CHAPTER 1 : BASIC CONCEPTS

REVISION POINTS-

- There are two types of taxes: **Direct Tax and Indirect Tax**

- **Article 246 r**ead with Schedule VII divides subject matter of law made by legislature into three categories:
  • **Union list** (only Central Government has power of legislation on subject matters covered in the list)
  • **State list** (only State Government has power of legislation on subject matters covered in the list)
  • **Concurrent list** (both Central &State Government can pass legislation on subject matters).

- Following major entries in the respective list enable the legislature to make law on the matter:
  Union List (List I) **Entry 82** - Taxes on income other than agricultural income i.e. Income-tax
  State List (List II) **Entry 46** - Taxes on agricultural income.

- The administrative hierarchy of tax law is as follows:
  Ministry of Finance
  ↓
  Department of Revenue
  ↓
  Central Board of Direct Taxes & Central Board of Excise & Customs (CBEC)

- **Sources of Income Tax Law in India –**
  1. Income tax Act, 1961 (Amended up to date)
  2. Annual Amendments
  3. Income tax Rules, 1962 (Amended up to date)
  4. Circulars and Clarifications by CBDT
  5. Judicial decision

- Previous Year means the financial year immediately preceding the Assessment Year. Income earned in a year is assessed in the next year. The year in which income is earned is known as **Previous Year** and the next year in which income is assessed is known as **Assessment Year.**

Eg: P.Y.: 2017-18
A.Y.: 2018-19
Income of the previous year of a person is charged to tax in the immediately following assessment year.

- **Assessee** : The person who is being assessed for payment of Income Tax.

- **Person:** The term person includes the following :
  (i) an Individual;
  (ii) a Hindu Undivided Family (HUF);
  (iii) a Company;
  (iv) a Firm;
  (v) an Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not;
  (vi) a Local authority; &
  (vii) every artificial juridical person not falling within any of the preceding categories

- **Income:** Following points to be kept in mind:-
  - Income may be received in cash or in kind.
  - Method of Accounting irrelevant for Income from Salaries, House Property, Capital Gains.
  - Method of Accounting relevant for PGBP & Income from Other Sources
  - A person cannot make profit out of transaction with himself.
  - Income may be from a temporary source or from a permanent source.
  - Income also includes negative income. (loss)
  - There is no difference between income received in lump sum or in installment.
  - Mere reimbursement of expenses is not an income.
  - The Act does not make any difference between legal or illegal income.
  - Same income cannot be taxed twice i.e. No double taxation
  - Income by mutual activity is not treated as an income
  - Pin money is money received by wife for her personal expenses & small savings made by a woman from money received from her husband for meeting household expenses. Such receipt is not treated as income.
    Note: Income on investment out of pin money shall be treated as income.

- **Heads of Income:**
  According to Sec.14 of the Act, all income of a person shall be classified under the following five heads :

1. Income under head Salaries;
2. Income from house property;
3. Profits and gains of business or profession;
4. Capital gains;
5. Income from other sources

- **Format for Computation of Total Income & Tax Liability–**
  Name of the Assessee:
  Status:
  P.Y. :
  A.Y. :
  Statement showing total income & tax liability-

Particulars	**Amount (Rs.)**
Income from salaries	
Income from house property	
Profits & Gains of Business & Profession	
Capital Gains	
Income from other sources	
GROSS TOTAL INCOME	
Less: Deductions	
TOTAL TAXABLE INCOME	
Tax Liability	

- The total income so computed will have to be rounded off to the nearest multiple of ` 10, i.e., if the last figure in the 'rupee element' is ` 5 or more, it should be rounded off to the next higher amount, which is a multiple of ` 10. The 'paise' element should be ignored.

- The tax calculated on the total income should be rounded off to the nearest ` 10.

- A **capital receipt** is not liable to tax, unless specifically provided in the Act, whereas, a **revenue receipt** is not exempted, unless specifically provided in the Act. Further, capital receipts are to be charged to tax under the head "Capital Gains" and revenue receipts are taxable under other heads.

- A **capital expenditure** is not allowable as expenses, unless specifically allowed in the Act, whereas, a revenue expenditure is allowable as expenses, unless specifically disallowed in the Act.

