CHAPTER 1

BASIC CONCEPTS

Question 1

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961.

Education cess @ 2% and secondary and higher education cess @ 1% is payable on

(a) Income-tax

(b) Income-tax plus surcharge, if any

(c) Surcharge

(d) Not payable by any assessee

Answer

(b) i.e. income tax plus surcharge if any. (Note : For the A.Y. 2011-12 every domestic company must pay surcharge @ 7.50% if the total income exceeds Rs.1 crore. In the case of companies other than domestic companies, the surcharge payable is 2.5% if the total income exceeds Rs.1 crore.)

Question 2

Fill in the blanks:

Where the total income of an artificial juridical person is Rs.3,10,000 the income-tax payable is Rs. …………… and surcharge payable is Rs. …………..

Answer

Rs.15,000; surcharge – nil.

Question 3

Briefly discuss about the exceptions to the rule that income of an assessee for a previous year will be charged to tax in the subsequent assessment year.

Answer

Refer to Page 1.35 of Study Material

Question 4

Write short note on "Income accruing" and "Income due". Can an income which has been taxed on accrual basis be assessed again on receipt basis?

Answer

'Accrue' refers to the right to receive income, whereas 'due' refers to the right to enforce payment of the same. For e.g. salary for work done in December will 'accrue' throughout the month, day to day, but will become 'due' on the salary bill being passed on 31st December or 1st January. Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become 'due' for payment on the specified dates.

Income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when interest on bank deposit is offered on accrual basis, amounts received on maturity of such deposit including interest thereon cannot be treated as income again.

Question 5

An employee instructs his employer to pay a certain portion of his salary to a charity and claims it as exempt as it is diverted by over riding charge / title – Comment.

Answer

In the instant case, it is an application of income and in the nature of foregoing of salary. According to the Supreme Court judgment in *CIT v. L.W. Russel (1964) 52 ITR 91*, the salary which has been foregone after its accrual in the hands of the employee is taxable. Hence, the amount paid by the employer to a charity as per the employee's directions is taxable in the hands of the employee.

Question 6

Explain the concept of "Marginal Relief" under the Income-tax Act, 1961.

Answer

The concept of marginal relief is applicable only in the case of companies w.e.f. A.Y.2010-11. Marginal relief is available in case of companies having a total income exceeding Rs.1 crore. The additional amount of income-tax payable (together with surcharge) on the excess of income over Rs.1 crore should not be more than the amount of income exceeding Rs.1 crore.

Question 7

Write short notes on:

(a) Infrastructure Capital Company

(b) Infrastructure Capital Fund

Answer

Refer to pages 1.26 & 1.27 of Study Material

Question 8

Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.

Answer

As per section 2(10), **"Average Rate of tax"** means the rate arrived at by dividing the amount of tax calculated on the total income, by such total income.

Section 2(29C) defines **"Maximum marginal rate"** to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

Question 9

Who is an "Assessee"? Who is a "Deemed Assessee"? Who is an "Assessee in Default"? Explain with suitable examples.

Answer

Assessee

Refer to the definition of "assessee" in section 2(7) in page 1.11 of Study Material

Deemed Assessee

Assessee includes every person who is deemed to be an assessee under the provisions of the Act. For example, under section 160(2), every representative assessee shall be deemed to be an assessee for the purposes of the Act.

Assessee in default

A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income-tax Act, 1961. Suppose an employer who pays salary or other person who pays interest, commission, professional fees etc. but does not deduct tax at source and deposit into government treasury, then, he shall be deemed to be an assessee in default. Likewise, under section 218, if a person does not pay advance tax, then, he shall be deemed to be an assessee-in-default.