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CHAPTER 1: INTRODUCTION TO INCOME TAX ACT 1961

Section	Topics
2(7)	Assessee
2(7A)	Assessing Officer
2(9)	Assessment year
2(24)	Income
2(25A)	India
2(31)	Person
2(34)/3	Previous Year or Uniform Previous Year
2(45)	Total Income
3	Previous Year
4	Chargeability or Basis of charge
14	Heads of Income
80B(5)	Gross Total Income
87A	Rebate

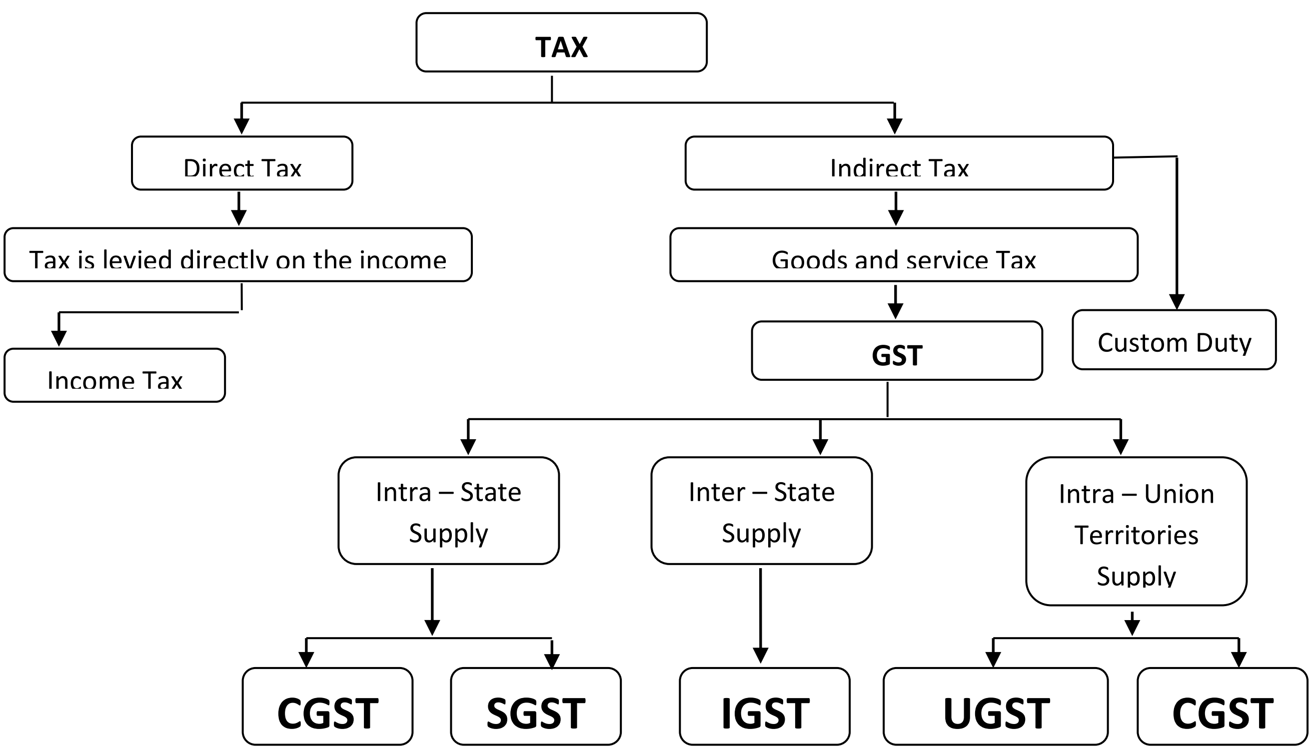
WHAT IS TAX?

1	Tax is a mandatory payment to be made by the people including Corporate entities to the Government. In other words, it is a necessary consideration for living in a civilized society.
2	The Taxation Structure of the country can play a very important role in the working of economy.
3	Earlier every few people were paying the income tax and hence the government implemented very high rates to maximize the collection. But currently the government wants more and more people to fall under the ambit and tax and increase the base of taxpayers. Hence the government has decreased the rates and intends to realize the collection of taxes from more people.

