

Direct Tax - (INTRODUCTION)

Tax

It is **Government revenue** or primary source of income of government, tax is a form of **contribution** from public to run the country.

Expenses – Education, health care, roads, Rail, bridges, defense, judicial system, various projects.

Types of taxes -

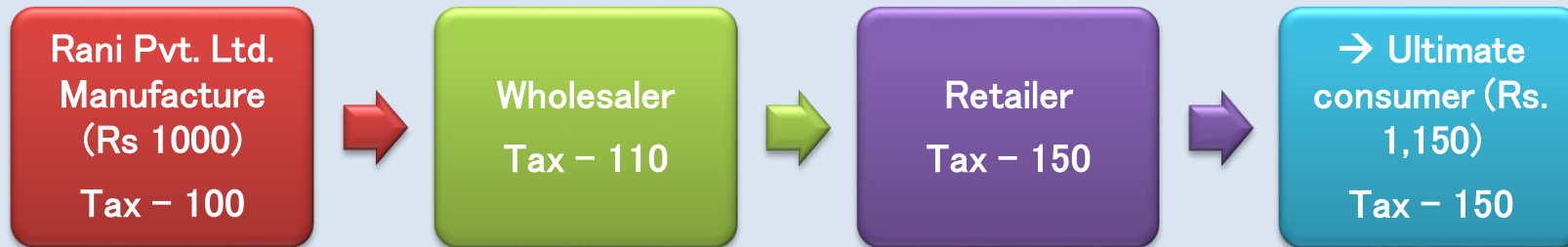
Direct tax – levied on **income or wealth**, directly paid by the person who earn income or possess the wealth, burden of cannot be transferred. E.g. Income tax

E.g. Raju earned salary of Rs 10, 00,000, and paid income tax of Rs 1, 12,500.

Indirect tax – Levied on goods and services, burden is transferred to ultimate consumer. E.g. - GST, Customs duty.

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E. g. -



Income tax act - 1961

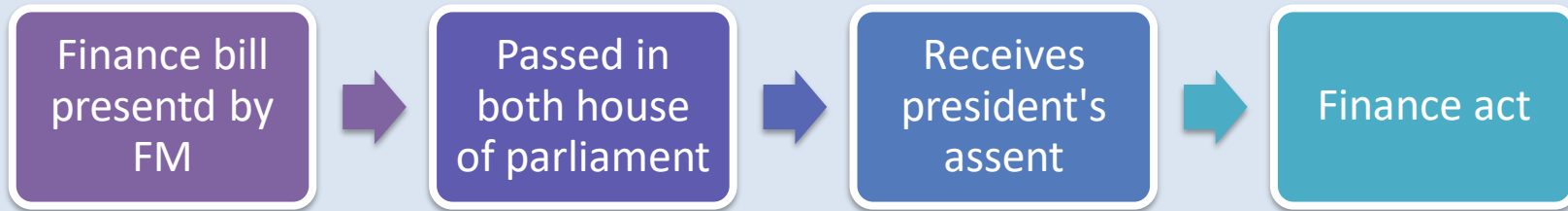
Levy of Income tax in India is governed by income tax act- 1961.



Finance act - Passed at the time of union budget session.

