

Chapter Name :- Introduction & Basic Concepts

Sections & Concepts to be studied in this chapter :-

- Meaning & classification of taxes
- Why taxes are levied ?
- Power to levy taxes
- Components of Income Tax Law in India
- Section 1 :- Short Title, Extent & Commencement
- Section 2 :- Definitions
- Section 3 :- Definition of Previous Year
- Section 4 :- Charging Section
- Section 2(31) :- Definition of 'Person'
- Section 2(7) :- Definition of 'Assessee'
- Section 2(34) r.w. Section 3 :- Definition of 'Person'
- Section 2(9) :- Definition of 'Assessment Year'
- Revenue Receipts v/s Capital Receipts
- Section 2(45) :- Definition of 'Total Income'
- Process for determining Total Income
- Gross Total Income v/s Total Income
- Process for determining Tax Liability
- Exemptions v/s Deductions
- Normal Rates of Income Tax for the AY 23-24 (i.e. PY 22-23)
- Section 87A :- Concept of Tax Rebate
- Concept of Marginal Relief
- Section 288A :- Concept of Rounding-off of Total Income
- Section 288B :- Concept of Rounding-off of Tax Liability

Meaning & Classification of taxes :-

Tax = Financial charge → levied by the Government

on any product,
activity, service,
income, wealth etc.

under any law

Based on the mode of collection; taxes are divided in following two parts, namely :-

Direct Taxes



* levied on person's income or wealth & it is directly paid to the Government

* incidence & impact falls on the same person

* its burden cannot be shifted

* progressive in nature

* Eg:- Income Tax, Tax on Undisclosed Incomes & Foreign Assets, Property Taxes

Indirect Taxes



* levied on a person consuming goods or services & it is paid indirectly to the Government

* incidence & impact falls on different persons

* its burden can be shifted

* regressive in nature

* Eg:- Goods & Services Tax, Customs Duty

Why taxes are levied ?

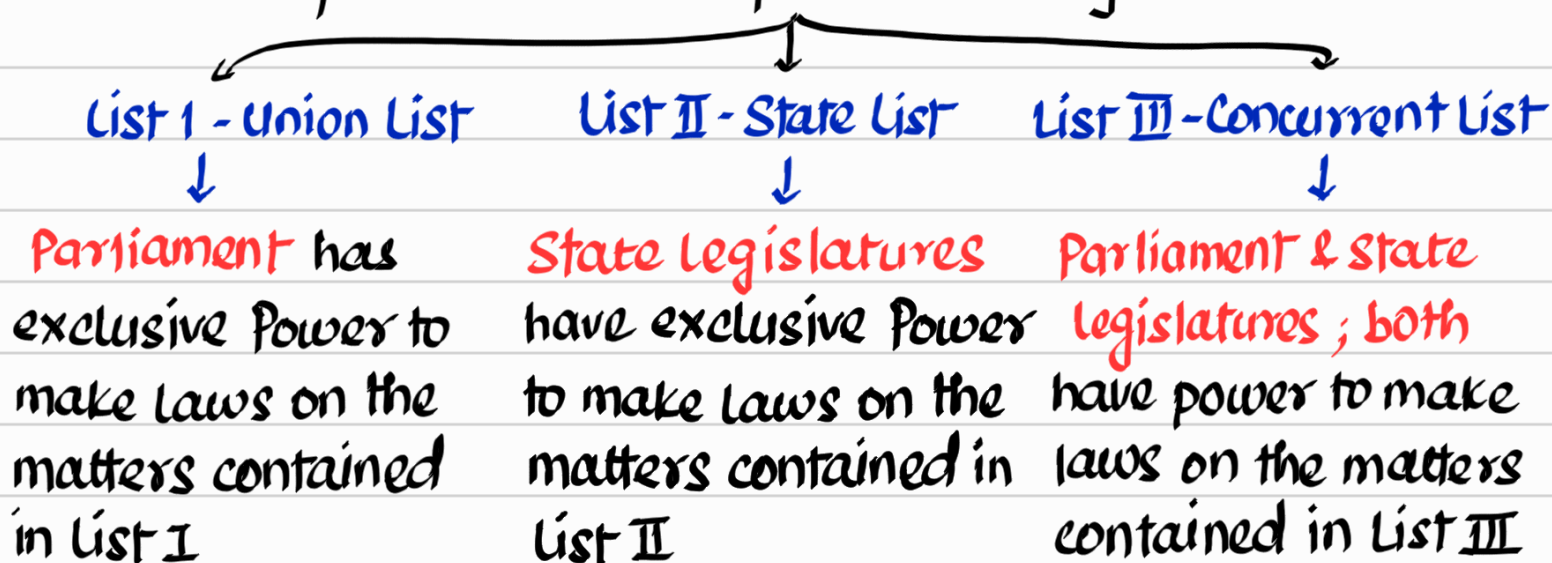
Tax is a basic source of revenue for the Government, which is used for the purpose of :-

