

**CLASS : III B.COM**

**SUBJECT NAME : INCOME TAX LAW AND PRACTICE - 1**

**S.SANGEETHA**

**Parent Teacher Association (PTA)**

**PG Department of Commerce**

**NKR Govt Arts College for Women, Namakkal**

**UNIT – I**

### **INTRODUCTION TO INCOME TAX ACT**

Income tax as a concept has been present in India for many years, but James Wilson who became India's first finance (British) member introduced the first modern Income Tax in 1860. "It was only for the good of his subjects that he collected taxes from them, just as the sun draws moisture from the Earth to give it back a thousand fold", wrote Kalidas in his epic poem Raghuvansh.

### **INCOME TAX ACT 1961**

The Income Tax Act is a comprehensive statute that focuses on the different rules and regulations that govern taxation in the country. It provides for levying, administering, collecting and recovering income tax for the Indian government. It was enacted in 1961.

1. Salary
2. Income from house property
3. Capital gains
4. Profit and gains from business or profession
5. Income from other sources

### **EXPLAIN THE DIFFERENT OBJECTIVES OF TAXATION**

Taxation is for revenue only and a so called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing power.

1. Objective of raising revenue
2. Regulatory objectives
3. Developmental objectives
4. Objectives of reducing inequality

### **Objective of raising revenue**

The basic and primary objective of taxation is raising revenue. Enormous amounts needed by modern governments for National defence, creation of infrastructure and social upliftment schemes make regular and systematic.

### **Regulatory objectives**

#### **Regulating consumption**

State can discourage consumption of harmful and undesirable goods by levying prohibitive rates of tax.

#### **Regulating production**

Production may be encouraged by exempting new industrial from tax ,reducing tax on capital goods, increasing tax on imported goods.

#### **Regulating effects of inflation, depression etc..**

Raising tax rates can reduce consumption of goods and the demand of good in general. High levels of taxation can reduce the purchasing power of people and the funds collected.

### **Development objectives**

#### **Economic development**

Economic development is measured in terms of GNP (Gross National Product)

The output achieved in all major sector of the economy agriculture, industry, services. Taxation can be used a stimulated to any one or all the three sectors by judicious changes in the tax rates.

#### **Capital formation**

Indian household savings rate is around 26% one of the higher in the world. Savings can be channeled into investment avenues through appropriate policy measures.

## **Objectives of reducing inequality**

### **Reduction in economic disparities**

Income level of individual vary wildly in india. It is claimed that rich are becoming richer and the poor are becoming poorer year by year.

## **DEFINITION OF IMPORTANT TERM**

### **Assessment**

Assessment is the procedure by which the income of an assessment is determined by the assessing officer. Assessment may be 'Normal Assessment' or it may be also be reassessment of income.

### **Assessee ( Sec.2 (7))**

Every person in respect of whom any proceedings under this act has been taken for the assessment of his income. The income of any other person in respect of which he is assessable.

### **Ordinary assessee**

Any person against whom proceedings under the income tax act are going on, irrespective of any tax or any amount payable by the person.

### **Person**

A natural person or a human being is an individual. An individual may be male, female.

A family consists of all the members of the lineally descended from a common ancestor including their wives and unmarried daughters.

### **Income (Sec.2 (24)):**

Income includes not only those things which the interpretation of declares that it shall includes, but all such things the word signifies tp its natural import.

**Assessment year ( Sec 2(9)):**

The taxpayer income of the previous year is assessed to tax in the assessment year at the rates prescribed in the financial act for the assessment year.

Assessment year means the period of twelve months beginning from the 1<sup>st</sup> april every year and ending on 31<sup>st</sup> march of the immediately.

**SCOPE OF TOTAL INCOME**

<b>Particulars</b>	<b>Residential status</b>		
	<b>Resident resident</b>	<b>Ordinary resident</b>	<b>Non resident</b>
<b>1. Income received or deemed to be received in India, irrespective of the being accrued or earned outside India.</b>	<b>Taxable</b>	<b>Taxable</b>	<b>Taxable</b>
<b>2. Income accrued or earned or deemed to be accrued or earned in India, irrespective of the income being received in India or outside India.</b>	<b>Taxable</b>	<b>Taxable</b>	<b>Taxable</b>
<b>3. Income received or accrued or earned outside India from business controlled from India. Irrespective of the income being remitted to India.</b>	<b>Taxable</b>	<b>Non Taxable</b>	<b>NonTaxable</b>
<b>4. Income received or accrued of earned outside India from any other sources salary, house</b>	<b>Taxable</b>	<b>Taxable</b>	<b>Non taxable</b>

property, capital gain or income from other sources.			
5. Income received or accrued or earned outside India from any other sources salary, house property, capital gain or income from other sources	<b>Taxable</b>	<b>Non taxable</b>	<b>Non taxable</b>
6. Income earned and received outside India during the preceding the previous year and remitted to India during the previous year.	<b>Non taxable</b>	<b>Non taxable</b>	<b>Non taxable</b>

## UNIT –II

### BASIS OF CHARGE

#### **INTRODUCTION**

Income tax is levied on an Assessee's Total Income of the relevant previous year (Sec. 4). Total income is determined on the basis of 'Residential Status' of the assessee in the previous year (Sec. 5).

