SHIVAJI UNIVERSITY, KOLHAPUR

CENTRE FOR DISTANCE AND ONLINE EDUCATION

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For

M. Com. Part-I

Semester - I

(In accordance with National Education Policy 2020)
(Implemented from the Academic Year 2023-24)

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Preface

It gives us immense pleasure to present the self learning material (SLM) of Advanced Accountancy Paper-IV (Introduction to taxation). We hope that this exercise will be useful for students of M. Com. Part-I. The syllabus has been revised from this year in accordance with the National Education Policy (NEP) 2020 and this SLM has been prepared keeping in mind the requirements of revised syllabus as well as NEP.

Taxation has been an important aspect of every business since ages. Therefore students of commerce stream need to have at least basic knowledge of taxation. There are different aspects of taxation. This particular SLM is prepared for 2 credit course of M. Com. Part-I, Semester I. since this is for 2 credit course, the introductory and basic information about taxation is provided through this SLM. The assessment year 2023-24 and relevent provisions have been considered while writing this SLM. It is expected that the students would at least get an awareness about taxation after going through this SLM.

We are thankful to Hon'ble Vice-Chancellor Prof. Dr. D. T. Shirke, Hon'ble Pro-Vice-Chancellor Prof. P. S. Patil, Dean of Faculty of Commerce & Management Prof. Dr. S. S. Mahajan and Director of Centre for Distance and Online Education Prof. Dr. D. K. More for providing us this opportunity to contribute our thoughts through this exercise. We are thankful to the unit writers as they have contributed in making this available to the students in time. We also welcome the suggestion from students, teachers and other readers for improvement in the contents in future.

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M. Com. Part-I

SIM IN ADVANCED ACCOUNTANCY PAPER IV

INDEX

Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2023-24 and study the reference books & other related material for the detailed study of the paper.

Unit-1
Introduction to Income Tax

Index :

1.0 Objectives:

After studying the unit, you will be able to:

1. Understand the concepts of Income Tax.
2. Explain the Direct Tax and Indirect Tax.
3. Know the procedure of charging tax as well as fill income tax return.

1.1 Introduction:

`Income-tax is a tax on income, whether actual or deemed. According to article 270 of the Constitution of India, levy and collection of taxes on income (excluding agricultural income) is within the powers of the Central Government. However, the net tax proceeds determined in the prescribed manner are distributed between the Centre and the States as per the recommendations of the Finance Commission, which is appointed by the President of India in every five years. According to Article 265 of the Constitution of India, levy and collection of any tax shall be under the authority of a State Law. The Income-tax Act, 1961 (43 of 1961) extends to the whole of India.

The main thing under the Income-tax Act centers round the term “taxable income”. Thus, there are certain incomes under the Income-tax Act which are specifically excluded, certain deductions are available while computing income under different heads e.g. salary, house property, profits and gains of business and profession, capital gains and income from other sources. Moreover, in computing taxable income one has to consider the deemed income, clubbing of incomes, set –

off and carry forward of losses. Once the taxable income is ascertained, the next step is to ascertain the income – tax payable by the assessee (by applying the corresponding income-tax rates of the related assessment year). Net tax payable is ascertained by deducting the tax rebates, advance tax paid and tax deducted at source from the tax so payable.

1.2 Presentation of Subject Matter

1.2.1 The components of Income-tax law are:

1.2.1.1 The Income-tax Act, 1961, as amended from time to time.

1.2.1.2 The annual Finance Acts passed by Parliament.

1.2.1.3 The Income-tax rules, 1962 as made by the Central Board of Direct Taxes are binding on the assessing authorities in the same way as the Income-tax Rules.

1.2.1.4 Circulars/Notifications.

1.2.1.5 Legal Decisions of Courts.

1.2.1.1 Income Tax Act 1961:

The Income-Tax Act, 1961 is the set of rules and regulations upon which Income Tax Department levies, administers, collects and recovers taxes. It means levy of Income-tax in India is governed by The Income-Tax Act, 1961. This Act came into force on 1st April, 1962. The Act contains 298 sections, and 23 chapters. These undergo change every year with additions and deletions brought about by the annual Finance Act passed by Parliament.

1.2.1.1.1 Chapters of the Income-Tax Act, 1961:

The Income-Tax Act, 1961 has 23 chapters in total, which are as follows:

Chapter			Overview
I	Preliminary		
II	Basis of charge		
III	Incomes which do not form a part of the total income.		
IV	Computation of total income		
V	Income of other persons included in assessee's total income.		
VI	Aggregation of income and set off or carry forward of loss		
	VIA	Deductions to be made in computing total income	
	VIB	Restriction on certain deductions in the case of companies	
VII	Incomes forming part of total income on which no income-tax is payable.		
VIII	Rebate and relief		
IX	Double taxation relief		
X	Special provisions relating to avoidance of tax		
	XA	General anti-avoidance rule	
XI	Additional income-tax on undistributed profits		
XII	Determination of tax in certain special cases		
	XIIA	Special provisions relating to certain incomes of non-residents	
	XIIB	Special provisions relating to certain companies	
		XIIBA	Special provisions relating to certain limited liability partnerships
		XIIBB	Special provisions relating to conversion of Indian branch of a foreign bank into a subsidiary
		XIIBC	Special provisions relating to foreign company said to be resident in India
	XIIC	special provisions relating to retail trade etc.	
	XIID	Special provisions relating to tax on distributed profits of domestic companies	
		XIIDA	Special provisions relating to tax on distributed income of domestic company for buy-back of

			shares
	XIIE	Special provisions relating to tax on distributed income	
		XIIEA	Special provisions relating to tax on distributed income by securitization trust
		XIIEB	Special provisions relating to tax on accreted income of certain trusts and institutions
	XIIF	Special provisions relating to tax on income received from venture capital companies and venture capital funds	
		XIIFA	Special provisions relating to business trusts
		XIIFB	Special provisions relating to tax on income of investment funds and income received from such funds
	XIIG	Special provisions relating to income of shipping companies	
	XIIH	Income-tax on fringe benefits	
XIII	Income-tax Authorities		
XIV	Procedure for assessment		
	XIVA	Special provision for avoiding respective appeals	
	XIVB	Special procedure for assessment of search cases	
XV	Liability in special cases		
XVI	Special provisions applicable to firms		
XVII	Collection and recovery of tax		
XVIII	Relief respecting tax on dividends in certain cases		
XIX	Refunds		
	XIXA	Settlement of cases	
		XIXAA	Dispute Resolutions Committee in Certain Cases
	XIXB	Advance rulings	
XX	Appeals and revision		
	XXA	Acquisition of immovable properties in certain cases of transfer to counteract evasion of tax	
	XXB	Requirements as to mode of acceptance payment or repayment in certain cases to counteract evasion of tax	

	XXC	Purchase by Central Government of immovable properties in certain cases of transfer
XXI	Penalties imposable	
XXII	Offences and prosecutions	
	XXIIB	Tax credit certificates
XXIII	Miscellaneous	

1.2.1.2 The Finance Act:

Every year, the Finance Minister of the Government of India introduces the Finance Bill in the Parliament's Budget Session. When the Finance Bill is passed by both the houses of the Parliament and gets the assent of the President, it becomes the Finance Act. Amendments are made every year to the Income-tax Act, 1961 and other tax laws by the Finance Act.

