DT Fundas – CA IPCC

Delightful edition on income tax

(FOR CA IPCC and other professional courses)

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(Faculty and author by profession)

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Law stated in this book is as amended by Finance Act, 2013

(Applicable for Assessment Year 2014-15)

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First word – From the desk of author

Income tax law (1st edition) is a comprehensive book explaining the legal law (bare act) with delightful presentational efforts, Analysis, Concepts, Notes and examples in an informative manner. There is a remarkable difference between "being familiar" and "being knowledgeable". Purpose of this book is to expand the knowledge base of students through which they can qualify the toughest exam with easiest approach. Knowledge requires logical understanding, proper learning and correct application of the concepts, it also demands comprehensiveness and accuracy in presentation and this book is a complete solution for that.

Students reviews from all corners of India

(These reviews are based on sample pages issued by author)

Sir, after going through all the pages i found that the provision, nuances of the Act and required explanations are adequately given. My best wishes

Varun Chandra

After having read the document, I've had only one reaction "Why didn't i have these notes before?"

GAZAL

Sir, your notes are better than any other reference books like v.k.singhania etc.

Shyam Kapadia

Hats off 2 u sir, u r good at it. Some points which are important but not discussed in other authors books like some hidden concepts, you have brought them to light. . . . I don't enjoy reading much but your notes were so good that i read them in 1 go

Ruchi Aggarwal

I would like to say sir your notes are THE AMAZING! Wish you would have sent it prior to our exams! Go for full book please rest of students will get really valuable and easy to learn notes!

Sanket kale

Very simplest form....really great effort

Muhammad Sheefer

Sir, in other books I find that they explain us like we already know the whole Income Tax act and it's just a revision. But the major difference i find out in your notes that explanation is step by step and easy to understand. Nice work

Keshav Mishra

I have never seen better tax notes...Better than yours. When is d whole book coming? Can we pre book!

Amanat

Income Tax Laws

Contents

Acknowledgments

First of all, i would like to thank my parents for their valuable support and patience in toughest times of my life. I am grateful to various institutions for providing me such an opportunity to share my knowledge and experience with the students as a faculty. I would like to thank my esteemed colleagues, friends and students who have contributed to this book by advising me and by giving encouraging and constructive feedback.

I would like to thank my teachers for their motivating and guiding role in my life. I extend my gratitude to CA. Ravi Bindra sir, CA. Narendra Rustagi sir, CA. Pankaj manocha sir for providing me the practical exposure of taxation during my artcileship period.

I hope this book serves the best for it readers. Their valuable suggestions and feedback will be greatly acknowledged. Feel free to write me on tarun.ca.4u@gmail.com

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EXAM essential –

For any question / doubt regarding any topic discussed in the book students can write their query on the above email id or they can SMS their query with page no. on 9716238335.

TAX HIERARCHY

Introduction to Income Tax

Constitution B.R. Ambedkar → Union list (entry-82)

↓

Act Parliament → Income tax act, 1961

↓

Rules Central govt

↓

Order/Instruction/Direction CBDT

Administrative set-up (Officers Hierarchy)

Ministry of Finance

↓

Department of Revenue

↓

CBDT — **CBEC**

Chief CIT

↓

CIT - - - **CIT (Appeals)**

↓

JCIT

↓

AC/ DC

↓

ITO

(JCIT, AC/DC, ITO) → **Assessing Officers**

↓

Other officers (Inspectors etc.)

Author Comment | **Special terminology**

Assessee – Means the person liable to pay tax

Assessment – Means determination of total income and computation of tax liability.

Assessing officer – The officer who is authorised to make assessment

Note 1: **Constitution of India**

Entry No 82 : Taxes on **INCOME** other than agriculture income

Author Comment | **Power to levy**

- CG is empowered to tax any income other than agricultural income.
- SG is empowered to tax agricultural income.

Note 2 : **Act : Income tax Act (Sec. 1 to 298)**

Sec 4 – Charging section

1. **Tax is on** : **Total income** (5 heads of income) **Sec. 14**
2. **Income of** : **Previous year** (1^{st} April – 31^{st} March) **Sec.3**
3. **Chargeable in** : **Assessment year** (1^{st} April – 31^{st} March) **Sec. 2(9)**

Author Comment | **IT Act, 1961**

Sec. 1	Title, Extent & applicability, commencement
Sec.2	Definitions • 2(7): Assessee • 2(9): Assessment year • 2(24): Income
Sec. 3	Previous year
Sec. 4	Charging section
Sec.5	Scope of total income
Sec. 6	Residential status

Notes :

1. **Income tax is leviable in assessment year on total income of previous year**
2. **Rates of tax –**
   - **(a) Special rates –** Given under Income tax Act itself (e.g. tax on lottery income)
   - **(b) Normal rates –** Given under Finance Act every year
3. **Surcharge – Payable in addition to income tax**
4. **EC & SHEC are payable in addition to income tax**
   - Education cess(EC) is governed by finance act, 2004
   - Secondary & Higher education cess (SHEC) is governed by finance act, 2007
5. **Person liable to pay tax (Assessee)**
   - 7 kinds of persons
6. **Total income (Indian or Foreign) of a person is dependent upon**
   - residential status in India.