#### **CLASSIFICATIONS OF RESIDENTIAL STATUS OF TAXABLE ENTITIES**

##### **i).Individual & HUF**

Resident and Ordinary Resident in India

Resident and Not Ordinary Resident in India

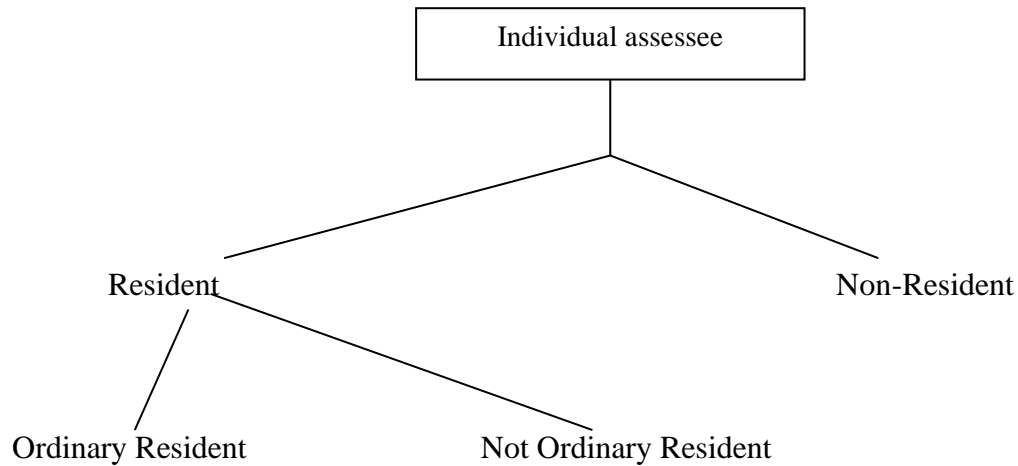
Ordinary Resident in India

##### **ii).All other assesses**

Resident in India (or)

Non-Resident in India

### **RESIDENTIAL STATUS OF AN INDIVIDUAL**



#### **Resident (Ordinary Resident) Sec. 6(1)**

##### **Basic conditions**

An individual is in India during the relevant previous year for a period amounting in all to 182 days or more.

An individual is in India for a period or periods amounting in all to 365 days or more during the four years preceding the 'relevant previous year' and he is in India for a period of 60 days or more during the 'previous year'.

##### **Additional conditions for Ordinary Resident**

A resident individual becomes ordinary resident in India if he satisfied both the following additional conditions besides satisfying any one of the basic conditions

i).He has been resident in India at least *Two out of the Ten previous year* preceding the relevant previous year. The individual must have satisfied at least one of the basic conditions of 2 out of 10 preceding the previous year.

He has been in India for at least 730 days in all during the seven previous years preceding the relevant previous year.

### UNIT-III

#### DEFINITION OF SALARY

Any remuneration received by an employees in consideration of services rendered to his employer is called salary. Salary includes monetary value of those benefits and facilities provided by the employer which are taxable.

#### DIFFERENT TERMS OF SALARY

1. Basic salary
2. Commission
3. Bonus
4. Allowances
5. Perquisites
6. Profit in lieu of salary and
7. Pension
8. Advance & Arrear of salary.

#### COMPUTATION OF TAXABLE SALARY

Particulars	Rs
Basic salary	xxx
Bonus	xxx
Commission	xxx
Cash allowances	xxx
Perquisites	xxx
Profit in lieu of salary and	xxx
Pension	xxx
Advance & Arrear of salary	xxx
Retirement benefits : Gratuity	
Leave encashment pension, commuted pension	xxx
	.....
Gross salary	xxx
Less: deduction u/s 16:	
Entertainment allowance	xxx
Professional tax 16(iii)	xxx
	.....
Salary	Xxx
	.....

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## **TYPES OF PROVIDENT FUND**

1. Statutory provident fund
2. Recognised provident fund
3. Unrecognised provident fund
4. Public provident fund

## **ALLOWANCES**

An allowance is a cash payment to the employee on a regular basis in addition to basic salary to meet certain expenses required to be incurred by him in connection with duties of his officer.

## **DIFFERENT TYPES OF ALLOWANCE**

### **Fully taxable**

Allowances to government employees rendering services outside India.