The Finance Act is a crucial financial document that outlines the tax proposals and budgetary allocations of the Indian Government for that particular fiscal year. The Act provides a comprehensive roadmap for how the government plans to allocate its financial resources and streamline the country's tax policies.

1.2.1.3 Income-tax Rules:

The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT). The CBDT is empowered to make rules for carrying out the purposes of the Act. For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.

1.2.1.4 Circulars and Notifications:

Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions. These circulars are issued for the guidance of the officers and/or assessees, they can take advantage of beneficial circulars.

Notificatios are issued by the Central Government to give effect to the provisions of the Act. For example, under section 10(15) (iv)(h), interest payable by any public sector company in respect of such bonds or debentures and subject to such conditions as the Central Government may by notification in the Official Gazette, specify in this behalf would be exempt. Therefore, the bonds and debentures, interest on which would qualify for exemption under this section are specified by the Central Government through Notifications.

The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications. For example, under section 35CCD, the CBDT is empowered to prescribed guidelines for notification of skill development project.

1.2.1.5 Case Laws:

The study of case laws is an important and unavoidable part of the study of income-tax law. It is not possible for Parliament to conceive and provide for all possible issues that may arise in the instrumentation of any Act. Hence, the judiciary will hear the disputes between the assessees and the department and give decisions on various issues. The Supreme Court is the apex Court of the country and the law laid down by the Supreme Court is the law of the land. The decision given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.

1.2.2 Indian Tax System:

The tax structure in India is divided into Direct and Indirect taxes. While direct taxes are levied on taxable income earned by individuals and corporate entities, the burden to deposit taxes is on the assessees themselves. On the other hand, indirect taxes are levied on the sale and provision of goods and services respectively and the burden to collect and deposit taxes is on the sellers instead of the assessees directly.

The taxation system in India is such that the taxes are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as the Municipality and the Local Governments.

India follows a progressive tax system. Under a progressive tax system, high income earners pay more than low-income earners. (Under a regressive tax system, low-income earners pay a higher amount of taxes than high-income earners.)

1.2.2.1 Direct Tax:

Direct Tax is a tax where the taxpayer pays directly to the authority imposing the tax. Here, the tax payer has to bear the tax and will not be able to transfer this liability to another entity. In India, the Central Board of Direct Taxes (CBDT), is responsible for the collection and administration of direct taxes CBDT is governed by the Department of Revenue which provides inputs to the Government related to the implementation of direct taxes.

Types of Direct Taxes:

- **Income Tax:** the most common example of direct tax is income-tax, which one pays directly to the Government. Income tax is imposed on the income that is being earned in a financial year. The tax is paid on the basis of income tax slabs of the IT department.
- **Securities Transaction Tax (STT):** If one is involved in security trading, then they are required to pay securities transaction tax, irrespective of any gains made out of it or not.

*Please note that Estate tax and Wealth tax have now been abolished.

1.2.2.2 Indirect Tax:

Direct taxes are levied on taxpayer's income and profits; however, indirect taxes are charged on Goods and Services. The taxpayers pay the indirect tax to the Government via intermediary and thus they indirectly paid to the Government. The Central Board of Indirect Taxes and Customs (CBIC) is responsible for the collection and administration of indirect taxes which is governed by the Department of Revenues, just like CBDT.

Types of Indirect Taxes:

- **Goods and Services Tax (GST):** GST is the most common example of indirect tax, which has replaced an array of other indirect taxes in India such as Value added tax, Service tax, Excise Duty, Purchase tax and more. GST is a single, unified and the most comprehensive indirect tax which is imposed on the goods and services on the basis of the tax slabs laid by the GST Council of India.
- **Customs Duty:** Customs Duty is levied on you, if you purchased any goods and services from abroad. This duty has to be paid, irrespective whether the product has reached you by air, sea or land. Thus, customs duty is an indirect tax which is imposed to make sure that each and every product coming into India is taxed.

After the introduction of GST, a huge change has come in the entire tax landscape of the country. The various indirect taxes such as VAT, Service Tax, Sales

Tax and others that were mandatory earlier, have now been abolished. GST truly goes by its slogan “One Nation, One Tax, One Market”.

1.2.1 Difference between Direct and Indirect Tax:

	Direct Tax	**Indirect Tax**
1. Meaning	Paid directly to Government.	Paid to the Government via intermediary.
2. Levied on	Profits & Income	Goods & Services
3. Tax payer	Individuals, HUF and Business	End customers of products, goods and services.
4. Tax Rate	Directly depends on income & profits.	Same for everyone.
5. Tax burden	Progressive	Rate of tax is flat so tax burden is regressive.
6. Transfer of liabilities	Not transferable.	Can be transferable.
7. Tax collection	Complex.	Quite convenient.
8. Types	Income tax, Capital gains & STT	Goods and Services Tax (GST)
9. Evasion	Possible	Not possible.

1.2.4 Introduction to Income Tax:

Income-tax is a tax levied on the total income of the previous year of every person. A person includes an individual, Hindu Undivided Family (HUF), a Company, a firm, Association of Person (AOP) or Body of Individuals (BOI) whether incorporated or not, a local authority and every artificial juridical person not falling within any of the preceding categories. Income-tax is the most significant tax.

The tax rate in India increases as taxable income increases, it is called as graduated or progressive tax rates. The tax imposed on companies is known as

Corporate Tax and is commonly levied at a flat rate. Individual income is often taxed at progressive rates. Now in India the there are two tax regimes i.e. old tax regime and new tax regime, individual may choose one of them as per their choice.

1.2.5 Meaning:

Income tax is a financial and legal obligation in India. All individuals earning above a certain amount are required to pay income tax on their earned income. The income tax rates, income slabs and rules are regulated by the government and are subject to change from time to time. However, all taxpayers are responsible for accurately reporting their income and filing their taxes on time. Failure to do so can result in penalties and fines.

1.2.6 Characteristics of Income-tax:

Following are the main characteristics of Income-Tax:

1.2.6.1 Income tax is a direct tax:

The person who is liable for income tax is responsible for paying it. It cannot be transferred to anyone else. A person who receives money is required to pay income tax out of his pocket and is not permitted to transfer the cost of paying taxes to another party.

1.2.6.2 Income tax is a Central Tax:

The Central Government imposes and collects income taxes.

1.2.6.3 Tax on net taxable income:

After deductions of allowances and perquisites whatever the income is remaining, that income is taxable in the hands of assessee.

1.2.6.4 Exemption:

The income tax Act states that there is exemption on some incomes. Any income which exceeds than the exemption limit will be subject to taxation.

1.2.6.5 Payable by every assessee:

Income tax should be payable by every assessee. Assessee means person it includes an individual, HUF, BOI, AOP as well as every artificial person.

1.2.6.6 Income tax is paid in the current assessment year:

Income of previous year of an assessee is taxed during the next following assessment year at the rates prescribed by the relevant Finance Act.

1.2.6.7 Progressive rates of income tax:

Income tax is levied at progressive rates on escalating income levels.

