000 to 5000.
- 2017 – income up to 5 lakh is taxable at 5% instead of 10%

Charging section

Section 4 of the income tax act is the charging section because it is the section which confers power to the government to levy tax on income.

- Income tax is an annual tax on income.
- Income of the previous year is taxable in the assessment year based on the rates applicable for the assessment year.
- Finance act passed by the parliament fixes tax rates.
- Tax is charged on income of every person as defined in sec. 2(31) of the act.
- Tax is charged on the total income of the assessee.
- Wherever possible income tax must be deducted at source or must be paid in advance.




Gross total income (sec.80b(5))


- Total of the incomes of the assessee from various heads of income, before making deduction under chapter vi a of the income tax act.






TOTAL INCOME (SEC.2(45))

- **GROSS TOTAL INCOME AS REDUCED BY THE DEDUCTIONS UNDER CHAPTER VI A OF THE INCOME TAX ACT.**
 - **TOTAL OF DEDUCTIONS SHALL NOT EXCEED THE GROSS TOTAL INCOME.**
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PERSON (SEC.2(31))

- AN INDIVIDUAL
 - A HINDU UNDIVIDED FAMILY
 - A COMPANY
 - A FIRM
 - AN ASSOCIATION OF PERSONS OR A BODY OF INDIVIDUALS
 - A LOCAL AUTHORITY
 - EVERY ARTIFICIAL JURIDICAL PERSONS
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• ASSESSEE(SEC.2(7))

ASSESSEE IS A PERSON BY WHOM TAX OR ANY OTHER SUM OF MONEY IS PAYABLE UNDER THE ACT.

- DEEMED ASSESSEE :

A PERSON WHO IS BOUND TO PAY TAX IN RESPECT OF THE INCOME OF ANOTHER ONE . EXAMPLE ; PAYING TAX BY GUARDIAN ON INCOME OF A MINOR.

- ASSESSEE IN DEFAULT :

WHEN A PERSON LIABLE TO COMPLY WITH THE LEGAL REQUIREMENTS UNDER THE ACT FAILS TO DO SO, HE BECOMES AN ASSESSEE IN DEFAULT. EXAMPLE; FAILURE TO PAY ADVANCE TAX.

- AVERAGE RATE OF RETURN (SEC.2(10))

$$= \text{TAX ON TOTAL INCOME} / \text{TOTAL INCOME DURING P.Y.} * 100$$

- MAXIMUM MARGINAL RATE (SEC.2 (29C))

$$= 35.535\% \text{ FOR THE YEAR 2016 - 17}$$

$$(30\% + 15\% \text{ SURCHARGE} + 3\% \text{ CESS})$$

RESIDENTIAL STATUS OF INDIVIDUALS

RESIDENT IN INDIA
(SATISFYING ANY ONE OF THE BASIC CONDITIONS)

RESIDENT & ORDINARILY RESIDENT
(SATISFYING TWO ADDITIONAL CONDITIONS)

RESIDENT BUT NOT ORDINARILY RESIDENT
(BOTH THE ADDITIONAL CONDITIONS ARE NOT SATISFIED &
ONLY ONE OF THE ADDITIONAL CONDITIONS IS SATISFIED)

RESIDENTIAL STATUS OF HUF

RESIDENT IN INDIA

(CONTROL AND MANAGEMENT WHOLLY OR PARTLY FROM INDIA)

RESIDENT AND ORDINARILY RESIDENT

(KARTA SATIFYING TWO ADDITIONAL CONDITIONS)

RESIDENT BUT NOT ORDINARILY RESIDENT

(KARTA NOT SATIFYING TWO ADDITIONAL CONDITIONS)

RESIDENTIAL STATUS OF FIRM, AOP

RESIDENT IN INDIA

(CONTROL AND MANAGEMENT WHOLLY OR PARTLY IN INDIA)

NON RESIDENT IN INDIA

(CONTROL AND MANAGEMENT WHOLLY OUTSIDE INDIA)