WHY THE NEED FOR TAXES?

The government has to incur expenditure on variety of functions which includes	
A	Welfare and Public Services like education systems, health care systems and public transportation.
B	Energy, water, waste management systems, and Enforcement of law and public order.
C	Maintaining defence forces and securing borders of the country.
D	Funding Research and Development Projects.
E	Development of economic infrastructure, public works, subsidies, and the operation of government itself.
F	Payment of the state's debt and the interest thereon.
G	The government, by its own accord cannot raise the funds required for meeting these expenses. Hence, the people contribute money towards all these expenses through Taxes. The resource collected from the public through taxation can then be used by the government for all the above mentioned purposes.

CLASSIFICATION OF TAX



DIRECT TAXES

Direct tax is the payment made by assessee directly to the government after income is received.

INCOME TAX

It is a tax on income earned for e.g. Tax on salary income.

INDIRECT TAX

Indirect tax is a tax on commodities and services. Here burden is fall indirectly on the consumers hence it is called as Indirect tax.

DIFFERENCES BETWEEN DIRECT AND INDIRECT TAXES

Point of difference	Direct Tax	Indirect Tax
Incidence & Impact	A tax is said to be direct when impact and incidence of a tax are on one and same person.	If impact of tax is on one person and incidence on the another, the tax is called 'indirect'
Burden	Direct tax is imposed on the individual organisation and burden of tax cannot be shifted to others.	Indirect tax is imposed on commodities and allows the tax burden to shift.
Viability of payment	Direct taxes are lesser burden then Indirect taxes to people as direct taxes are based on Income earning ability of people.	Indirect taxes are borne by the consumers of commodities and services Irrespective of financial ability as the MRP Includes all taxes.
Administrative viability	The administrative cost of collecting direct taxes is more and Improper administration may result in tax evasion.	Cost of collecting Indirect taxes is very less as indirect taxes are wrapped up in prices of goods and services and cannot be evaded.
Penalty	It is levied on the assessee.	It is levied on supplier of Goods & Services.

MERITS OF DIRECT TAX

1	**Equity**	Direct taxes have equity of sacrifice; depend upon the volume of income. They are based on the principle of progressive, so rates of tax increase as the level of income of a person rises.
2	**Elasticity and productivity**	Direct taxes have elasticity because when the government faces some emergency, like earthquake, floods and famine the government can collect money for facing those problems by direct tax.

3	**Certainty**	Direct taxes have certainty on both side's tax-payer and government. The tax- payers are aware of the quantity of tax. They have to pay and rate, time of payment, manner of payment, and punishment from the side of government is also certain about the total amount they are getting.
4	**Reduce inequality**	Direct taxes follow progressive principles so it is taxing the rich people with higher of taxation and the poor people with a lower level of taxation.
5	**Good instrument in the case of inflation**	Tax policy as fiscal instrument plays important role in the case of the inflation, so government can absorb the excess money by arising in the rate of existing taxes or imposition of new taxes.
6	**Simplicity**	Direct taxes are simplicity, while levy the rules, procedures, regulations of income tax are very clear and simple.

DEMERITS OF DIRECT TAXES

1	**Evasion**	Direct tax is lump sum therefore tax payers try evasion.
2	**Uneconomically**	Expenses of collection are larger in the case of direct taxes, because they require widely- spread staff for collection
3	**Unpopular**	Direct tax is required to be paid in lump sum for the whole year, so the tax payers feel the painful payment, these taxes are therefore unpopular.
4	**Little incentive to work and save**	In direct taxes, rates are of progressive nature. A person with higher earning is taxed more; in turn he is left little with amount. So the tax payer feels disincentive to work hard and save money after reaching a certain level of income.
5	**Not suitable to a poor country**	Direct taxes are not enough to meet its expenditure.
6	**Arbitrary**	Due to absence of logical or scientific principle to determine the degree of progression in the taxation, the direct taxes are arbitrary.