1.2.7 Procedure of Charging Income Tax (for Assessment Year 2023-24)

1.2.7.1 Tax Liability – How to find out

Tax liability for the assessment year 2023-24 shall be calculated as follows:

	Particulars	**Rs.**	**Rs.**
1.	Find out gross total income	--	
2.	Less: Deduction under section 80C to 80U	--	
3.	Find out net income [1-2]		--
4.	Divide the net income into the following-		
	4.1 Income subject to special tax rates.	--	
	4.2 Remaining income subject to normal rates	--	
5.	Find out income-tax on net income-		
	5.1 Tax on income specified in 4.1	--	
	5.2 Tax on remaining income	--	--
6.	Less: Rebate u/s 87A (if applicable)		--
7.	Income tax after rebate u/s 87A [5-6]		--
8.	Add: Surcharge		--
9.	Find out the total [7+8]		--
10.	Add: Health and education cess		--
11.	Find out total [9+10]		--
12.	Deduct : Rebate u/s 86, 89, 90, 90A or 91		

13.	Tax liability [11-12]		--
14.	Add: Interest / Penalty		--
15.	Less: Pre-paid taxes		--
16.	Tax payable [13+14-15]		--

1.2.7.2 Tax regimes:

At present there are two tax regimes i.e. New tax regime and Old tax regime. A new income tax regime will be the default tax regime. However, taxpayers can choose the old regime.

A tax rebate has been introduced in the New Tax Regime on income up to Rs. 7 lakhs. It means if taxable income of person is below Rs.7lakhs, no need to pay tax under new tax regime.

There are different income slabs and tax rates as per the age wise criteria i.e i) resident senior citizens having the age of more than 60 years but less than 80 years.

ii) Super senior citizens i.e having the age of more than 80 years.

iii) any other resident individual who is less than 60 years of age on the last day of the previous year.

Here, we are going to focus only on resident individual who is less than 60 years of age.

a) Income-tax Slabs and Tax rates as per new tax regime are as follows:

Income slabs	**Tax rates**
Up to Rs.3 lakh	Nil
Rs.3 lakh to Rs.6 lakh	5%
Rs. 6 lakh to Rs 9 lakh	10%
Rs. 9 lakh to Rs 12 lakh	15%
Rs. 12 lakh to Rs 15 lakh	20%
Above Rs.15 lakh	30%

- The standard deduction of Rs. 50,000 has been introduced under the new tax regime for salaried taxpayers.
- There are surcharge and cess also.

b) Income-tax Slabs and Tax rates as per Old tax regime are as follows:

Income slabs	Tax rates
Up to Rs.2.5 lakh	Nil
Rs.2.5 lakh to Rs.5 lakh	5%
Rs. 5 lakh to Rs 10 lakh	20%
Rs. 10 lakh to Rs 50 lakh	30%
Above Rs.50 lakh	30%

- The standard deduction of Rs. 50,000 has been introduced under the old tax regime for salaried taxpayers.
- There are surcharge and cess also.

1.2.8 Income Tax Return (ITR):

The ITR is a document that all taxpayers are required to file with the Income Tax Department of India. It consists of details on the income earning during a financial year and the taxes owed to the government. It is mandatory to submit the tax return each year under Section 139 of the Income Tax Act, 1961. Failure to file the return on time can result in a late fee under Section 234F of the Income Tax Act, 1961.

There are two ways to file a tax return in India- offline or online.

1.2.8.1 Electronically filing (e-filing) of Income Tax:

The government allows taxpayers to file their returns online from the comfort of their homes or offices. Electronically filing (e-filing) tax returns offer served advantages. It takes less time. The computation of tax becomes simpler as the process is straightforward and streamlined. Taxpayers also do not necessarily need to hire tax professionals or Chartered Accountants to file their returns but can do so themselves. Moreover, e-filing is a 24×7 service and tax payers can easily track the status of their claims/refunds online.

1.2.8.2 Income Tax Return (ITR) forms:

ITR -1: ITR-1 is applicable for a resident and ordinarily resident individual who has income from salary/family pension/one house property (not being brought forward loss or loss to be carried forward)/income from other sources (not being loss and not being winning from lottery/income from race horses) and who has not claimed any deduction under section 57 (except standard deduction pertaining to family pension)

Note: ITR – 1 is not applicable in the case of a person who-

- has assets located outside India.
- has signing authority in any account located outside India.
- has income from any source outside India.
- has income to be apportioned in accordance with provisions of Section 5A.
- is a director of any company.
- has held any unlisted equity share at any time during the previous year.
- has claimed any relief of tax under Section 90/90A/91.
- has agricultural income, exceeding Rs.5000.
- has total income, exceeding Rs.50 lakh.

ITR-2: ITR-2 is applicable for individual/HUF having total income more than Rs.50 lakh and for an individual/HUF where the total income does not include income under the head business or profession.

ITR-3: ITR-3 is applicable for an individual/HUF having income under the head business or profession.

ITR-4: ITR-4 (**i.e.Sugam**) is applicable for an individual or a resident and ordinarily resident HUF or a resident firm (not being LLP) deriving business income.

ITR-5: ITR-5 is applicable for firms, AOPs and BOIs or any other person (not being individual or HUF or company or to whom ITR-7 is applicable)

ITR-6: ITR-6 is applicable for companies other than companies claiming exemption under section 11.

ITR-7: ITR-7 is applicable for persons including companies required to furnish return under section 139(4A)/(4B)/4(C)/4(D).

ITR-A: ITR A is applicable for successor entities to furnish return of income under section 170A consequent to business reorganization.

ITR-U: ITR-U is applicable for persons who want to update income under section 139(8A) within 24 months from the end of the relevant assessment year.

ITR-V: ITR-V is applicable for where, the data of the return of income in Forms ITR-1, ITR-2, ITR-3, ITR-4, ITR-5 and ITR-U transmitted electronically without digital signature.

1.2.9 Permanent Account Number (PAN):

Permanent Account Number (PAN) is a ten-digit unique alphanumeric number, issued in the form of a laminated card (PAN Card), by the Income Tax Department, to any 'person' who applies for it or to whom the department allots the number without application.

Sample PAN Card:

1.2.9.1 Explanation of PAN number:

- Out of first five character, first three characters represent the alphabetic series running from AAA to ZZZ.
- The fourth character of PAN represents the status of the PAN holder i.e.

  ‘P’ stands for Individual

  ‘C’ stands for Company

  ‘H’ stands for Hindu Undivided Family (HUF)

  ‘A’ stands for Association of Person (AOP)

  ‘B’ stands for Body of Individuals (BOI)

  ‘G’ stands for Government Agency

  ‘J’ stands for Artificial Juridical Person

  ‘L’ stands for Local Authority

  ‘F’ stands for Firm /LLP

  ‘T’ stands for Trust
- Fifth character of PAN represents the first character of the PAN holder’s last name (Surname) in case of individual. In case of non-individual PAN holders fifth character represents the first character of PAN holder’s name.
- Next four characters are sequential numbers running from 0001 to 9999.
- Tenth character is an alphabetic check digit.

1.2.9.2 Use of PAN:

PAN enables the department to identify link all transactions of the PAN holder with the department. These transactions include tax payments, TDS/TCS credits, returns of income, specified transactions, correspondence etc, It facilitates easy retrieval of information of PAN holder and matching of various investments, borrowings and other business activities of PAN holder.

1.2.10 Tax Deduction/Collection Account Number (TAN):

Tax Deduction Account Number or Tax Collection Account Number is a ten-digit alphanumeric number issued by the Income-Tax Department. TAN is to be obtained by all persons who are responsible for deducting tax at source (TDS) or who are required to collect tax at source (TCS).

