CHAPTER- 1

BASIC CONCEPTS

1. INTRODUCTION:

1.1. PILLARS OF DEMOCRACY

- India is a democratic country. Ours is a Government of the people, by the people and for the people. We rule ourselves through our own elected representatives constituting **legislature** (referred to as First estate).
- The legislature frames laws for governance which are implemented by the **Executive** Government (referred to as Second estate). The **Judiciary** (referred to as Third estate) interprets such laws in case of doubts. The **Press** (referred to as Fourth estate) proclaims and echo's the public opinion. These are considered as four pillars of democracy.
- The **Comptroller and Auditor General** (the constitutional authority for government audit) is slowly getting the status as the fifth estate. He is the watch dog for public funds.

1.2. OTHER POINTS:

- Article 265 of the Constitution of India provides that **'no tax shall be levied or collected except by authority of law'**. The Constitution includes three lists in the Seventh Schedule providing authority to the Central Government and the State Governments to levy and collect taxes on subjects stated in the lists.
- The Constitution of India empowers Central Government to levy tax on income. With the aid of this power, Income Tax Act was enacted by the Central Govt. The main Act was enacted in the year 1961. It came into force from 1 April 1962. The Indian taxation structure is a mix of number of provisions either governed by income tax law and at some stages by number of mercantile and corporate laws.
- The Act is amended by the finance Act from year to year based on the Budget presented by Finance Minister in the parliament.

1.3. WHAT IS TAX?

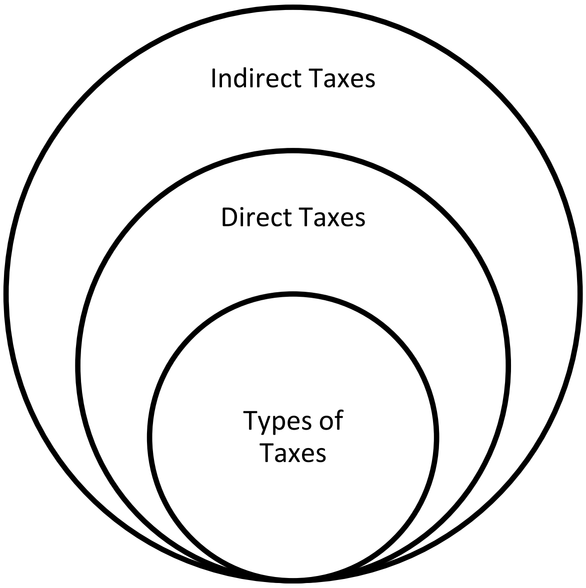
- Tax is a compulsory fee charged by the Government on a product, service, income, wealth or activity. Example: Goods and Services Tax, wealth tax, Customs duty etc.
- These taxes are the basic sources of revenue to the Government.
- The revenue so raised is utilized for meeting the expenses of Government in relation to defence**,** provision of education, health care, infrastructure facilities like roads, dams etc.

1.4. CONSTITUTIONAL AUTHORITY:

- The constitution in its Schedule VII, has enumerated matters on which the Central Govt, can make laws, such matters are divided into three categories.

List I (Union list)	List II (State List)	List III (Concurrent List)
• Parliament has the exclusive power to make law in respect of any entry of List	• Any state has exclusive power to make law for such state or any part thereof with respect to any entry of List - II	• The Parliament or the legislature of a state has power to make laws with respect to any entry of List - III

1.5. TYPES OF TAXES:



DIRECT TAXES: It is a tax where the **IMPACT AND INCIDENCE** lies on the **same** person. Direct taxes are those, which the taxpayer pays directly from his income / wealth etc **[E.g. Income Tax / Wealth Tax, etc.] i.e.,** they will be paid by the persons on whom they are charged / imposed and hence there is no shifting of the tax burden.

INDIRECT TAXES: It is a tax where the **IMPACT AND INCIDENCE** lies on different persons. It is a tax on goods and services, the incidence of which is borne by the consumers who ultimately consume the goods and services, i.e., in the case of indirect taxes, there will be shifting of burden of tax from the person on whom they are levied to the person who has actually consumed the same. [E.g. Goods and Services (GST), Customs Duty,]

Matters with respect to which CG can frame laws

Entry No.	Subject	Act	Tax	Levying authority	Is it shared with state?
82	Taxes on income other than agricultural income	The Income tax Act	Income	CG	Shared with states (Article 270)
83	Duties of customs including export duties	The Customs Act	Customs Duty	CG	Fully bagged by CG

1.6. Points to be noted:

- Union Government cannot levy excise duty on Alcoholic Liquors for human consumption, opium, Indian hemp, and narcotic drugs. Only state government can levy tax on these.
- Surcharges are not shared with States (Article 270)
- Health & Education cess is retained by the Union Government.

State List

Entry No.	Subject
46	Taxes on agricultural income
51	Excise duty on alcoholic liquors for human consumption, opium, Indian hemp and narcotic drugs.

Note: GST is levied by Centre and State together (Dual GST Model)

2. **STRUCTURE OF INDIAN INCOME TAX:**

The Central Government has been empowered by Entry 82 of the Union List of Schedule VII of the Constitution of India to levy tax on all income other than agricultural income.

The structure or sources of Income Tax Law are as under:

2.1. THE INCOME TAX ACT 1961:

- Income tax in India is governed by the Income Tax Act, 1961
- It came into force w.e.f. 1.4.1962
- Income Tax Act applies to whole of India (including Jammu & Kashmir)
- India means territory of India as referred to in Article 1 of the Constitution, its territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 and the air space above its territory and territorial waters {Section 2(25A)}
- The Finance Act shall bring amendment to this Act.

- The Law provides for determination of taxable income, tax liability and procedure for assessment, appeal, penalties and prosecutions.