- providing benefits like education, healthcare facilities & various other assistance to economically backward classes of the society & defence of the nation
- development & maintenance of various infrastructural facilities like roads, bridges, dams etc. in India
- meeting various contingencies
- preservation of natural resources, places of artistic or historic importance etc.

Power to levy taxes :-

As per the **Article 265** of the Constitution of India ; **no taxes shall be levied or collected in India except the authority of law.**

Hence, in order to allow the governments to levy & collect various types of taxes **Article 246** of the Constitution of India empowers the **Parliament & State Legislatures** to make laws with respect to various matters including levy & collection of different types of taxes. These matters are mentioned under **3 lists** enumerated in the **Seventh Schedule** of the Constitution of India namely :-



Note :- Entry No. 82 of the Union List has empowered the Parliament to make law with respect to levy & collection of taxes on incomes except agricultural income.

Components of Income Tax Law in India :-

* The Income Tax Act - 1961 :-

This Act contains provisions for levy, computation and collection of income tax & other miscellaneous provisions. It is divided into xxiii chapters containing 298 sections and 14 schedules.

* Annual Finance Act :-

It contains changes/amendments which are brought every year in various laws including the Income Tax Act' 1961.

Process of enacting Finance Act in India is as follows :-



Budget session of the Parliament (1st February every year)

↳ Finance Minister presents the Finance Bill



Passed in the Parliament




After the President's Assent such Finance Bill becomes the Finance Act

* The Income Tax Rules, 1962 :-

For proper administration of direct taxes in India; the CBDT; from time to time frames rules which are collectively known as the Income Tax Rules, 1962.

* Circulars issued by the CBDT :-

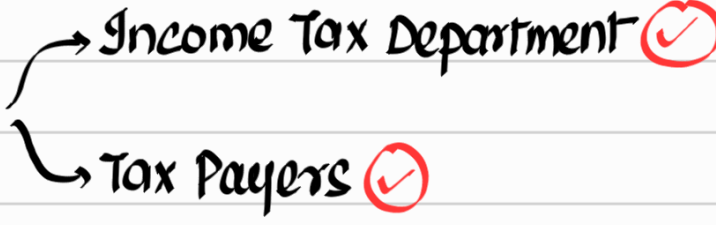
To deal with certain specific issues & to clarify certain specific doubts while implementing the provisions of the Income Tax Act' 1961; the CBDT issues Circulars.

Circulars are binding on the 

However, the tax payers can take the advantage of any circular beneficial to them.

* Notifications issued by the CBDT :-

To give effect to the provisions of the Income Tax Act' 1961 or to make or amend the rules in the Income Tax Rules, 1962; the CBDT issues notifications.

Notifications are binding on the 

* Judgements of the ITAT, HCs or SC on the issues / disputes arising between the Income Tax Department & Tax Payers in any provision of the Income Tax Act' 1961.

The Income Tax Act' 1961 :-

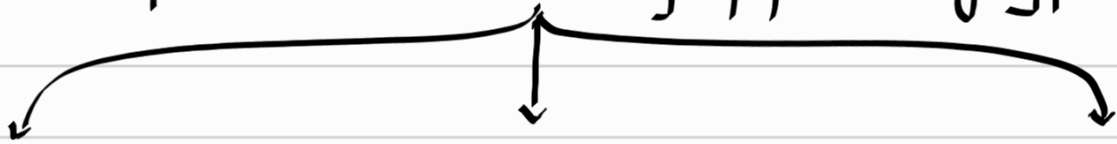
Section 1 :- Short Title, Extent & Commencement

The Income Tax Act' 1961 whole of India
(including J & K) w.e.f. 01.04.1962

Section 2 :- Definitions

To be referred as and when needed while studying the provisions of the Income Tax Act' 1961.