1.2.11 Tax Deducted at Source (TDS):

The concept of TDS was introduced with an aim to collect tax from every source of income. As per this concept a person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government. The deductee from whose income tax has been deducted at source would be entitled to get credit of the amount so deducted on the basis of Form no. 26AS or TDS certificate issued by the deductor.

1.2.12: Check your progress:

A) Choose the correct alternatives from the following.

1. Income Tax Act, 1961 came into force on ……………..

   a. 1st April, 1962 b. 1st April, 1961.

   c. 1st January, 1962 d. 1st January, 1961.

2. The Income Tax Act, 1961 contains 298 sections and .... chapters.

   a. 50 b. 23 c. 101 d. 370

3. Income tax is a ....

   a. indirect tax b. burden c. direct tax d. penalty

4. .... is applicable for a resident and ordinarily resident individual who has income from salary.

   a. ITR-2 b. ITR-3 c. ITR-4 d. ITR-1

5. PAN stands for ....

   a. Permanent Assessment Number b. Permanent Amendment Number

   c. Permanent Asset Number d. Permanent Account Number

B) Fill in the blanks.

1. After deductions of allowances and perquisites whatever the income is remaining, that income is ……………in the hands of assessee.

2. The concept of …………….was introduced with an aim to collect tax from every source of income.

3. Fifth character of PAN represents the ………………….in case of individual.

4. ……………is applicable for an individual/HUF having income under the head business or profession for filing income tax returns.

5. The …………… is a document that all taxpayers are required to file with the Income Tax Department of India.

1.3 Summary:

Income-tax is a tax levied on the total income of the previous year of every person. A person includes an individual, Hindu Undivided Family (HUF), a Company, a firm, Association of Person (AOP) or Body of Individuals (BOI) whether incorporated or not, a local authority and every artificial juridical person not falling within any of the preceding categories. Income-tax is the most significant tax.

The tax rate in India is increases as taxable income increases, it is called as graduated or progressive tax rates. The tax imposed on companies is known as Corporate Tax and is commonly levied at a flat rate. Individual income is often taxed at progressive rates. Now in India the there are two tax regimes i.e. old tax regime and new tax regime, individual may choose one of them as per their choice.

The Income-Tax Act, 1961 is the set of rules and regulations upon which Income Tax Department levies, administers, collects and recovers taxes. It means levy of Income-tax in India is governed by The Income-Tax Act, 1961. This Act came into force on 1st April, 1962. The Act contains 298 sections, 23 chapters. These undergo change every year with additions and deletions brought about by the annual Finance Act passed by Parliament.

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The Finance Act is a crucial financial document that outlines the tax proposals and budgetary allocations of the Indian Government for that particular fiscal year.

The Act provides a comprehensive roadmap for how the government plans to allocate its financial resources and streamline the country's tax policies.

1.4 Terms to remember:

1. **The Income-Tax Act, 1961:** The Income-Tax Act, 1961 is the set of rules and regulations upon which Income Tax Department levies, administers, collects and recovers taxes.
2. **The Finance Act:** The Finance Act is a crucial financial document that outlines the tax proposals and budgetary allocations of the Indian Government for that particular fiscal year.
3. **Direct Tax:** Direct Tax is a tax where the taxpayer pays directly to the authority imposing the tax. Here, the tax payer has to bear the tax and will not be able to transfer this liability to another entity.
4. **Indirect Tax:** Indirect taxes are charged on Goods and Services. The taxpayers pay the indirect tax to the Government via intermediary and thus they indirectly paid to the Government.
5. **Tax regimes:** At present there are two tax regimes i.e. New tax regime and Old tax regime. A new income tax regime will be the default tax regime. However, taxpayers can choose the old regime.

1.5 Answers to check your progress:

A) 1. a   2. b   3. c   4. d   5. d

B) 1. Taxable   2. TDS   3. first character of surname

4. ITR-3   6. ITR

1.6 Exercise:

1. What do you understand by Income Tax Act, 1961?
2. Explain the Indian Tax system.
3. Explain the characteristics of Income Tax.
4. Distinguish between Direct Tax and Indirect Tax.
5. What do you understand by Income Tax Returns?

❑❑❑

Unit-2
Basic Information about Income Tax

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4.5. Joint Commissioners:

4.6. Income-Tax Officers (ITO)

4.7. Inspectors of Income-Tax (IIT)

2.0 Objectives:

After studying this unit, students should be able

1. To understand the basic definitions under the income tax Act, 1961
2. To explain the residential status of person.
3. To find the relationship between procedure of assessment as per sections and income tax authorities.

2.1 Introduction:

Every person with an income in excess of a prescribed limit has to pay a tax. Such tax charged on excess income is called income tax. Income tax is an important source of revenue to the any government. Progressive rate of income tax also serves as an effective devise of minimizing the inequalities in the distribution of income and wealth. It helps in attaining the socialistic pattern of society which is the core objective of our economic planning. Income tax is a direct tax as the incidence of this tax falls directly on tax payer. Hence, continuous efforts are being made for rationalizing the tax structure with a view to minimize the hardships to tax payers.

Under the Constitution of India Central Government is empowered to levy tax on the income. Accordingly, the Central Government has enacted the Income Tax Act, 1961. The Act provides for the scope and machinery for levy of Income Tax in India. The Act is supported by Income Tax Rules, 1961 and several other subordinate and regulations. Besides, circulars and notifications are issued by the Central Board of Direct Taxes (CBDT) and sometimes by the Ministry of Finance, Government of India dealing with various aspects of the levy of Income tax. Unless otherwise stated, references to the 298 sections of the Income Tax Act, 1961. Income tax is a tax on the total income of a person called the assessee of the previous year relevant to the assessment year at the rates prescribed in the relevant Finance Act.

The finance Act passed every year during the budget session of the parliament prescribes the rates of income-tax applicable on the income during the forthcoming financial year.

2.2 Presentation of Subject Matter

2.2.1 Concepts

1. Important Definitions:

Before going the study of the law of income tax, it is absolutely essential to understand some of the terms and expressions used under the Income-tax Act, 1961. These terms have been defined in section 2 and 3 of the Income-tax Act, 1961.

1.1 Person [Section 2 (31)]

The term ‘person’ includes:

An Individual:

It refers to natural human beings. It even includes minors and insane.

A Hindu Undivided Family (H. U. F.)

It refers to a Joint Hindu Family of persons lineally descended from a common ancestor and their wives and unmarried daughters who are legally entitled to claim partition or a share on partition. A Joint Family of Christians or Muslims cannot be called H.U.F.

Firm: It refers to a partnership concern governed by the partnership Act.

A Company:

It means a company as defined u/s 2 (17) of the Act, it may be an Indian or a foreign company.

An Association of Person (A.O.P.):

It refers to a body of persons, whether incorporated or not, who have joined together to serve common interest e.g. Trade Unions, Indian Medical Association, Trust and Co-operative Societies etc.

A Local Authority:

The local self governing bodies like municipalities, gram panchayats, Municipal corporations, district boards etc. are the entities included under this head.

Every Artificial Juridical Person:

It is a residuary head covering all remaining entities not covered under the above six categories e.g. deity, idol, public corporations established under special Act.