2.2. ANNUAL FINANCE ACT:

- Finance Minister presents this as Finance Bill in both the Houses of Parliament on first working day of February of every year.
- Part A of the Budget contains proposed policies of the Government in fiscal areas.
- Part B contains the detailed tax proposals.
- Once the Finance Bill is approved by the Parliament and gets the assent of the President, it becomes the Finance Act.
- The Finance Act brings amendments to both the Direct Tax Laws and Indirect Laws.
- First Schedule to the Finance Act contains four parts which specify the rates of tax –

Part	**What is specifies?**
I	The rates of tax applicable for the current Assessment Year
II	The rates at which tax is deductible at source for the current Financial Year
III	The rates for calculating income-tax for deducting tax from income chargeable under the head "Salaries" and computation of advance tax for F.Y. 2022-23.
IV	The rules for computing net agricultural income.

2.3. THE INCOME TAX RULES 1962:

- The administration of Direct Taxes is vested with Central Board of Direct Taxes (CBDT).
- Under Section 295 of IT Act, CBDT is empowered to frame rules from time to time to carry out the Purpose and proper administration of the Act.
- All forms, procedures and principles of valuation of perquisites prescribed under the Act are provided in the Rules framed by CBDT.

2.4. CIRCULARS & NOTIFICATION:

- In exercise of the powers u/s 119, CBDT issues circulars and notifications from time to time.
- These circulars clarify doubts regarding the scope and meaning of the various provisions of the Act.
- These circulars act as guidance for officers and assesses.
- These circulars are binding on Assessing Officers but not on assesses and Courts.
- The circulars issued by the CBDT shall not be in contrary to the provisions of the Act.

<u>The rules and regulations enacted by CBDT i.e. Income Tax Rules, the Notifications and circulars issued by CBDT is called Subordinate Legislation.</u>

2.5. JUDICIAL PRONOUNCEMENTS OF HIGH COURT / SUPREME COURT:

- It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assessees and the department and give decisions on various issues such decisions are known as Judicial Pronouncements.
- The Supreme Court and the High Court can give judgment only on the question of law.
- The Law laid down by the Supreme Court is the law of the land.
- The decision of High Court will apply in the respective States, within its jurisdiction.

KEY POINTS:

- Income tax act is applicable to whole of India. (including the state of J & K)
- IT act came into force on 1st April, 1962.
- We say Income tax act 1961 & Income tax rules 1962.
- Tax rates for Income are given in Finance act as well as IT act 1961.
    - In IT act, rates are given for causal income (Winning for lotteries, Betting, Card game etc.), rates u/s 111A (STCG), 112 (LTCG) etc.
    - In finance act, Individual tax rates, firms, BOI etc. are given.
- For charging tax on income, Residential status of an "Person" is taken into consideration & not Citizenship
- A finance bill, if gets assent of President of India & approved by Parliament, then it becomes Finance act. Hence it is not mandatory that whatever there in finance bill should be there in Finance act.
- In the parliament, relevant Finance act gets approved. All the changes relating to rules, notification etc., are delegated by parliament to CBDT. This is called "Subordinate Legislation".

Term defined under the Act	→	Refer Act	→	Else, refer General Clauses Act/dictionaries

- CBDT (Central Board for Direct taxes)
    - Can issue notifications & circulars,
    - Also prepare IT rules from time to time for carrying out the purpose of IT act.
- CBDT circulars are clarificatory in nature i.e., Intention of letter of law is clarified by circulars.
- Whenever there is ambiguity in law, intention of legislation is cleared by CBDT circulars. These Circulars can never override the provisions of IT act.

3. DEFINITIONS AND BASIC CONCEPTS OF INCOME TAX:

3.1. ASSESSMENT YEAR:

As per Sec 2 (9) of Income tax Act, 1961, Assessment Year means the period of 12 months commencing on the 1st April of every year. In short: The year in which tax is paid for the income earned in previous year.

E.g.: - A.Y. 2023-24 commences on 1st April 2023 and ends on 31st March 2024.

3.2. PREVIOUS YEAR [Section 2(34) and Section 3]:

As per Sec 3 of Income tax Act, 1961, Previous Year means financial year immediately preceding the assessment year. It need not be always 12 months.

However for newly set up business, previous year shall be the period commencing from the date of setting up of business and ending on 31st march of the said financial year.

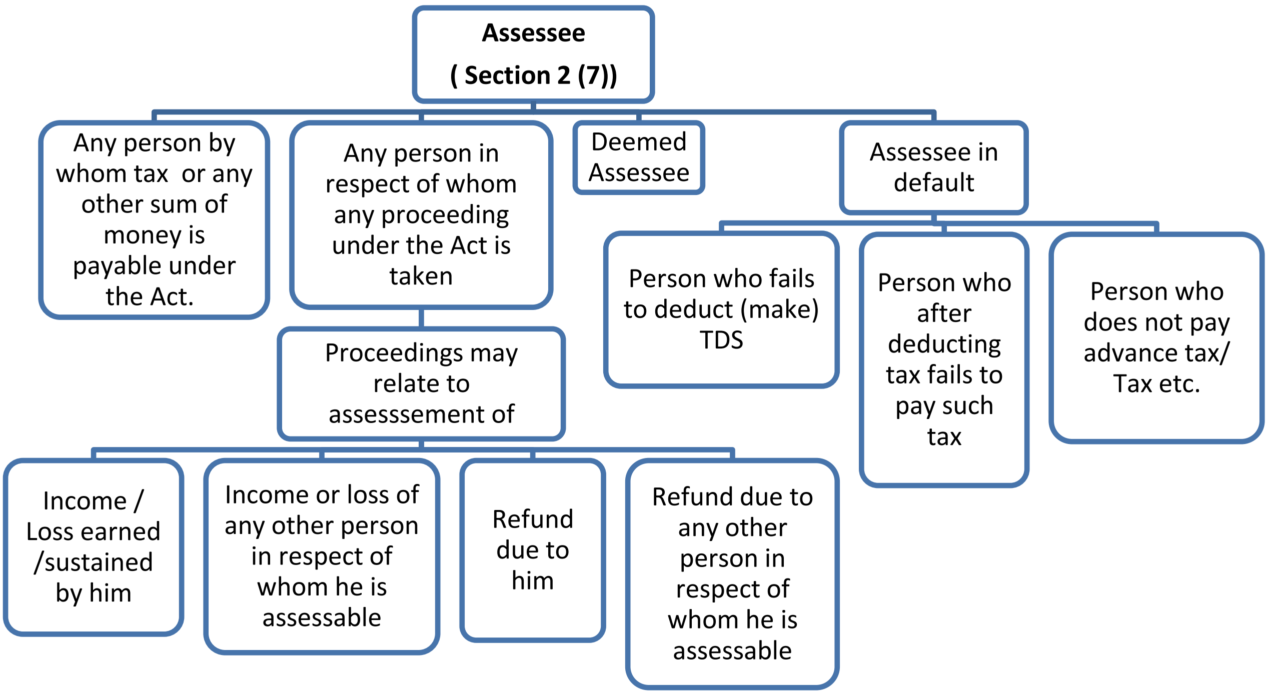
Eg:- If business commenced on 15th July, 2022, the previous year for this business starts from 15^{th} July, 2022 and ends on 31^{st} march, 2023.