MERITS OF INDIRECT TAXES

1	**High revenue production**	Nature of indirect taxes is imposition on the commodities and services. Here indirect taxes cover a large number of essential goods and luxurious goods which are consumed by the mass both rich and poor people, these help in collecting large revenue.
2	**No evasion**	Nature of indirect tax is that, it is included in the price of commodity, so tax evasion or tax avoid is difficult.

3	**Convenient**	Indirect taxes are small amount and indirect taxes are hidden in the price of goods and service, hence the burden of these taxes is not felt very much by the tax-payers, and not lump sum like direct taxes.
4	**Economy**	Indirect taxes are economical in collection and the administrations costs of collection are very low, also the procedure of collection of these taxes is very simply.
5	**Wide coverage**	Indirect taxes cover almost all commodities like essential commodities, luxuries, and harmful ones.
6	**Elasticity**	Since a large number of commodities and services are covered by indirect taxation there is great scope for modification of taxes, goods and tax rate, much depends on nature of goods and on its demands.

DEMERITS OF INDIRECT TAXES

1	**Regressive in effect**	Essential commodities are used from all members of community. When taxing these commodities the burden would be equal, and no distinction is made between the rich and poor people.
2	**Uncertainty in collection**	Discourage savings and Increase inflation:-Indirect taxes are payable when people spent their income or when people buy goods and services, so tax authorities cannot accurately estimate the total yield from different indirect taxes.
3	**Discourage savings**	Increase inflation:-Indirect taxes are included in the price of commodity, so people have to spend more money on essential commodities, when levied indirectly. In this case that means the customers cannot save some of their money.
4	**Increase inflation**	Indirect taxes increase the cost of input and output, increase in production cost, push the price of goods. These reflect an increase in the wages of the workers.

OBJECTIVE OF TAXATION

Objectives of taxes have been developed when the functions of the Government are developed. In the primitive communities a member was to pay his share to the Head of the tribe, who in return provided them with administration, security from foreign aggression and other civic amenities. But today taxation besides being the main resource for supporting government has become a tool for economic growth, social welfare; attract foreigner investment, economic stability, and income distribution. The Objectives of taxation in brief are as under:

1	**Revenue**	This objective is the oldest, uppermost and primary objective. Taxes

		are imposed so as to produce the necessary amount of revenue to meet the requirement of the government, as the public expenditures is increasing in scope and size day by day. Therefore, the main objective of taxes is to raise revenue to meet the Govt. expenditures adequately.
2	**Redistribution of income and wealth**	Income is differ from one person to another in the society, inequity in income leads to many evils, and the government aims to reduction of inequalities between members of the society to secure social justice. Tax is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare. For achieving these goals government adopts following: **i.** Imposition of high rate tax upon luxury commodities. **ii.** Applying progressive tax system when levying taxes from taxpayers. **iii.** Imposition of tax exemption to basic goods.
3	**Social welfare**	Social welfare is the basic need of the society in the modern age. The government functions have become very important to the society, because the society needs saving, protection, education, health, and so on. All these functions are necessary to make social welfare, so the government receives revenue from tax, and expends it for that function. Therefore revenue from taxes is fuel to the government for social welfare. Social welfare is indicator for development of the countries, so almost all the countries have competition to introduce these services in the societies.
4	**Safety of society from bad and injurious customs**	Fighting the bad customs in the society is the primary task of the government, so tax is a tool for fighting some of those customs. From this angle tax imposition of very high percentage on the goods like tobacco and alcohol is an effort to reduce these habits. • **<u>Economic significance of taxes</u>** - Taxes are used from economic point of view, so taxation helps to encourage some economic activities, and as a tool to solve some economics problems. Tax is also a means for directing of scarce economic activities. Taxation helps to accelerate economic growth, and taxation plays very important role in case of economic stability. • **<u>Economic growth:</u>** Taxes are considered as a tool for economic growth and it helps to accelerate growth of economic development. Economic development has placed considerable emphasis on objectives of taxation policy. Economic development is the main objective in all the countries of the world. Economic development

depends on mobilization of resources and efficient use of such resources between different sectors of the economy activities. Tax policy must be designed so as to mobilize the internal resources and use these resources in productive manner. Taxation policy helps to increase production through raising the rate of capital formation, so it helps improve the economic welfare through better distribution of income and it becomes an important instrument for removing regional inequalities. Tax policy may serve directly to mobilize resources for capital formation in the public sector and indirectly to promote private saving and investment.