Definitions provided are normally of following types :-



Exhaustive Definitions



" _____ " means



Scope of such definition is limited / restricted to what is defined therein & nothing else



Examples :-

Definition of :-

Agricultural Income, Assessment Year, Capital Asset etc.

Inclusive Definitions



" _____ " includes



used where the scope of any term is supposed to be widened / expanded



Examples :-

Definition of :-

Income, Person, Transfer etc.

Definitions having both words 'means' & 'includes'



" _____ " means

& it includes



used when a term is specifically intended to mean something and also to give a wider or extended meaning to that same term

Examples :-

Definition of :-

Assessee, firm etc.

Section 3 :- Definition of 'Previous Year'



To be discussed later alongwith the definition of Assessment Year

Section 4 :- Charging Section

The Total Income of the Previous Year of every Person shall be assessed & charged to income tax during the Assessment Year at the prescribed tax rates.

* Person u/s 2(31) includes :-

- 1] Individual i.e. natural human being
[Male ✓ | Female ✓ | Transgender ✓ | Minor ✓ | Person of unsound mind ✓]
- 2] Hindu Undivided Family (HUF)
- 3] Company
{ Private or Public | Listed or Unlisted | Indian or Foreign }
- 4] Firm [includes Limited liability Partnership (LLP)]
- 5] Association of Persons (AOP) & Body of Individuals (BOI)
↓
Group ✓ (+) P'ship Deed ✓ = P'ship Firm
Group ✓ (+) P'ship Deed ✗ = AOP | BOI

AOP

* Two or more persons voluntarily come together for a common purpose

BOI

* Two or more individuals combined together by operation of law / compulsion

* Any persons can form AOP

* Only individuals can form BOI

Examples :-

	<u>AOP</u>	<u>BOI</u>
Group of Mr. A & Mr. B	✓	✓
Group of Mr. X & M/S ABC & CO.	✓	✗
Group of M/S ABC & CO. & M/S P Ltd.	✓	✗

6.] Local Authority i.e. an authority which manages the local funds (locality) on behalf of the SG.

Examples :-

Municipality, Cantonment Board, Gram Panchayat.

Note :- CG } \neq Person \therefore Not liable for income tax
SGs }

7.] Artificial Juridical Person (AJP) covers every entity which has come into existence as per any law and not covered in point no. ① to ⑥ above

Examples :-

ICAI, ICSI, SEBI, Trusts etc.

Note 1 :- The above classification is done on the basis of legal status which is necessary to fix the tax liability as different rates of tax are applicable for different types of persons.

Note 2 :- Profit motive is not necessary to constitute a person. Hence, AOP or BOI or Local Authority or AJP shall always be treated as person whether or not they are formed/established with the object of deriving income, profits or gains.

* Assessee u/s 2(7) means any person by whom any tax or any other sum is payable under the provisions of the Income Tax Act, 1961 and it includes :-

(a) every person in respect of whom any proceedings under the Income Tax Act, 1961 are undertaken for assessment of :-

- his income / loss / refund ; or
- income / loss / refund of any other person in respect of which he is assessable

(b) every person who is deemed to be an assessee as per the provisions of the Income Tax Act, 1961
for example ; a representative assessee

(c) every person who is deemed to be an assessee in default as per the provisions of the Income Tax Act, 1961
For example ; a person who contravenes the provisions of the Income Tax Act, 1961

Note :- Every Assessee must be a Person . However, every Person need not be an Assessee

* **Assessment year u/s 2(9)** means a period of 12 months starting from 1st April every year .

Example : 01.04.2024 to 31.03.2025

12 months

= (AY 2024-25)

* **Previous year u/s 2(34)** means the previous year as defined u/s 3.



Previous year means the FY immediately preceding to the Assessment year.

Example :- FY immediately preceding to the AY 2024-25

= (PY 2023-24)

Note 1 :-

∴ The Income Tax Act, 1961 as amended by the Finance Act, 2023 is applicable for May '24 & Nov '24 attempts



∴ The questions in the examination would be framed for PY 2023-24 i.e. AY 2024-25.

Note 2 :-

* AY - Always = 12 months

* PY - Normally = 12 months

However, the first PY of New Business or Profession or a New source of Income can be a period of < 12 months

* Total Income u/s 2(45) means total of incomes referred to in Section 5, computed in the manner prescribed under the Income Tax Act, 1961.

Note 1 :-

Incomes referred to in section 5 are the incomes which are covered in the scope of total income of the assessee based on place & time of accrual or receipt thereof and the residential status of the assessee.