In simple words, the year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year.

3.3. ASSESSMENT:

This is the procedure by which the income of an assessee is determined. It may be by way of a normal assessment or by way of reassessment of an income previously assessed.

3.4. ASSESSEE:



3.5. PERSON

As per **Sec 2(31)** of Income tax Act, 1961, Person **includes**

- Individual (Natural person, i.e., Human being , including minor or unsound person),
- Hindu Undivided Family (HUF)
- Company
- Partnership Firm (including a "Limited Liability Partnership" firm)
- An Association of persons (AOP) or Body of Individuals (BOI) (e.g., Trusts, Co-operative societies, Social clubs etc.)

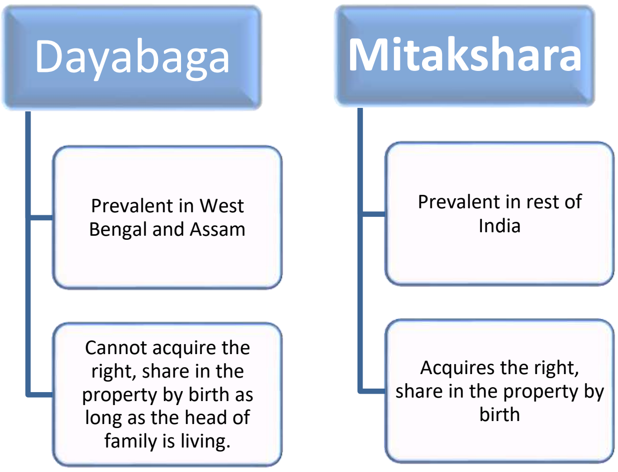
- ➢ Local Authority (e.g., Municipalities)
- ➢ Every artificial Juridical Person not following with in any of above categories, (e.g., Universities, Bar councils, ICAI, ICSI etc.)

Note:

1. HUF

- "Hindu undivided family" is defined under the Hindu Law as a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.
- A Hindu Coparcenary includes those persons (Sons and daughters) who acquire an interest in joint family property by birth (Wife or daughter-in-law of a coparcener are not eligible for such coparcenary rights).
- The relation of a HUF does not arise from a contract but arises from status.
- Under the Income-tax Act, 1961, Jain undivided families and Sikh undivided families would also be assessed as a HUF.
- **Schools of Hindu Law:**

2. Meaning of partition of HUF:



- Where the property admits of a physical division, then if a physical division is made, it shall be regarded as partition.
- A physical division of income without a physical division of property producing income shall not be deemed to be a partition.

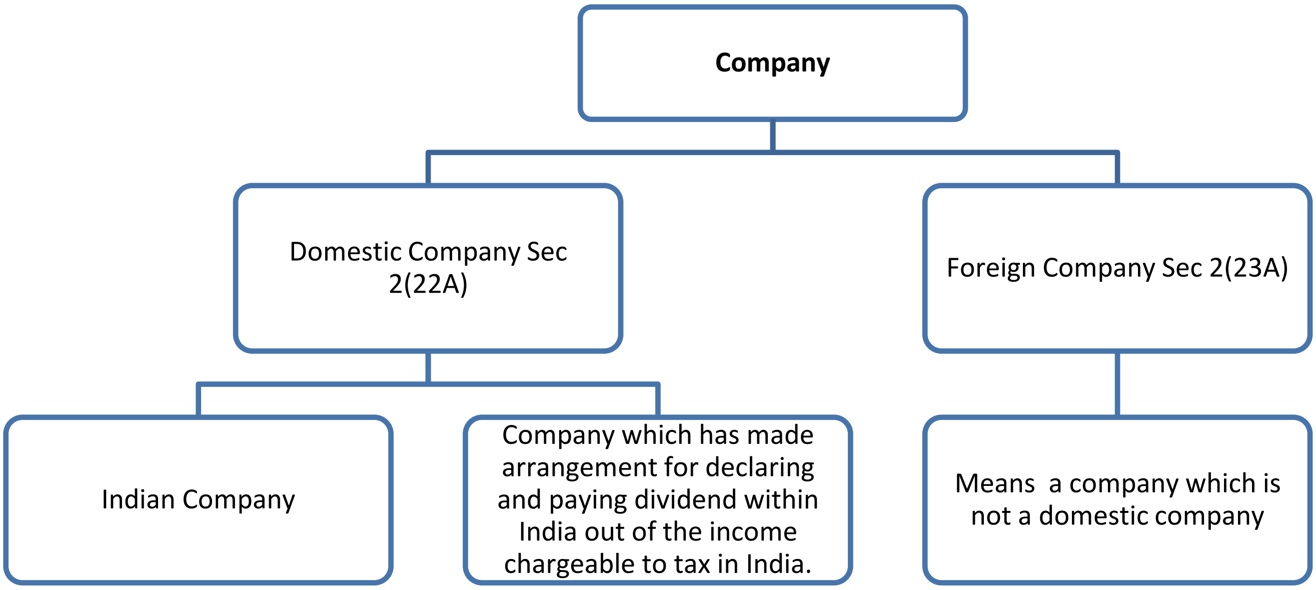
3. Company [Sec 2(17)]

