

# TAXATION

3<sup>rd</sup> SEMESTER

**TOPIC:**

**INCOME TAX ACT 1961-  
IMPORTANTANCE,  
DEFINITIONS**

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# INCOME TAX ACT 1961

## Introduction to Income Tax

Tax is the mandatory financial charge demand by the government on pay, product, administrations, exercises or exchange. Taxes are the fundamental modes of income for the government, which are used for the welfare of the general population of the nation through government strategies, arrangements, and practices.

There are references for taxes in ancient writings like Manusmurti and Kautilya Arthashastra. It was initiated in India in 1860 for the first time to defeat the financial crisis of 1857. Accordingly, it is the income tax Act 1961 which is at present operative in India.

## **NEED FOR INCOME TAX IN INDIA**

Income tax is a tax on the income of an individual or an entity. Income tax is the main source of income for the government to carry out its functions.

The jobs of government are not just restricted to defense, law, and order, etc., but it also has to undertake activities like welfare and development under sectors of health, education, rural development, etc. the government also has to pay for its own administration. All of these activities need huge public finance which is raised by the collection of taxes.

## PURPOSE OF TAXATION

1. The money spent on the development of roads, schools, and hospitals, market regulations or legal systems, etc. is raised by the revenue generated by the collection of taxes
2. Redistribution of resources by the richer section to the poorer section of the society.
3. Taxes are levied on certain products to eliminate externalities such as the taxes on tobacco to discourage smoking

Taxes are broadly divided into two categories- Direct and Indirect taxes.

Income tax is a direct tax imposed on an individual. Estate and wealth tax were also direct taxes, however, these are abolished now

Indirect taxes that were imposed in India are customs duty, central excise duty, service tax, sales tax, and value-added tax.

As of now GST has been implemented and has made all the other indirect taxes obsolete.

## **ASSESSMENT YEAR AND PREVIOUS YEAR**

As per Section 2(9) of the Income Tax Act, 1961, states that assessment year means the 12 month period beginning on the 1st day of April every year. The assessee is required to file the income tax return of the previous year in the assessment year. As per S.2(34) of Income Tax Act, 1961, unless the context otherwise requires, the term “previous year” means the previous year as defined in section 3.

As per Section.3 of Income Tax Act, 1961, the term “previous year” means the financial year immediately preceding the assessment year

Say, for example, the year starting from 1st April 2018 and ending on 31st March 2019 is the assessment year 2018-19, the previous year would be 2017-18. The rates of assessment year are taken into consideration.

## PERSON UNDER INCOME TAX?

A person is defined under section 2(31) of the act. The term 'person' includes –

1. An individual.
2. A Hindu Undivided Family.
3. A Company.
4. A Firm.
5. An association of persons or body of individuals whether incorporated or not;
6. A local authority; and
7. Every artificial judicial; person not falling within any of the preceding

## **ASSESSEE UNDER INCOME TAX?**

Any individual who has income earned or losses incurred, and is liable to pay taxes on these to the government in a particular assessment year, is an assessee.

Categories of the assessee –

### **1. Normal Assessee**

- a person against whom proceedings are going on under the Income Tax Act, despite the fact that any tax or other amount is payable by him or not;
- a person who has undergone loss and filed a return of loss u/s 139(3);
- a person by whom some amount of interest or tax or penalty is payable under the income tax Act;
- any person who is entitled to refund of tax under this Act.

## 2. Representative Assessee

- A person may not be liable for his own income or loss but he might also be liable for the income or loss of other persons say for example agent of a non-resident, guardian of a minor or a lunatic person, etc. In such cases, the person responsible for the assessment of the income of such a person is called representative assessee. Such a person is deemed to be an assessee.

### 3. Deemed Assessee

- In the case of a deceased person who has died after writing down his will, the administrators of the property of the deceased are deemed as assessee.
- In case if a person dies intestate (without writing down his will) the eldest son or other legal heirs of the deceased person are deemed as assessee.
- In case a minor, lunatic or an idiot person has income taxable under the Income Tax Act, their guardian is deemed to be an assessee.

- In case a non-resident has income in India, any person acting on his behalf is deemed as an assessee.

#### 4. Assessee-in-default

- A person is deemed as an assessee-in-default if he fails to fulfill his statutory obligations. In case an employer is paying a salary or a person who is paying interest, it is their duty to deduct TDS and deposit the amount of tax so collected in Government treasury. If he fails to deduct TDS or deducts tax but does not deposit it in the treasury, he is known as assessee-in-default.