Note 2 :-

The manner laid down under the Income Tax Act, 1961 for computation of Total Income is as follows :-

Gross Total Income (-) Deductions u/s VI-A (=) Total Income



Aggregate of Incomes computed under 5 heads of income

covers deductions available under section 80C to 80U

charge of income tax is on this amount

* 5 Heads of Income



Salaries - (Sec. 15 to 17)	xx
House Property - (Sec. 22 to 27)	xx
Business or Profession - (Sec. 28 to 44DB)	xx
Capital Gains - (Sec. 45 to 55A)	xx
Other Sources - (Sec. 56 to 59)	xx



Aggregate of incomes computed under above 5 Heads is known as **Gross Total Income**.



While aggregating the incomes under above 5 Heads effect must be given to :-

- * Clubbing Provisions (sec. 60 to 65); and
- * Provisions relating to set-off & carry-forward of losses (sec. 70 to 80)

Detailed Process of Computation of Total Income :-

RECEIPTS during the PY

Income (✓)

Income (✗)

Taxable (✗)

Taxable (✓)

(i.e. Exempt Incomes)



covered under **Sec. 10**



Depending on the place & time of accrual or receipt of such income and residential status of the assessee as per **sec. 6** for the PY



Above incomes are to be included in the Computation of total income of the PY ??





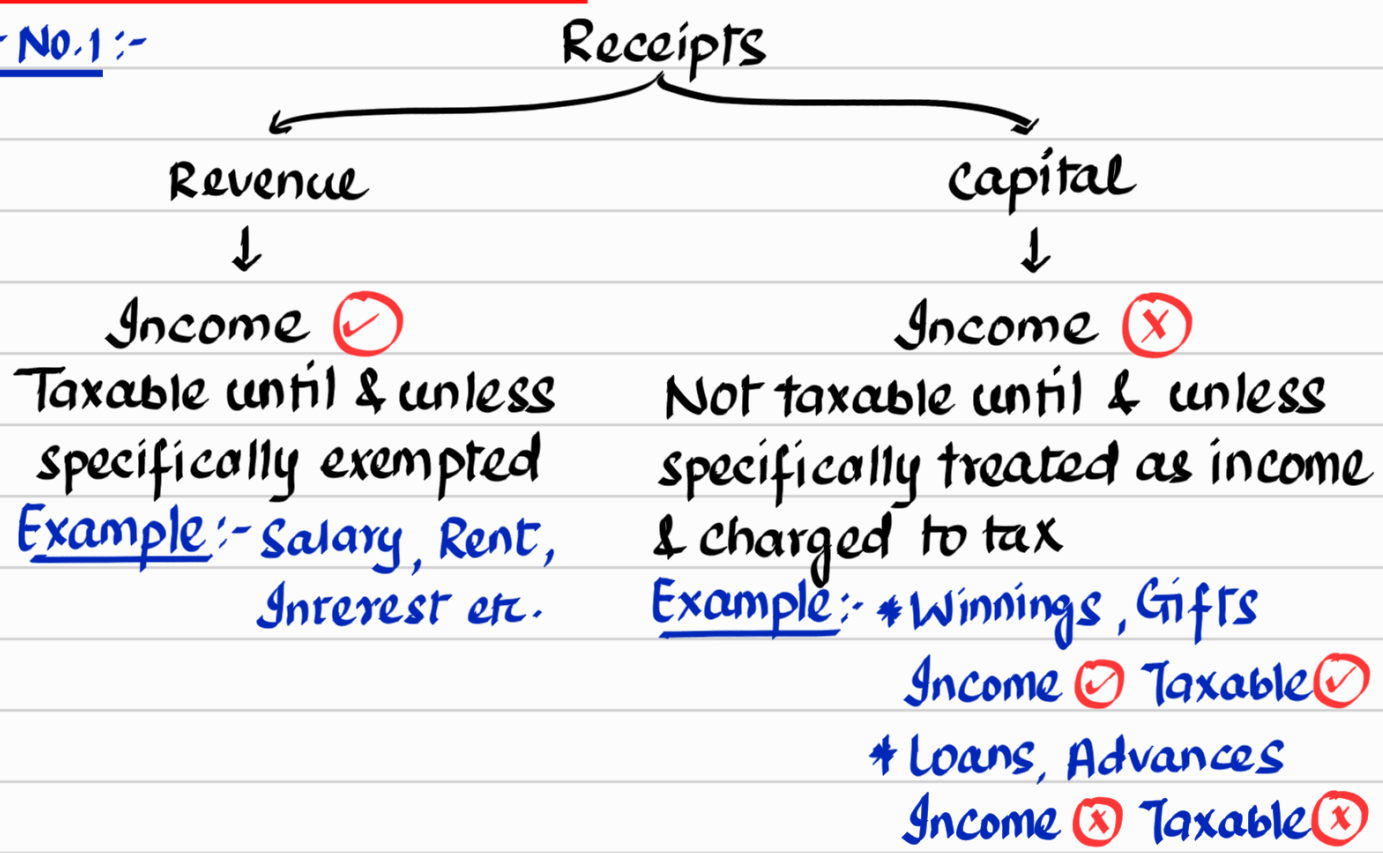
These incomes shall now be classified under the 5 Heads of Income and computational provisions of each head shall be applied to compute taxable income under each head