Company means

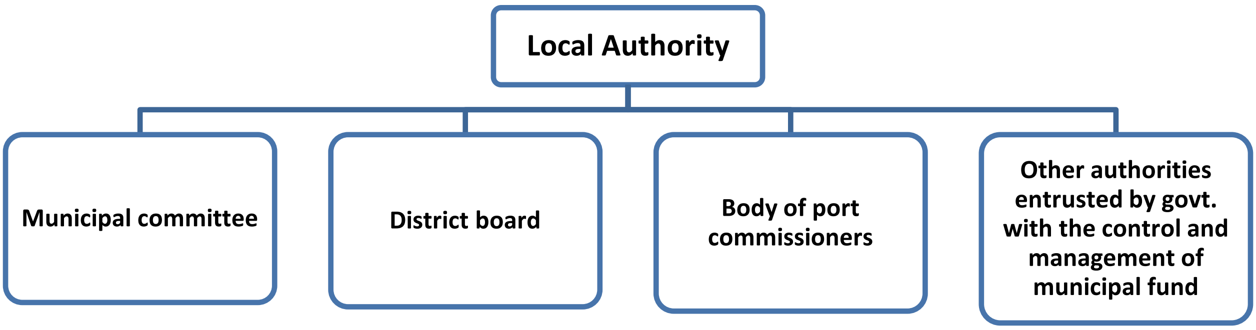
1) Any Indian Company (Registered under companies Act + registered/principal office in India)
2) Any body corporate under the laws of a country outside India, i.e., a foreign company.
3) Any institution, association or Body which was company on or before 01.04.1970.

4) Any institution, association or body declared by CBDT to be a company.

Classification of Companies



4. **Firm (Including LLP)** – Same meaning as in Indian Partnership Act, 1932 (+)Limited Liability Partnership Act, 2008.
5. **An association of persons** means two or more persons voluntarily join together in a **common purpose** or **common action** with an object **to earn income**. Every combination of persons will not constitute an AOP, there must be common desire, common will and meeting minds on common objective to constitute an AOP. Any person can be a member in AOP i.e., company, firm etc. The Supreme Court in the case of ITO Vs Ch. Atchaiah has held that the income of AOP has to be taxed in the hands of AOP only and the members of AOP cannot be taxed individually.
6. **Body of Individual** means a conglomeration of Individuals who carry on some activity with an object of earning some income. In case of BOI, only the individuals can be members and it is formed by operation of Law.
7. **Local Authority**



Points to be noted:

1) A local authority is taxable in respect of that part of its income which arises from any business carried on by it.
2) But the income arising from supply of a commodity or service within its own jurisdictional area is not taxable.
3) However, the income arising from supply of water and electricity even outside its jurisdictional area is exempt from tax.

8. Artificial Juridical Person

- This is a residue category.
- Deities are to be regarded as artificial juridical person.
- Bar council and Universities are also regarded as artificial juridical person.

4. SECTION 4: CHARGEABILITY SECTION:

The income earned by a person who is "Assessee"- which is earned in the previous year (P.Y) is chargeable to Income tax in the immediately following " Assessment year" (A.Y) as per sec.4 of the IT act 1961 - @ the rate specified in the Annual Finance Act for that year.

Hence Section 4 talks about following concepts:

- Income - Sec 2 (24)
- Person - Sec 2 (31)
- Assessee - Sec 2(7)
- Previous Year - Sec 3
- Assessment Year - Sec 2 (9)

4.1. SEC 2(24) - INCOME: -

Broad principles clarifying the concept of income

1) Regular and definite source
2) Different forms of income
3) Receipt Vs accrual
4) Illegal income
5) Income should be real and not fictional
6) Disputed title

7) Relief or reimbursement of expenses- not treated as income
8) Diversion of income by over-riding title v application of income
9) Surplus from mutual activity
10) Lump sum receipt
11) Personal gifts
12) Tax free income
13) Same income cannot be taxed twice
14) Dharmada- not taxable
15) Surplus from devaluation of currency

16) Income includes loss- CIT V. Karamchand Premchand Ltd.

17) Pin money

However, income includes any assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement, by whatever name called, received from the Central Government or a State Government or any authority or body or agency in cash or kind to the assesse.

However, subsidy or grant or reimbursement which has been taken into account for determination of the actual cost of the depreciable asset in accordance with Explanation 10 to section 43(1) shall not be included in the definition of income.

In general, the word income covers receipts in the form of money or money worth which arise with certain regularity or expected regularity from a definite source. The source need not necessarily be tangible as the return for human effort is also income. Further, the causal incomes arise without any regularity will also be taxed.

Eg:- Winning from lotteries, cross word puzzles, races etc...

4.2. OTHER POINTS:

- **Application of Income:** The concept of application of income arises only after the receipt of income in the hands of the assessee. An assessee may on his own option or otherwise forego his income. This would amount to an application of income, and this would result in taxation of such income in the hands of the assessee.
- **Diversion of Income:** Whereby an obligation income is diverted before it reaches the assessee, it is "diversion of income" & not taxable in the hand of the assessee.

- **Difference between Diversion of Income and Application of Income:**

	Diversion of Income	**Application of Income**
(a)	By virtue of an obligation the income is diverted at source before it reaches the assessee.	The discharge of obligation takes place after the income reaches the assessee.
(b)	Obligation is on the source of income.	Obligation is on the receipt of income.
(c)	Diversion of income takes place by overriding title.	There is no over riding title in this case.
(d)	The income is not included in the income of the assessee.	Such income is included in the income of the assessee.
(e)	Income cannot be said to have accrued or arisen.	Income is said to have accrued or arisen and therefore is taxable in the hands of assessee.