RESIDENTIAL STATUS OF COMPANY

RESIDENT IN INDIA

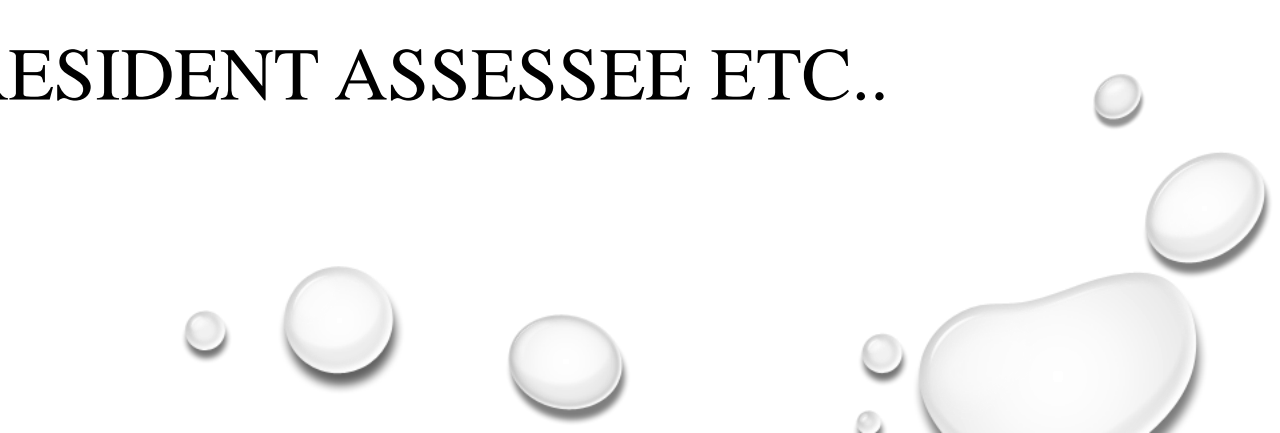
(INDIAN COMPANY OR FOREIGN COMPANY IF POEM IN INDIA)

NON RESIDENT IN INDIA

(FOREIGN COMPANY IF POEM OUTSIDE INDIA)



INCOME EXEMPT FROM TAX (SEC.10)

- AGRICULTURAL INCOME
 - RECEIPT BY A MEMBER FROM HUF
 - SHARE OF A PARTNER IN THE PROFITS OF A FIRM
 - INTEREST ON SAVINGS CERTIFICATES
 - LEAVE TRAVEL CONCESSION
 - INTEREST INCOME OF NON RESIDENT ASSESSEE ETC..
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MODULE II

HEADS OF INCOMES


INCOME FROM SALARY

SALARY (SEC.17(1)) INCLUDES :

- WAGES
- ANY ANNUITY OR PENSION
- ANY GRATUITY
- ANY FEE, COMMISSION, PERQUISITES OR PROFITS IN LIEU OF SALARY
- ANNUAL ACCRETION
- TRANSFERRED BALANCE



PERQUISITES (SEC17(2))

- TAX FREE PERQUISITES
 - PERQUISITES TAXABLE IN THE CASE OF ALL EMPLOYEES
 - PERQUISITES TAXABLE IN THE CASE OF SPECIFIED CATEGORY EMPLOYEES
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ALLOWANCES

- FULLY TAXABLE ALLOWANCES
 - PARTLY TAXABLE ALLOWANCES
 - FULLY EXEMPTED ALLOWANCES
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DEDUCTIONS AVAILABLE UNDER SALARY

- ENTERTAINMENT ALLOWANCES (SEC.16(ii)) – FOR GOVERNMENT EMPLOYEES ONLY
 - PROFESSIONAL TAX(SEC.16(III))
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INCOME FROM HOUSE PROPERTY