Aggregate of Incomes computed under 5 Heads after taking into consideration provisions of clubbing and set-off & carry-forward of losses shall be the Gross Total Income for the PY

from the above Gross Total Income; deductions under chapter VIA are claimed and balance amount shall be the Total Income of the assessee for the PY.

Important Points to Remember :-

* Point No. 1 :-



* Point No. 2 :- Income ordinarily means something which is received on a regular basis from a definite source.

Definition of Income u/s 2(24)
↓
However, the term 'income' is also defined u/s 2(24) to include certain specific receipts as income so that such receipts could be charged to tax.

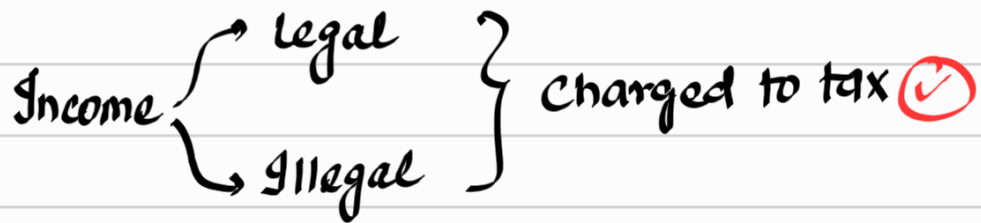
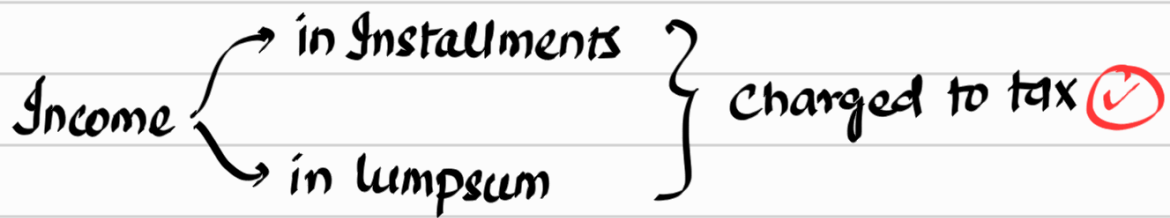
Refer ICAI SM Pg. No. 1.23
↓
Hence, it can be said that meaning of the term 'income' is much wider than what is normally understood.

Just refer No need to remember
↓
* As and when the Government wish to charge tax on certain receipt which otherwise may not be treated as income, it amends section 2(24) and includes such receipt in the definition of income and creates a charge on it under any of the 5 heads of income.

* Point No. 3 :- Receipts in
→ Cash = Income ✓
→ Kind = Income ✓
↳ value needs to be determined on the basis of prescribed valuation rules
If no valuation rules are prescribed then FMV may be adopted.

* Point No. 4 :- Income
→ Real Income - Charged to tax.
→ Fictional Income - Not charged to tax until & unless specifically provided under the provisions of the Income Tax Act '1961.

