TAXATION

INTRODUCTION

Tax is today an important source of revenue for governments in all the countries. It has become inevitable imposition because it has great potentials for raising funds for meeting the development and defense needs of a nation. In other word taxes on income, sale, purchase and properties were collected to run Government machineries.

DIRECT AND INDIRECT TAXES

- **Direct Taxes**: A tax which is born and paid directly by the person on whom it is impose is a direct tax e.g., Income Tax, Wealth Tax, Gift Tax, etc. It is directly paid by the tax payer to the government without any intermediary and it comes from own pocket.
- **Indirect Taxes:** If a tax is passed on by the tax payer to some other person, it is and indirect tax e.g. Sales Tax, Value Added Tax (VAT) etc. It is not directly paid by the person on whom it is levied, but is paid indirectly through the medium of other persons.

INCOME TAX ACT 1961

HISTORY

1857

- Income tax was first introduced in India in 1860 by the British ruler James Wilson (who become 1st India's Finance Member), in order to meet heavy expenses and losses suffered by the rulers due to India's first freedom movement of 1857. It was introduced as a temporary revenue measure only for five years.
- The history of Income tax in India can be divided into three periods:

❖ 1860-1885

❖ 1886-1914

❖ 1914 to date

At present, the Income Tax Act 1961 is force in India. The present Income tax act was enacted in 1961, which came into force on 1st April 1962. In 1956, the government referred the Income Tax Act to the Law commission which submitted its report in 1958. Direct Taxes Administration Enquiry Commission was appointed in 19958 under the Chairmanship of Shri Mahavir Tyagi. On the basis of recommendations of both these bodies the present IT Act was enacted. This Act of 1961 has since been amended number of times.

Source of Income tax –Law in India

- Income Tax Act 1961
- Annual Finance Act
- Income Tax Rules, 1962
- CBDT
- Judicial Decision

Scheme of Income Tax

- Determination of Residential Status of an asseesse
- Total Income calculation
  - Income from salary
  - Income from house property
  - Profit or gain under business and profession
  - Income from Capital gain
  - Income from other sources

METHOD OF ASSESSING TAX

(1) Step system (Not into force)

(2) Slab system (Presently used)

LATEST RATE OF INCOME TAX FOR ASSESSEMENT YEAR 2011-12

Slab	Tax Rate
Up to 1,80,000 (For normal assessee)	Nil
Up to 1,90,000 (For women assessee)	Nil
Up to 2,50,000 (For senior citizen>60 yr)	Nil
Up to 5,00,000 (For senior citizen>80 yr)	Nil
1,80,001 to 5,00,000	10%
5,00,001 to 8,00,000	20%
8,00,001 and more	30%
Cess @3%	

“DEFINITIONS”

INCOME-TAX

Tax collected by the central Government for each financial year on the total taxable income of an assessee earned during the previous year is called Income-tax.

ASSESSEE

According to Income-tax act 1961 sec.2 (7) assessee means

- A person liable to pay any tax or any other sum of money under this act.
- Every person in respect of whom any proceeding under this act has been taken for the assessment of (1)his income or (2) the loss sustained by him or (3) the amount of refund due to him.
- Every person in respect of whom any proceeding has been taken under this act for the assessment of (1) the income of any other person in respect of which he is assessable or (2) the loss sustained by such other person or (3) the refund due to such other person
- A person who is deemed to be an assessee under any provisions of this act.
- A person who is deemed to be an assessee in default under any provisions of this act.

