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**INCOME TAX THEORY  
LAW  
AND PRACTICE**

**UNIT - 1**

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**INCORPORATING INCOME TAX ACT,  
1961**

**AS AMENDED UP-TO-DATE**

**ASSESSMENT YEAR 2019-2020**

# INTRODUCTION

## What is tax?

- A tax may be defined as “ a compulsory extraction made by central government from the general public.
- It is a financial charge imposed on individuals or legal entities by the government in pursuant to its legislative authority.



# Basic concepts

- Tax is a collection of money from the public for the public purpose enforceable by law and its is not for payment of any other reconsideration.
- It is one of the major source of revenue of the government.
- It plays on important role in the growth and development of the country's economy infrastructure and other facilities.

# DEFINITION

- An income tax is a tax imposed on individuals or entities [tax payers] that varies with respective income or profits.[taxable income]



# TYPES OF TAX

## DIRECT TAX

- It is levied directly on a personal or corporate income.

## INDIRECT TAX

- It is levied on the price of a goods or services





- **PREVIOUS YEAR**

As the word ‘previous’ means ‘coming before’, hence it can be simply said that the previous year is the financial year preceding the assessment year.

Example:

For assessment year 2019-2020 the previous year should be the financial year ending on 31<sup>st</sup> march 2019.

## ■ ASSESSMENT YEAR

- “Assessment year” means the period of 12 months commencing on the 1<sup>st</sup> day of april every year.
- In India govt. maintains its accounts for a period of 12 months i.e. from 1<sup>st</sup> april to 31<sup>st</sup> march.
- As such it is known as Financial year.

- **PERSON - SECTION 2[31]**
  - Individual
  - Hindu undivided family
  - Firm
  - Company
  - Association of person [AOP] or body of individuals [BOI]
  - Local authority or municipal corporation and
  - Artificial juridical person

- ASSESSEE- SECTION 2[7]

- ❖ Any person who is liable to pay tax,
- ❖ Any person who is liable to pay interest or penalty
- ❖ Any person who is deemed to be an assessee as per the Act
- ❖ Any person who is entitled to refund of tax.

- **INCOME – SECTION 14**

- Income is a periodical monetary return with some sort of regularity.
- It may be recurring in nature.
- The amount comes fixed period of time.

## TOTAL INCOME – SECTION 2[45]

- ‘Total income’ means income remaining after allowing deduction under chapter VIA [i.e., U/s 80C to 80U] from gross total income.
- Total income = gross total income- deduction under chapter VIA

## CASUAL INCOME – SECTION 10[3]

- Casual incomes are those incomes which are winning from card games, horse race, crossword puzzles, lotteries, gambling and betting.

# CAPITAL AND REVENUE RECEIPTS

## CAPITAL RECEIPTS

- Fixed capital
- Substitution of source. E.g. termination
- Surrender profit rights
- Insurance received on capital assets.

## REVENUE RECEIPTS

- Circulating capital
- Substitution of income e.g. reward received
- Compensation of agreement. E.g. loss of future.
- Insurance received on trading assets.



# Residential status of individuals

- **Individuals are of four types**
- **Resident [R]** – who is satisfies any one of the basic conditions.
- **Ordinary resident [OR]** –who satisfies any one of the basic condition and both the additional condition.
- **Not ordinary condition [NOR]** – who does not satisfy basic condition itself.
- **Non- resident [NR]** – who does not satisfy basic condition itself.

## BASIC CONDITION

- A stay of 182 days or more during the current previous year 2018-2019.

OR

- A stay of 60 days or more during the current previous year 2018-2019 and a total stay of 365 days or more in the 4 years immediately preceding current previous year.

## ADDITIONAL CONDITION

- He should be resident in India in at least 2 Out of 10 years immediately preceding current previous year 2018-2019.

OR

- A stay of 730 days or more during the 7 years immediately preceding current previous year 2018-2019.

# EXEMPTED INCOMES - U/s 10

- Section 10 of the income tax act deals with exempted incomes.
- Exempted incomes are those incomes, which do not form part of total incomes.
  - ✓ Agricultural income
  - ✓ Receipt from Hindu undivided family
  - ✓ Partner's share in the firm
  - ✓ Interest on securities
  - ✓ Interest on specific savings certificates

## EXEMPTED INCOME – U/s 10

- ✓ Value of leave travel concession.
- ✓ Tax paid on behalf of non – residents
- ✓ Tax paid on behalf of a foreign company
- ✓ Gratuity
- ✓ Commuted pension
- ✓ Leave encashment
- ✓ Any compensation to an employee.