# Concept of income

The Income Tax Act does not define the term Income but section 2 (24) of the Act describes the various receipts which are included under the ambit of income.

1. Profits and gains.
2. Dividends
3. Voluntary contributions received by a charitable trusts
4. The value of any perquisite or profit in lieu of salary.
5. Any capital gains.
6. Any winnings from lotteries,
7. Crossword puzzles etc.

## HEADS OF INCOME

1. Income is classified under 5 main heads under section 14 of the act
2. Income from salary
3. Income from house property
4. Income from capital gains
5. Profit and gains from business and profession
6. Other sources of income

- Charging section
- Section 4 of the Income-Tax Act, 1961 is the Charging section of the Act
- Accordingly, the section provides that :
- The rates are prescribed under the finance act of every assessment year. Income tax for the previous year is to be charged according to the given rates.
- is to be charged

- The taxable income is that of the previous year not the assessment year
- The total income, computed according to the provisions of the act, is leviable
- Tds or advance tax wherever applicable

# GROSS TOTAL INCOME (GTI) [SEC. 80B(5)]

Particulars	Amount
1. Salaries	***
2. Income from house property	***
3. Profits and gains of business or profession	***
4. Capital gains	***
5. Income from other sources ***	***
<b>Gross Total Income</b>	***
<b>Less: Deduction u/s 80C to 80U</b>	***
<b>Total Income</b>	***

## Payroll Tax

Payroll taxes are Medicare and social security taxes, employers withhold half of these taxes from employee's wages. Medicare taxes are a contribution to medical benefits for the person above the age of 65. Social security taxes are for the benefits of the retired person or disabled person or for their dependents. These two taxes are called as FICA tax, i.e., *Federal Insurance Contribution Act Tax*, which is defined by Internal Revenue Service. These taxes are paid to the Federal or State authority.

- If a person is self-employed then he doesn't need to pay FICA tax, but *a Self-employed Tax* needs to be pay by him.
- FICA Tax rate is equal for employers and employees. Self-employed tax rates are different from FICA tax rates.
- Income Tax Calculator
- The income tax calculator is available for quick and easy access to basic tax calculation for the public. It does not assure the taxpayer for an exact payable tax. Some basic details have been provided to the calculator.

# Income Tax Calculator



## TAX CALCULATOR

[Click here to view relevant Act & Rule.](#)

Assessment Year	2018-19
Tax Payer	Individual
Male / Female / Senior Citizen	Female
Residential Status	Resident
Net Taxable Income	5,00,000
Income Tax after relief u/s 87A	12,500
Surcharge	0
Education Cess	250
Secondary and higher education cess	125
Total Tax Liability	12,875

In the above image, as per details are given to the calculator total tax liability of a female individual is Rs. 12,875.

## Income Tax Form 16

Form 16 is a *Tax Deduction at Source Certificate* issued by the Income Tax Department for the tax deduction of an employee by the employer on their behalf. It is a mandatory certificate for the taxpayers.

This deduction can be reimbursed by the employee later. This form contains details of the transaction between the deductor and the deductee. The certificate must be issued immediately after the Financial Year or before the 15 June of the next year. TDS certificate should be issued every year..

Form 16 contains two parts – Part A and part B.

***Part A*** – Part A of Form 16 contains :

- Name, TAN & PAN and address of the employer;
- Name, PAN card and address of the employee;
- Details of tax deducted and deposited quarterly with the government;
- Assessment Year for which TDS certificate issued;
- The time period of the employment;
- TDS payment acknowledgment number.

If an employee changes his employment during one financial year, then the employer will issue different Part A of Form 16.

***Part B*** – Part B is the annexure of Part A which contains details in regards to the computation of taxable income, this Form will attach along with Part A of Form 16 and if the employer has more than one job in any Financial Year than he has to attach more than one Form. Part B has components:

- Detailed salary and deduction under any scheme or policy;
- Deduction under chapter 6A of the Act;
- Educational cess and surcharge, if any;
- All the financial details of both the jobs.

# Income Tax Return

## Definition

As per the Black Law Dictionary (9th Edition) An Income Tax form on which a person or entity reports income, deductions, and exemptions and on which tax liability is calculated.

Income Tax Return (ITR) is a statement of tax and income, which an individual files to inform the government that how much income he has earned in a financial year. ITR should be filed before the last date, i.e., 31st July. There are different ITR form filed by an individual as per their applicability, and the eligibility of a person is mentioned in the form. There is a total of seven ITR forms which we will discuss one by one.

**THANK YOU**