1.2 Assessee [Section 2 (7)]

An assessee is a person:

1. From whom any tax is payable under the act.
2. From whom any other sum of money (such as interest or penalty) is payable under the act.
3. Against whom any proceedings under the act have been initiated for the assessment of his income or loss or of amount of refund due to him.
4. Who is deemed to be an assessee i.e. representative assessee such as guardian of a minor or manager of a lunatic or agent of a non-resident.
5. Who is deemed to be an assessee in default i.e. a person who has failed to discharge any obligation under the act e.g. deduction of tax at source, payment of advance tax etc.

1.3 Assessment [Section 2 (8)]

An assessment is the procedure to determine the taxable income of an assessee and the tax payable by him. S. 2(8) of the Income Tax Act, 1961 gives an inclusive 4 definition of assessment "an assessment includes reassessment "U/s 139 of the Act, every assessee is required to file a self-declaration of his income and tax payable by him called "return of income".

1.4 Assessment Year [Section 2 (9)]

The Assessment Year is the 12 month-period that comes right after the financial year. It is the period from April 1 to March 31, during which revenue produced during the fiscal year is taxed. For example, the Assessment Year for any revenue produced between April 1, 2022, and March 31, 2023, would be 2023-24.

1.5 Previous Year [Section 2 (34) and (3)]:

The term "Previous year" in the context of the Income Tax Act refers to the financial year immediately preceding the assessment year. In India, the assessment year is the year in which income tax is calculated and paid for the previous year.

For example, let's say we are currently in the assessment year 2023-2024. The previous year for this assessment year would be the financial year 2022-2023. During the previous year, an individual or entity earns income and engages in financial transactions that are considered for income tax purposes in the assessment year.

1.6 Income [Section 2 (24)]:

Income –tax is tax on income of a person. But the term 'Income' has not been defined precisely by the Income-tax Act. Section 2 (24) of the Act only says that income includes.

1. Profit and gains
2. Dividend
3. Voluntary contributions received by charitable institutions, religious trusts, research associations etc.
4. The value of any perquisite obtained by a director or a person substantially interested in a company.
5. Income chargeable as business income u/s28.
6. Any allowance granted to emplyees
7. Capital gains u/s 45.
8. Profit and gains of insurance carried on by Mutual Insurance Company or by a co-operative society, computed in accordance with previous if this Act u/s 44.
9. Winning from lotteries, betting, cross-word puzzles, gambling, horse race etc. in includes prizes won in TV/game shown.
10. Employer's contribution to provident fund or super-annuation fund or other such fluids.
11. Any sum received under Keyman Insurance Scheme Including bonus.

12. The contribution made by the Central Government in the previous year to the account of employee under a pension scheme referred to in section 80 CCD.
13. Cash gift received from non-relatives exceeding Rs. 50000/- from 1/10/2010 immovable property, movable property transferred without or with inadequate consideration is taxable in the hands of recipient (donee).

1.7 Agricultural Income [Section 2(1A)]:

In India, agricultural income refers to income earned or revenue derived from sources that include farming land, buildings on or identified with an agricultural land and commercial produce from a horticultural land. Agricultural income is defined under section 2(1A) of the Income Tax Act, 1961. According to this Section, agricultural income generally means: (1) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (2) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce. (3) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A). (4) Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

Examples of Agricultural Income

The following are some of the examples of agricultural income:

- Income derived from sale of replanted trees.
- Income from sale of seeds.
- Rent received for agricultural land.
- Income from growing flowers and creepers.
- Profits received from a partner from a firm engaged in agricultural produce or activities.
- Interest on capital that a partner from a firm, engaged in agricultural operations, receives

Examples of Non-Agricultural Income

The following are some of the examples of non-agricultural income:

- Income from poultry farming.

- Income from bee hiving.
- Any dividend that an organization pays from its agriculture income.
- Income from the sale of spontaneously grown trees.
- Income from dairy farming.
- Income from salt produced after the land has flooded with sea water.
- Purchase of standing crop.
- Royalty income from mines.
- Income from butter and cheese making.
- Receipts from TV serial shooting in farm house.

1.8 Company [Section 2 (17)]

According to section 2 (17) company means:

1. Any Indian Company
2. Anybody corporate incorporated under the laws of a foreign country, or
3. Any institution, association which has been assessed as company for any A. Y. before 1970-71.
4. Any institution, whether incorporated ot not and whether Indian or Non-Indian which is declared by central Board of Direct Taxes (CBDT) as a company.

1.9 Indian Company [Section 2 (26)]

Indian company means a company formed and registered under the Companies Act, 1956. It also includes the following if the registered office of it is in India.

1. A company formed under any other company law formerly in force in India.
2. Any institution declared as a company by Central Board of Direct Taxes (CBDT).
3. A Company established under Government Act.
4. A company formed under the laws in force in the state of Jammu and Kashmir and Union Territories of Dadra, Nagar Haveli, Daman and Diu and Pondechery.

1.10 Business [Section 2 (13)]

"Business includes any trade, Commerce or Manufacture or any adventure or concern in the nature of trade, commerce or manufacture."

In a general sense, business means any activity carried on for profit. In order to verify whether a transaction involves a business, the following tests may be applied:

1. Whether the transaction involves the purchase or sale of a commodity or service.
2. Whether there was any intention of earning profit. Even an isolated transaction can be considered as business or as an adventure in the nature of trade, if the circumstances justify that conclusion e.g. purchase of a plot with an ultimate intention of disposing it off at profit.

1.11 Capital Asset [Section 2 (14)]

'Capital asset' means property of any kind, movable or immovable, held by an assessee, whether or not connected with his business or profession. Hence, even the leasehold rights, partners' share in a firm, a manufacturing right etc. are considered to be capital assets. Capital assets, however, do not include the following:

1. Any stock in trade, consumable stores or raw materials held for business.
2. Personal effects, that is to say movable property (including wearing apparel and furniture but excluding jewellary) held for personal use by the assessee or any member of his family dependent on him. A motor car or T.V. or V.C.R. is regarding as personal effect and hence not treated as capital asset.
3. Agriculture land in India, which is not situated in 'Urban area'.
4. Gold Bonds issued by the Central Government (such as 6.5% Gold Bonds, 1977 or 7% Gold Bonds 1980 or National Defense Gold Bonds, 1980). Special Bearer Bonds 1991 and 3 years I.D.B.I. Capital Bonds issued by the Central Government.

1.12 Short term Capital Asset [Section 2 (42A)]

In order to define a specific capital asset as short term or long term, all such assets have been classified in to two groups as under:

1. Share of a company, any other listed security, units of U.T.I. and units of mutual funds specified u/s 10(23D). These are called financial assets.

2. Other capital assets.

In case of group 1. of capital assets, if they held by an assessee for not more than 12 months immediately preceding the date of their transfer, they are called 'short-term Capital Assets.

In case of group 2. of above capital assets, if they are held by an assessee for not more than 36 months immediately preceding the date of their transfer, they are called 'short-term Capital Assets.

Otherwise they become long term capital assets.

1.2.2 Residential status:

Tax lability of an assessee is determined on the basis of his residential status. Therefore, before computing the total income of an assessee during the previous year, it is necessary to decide his residential status in the previous year.