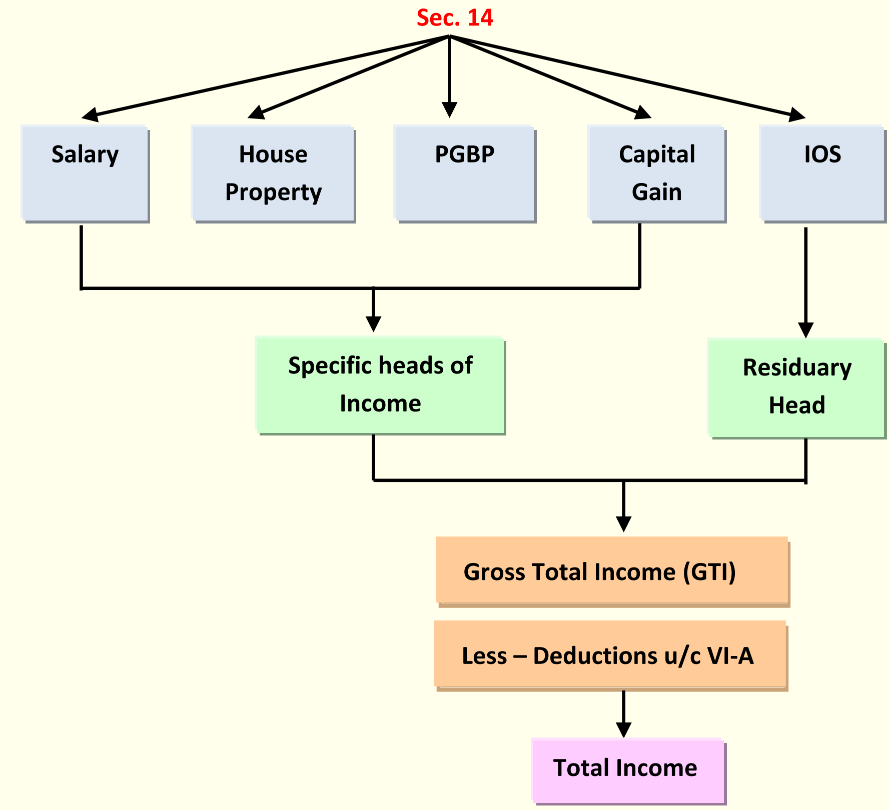
Author Comment | **Tax system**

1. Previous year the financial year in which income has been earned by person.
2. Assessment year means the year in which tax is leviable on previous year income.
3. So the concept is like earn income in one year and pay tax on such income in next year.
4. Every person who is liable to pay tax is an assessee and he is required to do self assessment of his income and computation of tax payable.

Author Comment | Total income

- Income has been classified for computation purposes under 5 heads i.e. chapters. Each head provides a special method of computation of income under that head. In computing the income under each head specified deductions are allowed. Then income of all the heads pooled together which is known as GTI and then some deductions are allowed (Tax planning benefits) u/s 80C to 80U from such GTI to arrive at Total income.
- It is the total income on which a person has to pay tax
- Basic exemption limit has been also provided on such total income.

1. Total income



Author Comment | 5 Heads

Income as per general understanding means the revenue receipts (Regular + definite sources). However each head (except HP) covers certain capital receipts also. It is the golden rule of income tax that every revenue receipts is taxable unless specifically exempted and all capital receipts are exempt unless specifically taxable. Although there is a single tax on income but only for the computation purposes it has been classified in 5 different heads.

