**INCOME TAX THEORY, LAW & PRACTICE**

**QUESTIONS AND ANSWER**

**SEMESTER VI**

**UNIT-I**

1. State the objectives of Taxation?

The basic objective of taxation is to raise resources for the state. In fact, experts like David. A.Wells contend that “Taxation is for revenue only and a so called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing powers”.

1. Define the term ‘Assessee’?

Every person in respect of whom any proceeding under this act has been taken for the assessment of his income or (b) of the income of any other person in respect of which he is assessable or (c) of the loss sustained by him or by such other person, or (d) of the amount of refund due to him or to such other person.

1. Meaning of ‘Capital Receipts’ and ‘Revenue Receipts’?

As noted earlier, capital receipts are assessed to tax under the head ‘Capital Receipt’ and ‘Revenue Receipts’ are charged to tax under other heads. It is important to demarcate the capital receipts from revenue receipts by understanding their nature.

1. What is Residential Status?

Residential Status of an assessee is ascertained as per the provisions under section 6 of the Income Tax Act, 1961. Residential Status is different from ‘Citizenship’. A Citizen of India may be ‘Non-Resident’ and, a foreigner maybe ‘Resident’ for Income Tax purposes. Residence can change from time to time but not the Citizenship.

1. Who is a Resident?

An individual is an India during the relevant previous year for a period amounting in all to 182 days or more.

**UNIT- II**

1. Define – Salaries:

“Any remuneration received by an employee in consideration of service rendered to his employer is called salary. Salary includes monetary value of those benefits and facilities provided by the employer which are taxable”.

1. What are the difference forms of salary?

Difference forms of salary are: (a) Basic Salary (b) Commission (c) Bonus (d) Allowances (e) Perquisites (f) Profit in Lieu of Salary and (g) Pension (h) Advance and Arrears of Salary.

1. What do you mean by Allowance?

Allowances are generally taxable under section 15 on ‘due’ or receipt basis and are to be included in the gross salary unless a specific exemption is provided in respect of any such allowances.

1. What are perquisites?

‘Perquisites’ means any benefit attached to an office or position in addition to salary or wages. Perquisites may be given in cash or kind. If perquisites are given in kind it should be capable of being measured in terms of money.

1. What do you mean by Basic Salary?

Both Basic Salary and wages means a payment or compensation for work done, or service rendered, except that ordinarily salary is paid in respect of non- manual work and wages, for manual work. Basic Salary or wage is exclusive of an allowances, perquisites or profit, whether paid or allowed to an employee.

**UNIT-III**

1. Define Annual Value.

The basis of charge under the head income from house property is annual value of house property which is defined as- “the sum of which the property might reasonably be expected to be let from year to year”.

1. What do you mean by Gross Annual Value?

The annual value of the property is deemed to be the sum for which the property might reasonable to expected to be let out from year to year. It is thus a notional income to be derived from an imaginary tenant on a reasonable basis. The basis selected as a measure of the income to be assessed is ‘Annual Value’.

1. What do you mean by deemed ownership?

An assessee who is liable even without legal or beneficial ownership is called ‘Deemed Owner’. In the under mentioned cases an assessee, thought not the owner of property in the legal sense and not actually in receipt of income from property. Will still be liable as deemed owner.

1. What do you mean by property?

The term property is very wide in its scope though under section 22 it is used for a limited purpose, viz., the property consisting of any buildings or lands appurtenant thereto. All other types of properties are, thus excluded from the scope of section 22.

1. What are the Explains in GAV, NAV?

 GAV – Gross Annual Value

 NAV - Net Annual Value

**UNIT- IV**

1. Define – Business;

The term ‘Business’ has been defined in section 2(13) of the Income Tax Act. According to this definition, business includes “any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce or manufacture”.

1. Definition of Profession;

The term ‘Profession’ has been defined in section 2(36) of Income Tax Act, 1961 to include vocation.

Both these definitions are neither exhaustive nor specific and clear.

1. What do you mean by deduction?
* A sum equal to amounts so deposited in NABARD or
* A sum equal to 40% of profits of such business (computed under the head profits and gains of business or profession before making deduction under this section).
1. What do you mean by General Deduction?

Under sec. 37 deductions of a general nature are allowed subject to the conditions as specific. The language of sec 37 may be stretched to claim deduction for many items of expenditure which are not specifically covered else where under this head.

1. What are the various methods of accounting?

The income tax authorities accept the following three methods of accounting for the purpose of assessment of profits and gains.

* Cash Method
* Mercantile System
* Compulsory audit of accounts.

**UNIT – V**

1. Meaning of Capital Gains?

As per section 45 any profits or gains arising from transfer of a capital asset effected in the previous year shall, save as otherwise provided in specified sections, be chargeable to income – tax under the head ‘ capital gains’ and shall be deemed to be the income of the previous year in which the transfer took place.

1. What are the classified Capital Assets?
* Short - term capital assets
* Long – term capital assets
1. What are the costs of acquisition?

‘Cost of acquisition’ of an asset is the amount paid by the assessee to acquire it. All the capital expenses paid for a acquiring the title to the property is termed as the cost of acquisition.

1. What are the interests on securities?

 Interest on securities shall be chargeable to tax under the head ‘Income from other sources’ if securities are held as investment and it is taxable under the head ‘Business or Profession’ if securities are held as ‘Stock in Trade’.

1. Meaning of Income from other sources?

Income chargeable under Income Tax Act, which does not specifically fall for assessment under any of the heads discussed earlier must be charged to tax as “Income from other sources”.

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