House rent allowance

Sumptuary allowance given to high court

### **Fully taxable**

DA

CCA

Medical allowance

Lunch allowance

Servant allowance

Family allowance

Warden allowance

Project allowance

Dog allowance



Tiffin allowance

**Partially taxable**

HRA, Entertainment allowance

Education allowance

Helper allowance

Uniform allowance

Travelling allowance

**UNIT - IV**

**INCOME FROM HOUSE PROPERTY**

**COMPUTATION OF INCOME FROM SELF OCCUPIED HOUSE**

<b>Particulars</b>	<b>Rs</b>
GAV	Xxx
Less: municipal value	Xxx
Net annual value	Xxx
Less; standard deduction	Xxx
Interest on capital	Xxx
	.....
Income from self occupied	xxx

**Computation of Gross annual value and income from deemed to be let out property**

**Of AY : XXX**

Particulars	Rs	Rs
Fair rental value		Xxx
Municipal rental value		Xxx
Standard rent		Xxx
		.....
Gross rental value (whichever is less)		Xxx
Less: municipal value		Xxx
		.....
Net annual value		Xxx
Less: deduction u/s 24:		
Standard deduction	Xxx	
Interest on loan	xxx	Xxx
		.....
Income from deemed to be let out property		Xxx
		.....

## UNIT-V

### PROFESSIONAL INCOME

#### DEFINITION OF PROFESSIONAL

The term 'Professional' has been defined in section 2(36) of Income Tax Act, 1961 to include vocation. Both these definitions are neither exhaustive nor specific and clear.

#### Computation of professional income

Professional person do not prepare profit and loss a/c. they prepare receipt and payment a/c and income and expenditure a/c.

**IN CASE OF CHARTERED ACCOUNTANT**

**COMPUTATION OF INCOME FROM PROFESSIONAL OF.....PY:.....  
AY.....**

<b>PARTICULARS</b>	<b>RS</b>
<b>Professional income:</b>	
Fees received by auditing	Xxx
Accounting work	Xxx
Fees received from institutes	Xxx
Examiner fees	Xxx
Gift and presents received from client	Xxx
Consultancy work	Xxx
Any other incidental receipt	Xxx
	.....
	Xxx
<b>Less: professional expenses:</b>	
Office expenses	Xxx
Subscription	Xxx
Stipend to trainees	Xxx
Institutes expenses	Xxx
Membership fees	Xxx
Car expenses	Xxx
	.....
<b>Income /expenses from professional income</b>	<b>Xxx</b>
	.....

**IN CASE OF DOCTOR OR MEDICAL PRACTITIONER**

<b>Particulars</b>	<b>Rs</b>
<b>Professional income:</b>	
Fees received by consultation	Xxx
Fees by conducting Surgery	Xxx
Fees received by Visiting	Xxx
Sales of Medicines	Xxx

Gift and presents from patients	Xxx
Examiner's fees	Xxx
Client, nursing home, and hospital	Xxx
	.....
	xxx
<b>Less: professional expenses</b>	
Client, hospital maintenance expenses	Xxx
Cost of medicines sold:	Xxx
(opening stock + purchase – closing stock)	
Depreciation of equipment	Xxx
Depreciation on books	Xxx
Motor vehicles expenses	Xxx
	.....
<b>Income /expenses from professional income</b>	<b>Xxx</b>

#### IN CASE OF LAWYER OR ADVOCATE

Particulars	Re
<b>Professional income:</b>	
Legal fees	Xxx
Law practicing	Xxx
Special commission	Xxx
Presents from client	Xxx
Examiner remuneration	Xxx
Any other professional receipts	Xxx
	.....
<b>Less: professional expenses:</b>	
Staff salary	Xxx
Travelling expenses subscription to law journals	Xxx
Office expenses	Xxx
Depreciation on office equipment and book purchased	Xxx
Court fees	Xxx
Cost of stamp purchased	Xxx
	.....
<b>Income /expenses from professional income</b>	<b>xxx</b>

#### INCOME FROM BUSINESS

#### DEFINITION OF BUSINESS

The business includes “any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce or manufacture”.

**COMPUTATION OF BUSINESS INCOME FOR THE AY..... PY:.....**

**Balance as per P&L a/c** **xxx**

**Add: Inadmissible expenses:** **xxx**

**a). Personal expenses relating to the proprietor:**

Salary paid to self or any other member of family for help, excess paid to relatives

Drawing by the proprietor

LIC premium

Legal expenses

Rent for residential portion

Rent paid to self

Any amt of invested in savings such as NSS, NSC, PPF etc....

Loss by theft from residence

Gift and presents

Personal exps

Pilgrimage expenses

**b). All provisions and reserves:**

Reserve for bad debts

Reserve for depreciation

Reserve for income tax

Reserve for losses

Employers contribution to RPF

**c). Capital expenses:**

All capital expenses except capital expenses on scientific research

All capital losses

Interest on capital

Past losses

Speculations losses

Cost of patent rights being capital expenditures

**d). All taxes:**

Income tax

Wealth taxes

Advance income taxes

Gift tax

**e). Other expenses:**

All charities and donations

Excess depreciations

All type of fine and penalty

**Less: Expenditure allowed but not debited:**

**xxx**

Under charging of depreciation

Actual bad debts not charging to P&L

Adjustment on account of stock:

Under valuation of opening stock

Over valuation of closing stock