REVENUE RECEIPTS AND CAPITAL RECEIPTS

Capital Receipts	Revenue Receipts
Capital receipt is generally referable to fixed capital. E.g., Sale of assets, which the assessee uses as a fixed capital to enable him to carry on his business, is capital receipt.	Revenue receipt is referred to circulating capital or stock in trade. E.g., Sale of stock-in-trade or any trading asset results in revenue receipts.
Payment received towards compensation for extinguishing wholly or partly of a profit earning source is a capital receipt.	Payment made to compensate a person towards loss of profits or earnings is a revenue receipt.
A receipt in lieu of source of income is a capital receipt. E.g., Compensation for loss of employment is a capital receipt.	A receipt in lieu of income is revenue receipt.
Capital receipts are exempt from tax unless they are expressly taxable like in case of capital gains.	Revenue receipts are taxable unless expressly exempt from tax like in case of income exempt u/s 10 to 13 A.
Compensation received for relinquishing interest, whether wholly or partly, in a capital asset of the business is a capital receipt.	Compensation received for relinquishing interest in stock-in-trade of the business is a revenue receipt.

5. SECTION 4: - CHARGE OF INCOME TAX (BASIC RULE):

Income of the previous year of every person shall be charged in the relevant assessment year.

However, in some cases, the income of a previous year is chargeable to tax in the SAME year. These exceptions have been provided to safeguard the collection of taxes. The exceptions are as follows: -

5.1. EXECPTIONS TO BASIC RULE:

1. Shipping business of the NON- RESIDENT (Sec 172):-

- The assessee should be a "NON- RESIDENT "
- He should be EITHER the owner of the ship (or) he has chartered the ship.
- The ship is carrying passengers, goods, livestock, mail etc. shipped at ANY PORT in India.
- Then non-resident has to pay income tax before the ship is allowed to leave the Indian port.
- Such income of the Assessee shall be deemed to be equal to 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage.

2. **Persons leaving India (Sec 174):-**

   - If it appears to the Assessing officer that any individual may leave India during the current assessment year or shortly after its expiry,
   - He has no present intention of returning to India,

   The total income of such individual, from the expiry of previous year for that assessment year (i.e from 1st April of the A.Y) up to the probable date of his departure from India shall be chargeable to tax in the same assessment year itself.

3. **Assessment of AOP or BOI or Artificial juridical person formed for a particular event or purpose (Sec 174 A): -**
   - In the case of dissolution of AOP or BOI, the income earned for the period beginning with the previous year in which it is dissolved till the actual date of dissolution is chargeable to tax in the same previous year.

4. **Persons likely to transfer property to avoid tax (Sec 175): -**
   - It appears to the Assessing officer that during the current assessment year any person is likely to charge, sell, transfer, dispose off or otherwise part with any of his assets with a view to avoiding any payment of his tax liability,
   - Then the total income of such person for the period from the first day of that financial year to the date when proceeding is started u/s 175 is taxable in that financial year.

5. **Discontinued Business (Sec 176): -**
   - If any business or profession is discontinued in any assessment year,
   - Income of the business / profession from 1st April of the financial year to the date of discontinuation may be taxable in the same financial year,
   - In the first 4 exception dealt above, tax shall be charged in the previous year itself (i.e., it is mandatory on the A.O). However, in the case of discontinued business or profession, it is at the discretion of the assessing officer.

6. **Undisclosed Sources of Income: -**
   i. **Cash Credits [Section 68]**
      - any sum is found credited in the books of the assesse
   ii. **Unexplained Investments [Section 69]**
      - Investments made and not recorded in PY
   iii. **Unexplained Money etc [Section 69A]**

- found to be the owner of any money, bullion, jewellery or other valuable article
- the same is not recorded in the books of account

iv. Amount of investments etc., not fully disclosed in the books of account [Section 69B]

- Made investments/ found to be the owner of any money, bullion, jewellery or other valuable article &
- The amount is recorded at a lower value than the actual value

v. Unexplained Expenditure [Section 69C]

- Incurred expenditure

vi. Amount borrowed or repaid on hundi [Section 69D]

- Is repaid otherwise through an account payee cheque

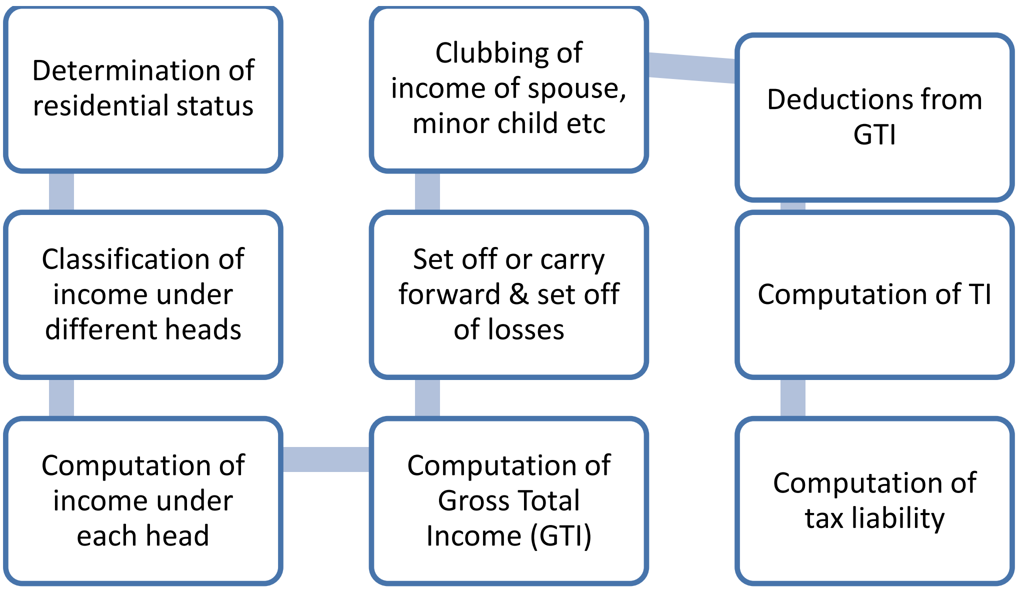
In all the above case, if no explanation/no satisfactory explanation is provided by the assessee about the nature and source of such credits/income/investments etc., such amount shall be deemed to be income of the PY.