GROSS ANNUAL VALUE

LESS: DEDUCTIONS U/S 23

(1) UNREALISED RENT

(2) MUNICIPAL TAXES PAID BY THE OWNER

ANNUAL VALUE

LESS: DEDUCTIONS U/S 24

(1) 30% OF ANNUAL VALUE

(2) INTEREST ON CAPITAL BORROWED

ADD: UNREALISED AND ARREARS OF RENT RECEIVED

PROFITS AND GAINS OF BUSINESS OR PROFESSION

NET PROFIT AS PER PROFIT AND LOSS A/C

ADD: EXPENSES DEBITED TO P&L A/C BUT NOT ALLOWABLE

EXPENSES NOT RELATED TO BUSINESS

INCOMES ALLOWABLE NOT CREDITED TO P&L A/C

LESS: INCOMES CREDITED TO P&L A/C BUT NOT
ALLOWABLE

ALLOWABLE EXPENSES BUT NOT DEBITED TO P&L A/C

ELIGIBLE DEDUCTIONS

CAPITAL GAINS

- **SHORT TERM CAPITAL GAIN**
= NET CONSIDERATION – (COST OF ACQUISITION + COST OF IMPROVEMENT)
- **LONG TERM CAPITAL GAIN**
= NET CONSIDERATION – (INDEXED COST OF ACQUISITION & IMPROVEMENT)
- **DEDUCTIONS U/S 54 ARE AVAILABLE FROM CAPITAL GAINS, IF ELIGIBLE**

INCOME FROM OTHER SOURCES

- INCOME OF AN ASSESSEE DURING THE PREVIOUS YEAR WHICH IS NOT ATTRIBUTABLE TO A PARTICULAR HEAD OF INCOME IS ASSESSED UNDER THE HEAD 'INCOME FROM OTHER SOURCES', SECTION 56(1).
- INCOMES CHARGEABLE ARE:
 1. DIVIDENDS
 2. WINNINGS FROM LOTTERY, CROSSWORD PUZZLES, GAMBLING, BETTING ETC..
 3. INTEREST ON SECURITIES
 4. GIFT AMOUNT EXCEEDS RS.50,000

MODULE III

CLUBBING OF INCOME

CLUBBING OF INCOME (SEC.60 TO 65)

- CLUBBING OF INCOME IS DONE WITH THE PURPOSE OF AVOIDING THE POSSIBILITY OF TAX EVASION BY TRANSFERRING INCOME OR ASSET SOMEBODY ELSE BUT REALLY ENJOYING THE BENEFITS THEREFROM. IN CERTAIN CASES AN ASSESSEE WILL BECOME LIABLE TO PAY TAX ON THE INCOMES EARNED BY SOME OTHER PERSONS COMPULSORILY.
- CERTAIN INCOMES ARE:
 1. INCOME OF MINOR CHILDREN
 2. INCOME OF SPOUSE
 3. CROSS TRANSFERS
 4. ANY TRANSFER OF INCOME OR PROPERTY WITHOUT ADEQUATE CONSIDERATION



SET OFF OF LOSSESS

INTER SOURCE ADJUSTMENT

- **WITHIN THE SAME HEAD OF INCOME**
- **SECTION 70**

INTER HEAD ADJUSTMENT

- **WITH OTHER HEADS OF INCOME**
 - **SECTION 71**
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LOSS TO BE CARRY FORWARD TO THE NEXT YEAR	INCOME AGAINST WHICH LOSS CAN BE SET OFF IN NEXT YEAR	YEARS TO BE CARRY FORWARD
HOUSE PROPERTY LOSS	INCOME FROM HOUSE PROPERTY	8YEARS
SPECULATION LOSS	SPECULATION PROFITS	4 YEARS
NON SPECULATION BUSINESS LOSS	-	-
UNABSORBED DEPRECIATION, SCIENTIFIC RESEARCH & FAMILY PLANNING EXPENDITURE	ANY INCOME	NO TIME LIMIT
OTHER BUSINESS LOSS	SPECULATIVE AND NON SPECULATIVE PROFITS	8 YEARS
SHORT TERM CAPITAL LOSS	SHORT AND LONG TERM GAINS	8 YEARS
LONG TERM CAPITAL LOSS	LONG TERM CAPITAL GAINS	8 YEARS
LOSS FROM ACTIVITY OF OWNING & MAINTANENCE RACE HORSES	INCOME FROM SUCH ACTIVITY	4 YEARS