- **Enforcing government policy:** Government policy can be easily enforced by adoption of suitable tax policy. The Government can encourage investment, saving, consumption, export, protection of home industry, employment, production, protection of society from harmful customs, and economic stability through suitable tax policy. Therefore, the government gives tax exemption to the investment and saving.
- **Directing limited scarce resources into effective and essential channels**: Tax policy plays crucial role for directing scarce resources into essential commodities. This is achieved by giving tax exemption to certain industries and imposition of heavy duties on other industries, so with the adoption of suitable tax policy, economic resources may be diverted to the production of necessary articles and investors will go to the exemption industries.
- **Economic stability**: Maintaining economic stability is one of the tax objectives. Economic stability is a very important factor for the sustained economic growth. Government can effectively use taxes in the case of inflation and depression. These may be increased in inflationary situations. Increase in the rates of existing taxes and the imposition of new taxes would check consumption, decrease the level of effective demand and therefore help in bringing up stability in prices. Heavy taxation transfer purchasing power from the hand of people to the government which if used for productive purpose will increase the level of economic activity and employment. In the case of depression taxes play a different role. Purchasing power in the hand of people is reduced and they are able to spend less and the demand for commodities and services is reduced. All these lead to a shrinkage of business activity and employment. In

		this case government should increase the purchasing power in the hand of public through reducing the burden of taxation on the people and impose tax upon saving and hoarding so that people may be encouraged to spend more and thus help to create more demand for goods and more business activity and employment.