If total income includes any income referred under above sections:

1. Tax payable shall be 78% [Tax@60%+ Surcharge@25% + cess@4%]
2. No basic exemption and no deduction shall be allowed in respect of any expenditure/ allowance under any provision of the Act.
3. No set-off of loss against such income

6. <u>SECTION 14: GROSS TOTAL INCOME:</u>

Steps for computation of Total and Tax Liability:



For the purpose of charge of Income-tax and computation of total income, all incomes shall be classified under the following heads of income:

Head	Chapter	Section	Charging section
Salaries	IV-A	15-17	15
Income from the house property	IV-C	22-27	22
Profits and gains of business or profession	IV-D	28-44DB	28
Capital gains	IV-E	45-55A	45&46(2)
Income from other sources	IV-F	56-59	56

If a particular non-exempted income is not covered by the first four heads, it automatically falls under the head 'Income from other Sources'.

Gross Total Income is the aggregate of the income computed under the above heads after giving effect to the provisions for clubbing of income and set off and carry forward of losses.

6.1. EXEMPTIONS:

There are certain incomes which are either totally exempt from tax or exempt upto a certain amount. Hence those incomes, which are exempt u/s 10, will not form part of total income of assesse. In case of partial exemptions, the balance income over and above the exemption limits will be included in total income.

6.2. DEDUCTIONS:

There are certain deductions prescribed in the Chapter VI-A of the Income-tax Act i.e., deduction under sections 80C to 80 U. These deductions are of following three types:

- Deduction in respect of certain payments :

  E.g. L.I.C. Premium paid, Medical Insurance Premium paid, etc.

- Deductions in respect of Incomes :

  E.g. Certain incomes of Co-Operative Societies, royalty on patents

- Other deductions: Deduction available in case of a person with disability u/s 80U.

  These deductions etc. have to be considered before arriving at the net income chargeable under each head.

6.3. TOTAL INCOME:

The total income of an assessee is computed by deducting all permissible deductions under Chapter VI-A (Sec 80C to 80U) of the Income-tax Act from the gross total income. It is also called the Taxable Income. It should be rounded off to the nearest multiple of ₹ 10 as per section 288A.

As per the Act, total income means the total amount of income referred to in section 5 computed in the manner laid down in this Act – Section 2(45).

7. <u>RATES OF INCOME TAX:</u>

7.1. Individual (Man or Woman), resident in India and **below the age of 60 years** at any time during the previous year and HUF / AOP/BOI & every artificial judicial person:

Income	Rate of Tax
Upto ₹ 2,50,000	Nil

₹ 2,50,001 To ₹ 5,00,000	10%
₹ 5,00,001 To ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

7.2. An individual (man or woman), resident of India who is of the age of **60 years or more but less than 80 years** at any time during the previous year. [Senior Citizen]

Income	**Rate of Tax**
Upto ₹ 3,00,000	Nil
₹ 3,00,001 To ₹ 5,00,000	10%
₹ 5,00,001 To ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

7.3. A Resident individual (man or woman), **who is of the age 80 years** or more at any time during the previous year [Super senior citizen]

Income	**Rate of Tax**
Upto ₹ 5,00,000	Nil
₹ 5,00,001 To ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

INDIVIDUAL & HUF (NEW SCHEME):

As per section 115BAC, individuals and HUFs have an option to pay tax in respect of their total income at concessional rates: (Detail discussion in Subsequent chapters)

7.4. Individual (Man or Woman), resident in India and **below the age of 60 years** at any time during the previous year and HUF:

Income	**Rate of Tax**
Upto ₹ 2,50,000	Nil
₹ 2,50,001 To ₹ 5,00,000	5%
₹ 5,00,001 To ₹ 7,50,000	10%
₹ 7,50,001 To ₹ 10,00,000	15%
₹ 10,00,001 To ₹ 12,50,000	20%
₹ 12,50,001 To ₹ 15,00,000	25%
Above ₹ 15,00,000	30%

7.5. An individual (man or woman), resident of India who is of the **age of 60 years or more but less than 80 years** at any time during the previous year**. [Senior Citizen]**

Income	**Rate of Tax**
Upto ₹ 3,00,000	Nil
₹ 3,00,001 To ₹ 5,00,000	5%
₹ 5,00,001 To ₹ 7,50,000	10%
₹ 7,50,001 To ₹ 10,00,000	15%
₹ 10,00,001 To ₹ 12,50,000	20%
₹ 12,50,001 To ₹ 15,00,000	25%
Above ₹ 15,00,000	30%

7.6. A Resident individual (man or woman), **who is of the age 80 years** or more at any time during the previous year [Super senior citizen]

Income	Rate of Tax
Upto ₹ 5,00,000	Nil
₹ 5,00,001 To ₹ 7,50,000	10%
₹ 7,50,001 To ₹ 10,00,000	15%
₹ 10,00,001 To ₹ 12,50,000	20%
₹ 12,50,001 To ₹ 15,00,000	25%
Above ₹ 15,00,000	30%

NOTE:

- A person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday.
  Therefore, a resident individual whose 60th birthday falls on 1st April 2023, would be treated as having attained the age of 60 years in the P.Y.2022-23 and would be eligible for higher basic exemption limit of 3 lakh in computing his tax liability for A.Y.2023-24.
  Likewise, a resident individual whose 80th birthday falls on 1st April 2023, would be treated as having attained the age of 80 years in the P.Y.2022-23, and would be eligible for higher basic exemption limit of 5 lakh in computing his tax liability for A.Y.2023-24.

- Rebate of up to ₹ 12,500 for resident individuals having total income of up to ₹ 5 lakh [Section 87A]
    - Section 87A has been inserted to provide a rebate from the tax payable by an assessee, being an individual **resident** in India, whose total income does not exceed ₹ 5,00,000.
    - The rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of 12,500, whichever is less.