2. 5 heads of income

	Head	Nature of Income	Sections
1.	Salary	Employer - Employee	15 to 17
2.	HP	Rental income	22 to 27
3.	PGBP	Profit from Business / Profession (Sale of stock)	28 to 44
4.	Capital gain	Profit from transfer of capital assets (Sale of investments)	45 to 55
5.	IOS	All income not falling under above heads	56 to 59

Author Comment | Applicability

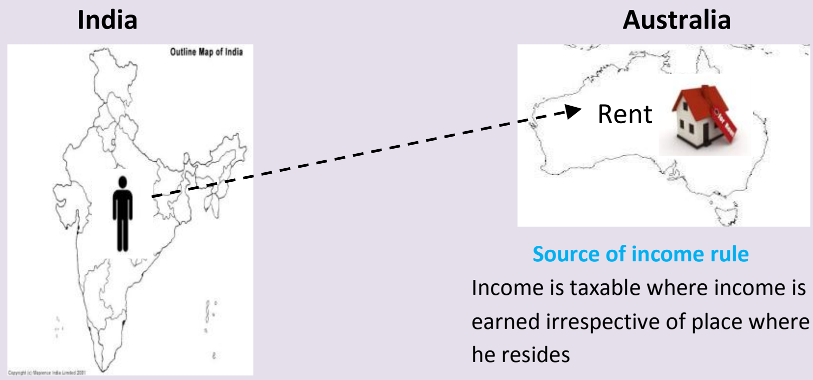
The Act applies to whole of India. Under the Income tax act scope of total income (Indian / foreign income) depends upon the residence rule i.e. if a person is resident in India then he have to pay tax on income earned outside India also. Total income is further divided into 2 categories –

(i) Indian income
(ii) Foreign income

Sec. 5 and sec. 6 Gives the complete solution to this question i.e. what is to be included in total income of a person.

Sec. 4 → Charging section
Sec. 5 → Scope of total income based on residence rule
sec. 6 → Residential status

3. Applicability of the Act (Scope of total income)



Source of income rule

Income is taxable where income is earned irrespective of place where he resides

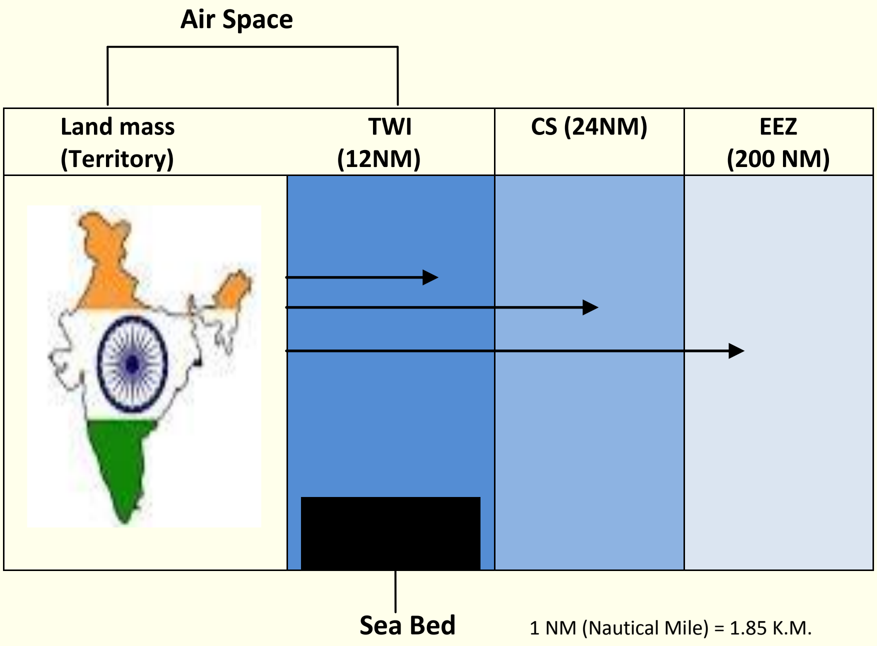
Residence rule

Income is taxable as per residential status irrespective of place where income is earned

Author Comment | India

1. EEZ (Exclusive economic zone)
   Territorial waters (TWI), Continental shelf (CS) Exclusive economic zone and other Maritime zones act 1970 extends territory of India to 12 NM. It further provides that CG can extend applicability of an act upto 200 NM. Under that act applicability of income tax act 1961 has been extended to EEZ.
2. SEZ (Special economic zone)
   Income tax is applicable on SEZ also. SEZ means designated area in country that possess special economic regulations that are different from other areas in the same country.

4. Meaning of India



1 NM (Nautical Mile) = 1.85 K.M.

Author Comment | Tax rates

Income tax Act, 1961

Income tax act contains provisions of determination of total income, determination of tax liability, returns, procedure of assessment, appeals, penalties & prosecutions, power and duties of income tax authorities. It also contains some special rates of tax and certain rates of TDS.