2.1 Residence [Section 6]:

Assessees are either 1. Residential in India or 2. Non-residential in India, Individuals and HUFs have to be either 1. Resident and ordinary resident, or 2. Resident but not ordinary resident.

Resident in India [Section 6 (1)]

Individual:

An individual is said to be resident in India in any previous year, if he fulfils any of the following two conditions

1. He is in India in the previous year for a period of 182 days or more
2. He is in India for a period of 60 days or more during the previous year and 365 days or more during the 4 years preceding the previous year (it is not necessary that in each of the four years, the Assisi should have stayed in India for some time). Exemption to the above rule of at least 60 days stay in India.

1. When an Indian citizen leaves India in any year for the purpose of employment or as a crew member of Indian ship, he will not be treated as resident in India in that year unless he has been in India in that year for 182 days or more.
2. An Indian citizen, or a foreign national of Indian origin, who is abroad comes on a visit to India in the previous year.

In 2020 the amendments is done in section 6 (1) and section 6 (1A) is included in the finance Act. According to this amendment the period of 60 days has mentioned in 2. Above shall be substituted with 120 days, if the Indian citizen or person of Indian origin (PIO) who's total income in India other than income from foreign sources (i.e. income earned in India only) exceeds rupees 15 lakh during the previous year. The remaining things are unchanged.

However, such individual deemed to be Indian Resident only when he is not liable to tax in any other country.

There is no any change in the rule for the individuals whose income in India is up to rupees 15 lakh during the previous year.

2.2 Resident and Ordinary Resident in India [Section 6 (6)]

If an individual is a resident in India as stated above and satisfies both the following conditions, he is said to be resident and ordinary resident in India.

1. He is resident in India at least 9 out of 10 previous years preceding the relevant previous year, and
2. In India for a period of 729 days or more during 7 years preceding the relevant previous year. (The period of 102 days, 60 days, 365 days etc. Need not be continuous as also he is stay need not be at one and the same place).

2.3 Not Ordinary Resident:

A resident food does not fulfill any of the about took conditions is said to be not ordinary resident.

Non-resident

If an individual does not satisfy any of the conditions under 6 (1) and 6 (6) he is said to be the non-resident.

2.4 Hindu Undivided Family

Resident

If control and management of its affairs is wholly or partly situated in India, it is said to be resident in India.

Resident and Ordinarily Resident.

A HUF is said to be ordinary resident in India if its Karta or manager is resident in India,

i) in at least 9 years out of 10 years preceding the relevant previous year and

ii) is in India for 729 days or more during 7 years preceding the relevant previous year.

Resident but Not-ordinarily Resident:

If any of the above two conditions is not fulfilled, the HUF is said to be resident but not ordinary resident in India.

Non-Resident:

If the control and management of the HUF is situated wholly outside India, the HUF is non-resident.

2.5 Firm and Association of Persons:

Resident

If control and management of its affairs is wholly or partly situated in India, it is said to be resident in India.

Non-Resident:

Control and management is wholly outside India.

2.6 Company:

Resident:

A company is said to be resident in India in any previous year, if

i) It is an Indian company, or

ii) During that year the control and management of its affairs is situated wholly in India.

Non-Resident:

If a company does not satisfy any of the above two conditions, it is non-resident.

(A firm, or association or a company canot be 'not-ordinarily resident')

Important:

An assessee, having different previous years for different sources of income, cannot have different residential status in that relevant previous year. According to section 6 (5) ‘if a person is resident in India in a previous year relevant to an assessment year in respect of any source of income, he shall be deemed to be resident in India in the previous year or years relevant to the same assessment year in respect of each of his other sources of income.

2.7 Tax Liability:

1. Persons who are resident and ordinarily resident are chargeable to tax on all income.
   i) Which is received or is deemed to be received in India,
   ii) Which accrues or arises or is deemed to accrue or arise in India and
   iii) Which accrues or arises outside India i.e. foreign income.
2. In the case of a person who is resident but not ordinarily resident, his tax liability is same as of resident but not ordinarily resident except that the income which accrues or arises outside India is not included in his total income unless it is derived from a business controlled in or profession set up in India.
3. In the case of a non-resident, he is liable to pay tax on income received or deemed to be received in India, or income accrued or arose or deemed to be accrued or arose in India only. It means, he is not liable in respect of income accruing or arising outside India even if it is remitted to India.

Sectiom-3 Returns and Assessment

3. Procedure of Assessment

3.1 Voluntary Return of Income [Section 139 (1)]

Every person, if his total income or the total income of any other person in respect of which he is assessable during the previous year exceeds the maximum non-taxable limit, shall voluntarily furnish a return of income on or before due date in the prescribed from and verified in the prescribed manner.

3.2 Return of Loss u/s 139 (3):

In case a person has sustained a loss under the head 'Profit and Gains from Business or Profession' or Capital Gains or maintenance of race horse, he should file the return of such loss within the due date of filling the return or else he will not be allowed to carry forward and set off such loss.

3.3 Belated Return u/s 139 (4):

If an assessee has not filed his return of income within the due date he may file such 'belated return' at any time within one year from the end of assessment year to which the return relates or before completion of assessment whichever is earlier.

3.4 Return in case of a charitable trust u/s 139 (4A)

If the total income of a charitable or religious trust exceeds the non-taxable limit during the previous year, it should furnish the return of such income on or before the due date, in the prescribed from and verified in the prescribed manner.

3.5 Return on behalf of a political party u/s 139 (4B)

In case the total income of the political party exceeds the non-taxable limit during the previous year, it should furnish the return of such income on or before the due date, in the prescribed form and verified in the prescribed manner.

3.6 Revised Return u/s 139 (5)

If any person, having furnished a return u/s 139 (1) or 142 (1) discovers any omission or any wrong statement therein, he may furnish a revised return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of the assessment. Whichever is earlier and it will be dealt within the same manner as the original return.

3.7 Prescribed Forms of Return u/s 139 (6)

The prescribed form of the return referred to earlier are:

Sr. No.	Type of Assessee	Form of Return
1	Assessee having income from salary, family pension HP and interest income only	ITR-1/ ITRS/ SAHAJ
2	Assessee having income from sources other than income from business, profession	ITR-2

3	Assessee having income as a partner from a firm	ITR-3
4	Assessee having business income	ITR-4
4A	Assessee covered presumptive income	ITR-4S SUGAM
5	Firm, AOP, Co-op. Society etc.	ITR-5
6	Corporate Assessees	ITR-6
7	Assesses claiming exemption u/s 11,12 A etc.	ITR-7
8	Acknowledgment of Return of income	ITR-V

The corporate assesses and assesses subjected to tax audit are compulsorily required to file their returns. They should also pay the taxes and TDS online i.e. e-payment through OLTAS.

Due dates of filing of IT return for AY 2023-24

Sr. No.	**Type of Assessee**	**Due Date**
1	Corporate and Tax Audited Assessees	30^{th} September, 2024
2	All other assessees	31^{st} July, 2024

3.8 Defective Return u/s 139 (9)

If the Assessing officer (A.O.) considers that the return of income furnished by the tax payer is defective, he is given the discretion to intimate the defect to the tax payer and give him an opportunity to rectify the defects within a period of 15 days from the date of intimation. The A. O. may also extend the time for rectification of such defects. In case the defects are not rectified within the period of 15 days or the extended period, such return may be treated as invalid and provisions of the Act will apply as if the tax payer had failed to furnish the return. If the tax payer rectifies the defect after such period but before the assessment is made, the A.O. may condone the delay and treat the return as valid.