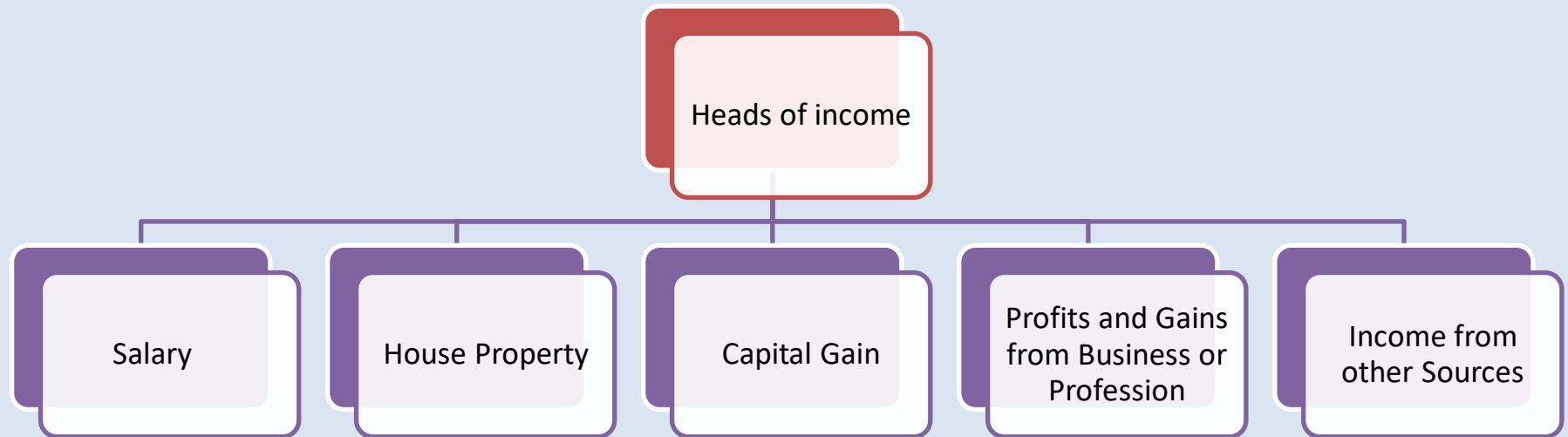
Finance bill is passed to bring amendment in the income tax act - 1961 and other tax (Both direct and indirect tax).

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Heads of income under Income tax act 1961.

Tax is levied on income



Tax is calculated on total income

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Calculation of Total income

Total income = [Aggregate of **five heads** of income (Gross total income) - Deduction (Chapter VI-A)]

Example:-

	<u>Amount (Rs)</u>
Salary	12, 50, 000
House property	5, 00, 000
Capital gain(sale of land)	15, 00, 000
Business(grocery shop)	6, 00, 000
Other source(Bank interest)	1, 50, 000
Gross total income	<hr/>
→	40, 00, 000
Less - Deduction VI A	-2, 50, 000
Total income →	<hr/> <hr/>

Some important Definition

1) Assessment - Process of determination of tax by income tax authority.

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2) Assessee [Section - 2(7)]

Assessee means a person by whom **any tax or any other sum of money** is payable under this act.

In addition it includes -

- Every person in respect of whom any **proceeding** under this act has been taken for the assessment of
 - His income or
 - Income of any other person in respect of which he is assessable or
 - The loss sustained by him or by such other person or
 - The amount due to him or such other person;
- Every person who is **deemed to be an assessee** under any provision of this act ;(e.g. income of a minor child).
- Every person who is deemed to be **assessee in default** under any provision of this act ;(Demand raised but failed to pay tax).

3) Person [Section - 2(31)]

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Person includes the following:-