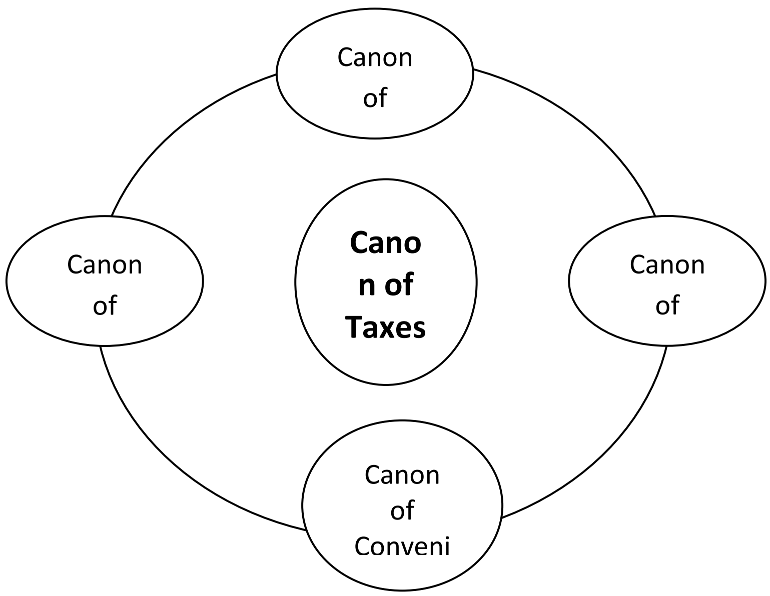
FEATURES OF TAX

1	**Tax is compulsory**	A tax is imposed by law. So tax is compulsory payment to the governments from its citizens. Tax is duty from every citizen to bear his share for supporting the government. The tax is compulsory payment; refusal or objection for paying tax due leads to punishment or is an offence of the court of law. Government imposes tax when somebody buys commodities, or when uses services or earns income or any other condition for compulsion is found. The government practices its sovereign when levying the tax from its citizens.
2	**Tax is contribution**	Contribution means in order to help or provide something. Tax is contribution from members of community to the Government. A tax is the duty of every citizen to bear their due share for support to government to help it to face its expenditures. Some wants are common to everybody in the society like defence and security, so these wants cannot be satisfied by individuals. These social wants are satisfied by governments, hence the people support government for these social wants. Contribution involves loss or sacrifice from the side of contributor. These sacrifices affect his income.
3	**Tax is for public benefit**	Tax is levied for the common good of society without regard to benefit to special individual. Government proceeds are spent to extend common benefits to all the people such as natural disaster - like floods, famine - defence of the country, maintenance of law and establish infrastructure and order. Such benefits are given to all people.
4	**No direct benefit**	Government is compulsorily collecting all types of taxes and does not give any direct benefits to the tax payer for taxes paid. The essence of tax as distinguished from other charges by governments is the absence of a direct quid-pro-que between the taxpayer and the public authority. Tax is different from another government charges which may give direct benefits to payers such as prices, fees, fines etc. where the direct benefits are available. Taxes are for common benefits to all the members of the society.

5	**Tax is paid out of income of the tax payer**	Income means money received, especially on regular basis, for work or through investment. Tax is paid out of income as long as the income becomes realized, here the tax is imposed. Income owner has profit from any business, so he should pay his share for support to the government.
6	**Government has the power to levy tax**	Governments are practicing sovereign authority upon its citizens through levying of taxes. Only Govt. can collect tax from the people. Tax is transferring resources from the private sector to the public sector. Government is levying the tax to cover its expenditures. The government use these taxes for increasing social welfare & economy development.
7	**Tax is not the cost of the benefit**	Tax is not the cost of benefit conferred by the government on the public. Benefit and taxpayer are independent of each other, and payment of taxation is of course designed for conferring of benefits on general public.
8	**Tax is for the economic growth and public welfare**	Major objectives of the government are to maximize economic growth and social welfare. Developmental activities of the nations generally involve two operations, the raising of revenue and the spending of revenue, so the government spent taxes for economic benefit, for entire community and for aggregate welfare of the society.

CANONS OF TAXES

Canons of taxation refer to the administrative aspect of a tax. They are related to the rate, amount, method of levy, and collection of a tax. Despite the modern development of economic sciences, Adam smith's canons of taxation, still continue to be widely accepted as providing a good basis by which to judge taxes and these principles still apply today. The fundamental canons of taxation are as follows:



That the basic principle of taxation has reminded more or less unchanged for 220 years. Since then, there has been a lot of change in the economic activities, so modern economists like Charles F Bastable, H Dalton have added some canons to these to update and expand them.

1	**Canon of equity**	This canon implies that any tax system should be based on the principle of social justice. Equity refers to both horizontal and vertical equity. Horizontal equity describes the concept that, taxpayers with equal abilities to pay should pay the same amount of tax. Vertical equity means that taxpayers with a greater ability to pay should pay more tax.
2	**Canon of Certainty**	The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined. Objective of this canon is to create trust between two parties, first party taxpayer who is to pay the tax and second party the authority whom receipt tax. If taxpayers have difficulty measuring the tax base or determining the

		applicable tax rate or the tax consequences of a transaction, then certainty doesn't exist. Certainty might also be viewed as the level of confidence a person has that the tax is being calculated correctly.
3	**Canon of Convenience**	A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. Convenience in paying a tax helps to ensure compliance. The appropriate payment mechanism depends on the amount of the liability and the how easy or difficult it is to collect. Discussion of this principle in designing a particular rule or tax system would focus on whether it is best to collect the tax from the manufacturer, wholesaler, retailer or customer, as well as the frequency of collection.
4	**Canon of Economy**	This canon implies that decreasing the administrative cost of collection of the tax at the lowest level. The costs to collect a tax should be kept to a minimum for both the government and taxpayers. This principle considers the number of revenue officers needed to administer a tax. Compliance costs for taxpayers should also be considered. This principle is closely related to the principle of simplicity.