The return should be duly filled in: the annexure, statements and columns in the return of income relating to computation of income have been duly filled in. the return now is annexure less. Nothing is to be attached.

3.9 Permanent Account Number (PAN) Section 139 A (1)

Permanent Account Number (PAN) is a number allotted to an assessee by the Assessing officer (A.O.) for the purpose of identification.

Every person i) Whose total income during the previous year exceeds the non-tax limit or ii) carrying on the business or profession whose total sales or gross receipts exceed or is likely to exceeds Rs. 5 lakhs during the previous year, or iii) a trust for charitable or religious purpose whose income exceeds the non-tax limit and who has not been allotted PAN must apply for it in form No. 49 A (in duplicate) within the prescribed time limit. Any other person also may apply for it.

The prescribed time limit in case i) above is 31st May, of relevant assessment year and in case of ii) and III0 above id before the end of relevant assessment year.

The Central Government may specify by notification any class or classes of persons who have to apply for PAN.

Every person from whom income-tax has been deducted at source should intimate his PAN to the person responsible for deducting tax.

Every person shall quote PAN or General Index No (GIR) in all his returns, correspondence with income-tax authority, challans, documents etc.

3.10 Return by whom to be signed Section 140

Sr. No.	In case of	To be signed by
I	Individual -If present -If absent from India -If mentally incapacitated -If it is not possible	 Himself Person duly authorized by him Guardian Person duly authorized
II	H.U.F.	Karta or other adult member of H.U.F.
III	Company	Managing director or other director

IV	Firm	Managing partner or other partner
V	Local Authority Political Party	Principal officer thereof
VI	Political Party	Chief executive officer
VII	Association of Persons	Anny member or principal officer

3.11 Types of Assessments:

Assessments of different kind under the income-Tax Act are:

1. Self-Assessment
2. Assessment on the basis of return
3. Regular Assessment by assessing officer
4. Re-assessment
5. Precautionary assessment.

1. Self-assessment u/s 140A:

Where any tax is payable by the assessee on the basis of any return required to e furnished (Under Sections 139, 142, 148 or 158 BC) he is required to pay the tax and also the interest if any, well before filling the return. The interest may be payable for the late filling of return or for non-payment / short payment of advance tax or for deferment of payment of advance tax. Such return of income is to be accompanied by the proof of payment of both interest and tax.

2. Assessment on the basis of return u/s 143 (1)

Where a return has been filed by the assessee voluntarily u/s 139 or in response to notice u/s 142 (1) an intimation shall be sent to the assessee specifying either the sum (in respect of tax or interest) due from him or the amount of refund due to him. However, where neither any sum is payable by the assessee nor any refund is due to him, the acknowledge of the return itself is to be treated as intimation.

This kind of assessment is called ‘Summary Assessment’

3. Regular Assessment by assessing officer u/s 143 (2) & (3)

i) On the Basis of Evidence:

Where a return has been filed by the assessee voluntarily u/s 139 or in response to notice u/s 412 (1) and if the Assessing Officer considers it necessary to verify the correctness of the return in order to verify that the income has not been understand or loss declared is not overstated or the tax has been underpaid, the A. O. shall serve a notice on the assessee either to attend his office on the specified date or to produce the evidence on which the assessee may rely to support his return of income. However, no such notice can be served after the expiry of 12 months from the end of the month in which the return is filed.

After hearing such evidence which the assessee may produce and such other evidence as the A. O. may require on specified points and after considering all the relevant information gathered, the A. O. will pass an order assessing the total income or loss and determine the tax payable or refundable. Such assessment is called 'Assessment on the basis of evidence'.

ii) Best Judgement Assessment u/s 144:

The best judgement assessment is the assessment of the total income or loss to the assessee made by the Assessing officer to the best of his judgement on the basis of all the relevant materials gathered. It is also called Expert Assessment. In the best judgement assessment the A. O. should really base the assessment in his best judgement i. e. should not act dishonestly or vindictively or capriciously. Such an assessment to the best judgement is a quasi-judicial process; hence opportunity of being heard is given to an assessee by A. O. by serving notice. If an appeal is filed against such assessment, the A. O. shall have to disclose the basis of judgement before the appellate authority. The best Judgement Assessment can be compulsory or discretionary.

a) Compulsory Best Judgement Assessment (Section 144)

The A. O. has to compulsorily make such an assessment in the following circumstances:

1. When an assessee fails to file return.
2. When an assessee fails to comply with the notice for production of accounts, documents or other information.
3. When an assesee fails to get his accounts audited as per the directions of the A. O.

4. When assessee fails the return but fails to comply with the notice issued by A. O. requiring his appearance or production of evidence to support his return.

An assessment made under any of the above circumstances is called ‘Compulsory Best Judgement Assessment’

Consequences of Best Judgement Assessment:

1. The assesse becomes liable to penalties for failure to file a return or comply with notice.
2. The assesse becomes liable for prosecution and fine for failure to file a return, to produce the accounts and documents and to get the accounts audited as per the directions of A. O.
3. The assesse cannot bring on record any facts before the appellate authorities, if he prefers an appeal against quantum of assessment.
4. The refund may not be granted.

The assesse is entitled to appeal to the commissioner (Appeals) against the assessment under best judgement, if in his opinion the excessive tax has been imposed under such assessment.

b) Discretionary Best Judgement Assessment [Section 145 (3)]

The assessing Officer (A.O.) may in his discretion make the best judgement assessment in following two cases:

i) If A. O. is not satisfied about the correctness of the accounts of the assesse or

ii) If no method of accounting has been regularly employed by the assesse.

The assesse is entitled to appeal to the Commissioner (Appeals) against such assessment, if in his opinion the excessive tax has been imposed under the assessment.

4. Re-assessment u/s 147:

If the assessing officer has recent to believe that any income chargeable to tax has escaped assessment for any assessment year, he may assesses search income following shall be deemed to be the cases of income escaping assessment.

1. Where no return of income has been furnished by the RCC

2. Where return of income has been furnished but no assessment has been made and SSC is found to have understand the income or claimed excessive loss in the return.

3. Where an assessment is made but income chargeable to tax has been under assessed or assessed at too low rate or excessive relief or allowance has been allowed.

a) Issue of notice where income has escaped assessment under section 148

The A.O. before making assessment or reassessment under section 147 shall serve notice on the assessee for filling the return of income in the prescribed form and verified in prescribed manner as specified in notice.

b) Time limit for notice under section 149

No notice under section 148 shall we should for the relevant assessment year: i) if 4 years have elected from the end of the relevant assessment year unless the case falls under item ii) below

ii) 4 years but not 6 years have elapsed from the end of the relevant assessment year unless the escaped income amount to or is likely to amount to rupees 1lakh or more for that year.

5. Precautionary assessment

If it is not clear as to who has received the income and Prima facie, it appears that the income may have been received either by X or Y or both together, the I.T.O. may comments preceding both against X and Y to settle the question who is liable to pay tax. Such assessment is called precautionary assessment.