An individual,

A HUF,

A company,

A firm,

An association of person or body of individual, whether incorporated or not,

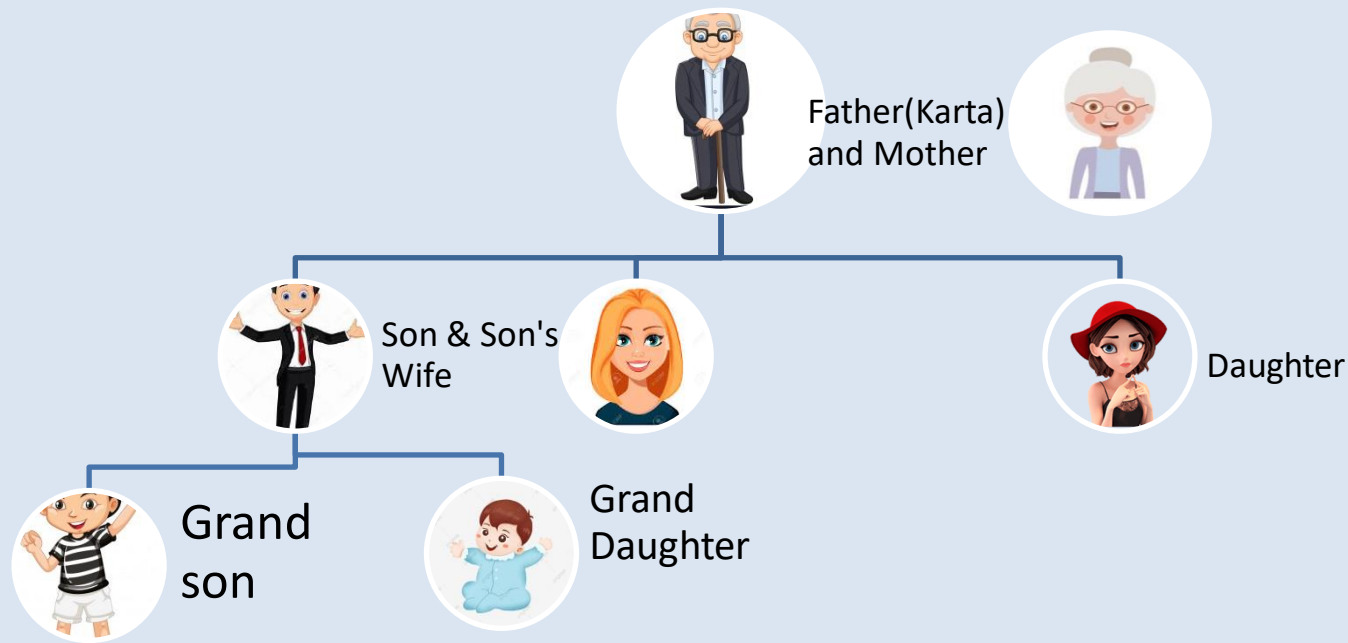
A local authority, and

Every artificial juridical person,

HUF - Separate entity for the purpose of IT act, defined in Hindu law.

Members of HUF = All person lineally descended from common ancestor (known as karta) and includes wives and daughters of the male descendent; the coparcener can claim partition of HUF (lineally descendants only).

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AOP– Two or more person join together for common purpose is called AOP, the object or purpose should be to produce income.

BOI - similar to AOP but only individuals can join BOI where as In Case Of AOP Company, firm, BOI etc. can be member.

Local authority - means municipal committee, district board, and body of port commissioners or other authority legally entitled to or entrusted by the government with the control or management of municipal or local fund.

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Artificial juridical person - Established under specific act or jurisdiction. Eg ICAI under ICAI act 1949.

Covered all person not falling otherwise like idol or deity.

Financial year - Period of 12 months between 1st April and 31st march.

E.g. 1st April 2017 to 31st march 2018 = 12 months.

Previous year - period of 12 months from 1st April to 31st march just before the assessment year.

Assessment year - period of 12 months from 1st April to 31st march just after the previous year. Income earned in previous year is assessed in the assessment year.

E.g.



e.g. Mr. Amit has income from salary from 1st Jan 2019 to 31st December 2020 = 30000 per month, and from 1st April 2020 to 31st march 2021 = 40000

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Previous year = 01/04/2019 to 31/03/2020

Assessment year = 01/04/2020 to 31/03/2021

Income of previous year 2019 - 20 is taxed in assessment year 2020-2021

Income of Mr. Amit(previous year 2019-20)

Salary from 1st April 2019 to 31st December 2020 = (30000*9 months)

270000

Salary from 1st Jan 2020 to 31st march 2020 = (40000*3months)

120000

Salary income →

390000

Will be assessed in the assessment year 2020-2021

India [section 2(25A)]

India means -

- i) The territory of India as per article 1 of the constitution
- ii) Its territorial waters, seabed and subsoil underlying such waters,
- iii) Continental shelf,

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- iv) Exclusive economic zone or
- v) Any other specified maritime zone [as referred to in the territorial waters, Continental shelf, and Exclusive economic zone and other maritime zones act, 1976] and the air space above its territory and territorial waters.

Territorial waters, seabed and subsoil = 12 nautical miles from baseline

Continental shelf = 200 nautical miles from baseline

Exclusive economic zone = 200 nautical miles from baseline

Airspace = Airspace above its territory and territorial waters

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1 NM = 1.852km