INTRODUCTION OF INCOME TAX IN INDIA

1	**History Of Income Tax**	The Income Tax was introduced in India for the first time in 1860 by British rulers following the mutiny of 1857. The period between 1860 and 1886 was a period of experiments in the context of Income Tax. This period ended in 1886 when first Income Tax Act came into existence. The patters laid down in it for levying of Tax continues to operate even today though in some changed form. In 1918, another Act – Income Tax Act, 1918 was passed but it was short lived and was replaced by Income Tax Act, 1922 and it remained in existence and operation till 31st March, 1961.
2	**Present Act**	**On the recommendation of law Commission & Direct Taxes Enquiry Committee and in consultation with Law Ministry a Bill was farmed. The bill was referred to a select committee and finally signed by the President on 13th Sept, 1961. This Act came into force from 1st April 1962 in whole of the country.** Income Tax Act, 1961 is a comprehensive Act and consist sections 1 to 298, Sub-Sections running into thousands of clauses, etc. and is supported by other Acts and Rules. This Act has been amended by

			several amending Acts since 1961. The Annual Finance Bills presented to Parliament along with Budget make far-reaching amendments in the Act every year.
3	**Constitutional Background**		**<u>Concept of Delegated Legislation</u>** Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India (Central Government) and the State legislature. Schedule VII enumerates these subject matters with the use of three lists;
		a	**<u>List - I (Union List)</u>** – Entailing the areas on which only the Central Government is competent to make laws.
		b	**<u>List - II (State List)</u>** – Entailing the areas on which only the State Legislature can make laws.
		c	**<u>List - III (Concurrent List)</u>** – Listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.
4	**The Income Tax Act, 1961**		Under the entry 82 of Union List of Constitution of India, the Parliament has exclusive power to make laws with respect to "Taxes on income other than agricultural income" Compliance with this power gave birth to the formation of the Income Tax Act. 
			<u>The Income Tax Act, 1961</u>:
		a	Levy of Income Tax in India is governed by the Income Tax Act, 1961, which came into force w.e.f 1962.
		b	The Income Tax Act, 1961 (hereinafter referred to as "the act" or IT act") contains Chapters from I to XXIII, 298 Section and XIV Schedules.
		c	IT act provides for determination of Total Income, Tax liability and Procedure for Assessment, Appeal, Penalties and Prosecutions.
		d	Provisions of IT Act undergo changes, based on amendments brought about by the Finance Act every year.
5	**India [Sec. 2(25A)]:**	a	The territory of India as per Article 1 of the constitution,
		b	Its territorial waters, seabed and subsoil underlying such waters,
		c	Continental Shelf,
		d	Exclusive Economic Zone, or
		e	Any other specified Maritime Zone, and
		f	The air space above its Territory and Territorial waters.

FINANCE ACT

FINANCE BILL 2019

The Finance Minister presents Finance Bill in both the houses of parliament.

It contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.

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 rate of tax at which income shall be charged is prescribed in the schedule I of Finance Act.

The whole management of this Act is handed over to CBDT (Central Board of Direct Taxes)