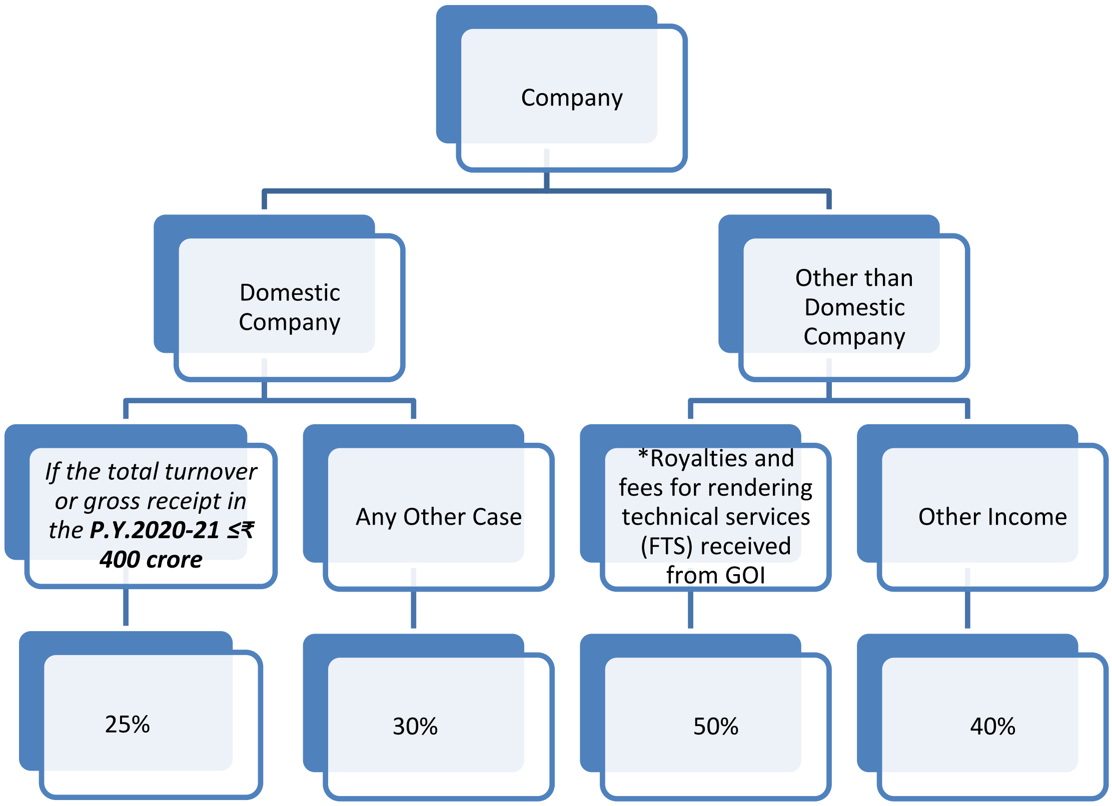
7.7. Firm / LLP / Local authority: On the whole of the total income - 30%

7.8. Co-Operative Society:

Income	Rate of Tax
Upto ₹ 10,000	10%
₹ 10,001 To ₹20,000	20%
Above ₹ 20,000	30%

Note - Co-operative society, resident in India, can opt for concessional rate of tax @25.168% (i.e., tax@22% plus surcharge@10% plus health and education cess @4%) under section 115BAD if certain conditions are satisfied (Dealt in CA Final)

7.9. Company:



Note:

- Domestic manufacturing company (set up and registered on or after 1.10.2019 and commences manufacture of article or thing before 31.3.2024) exercising option u/s 115BAB – 15% of income derived from or incidental to manufacturing or production of an article or thing
- In case of a domestic company exercising option u/s 115BAA: 22% on TI.
- *Agreement must be entered between –
    i. 1.4.1961 and 31.3.1976 - in case of royalties
    ii. 1.3.1964 and 31.3.1976 - in case of FTS

7.10. Surcharge

Type of Person	Total Income	% of Surcharge on total tax
Individual / HUF / AOP / BOI/ Artificial judicial person	> ₹ 50L but is ≤ ₹ 1 Crore	- 10%
	> ₹ 1 Crore but is ≤ ₹ 2 Crore	- 15%
	> ₹ 2 crore but ≤ ₹ 5 crore *	- 25%
	> ₹ 5 crore *	- 37%
	₹2 crore and not covered under above 2 cases	- 15%
An AOP consisting of only companies as members	> ₹ 50 lakhs but is ≤ ₹ 1 crore	- 10%
	> ₹ 1 crore	- 15%
Local authority / Firms / LLPs	> ₹ 1 crore	- 12%
Co-operative societies	> ₹1 Crore but is ≤ ₹10 Crore	- 7%
	> ₹10 Crore	- 12%

	No limit (Opting for Sec 115BAD)	- 10%
Domestic Company	> ₹1 Crore but is ≤ ₹10 Crore	- 7%
	> ₹10 Crore	- 12%
	No limit (Opting for Sec 115BAA/115BAB)	- 10%
Foreign Company	> ₹1 Crore but is ≤ ₹10 Crore	- 2%
	> ₹10 Crore	- 5%

**** Where the total income includes dividend, any income chargeable u/s 111A and 112A, the surcharge on the amount of income-tax computed on that part of income shall not exceed 15%. In other words, surcharge higher than 15% is applicable only on tax on income other than dividend, income covered u/s 111A and 112A.***

- **Health and Education Cess:** 4% on income tax and surcharge.

7.11. Marginal Relief

The purpose of marginal relief is to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income.