1.2.4 Income Tax Authorities

4. Income Tax Authorities - [Section 133A]:

"Income-tax authority" means a Commissioner, a Joint Commissioner, a Director, a Joint Director, an Assistant Director or a Deputy Director or an Assessing Officer, or a Tax Recovery Officer, and for the purposes of clause (i) of subsection (1), clause (i) of sub-section (3) and sub-section (5), includes an Inspector of Income-tax. Various Authorities: Income Tax Act, 1961 provides for the administrative and judicial authorities for administration of this Act. The Direct Tax Laws Act, 1987 has brought far-reaching changes in the organizational structure. The implementation of the Act lies in the hands of these authorities. The change in designation of certain authorities' and creation of certain new posts in the structure are the main features of amendments made by The Direct Tax Laws Act, 1987.

4.1 Central Board of Direct Taxes (CBDT):

It is the highest executive authority of the department of income tax. It was constituted under the Central board of revenue Act, 1963. It works under the ministry of finance of Central Government. It is authorised to discharge all those functions prescribed under the act and those which are entrusted by the ministry of finance. Heat consist of a chairman and five members.

Powers of Board

1. The board may form time to time issue such order, instructions and directions to other income tax authorities has it may deem fit for the proper administration of the act.
2. The board may issue from time to time general or specific orders in a respect of any class of incomes or class of cases, setting forth directions in respect of principles of procedures to be followed by income tax authorities in the work related to assessment or collection of revenue or imposition of penalties. This is done for efficient management of work of assessment and collection of revenue.
3. The board may authorise any income tax authority to not being a commissioner (appeals), admit and application or claim for any exemption, deduction, refund or any other relief under this act after the expiry of the specified period. It is in done for avoiding genuine hardship to any case or class of cases.

4.2 Director General (DGIT) or chief commissioner (CCIT)

They are appointed by Central Government and our subordinate to the board. They perform the functions assigned by the board. Some of their powers are:

1. To appoint income-tax authorities below the rank of an Assistant Commissioner.
2. To issue order conferring power of AO on a Deputy Commissioner.
3. To transfer cases from one AO to another AO working under him.
4. To exercise powers of a court for making any enquiry or investigation into concealment.

5. To authorise the officers or the department to conduct search and seizure.
6. To make a survey or an enquiry.

4.3 Commissioner of Income-Tax (CIT) or Directors of Income Tax (DIT):

They are appointed by Central Government to head the income-tax administrative of a specified area. Their administrative and judicial powers and functions under the provisions of Act are:

1. Registration of a charitable trust or institution.
2. Appointment of (Class II) income-tax officers and income-tax inspectors.
3. Instructions to subordinate authorities.
4. Assigning jurisdiction and functions to inspecting Assistant Commissioners and income-tax officers.
5. Power of transfer of cases.
6. Powers regarding discovery, production of evidence.
7. Powers of search and seizure.
8. Powers to requisite books of account.
9. Power to make any enquiry.
10. Power to award or withdraw recognition to provident fund.
11. Powers to reduce or waive off penalty in certain cases.

4.4 Commissioners (Appeals)

The commissioners of income-tax (Appeals) is an appellate authority appointed by central government. Some of its important judicial powers under the provisions of Act are:

1. Power regarding discovery of evidence (Section 131).
2. Power to call for information (Section 133)
3. Power to inspect register of companies (Section 134)
4. Disposal of appeal
5. Imposition of penalty

6. Set off of refund against tax remaining payable.

4.5 Joint Commissioners:

They are appointed by Central Government. Their main duty is to detect tax evasion and supervise subordinate officers. Their important powers are:

1. Instructions to income-tax officers.
2. Powers regarding discovery, production of evidence.
3. Search and seizure
4. Power to call information
5. Power to survey.
6. Power to inspect register of companies
7. Power to make enquiry
8. Imposition of penalty
9. Power to exercise powers of I. Tax officers.

4.6 Income-Tax Officers (ITO)

The income-tax officers of class I service are appointed by the Central Government whereas income-tax officers of class II service are appointed by commissioner of income-tax. They are subordinates to the assistant directors of assistant commissioners within whose jurisdiction they perform their functions. Their powers are-

1. Discovery and production of evidence
2. Search and seizure
3. Requisition of books of accounts.
4. Call for information
5. To survey
6. To inspect register of companies
7. Allot permanent account number
8. Make assessment

9. Impose penalties
10. To issue direction for getting the accounts audited
11. To re-assess escaped income
12. Rectification of mistakes
13. Approval for deduction of tax at source at lower rates.
14. Demand advance payment of tax
15. To grant refund

4.7 Inspectors of Income-Tax (IIT)

They are appointed by the commissioners of income-tax. They are subordinates to income-tax officer and other higher authorities under whom they work and perform functions assigned to them by superiors.

Check Your Progress

A) Fill in the blanks with the most suitable word.

1. Indian income-tax Act 1961 provides the mechanism for computation of ------- of a person.
2. The income earned during ----- is assessed to tax during assessment year.
3. In order to be resident in India, the minimum stay in India should be ----- days.
4. An HUF will be considered a resident in India if control and management of its affair is even ----in India.

B) State whether the following statements are True and False.

1. Income from an agricultural land in Sikkim is agricultural income.
2. Income derived from supplying water for irrigation purpose is treated as agricultural income.
3. Any non-citizen person will be considered resident in India, if he stays for a minimum 182 days.
4. The incidence of tax depends upon the citizenship of the assessee.

2.3 Summary:

The income tax is levied on the receding year’s income at the rate specified by the finance Act for the current assessment year. Income tax is imposed on a person based on his or her previous year’s earnings. The responsibility of the tax payer is calculated based on his residence status in prior year. The authority responsible for the implemented of the Income Tax Act, 1961 is the Central Board of Direct Taxes. This board plays a crucial role in the administration of the act and oversees the functioning of various other income tax authorities.

2.4 Terms to Remember

1. **Person:** An association of person shall be deemed to be the person whether or not they are formed with the object of driving income, profits or gain.
2. **Assessee:** An assessee is a person from whom any tax is payable under the act.
3. **Assessment:** It means computation of total income of assesse according to the income-Tax Act. 1961.
4. **Previous Year:** Previous year is the financial year immediately preceding the assessment year?
5. **Resident:** An individual becomes Resident in India, in any previous year.
6. **Non-Resident:** An individual who does not satisfy any of the above basic conditions is said to be non-resident in India.
7. **Permanent Account Number:** Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued in the form of a laminated card, by the Income Tax Department, to any "person" who applies for it or to whom the department allots the number without an application.
8. **Self-assessment:** The self-assessment tax mechanism is most commonly how self-employed tax payers to ensure they pay their due tax prior to completion of the financial year and before filing their tax returns.

2.5 Answers to check your progress

A) 1. Taxable Income 2. Previous Year 3. 60 4. 182

B) 1. True 2. False 3. False 4. Flase

2.6 Exercises

A) Short Answer

1. Who is a person?
2. What is an Assessee?
3. Resident
4. Non-resident
5. Permanent Account Number
6. Self-Assessment

B) Long Answer

1. State the conditions that an individual has to satisfy in order to become resident of India.
2. What are the various authorities involved in the administration of income-tax.
3. Explain the terms 'Voluntary return of Income'.
4. Explain in brief various kinds of assessment.
5. What is income? State the rules to determine income?

2.7 References:

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