Finance Act (FA 2013)

Finance act contains various amendments in relation to direct/ indirect tax. It also contains rates of income tax on income of various kind of persons and rates of other taxes. Finance act provides rates of tax in advance for the upcoming financial year. (e.g. FA, 2013 provides rates for f/y 2013-14)

5. Tax rates

Tax rates

- IT Act, 1961 → (Special Income)
- Finance Act, 2013 → (On balance)

SPECIAL RATES OF TAX

Sec. 111A – STCG @ 15 %
Sec. 112 – LTCG @ 20 % / 10 %
Lottery - @ 30 %

NORMAL SLAB RATES

Domestic Company – 30 %
Foreign company – 40 %
Partnership firms – 30 %
Individual / HUF – As per slab rate

Notes -

- Special rates are applicable on special incomes of every person. (Rates given by IT Act, 1961)
- On balance income normal slab rates will be applicable. (Rates given by FA, 2013)
- Surcharge (wherever applicable) and Education cess and SHEC (In all cases) payable extra on basic tax amount.

Author Comment | Exemptions

- Exemption is kind of benefit provided by the act in respect of some incomes i.e. assessee is not liable to pay tax on such income. There are certain incomes which do not form part of total income of assessee i.e. we do not need to include that part of income in our computation which is exempted under income tax act

Note 3 Exemptions under income tax

Exemptions

- General Exemption: Sec. 10, Sec. 54 to 54H
- Special Exemption: Sec. 11 to 13 B

EXEMPTIONS

Sec. 10 – List of exemptions
Sec. 11 to 13 – Charitable trusts
Sec. 13A – Political parties
Sec. 13B – Electoral trust
Sec. 54 to 54H – Capital gains

Author Comment | Deductions

- To compute income under each head specific deductions are allowed from the income earned under respective heads. For e.g. business expenditures are allowed in computing profit from business.
- Certain deductions are allowed from GTI on payment or contributions basis. These deductions are used as a tool for tax planning i.e. to reduce tax liability in legal way. For example – LIC premium, expenditure on medical treatment, interest on loan taken for higher education etc.

Note 4 : Deductions

Deductions

- Allowed under each heads
- Allowed from GTI

DEDUCTIONS UNDER HEADS

Salary	– Sec. 16
HP	-Sec. 24
PGBP	-Sec. 30 to 37
Capital gain	- Sec. 48
IOS	- Sec. 57

DEDUCTIONS FROM GTI

Chapter VI-A - Sec. 80C to 80U

Author Comment | Rules

- Rules have been made for the effective working for the purpose of this act (Rules are also called as Bye-laws)
- In case of contradiction between the provisions of statue and provision of rules, the statue will always prevail i.e. the bye-laws cannot supersede the statue.
- These rules shall be published in the official gazette.

Note 5 : Rules

Section 295 Power to make rules

The Central board of direct taxes (CBDT) may subject to the control of the Central Government make rules for the whole or any part of India for carrying out the purposes of this act by notification in the Gazette of India

Section 296 Rules and certain notifications to be placed before Parliament

The CG shall cause every rule made under this Act to be laid before each House of Parliament as soon as while it is in session.

Title of rule	Year	
Income Tax Rules	1962	Rule 1 to 125

Author Comment | Circulars

Issued by	CBDT
Purpose	Proper administration
Nature • AO • Assessee • Appellate authorities	 Bound Not bound Not bound

Note 6 : Orders, Instructions & Directions by CBDT

Section 119 Instruction to subordinate authorities

The **Board may** from time to time as it may deem fit

➔ **for the proper administration** of this Act

issue such orders, instructions and directions to other income-tax authorities and such authorities and all other persons employed in the execution of this Act **shall observe and follow** such orders, instructions and directions

Provided that

No such orders, instructions or directions shall be issued—

(a) So as to require any income-tax authority **to make a particular assessment** or to dispose of a particular case **in a particular manner**; or

(b) So as **to interfere with the discretion of the Commissioner (Appeals)** in the exercise of his appellate functions.

Author Comment | Sources to study

	Useful websites
Income tax	Incometaxindia.gov.in
Supreme court	Supremecourtofindia.nic.in
ICAI	icai.org

Note 7 : Sources to read income tax law

	Source	Purpose
1.	Income tax act, 1961	Income tax act is permanent in nature. It contains basic provision of charge, computation of total income, tax liability and procedures for assessment, appeals etc.
2.	Finance act	The operative effect to income tax is given by finance act every year.
3.	Income tax rules	For effective working of the provisions of act
4.	Circulars	For clarification and proper administration
5.	Judicial precedents	Supreme court and High court's judgement contributes a significant role in interpretation of statue.