Income Tax Rules, 1962

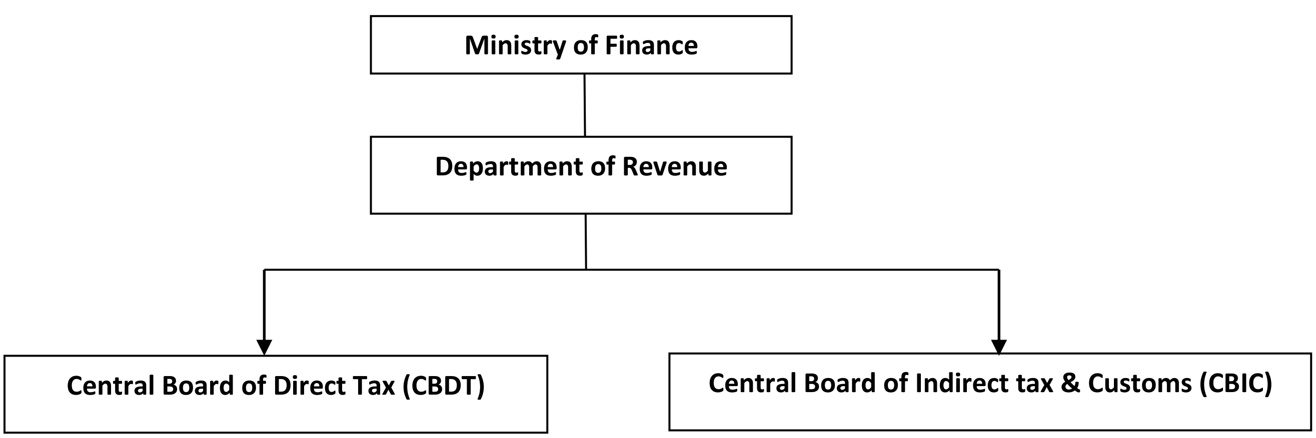
Circular & notification

Supreme Court and High court judgments

6	**The Income Tax Rules, 1962**	**a)** The administration of Direct Taxes is vested with Central Board of Direct Taxes (CBDT). **b)** 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. **c)** All forms, procedures and principles of valuation of perquisites under the Act are provided in the Rules framed by CBDT.
7	**Circulars/ Notifications front CBDT**	**a)** 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. **b)** These Circulars act as guidance for officers and assessee. **c)** These Circulars are binding on Assessing Officers but not on assessee and Courts, ITAT. **d)** The Circulars issued by CBDT shall not be contrary to the provisions of the Act.
8	**Supreme Court & High Court Decision**	**a)** The Supreme Court and the High Court can give judgement only on the question of law. **b)** The Law laid down by the Supreme Court is the law of the land; **c)** The decision of High Court will apply in the respective States, within its jurisdiction.

MY NOTES

ADMINISTRATIVE OF TAX LAWS



AMENDMENTS TO THE ACT

Law cannot have a rigid composition because it is applied in a highly dynamic environment. An involving environment necessitates a change in existing laws giving rise to the process of Amendments.

"Amendment" means a formal modification or change to any law, contract or legal document. They are often introduced when it is better to change the law than write a new one.

The process of introducing amendments in any law or act is done by two ways.

- **By passing an Amendment Act.**
- **By Annual Finance Act (for laws specific to Taxation)**

Amendment by
- Amendment Act
- Finance Act (For Tax Laws)
  - Amendment
  - Rate of Tax

TYPES OF AMENDMENTS

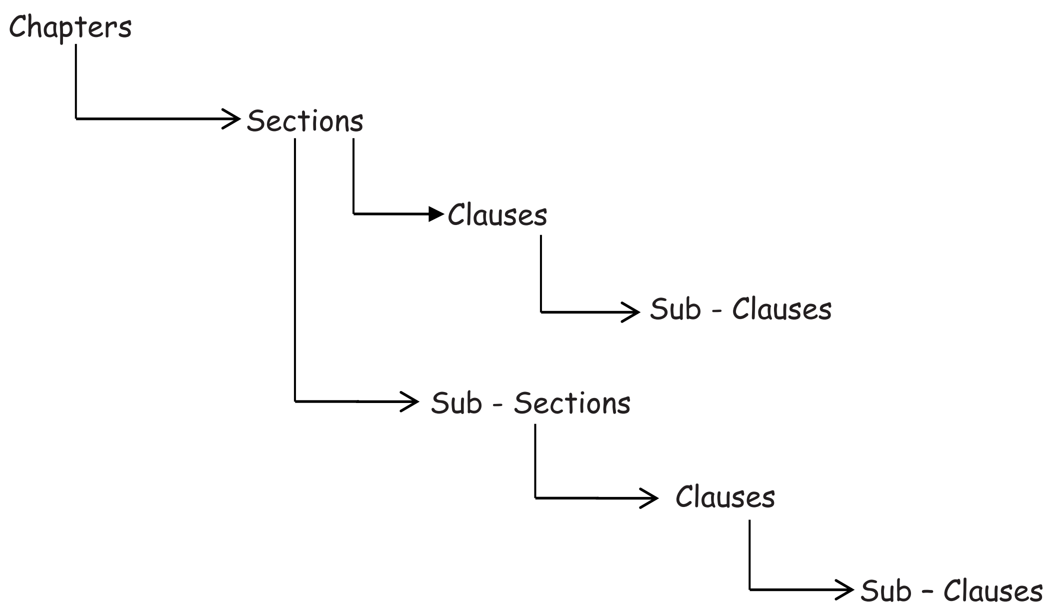
Amendments can be classified into three types based on the action effected by them.