MODULE IV

DEDUCTIONS FROM GROSS TOTAL INCOME

DEDUCTIONS UNDER CHAPTER VI A SECTION 80C TO 80U

SECTION	PARTICULARS	AVAILABLE TO	MAX.LIMIT
80C	LIC PREMIUM, INTEREST ON NSC ETC	INDIVIDUAL, HUF	100000
80CCC	PENSION FUNDS OF INSURANCE CO	INDIVIDUAL	100000
80CCD	PENSION SCHEME OF CENTRAL GOVT	INDIVIDUAL	100000
80CCF	LONG TERM INFRASTRUCTURE BONDS	INDIVIDUAL/ HUF	20000

80D	MEDICAL INSURANCE	INDIVIDUAL/ HUF	15000/20000 & 15000/20000 FOR PARENTS
80DD	MEDICAL TREATMENT OF DISABLED DEPENDENT	INDIVIDUAL/ HUF	50000/100000 (SEVERE DISABILITY)
80DDB	MEDICAL TREATMENT OF SELF OR DEPENDENT	INDIVIDUAL/ HUF	40000 60000(IN CASE OF SENIOR CITIZEN)
80E	INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION	INDIVIDUAL	NO LIMIT BUT ALLOWED UPTO 8 YEARS

80G	DONATIONS	ALL ASSESSEE	LIMITS PRESCRIBED
80GG	RENT PAID FOR RESIDENCE	INDIVIDUAL	MAX. UPTO RS.2000 PM
80GGA	DONATION FOR SCIENTIFIC RESEARCH OR RURAL DEVELOPMENT	ALL ASSESSEE	100%
80GGB	CONTRIBUTION TO POLITICAL PARTY OR ELECTORAL TRUST	INDIAN COMPANY	100%

80GGC	CONTRIBUTION TO POLITICAL PARTY OR ELECTORAL TRUST	ANY PERSON	100%
80JJA	BUSINESS OF COLLECTING BIODEGRADABLE WASTE	ALL ASSESSEE	100% OF PROFITS FROM SUCH BUSINESS FOR 5 YEARS
80JAA	EMPLOYMENT OF NEW WORKMEN	INDIAN COMPANY	30% OF ADDITIONAL WAGES
80LA	INCOME OF OFFSHORE BANKING UNITS/IFSC	BANKS	100% FOR 5 YEARS AND THEN 50% FOR NEXT 5 YEARS

80P	INCOME OF CO-OPERATIVE SOCIETIES	CO-OPERATIVE SOCIETIES	100% IN SOME CASES
80QQB	ROYALTY OF BOOKS	INDIVIDUAL	300000
80RRB	ROYALTY OF PATENTS	INDIVIDUAL	300000
80U	FOR HANDICAPPED PERSON	INDIVIDUAL	50000/100000

MODULE V

ASSESSMENT OF INDIVIDUALS AND HUF

ASSESSMENT

- THE TERM ASSESSMENT MEANS COMPUTATION OF TOTAL INCOME, DETERMINATION OF THE TAX PAYABLE, PROCEDURE FOR IMPOSING TAX LIABILITY, ETC.
- COMPUTATION OF TAX LIABILITY OF INDIVIDUAL

CALCULATION
OF GROSS
TOTAL INCOME

(ADDING ALL THE
HEADS OF
INCOMES)

CALCULATION
OF TOTAL
INCOME

(BY DEDUCTING
DEDUCTIONS
UNDER CHAPTER VI
A FROM GTI)

COMPUTATION
OF TAX
LIABILITY AS
PER
PREVAILING
RATE AND
ROUNDED OFF
TO NEAREST
RS.10

RATE OF TAX FOR THE PREVAILING YEAR 2016-2017

(APPLICABLE FOR INDIVIDUAL AND HUF)

- FOR INDIVIDUAL OTHER THAN SENIOR CITIZEN (BELOW AGE 60)

TOTAL INCOME UPTO RS.250000	NIL
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RS.250000 – RS. 500000	10%
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RS.500000 – RS. 1000000	20%
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ABOVE RS.1000000	30%
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- FOR SENIOR CITIZENS (ABOVE AGE 60)

TOTAL INCOME UPTO RS.300000	NIL
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RS.300000 – RS.500000	10%
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RS.500000 – RS.1000000	20%
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ABOVE RS.1000000	30%
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