ASSESSMENT

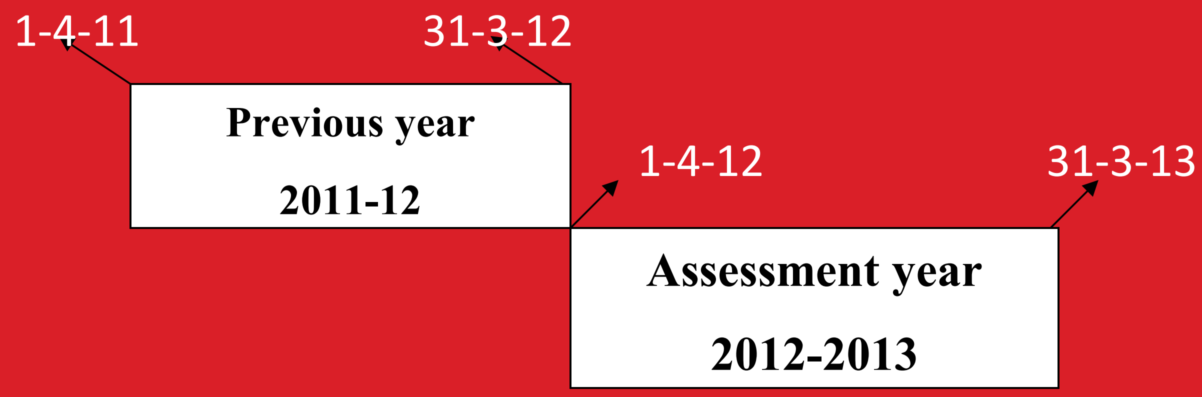
It is a process of determining the correctness of income of an assessee and of assessing the amount of tax payable by him and procedure for imposing tax liability.

ASSESSMENT YEAR:

An assessment year is a period of 12 months commencing on 1^{st} April and ending 31^{st} March. It is a year in which the income of the previous year is to be assessed. The current assessment year is 2012-2013.

PREVIOUS YEAR:

Previous Year means the financial year immediately proceeding the assessment year. Previous year is also known as the accounting year or income year. The current assessment year is 2012-2013 which commenced on 1-4-2012 and will be end on 31-3-2013 the previous year for this assessment year wound be 2011-2012



PERSON

Sections 2 (31) of the Act has given an inclusive definition of a person as follows; “Person” includes

- An individual
- A Hindu undivided family n
- A company
- A firm
- An association of person or body of individual
- A local authority
- Every artificial and juridical person, not included in the above

INCOME

The definition of income given in sec. 2(24) is inclusive and not exhaustive. It says that certain items are included in the term ‘income’ summary of important rule which give the meaning of income is as below.

- An illegal income is taxable as legal income.
- Income received at irregular intervals is taxable.
- Taxable income should have been received from an outside source
- Any benefit convertible into money is also considered as income.
- Mere relief or reimbursement of expenses is not treated as income.
- Gift (i.e. any sum of money) exceeding Rs.50,000 received without consideration by an individual or H.U.F from any person (other than a ‘relative’) on or after 1-9-04 is considered income.
- Any prize which is unexpected is not treated as income.
- Income arising from wasting assets by way of royalty is treated as income.
- Casual incomes are taxable.

GROSS TOTAL INCOME

It is total taxable income under all the five head before making deductions under sec.80-C to 80-U.

TOTAL INCOME

Total income is income of assessee from all sources on which he as to pay income tax. In other words it is income under all the five head after making deductions under sec.80-C to 80-U.

CASUAL INCOME

Casual income is that income which is unexpected and unforeseen. It is not received from regular source of income. It is non-recurring income. E.g. winning from lotteries, crossword puzzles, races including horse races.

Income tax chargeable on such kind of income at a flat rate of 30% + surcharge + education cess. No income is deductible by way of expenses from such casual income.

<u>Exception:</u> The following are not treated as casual income.

Capital gain chargeable under the act.

Receipts arising from business or profession.

Receipts by way of addition to the remuneration of an employee.

AGRICULTURAL INCOME:

Income from agriculture is exempt from income tax. It has to be exempted because the Indian parliament has no powers under the constitution to levy tax on agricultural income. Only the state legislatures have the power to impose any tax on agricultural income.

Agricultural income is defined in Sec.2 (1-A). Accordingly agricultural income means:

- Any rent or revenue derived from land which is situated in India and must be sued for agricultural purpose.
- Any income derived from such land by agriculture, i.e. by actual cultivation or by agricultural process which makes the product fit to be taken to market or by sale of the produce, on which no other process has been performed other than the one mentioned in above.

- Any income derived from any building (farm house) owned and occupied by the receiver of the rent or revenue of any such land subject to following conditions.
- The building must be occupied by the cultivator.
- It must be on the land or in the immediate vicinity of the land.
- The cultivator must require it as a dwelling house, store house or other out-building.
- The land must be assessed to land revenue and local rates.
- If it is not assessed to land revenue and local rate, than it must be situated outside urban areas beyond a distance of 8 kilometers.