Income
→ Permanent basis } charged to tax ✓
→ Temporary basis }



* Point No. 5 :- **Previous Year**

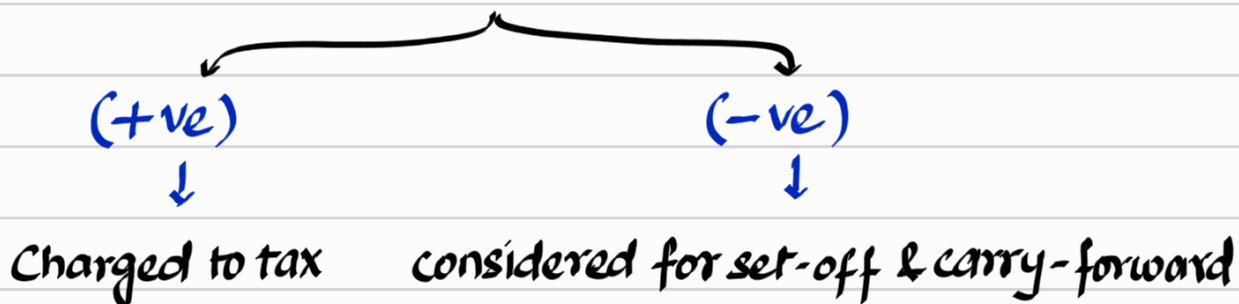
Assessment Year

Income is earned

Total Income is assessed, tax liability is determined & it is discharged

If the income from any source is earned in the PY; then such income shall be charged to tax during the AY even if such source of income ceases to exist during the AY i.e. tax liability on the income from that source cannot be denied in the AY merely by arguing that such source of income is not in existence during the AY.

* Point No. 6 :- Income under the Income Tax Act' 1961 can be :-



* Point No. 7 :- Pin Money = Amount received by a wife from her husband to meet the expenses of household or her personal expenses.

≠ Income for the wife \therefore Not Taxable in her hands

* Point No. 8 :- **Diversion of Income** v/s **Application of Income**

↓

- * By an obligation which exists prior to the receipt of income, the income is diverted to some other person after it is received

- * Part of income diverted by the assessee **not taxable** in the hands of the assessee.

↓

- * Any expenditure/investment out of the income after it is received

- * Part of income applied by the assessee is his income only and the same shall be **taxable** in the hands of the assessee.

Example :-

X & Y are joint authors of a book. They entered into an agreement whereby they decided to equally distribute the royalty income of the book co-authored by them.

Publisher gives a cheque of ₹10,00,000 on the name of X (being the first author of the book).

↓
∴ Out of the above ₹10,00,000

↙
 $\frac{1}{2} = \underline{₹5,00,000}$ kept by X

↘
 $\frac{1}{2} = \underline{₹5,00,000}$ given to Y

↓
Taxable to X even if he received ₹10,00,000 from the publisher

↓
Taxable to Y & not to X
∴ It would be treated as diversion of income by X.

↓
Out of the above ₹5,00,000; if X has spent/invested say ₹2,00,000 then; it would be treated as application of income by X

* Point No. 9 :- **Gross Total Income** v/s **Total Income**



Aggregate of incomes computed under 5 heads of income after applying the provisions of clubbing and set-off & carry-forward of losses but **before** claiming deductions u/c VI A

Part of Gross Total Income remaining **after** claiming deductions u/c VI A

* Point No. 10 :- **Exemption** v/s **Deduction**



* Income which is not included in the computation of Total Income

* That part of income which is allowed to be reduced out of the income after the income is included in the computation of Total Income

* Exemption \leq Income ✓
Exemption $>$ Income ✗

* Deduction \leq Income ✓
Deduction $>$ Income ✓

* Income remaining after claiming the exemption can be

* Income remaining after claiming the deduction can be



Process of determining Income Tax Liability :-

Total Income of the PY

Special Incomes like LTCG u/s 112/112A, STCG u/s 111A, Winnings Income u/s 115BB etc.

↓

Taxable @ Special Rates prescribed under the Income Tax Act '1961

↓

Tax on Special Incomes @ Special Rates = xx (+)

Balance Total Income i.e. Normal Total Income

↓

Taxable @ Normal Rates prescribed under the Annual Finance Act

↓

Tax on Normal Total Income @ Normal Rates = xx

Aggregate of above taxes = Tax on Total Income = xx

OR [Add: Surcharge (if applicable) = xx]
 [less: Rebate u/s 87A (if applicable) = (xx)] OR

Tax on Total Income including surcharge OR = xx

Tax on Total Income after Rebate u/s 87A } = xx

Add: Health & Education Cess @ 4% = xx

Gross Tax Liability = xx

less: TDS/TCS during the PY (if any) = (xx)

less: Advance Tax paid during the PY (if any) = (xx)

less: Relief u/s 89 (if any) = (xx)

less: AMT Credit u/s 115JD (if any) = (xx)

Net Tax Liability / (Refund Due) = xx / (xx)