7.12. Alternative Tax Regime (ATR):

The table given below highlights alternative tax regime presently available to different assessees-

	Section 115BA	Section 115BAA	Section 115BAB	Section 115BAC	Section 115BAD
Eligible Assessee	Existing domestic company	Domestic company	New domestic manufacturing company	Individual & HUF	Resident co-operative society
From which AY	2017-18	2020-21	2020-21	2021-22	2021-22
Tax Rate	25%	22%	15%	Refer previous discussion above in the module	22%
Surcharge	Applicable	10%	10%	10%/15%/25%/37%	10%
Marginal Relief	Yes	No	No	Yes	No
HEC	4%	4%	4%	4%	4%
Any specific activity required to avail ATR	Manufacture/Production of goods	No	Manufacture/Production of goods	No	No
Date of set-up and registration	On or after March 1, 2016	-	On or after October 1, 2019	-	-
Date of commencement of manufacture	Not specified	-	On or before March 31, 2024	-	-
Incentive available	A few are not available	A few are not available	A few are not available	A few are not available	A few are not available
Deductions u/s 10AA, 32(1)(iia), 32AD, 32AB, 33ABA, 35(1)(ii)/(iia)/(iii), 35(2AA)/)2AB), 35AD, 35CCC, 3CCD whether available	Not available (Deduction u/s 32AC & 35AC also not available)	Not available	Not available	Not available	Not available
Deductions under chapter VI-A whether available	Deductions available u/s 80G, 80GGA, 80GGB and 80JJAA only.	Deductions available u/s 80JJAA and 80LA(1A), only.	Deductions available u/s 80JJAA & 80M only.	Deductions available u/s 80CCD(2),80JJAA and 80LA(1A), only.	Deductions available u/s 80JJAA and 80LA(1A), only.
Deductions/ exemption under sections 10(5)/(13A)/(14)/(17)/(32), 16, 24(b) and 57(iia) whether available	-	-	-	Only deduction u/s 24(b) pertaining to let out property/ deemed to be let out property is available	-

Whether brought forward loss pertaining to above deductions/ exemptions can be set off and carried forward	No	No	No	No	No
Due date to exercise option	On or before due date of furnishing ROI (Form No 10-IB)	On or before due date of furnishing ROI in the year in which assesse wants to opt for new tax regime (Form No 10-IC)	On or before due date of furnishing ROI (Form No 10-ID)	On or before due date of furnishing ROI in the year in which assesse wants to opt for new tax regime (Form No 10-IE)	On or before due date of furnishing ROI in the year in which assesse wants to opt for new tax regime (Form No 10-IF)
After obtaining the option is it possible to withdraw from the same	No (however, one can shift to 115BAA)	No	No	Assessee not having any business/profession income – Fresh option is require every year (See note)	No
Whether provisions of MAT & AMT applicable?	Yes	No	No	No	No
Whether brought forward MAT/AMT credit available after availing ATR	Yes	No	No	No	No

Note: *In the case of an assesse having income from business or profession, the option once exercised for any PY can be withdrawn only once for a PY (other than the year in which it is exercised) and thereafter the person shall never be eligible to exercise option under section 115BAC (except where such persons ceases to have income from business/profession)*

Computation of Total Income & Tax Liability for the Assessment Year 2023-2024

HEADS	SECTIONS	AMOUNT
1. Salaries. (Sec 15 to 17)	15 to 17	xxx
2. Income from House Property. (Sec 22 to 27)	22 to 27	xxx
3. Profits and gains of Business or Profession. (Sec 28 to 44DB)	28 to 44DB	xxx
4. Capital gains. (Sec 45 to 55A)	45 to 55A	xxx
5. Income from Other Sources. (Sec 56 to 59)	56 to 59	xxx
GROSS TOTAL INCOME		**xxxxx**
Less: deductions under chapter VIA	80C to 80U	xx
TOTAL INCOME OR NET INCOME (Rounded off as per Sec.288A)		xxxxx
Tax on Total Income		**xxx**
Less: Rebate u/s 87A		
Add: 4% Health and Education Cess on Tax		xx
Total Tax Liability		**xxx**
Less: (i) TDS/TCS ii) Advance Tax iii) Self-Assessment Tax		xx
Net Tax Liability (Rounded off as per Sec.288B)		**xxx**

7.13. SPECIFIC RATES / SPECIAL RATES:

The following are the specific tax rates prescribed in the Income Tax Act:

- **Sec 112:** Long term capital gains are taxed at a flat rate of 20% (other than 112A)
- **Sec 112A:** Long term capital gains on transfer of equity share in a company, unit of an equity oriented fund/business trust taxed @ 10% (on amount exceeding 1L, if STT is paid)
- **Sec 111A:** Short term capital gains on transfer of Listed Securities transferred on or after 2004 & has suffered STT taxable at 15%
- **Sec 115BB:** The flat rate of 30% on winnings from any lotteries, crossword puzzles, races including horse races, cards game and other games of any sort or gambling or betting of any form.
- **Sec 115BBE:** Unexplained money, investments etc. to attract tax@60%

7.14. ROUNDING OFF OF TOTAL INCOME - SEC. 288A:

The total income computed under this act shall be rounded off to **nearest multiples of rupees ten.**

7.15. ROUNDING OFF OF TAX - SEC. 288B

It may be noted that, the aggregate of tax, surcharge and education-cess (including secondary and higher education cess) payable shall be rounded off to **nearest multiples of rupees ten.**

PROBLEMS

1. X starts a new business on March 29, 2022. He closes down first set of books of accounts on March 31, 2023. He wants that income generated during should be chargeable to tax for the assessment year 2023-24. Is he legally correct?
2. The gross total income of Mr. X, a resident aged 30 years, for the P.Y.2022-23 comprises of salary (₹ 5,05,000) and interest on savings bank (₹ 8,000). Compute his tax liability for the A.Y.2023-24, assuming that he has deposited ₹ 50,000 in public provident fund.
3. Mrs. X is resident in India for the assessment year 2023-24. For the previous year 2022-23, her income chargeable to tax in India is ₹ 15,54,810. Find out tax liability if the age of Mrs. X is (a) 59 (b) 60.
4. Compute the tax liability of X Ltd., assuming that the total income of X Ltd., is ₹ 1,01,00,000.
5. Write short note on "Income accruing" and "Income due". Can an income which has been taxed on accrual basis be assessed again on receipt basis?
6. Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.
7. Who is an Assessee? Who is a Deemed Assessee? Who is an Assessee in Default?
8. Explain the concept of marginal relief under Income-tax Act, 1961?