- **Tax planning** is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.

- **Tax evasion** is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.

- **Tax avoidance** is an exercise by which the assessee legally takes advantages of loopholes in the Act.

- **Tax Management** is a procedure to comply with the provisions of the law.

- **Diversion of income:** Where by virtue of an obligation, income is diverted before it reaches to the assessee, it is known as diversion of income & it is not taxable (i.e. even if the assessee were to collect the income he does so on behalf of the person to whom it is payable)

- **Application of income:** Whereas, application of income means to discharge an obligation (which is gratuitous or self-imposed) after such income reaches the assessee & hence it is taxable.

1. Income Tax Slab Rate for AY 2018-19 for Individuals:

1.1 Individual (resident or non-resident), who is of the age of less than 60 years on the last day of the relevant previous year:

Taxable income	Tax Rate
Up to Rs. 2,50,000	*Nil*
Rs. 2,50,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

1.2 Resident senior citizen, i.e., every individual, being a resident in India, who is of the age of 60 years or more but less than 80 years at any time during the previous year:

Taxable income	Tax Rate
Up to Rs. 3,00,000	*Nil*
Rs. 3,00,000 - Rs. 5,00,000	5%
Rs. 5,00,000 - Rs. 10,00,000	20%

Above Rs. 10,00,000	30%

1.3 Resident super senior citizen, i.e., every individual, being a resident in India, who is of the age of 80 years or more at any time during the previous year:

Taxable income	Tax Rate
Up to Rs. 5,00,000	*Nil*
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Plus:

Surcharge: 10% of tax where total income exceeds Rs. 50 lakh
15% of tax where total income exceeds Rs. 1 crore

Education cess: 3% of tax plus surcharge

Note: A resident individual is entitled for rebate u/s 87A if his total income does not exceed Rs. 3,50,000. The amount of rebate shall be 100% of income-tax or Rs. 2,500, whichever is less.

2. Income Tax Rates for HUF/AOP/BOI/Any other Artificial Juridical Person:

Taxable income	Tax Rate
Up to Rs. 2,50,000	*Nil*
Rs. 2,50,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Plus:

Surcharge: 10% of tax where total income exceeds Rs. 50 lakh
15% of tax where total income exceeds Rs. 1 crore

Education cess: 3% of tax plus surcharge

3. Tax Rate For Partnership Firm:

A partnership firm (including LLP) is taxable at 30%.

Plus:

Surcharge: 12% of tax where total income exceeds Rs. 1 crore

Education cess: 3% of tax plus surcharge

4. Income Tax Slab Rate for Local Authority:

A local authority is taxable at 30%.

Plus:

Surcharge: 12% of tax where total income exceeds Rs. 1 crore

Education cess: 3% of tax plus surcharge

5. Tax Slab Rate for Domestic Company:

A domestic company is taxable at 30%. However, tax rate is 25% if turnover or gross receipt of the company does not exceed Rs. 50 crore.

Plus:

Surcharge: 7% of tax where total income exceeds Rs. 1 crore

12% of tax where total income exceeds Rs. 10 crore

Education cess: 3% of tax plus surcharge

6. Tax Rates for Foreign Company:

A foreign company is taxable at 40%

Plus:

Surcharge: 2% of tax where total income exceeds Rs. 1 crore

5% of tax where total income exceeds Rs. 10 crore

Education cess: 3% of tax plus surcharge

7. Income Tax Slab for Co-operative Society:

Taxable income	Tax Rate
Up to Rs. 10,000	10%
Rs. 10,000 to Rs. 20,000	20%
Above Rs. 20,000	30%

Plus:

Surcharge: 12% of tax where total income exceeds Rs. 1 crore

Education cess: 3% of tax plus surcharge

- **Marginal Relief:-**
  Marginal Relief is available in case of such persons having a total income exceeding Rs. 1 crore or Rs. 50 lakhs (as the case may be) i.e. the total amount of income tax payable (together with surcharge) should not exceed the amount of income tax and surcharge payable on total income of Rs. 1 crore or Rs. 50 lakhs (as the case may be) by more than the amount of income that exceeds Rs. 1 crore or Rs. 50 lakhs (as the case may be)