Note :- Special rates of tax available under the Income Tax Act '1961 are income specific rates applicable uniformly to all the types of assesseees. (Discussed later on)

Whereas, Normal rates of tax available under the Annual Finance Act are assessee specific rates which are different for different types of assessee. (Discussed here under)

NORMAL RATES OF TAX

(a) In case of Individuals (other than Senior Citizens & Super Senior Citizen) | HUFs | AOPs & BOIs | AJP :-

- upto ₹ 2,50,000 (Basic Exemption Limit)	-	Nil
- From ₹ 2,50,001 to ₹ 5,00,000 i.e. on ₹ 2,50,000	-	5%
- From ₹ 5,00,001 to ₹ 10,00,000 i.e. on ₹ 5,00,000	-	20%
- Above ₹ 10,00,000	-	30%

(b) In case of Individuals being Senior Citizen :-

- upto ₹ 3,00,000 (Basic Exemption Limit)	-	Nil
- From ₹ 3,00,001 to ₹ 5,00,000 i.e. on ₹ 2,00,000	-	5%
- From ₹ 5,00,001 to ₹ 10,00,000 i.e. on ₹ 5,00,000	-	20%
- Above ₹ 10,00,000	-	30%

(c) In case of Individuals being Super Senior Citizen :-

- upto ₹ 5,00,000 (Basic Exemption Limit)	-	Nil
- From ₹ 5,00,001 to ₹ 10,00,000 i.e. on ₹ 5,00,000	-	20%
- Above ₹ 10,00,000	-	30%

Note 1 :- Senior Citizen = Resident Individual whose age is ≥ 60 years at anytime during the PY

Note 2 :- Super Senior Citizen = Resident Individual whose age is ≥ 80 years at anytime during the PY

Note 3 :- A resident individual whose 60th or 80th birthday falls on 1st April, shall be treated as having attained the age of 60 yrs or 80 yrs as on 31st March itself and not on 1st April. (CBDT Circular)

* Rates of surcharge applicable for assessee covered in (a), (b) & (c) above are as follows :-

- Nil :- where Total Income is \leq ₹ 50 lakhs
- 10% :- where Total Income is $>$ ₹ 50 lakhs but \leq ₹ 1 crore
- 15% :- where Total Income is $>$ ₹ 1 crore but \leq ₹ 2 crores.
- 25% :- where Total Income is $>$ ₹ 2 crores but \leq ₹ 5 crores.
- 37% :- where Total Income is $>$ ₹ 5 crores.

* Rebate u/s 87A :-

→ Available to :- Resident Individuals whose Total Income is \leq ₹ 5,00,000

→ Rebate u/s 87A shall be least of :-

(a) 100% of Tax on Total Income

OR

(b) Amount of ₹ 12,500



* Health & Education Cess @ 4% shall be applicable in all cases on the Amount of Tax on Total Income including surcharge OR on the Amount of Tax on Total Income after Rebate u/s 87A.

(d) In case of Partnership Firms | LLPs | Local Authorities :-

- Total Income excluding Special Incomes taxable @ Flat Rate of 30%.

- **Surcharge @ 12%** shall be applicable on the amount of Tax on Total Income - where Total Income is > 1 crore.
- **Health & Education Cess @ 4%** shall be applicable in all cases on the Amount of Tax on Total Income including surcharge (if any).

(e) In case of Co-operative Societies :-

- Total Income excluding Special Incomes
 - upto ₹ 10,000 - @ 10%.
 - from ₹ 10,001 to ₹ 20,000 - @ 20%.
 - Above ₹ 20,000 - @ 30%.
- **Surcharge @ 12%** shall be applicable on the amount of Tax on Total Income - where Total Income is > 1 crore.
- **Health & Education Cess @ 4%** shall be applicable in all cases on the Amount of Tax on Total Income including surcharge (if any).

(f) In case of Domestic Companies :-

- Total Income excluding Special Incomes shall be taxable @ Flat Rate of 25% - If the total turnover of such Domestic Company is \leq ₹ 400 crores during the PY 21-22.



T/O \leq 400 cr.

Total Income - Taxable @ 25%

@ Flat Rate of 30% - In every other case

- **Surcharge** shall be applicable on Tax on Total Income

@ 7%

where Total Income is
> ₹ 1 crore but ≤ ₹ 10 crores

@ 12%

where Total Income is
> ₹ 10 crores

- **Health & Education Cess @ 4%** shall be applicable in all cases on the Amount of Tax on Total Income including surcharge (if any).

(g) In case of Foreign Companies :-

- Total Income excluding Special Incomes shall be taxable @ Flat Rate of 40%.

- **Surcharge** shall be applicable on Tax on Total Income

@ 2%

where Total Income is
> ₹ 1 crore but ≤ ₹ 10 crores

@ 5%

where Total Income is
> ₹ 10 crores


- **Health & Education Cess @ 4%** shall be applicable in all cases on the Amount of Tax on Total Income including surcharge (if any).

Concept of Marginal Relief :-


- Marginal Relief is available to All the Assesseees where surcharge is applicable.
- It must be claimed out of Tax on Total Income before levying Health & Education Cess.

• Steps to Calculate Marginal Relief :-

- 1] Compute the Total Income (which is slightly higher than ₹50 lakhs or ₹1 crore or ₹2 crores or ₹5 crores or ₹10 crores ; as the case may be).
- 2] Calculate the tax on the above total income including surcharge i.e. Tax 1.
- 3] Calculate the tax on total income including surcharge (if any); on total income of ₹50 lakhs or ₹1 crore or ₹2 crores or ₹5 crores or ₹10 crores ; as the case may be. i.e. Tax 2.
- 4] Calculate \uparrow in Tax i.e. Tax 1 (-) Tax 2.
- 5] Calculate \uparrow in Total Income i.e. Actual Total Income (-) total income of ₹50 lakhs or ₹1 crore or ₹2 Crores or ₹5 crores or ₹10 crores ; as the case may be.

6] If \uparrow in Tax is $>$ \uparrow in Total Income 
(Step 4) (Step 5)



Marginal Relief 



\uparrow in Tax \leftarrow \uparrow in Total Income

Examples to understand the Concept of Marginal Relief:-

Example 1 :-

		↑ in TI ↙ ₹1,00,000
Total Income	₹51,00,000	₹50,00,000
Tax on Total Income	₹13,42,500	₹13,12,500
(+) Surcharge	₹1,34,250	-
Tax including Surcharge	₹14,76,750	₹13,12,500

↖ ↑ in Tax
₹1,64,250

∴ ↑ in Tax (₹1,64,250) > ↑ in TI (₹1,00,000) ✓ ∴ Marginal Relief ✓

$$₹1,64,250 (-) ₹1,00,000 = ₹64,250$$

$$∴ \text{Final Tax Payable} = ₹14,76,250 (-) ₹64,250 = ₹14,12,500$$

$$(+)\text{ Health \& Education Cess @ 4\%} = ₹56,500$$

$$\underline{\underline{₹14,69,000}}$$

Example 2 :-

		↑ in TI ↙ ₹1,00,000
Total Income	₹1,01,00,000	₹1,00,00,000
Tax on Total Income	₹28,42,500	₹28,12,500
(+) Surcharge	₹4,26,375	₹2,81,250
Tax including Surcharge	₹32,68,875	₹30,93,750

↖ ↑ in Tax
₹1,75,125

∴ ↑ in Tax (₹1,75,125) > ↑ in TI (₹1,00,000) ✓ ∴ Marginal Relief ✓

$$₹1,75,125 (-) ₹1,00,000 = ₹75,125$$

$$∴ \text{Final Tax Payable} = ₹32,68,875 (-) ₹75,125 = ₹31,93,750$$

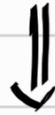
$$(+)\text{ Health \& Education Cess @ 4\%} = ₹1,27,750$$

$$\underline{\underline{₹33,21,500}}$$

Section 288A & 288B :-

Rounding-off of Total Income & Tax Liability :-

The amount of Total Income & Tax Liability (including TDS/TCS or Advance Tax), interest, penalty, fine or any other sum payable by the assessee and refund due to the assessee under the provisions of the Income Tax Act, 1961



Shall be Rounded-off to the **nearest multiple of ₹10.**

If the Total Income | Tax Liability is not in the multiple of ₹10 and the last digit in that is :-

5 or more



Round-off to the next higher amount which is a multiple of ₹10.

less than 5



Round-off to the previous lower amount which is a multiple of ₹10.

Example :- * ₹ 6,53,312 → R10 to ₹ 6,53,310

* ₹ 1,71,165 → R10 to ₹ 1,71,170

* ₹ 70,878 → R10 to ₹ 70,880.

— END OF CHAPTER —