Types of Amendment
- Prospective → For Future
- Immediate effect → Right Now
- Retrospective → From past effect

CONTENTS OF A STATUTE (ACT)

1	**Preambles**	Some acts begain with a preamble. The preamble is part of the act and may be used to interpret the act.
2	**Definitions**	Most acts contain a definition section that lists, in alphabetical order, definitions of terms used in the act. The definition section is usually at the beginning of the act.
3	**Chapters, Sections, Subsections, etc.**	Every act is composed of a number of division and parts which are serially numbered. These groupings can be broadly classified as:

General Structure of a Statue



4	**Sections**	Sections are each separate numbered division of an Act listing out the provisions of the Act. Each section is prefixed with a Heading which can be referred to in case of ambiguity.
5	**Sub – sections**	Many sections are further dividend two or more subsections, cited as subsection (1), (2), (3), etc. these provide additional clarity to the original section and also state the provisions of the law.
6	**Clauses and Sub – Clauses**	Some sections and subsections contain clauses, cited as clause (a), (b), (c), etc. Sub – Clauses, cited as sub – clause (i), (iii), (iii), etc. wherever a list needs to be provided within a section or a sub-section, clauses are used to indicate them. They do not provide any express provision of the Act. Sometimes sections directly contain clauses without having any sections.
7	**Paragraphs**	Sections and sub – sections contain paragraphs, cited as paragraph (A), (B), (C), etc, and sub – paragraphs, cited as sub – paragraph (I), (II), (III), etc. these elaborate the text of the sections.
8	**Proviso**	The purpose of the proviso is to qualify or create an exception to what is in the enactment. A proviso is to be considered with relation to the principal matter to which it stands as a proviso. Therefore, it is to be interpreted harmoniously with the main enactment.
9	**Explanations**	The purpose of an Explanation is to understand the Act in the light of the Explanation. It does not ordinarily enlarge the scope of the

		original section, which it explains, but only makes the meaning clear beyond dispute. It must be read so as to harmonize with and clear up any ambiguity in the main section.

TYPES OF DEFINITION

Every act uses the application of a few common terms which is defined under the Act. These definitions may be of any of these three types:		
1	**Inclusive Definitions**	This definitions generally start with the word "includes" Such Definitions are used to keep the scope wide enough to cover the matters covered in it and also those which may not be specifically expressed out form part of its natural meaning. The best example is the definition in income definition under section 2(24).
2	**Exclusive Definitions**	The terms which covered everything within scope except a few are defined using an exclusive definition. The definition covered the matters to be excluded and everything not included in the definition but coming within is natural meaning shall form part of its scope. Example of an exclusive definition is the definition of Capital Asset u/s 2(24)
3	**Exhaustive Definitions**	When the scope of an item is to be restricted area an exhaustive definition in used. An exhaustive definitions covered within its ambit only the matters in it. Example of an Exhaustive Definition is the definition of Assessment Year u/s 2(9)

PERSON [SECTION 2(31)]

Person Includes	
1	An Individual
2	A Hindu Undivided Family
3	A Company
4	A Firm
5	An Association of Person or a Body of Individuals.
6	A Local Authority,
7	Every Artificial juridical person not falling within any of the preceding sub-clauses.

An Individual	**Means a natural person i.e. a human being. It includes a male, female, minor child. However, income of a minor is now generally included in the income of parents.**
A Hindu Undivided Family	HUF has not been defined under the tax laws. However, as per Hindu law, it means a family, which consists of all persons lineally descended from a common ancestor including their wives and unmarried daughter.
A Company Sec. 2(17)	Company includes • Indian company [Sec 2(26)] • Domestic company [Sec 2(22A) • Foreign company [Sec 2(23A)] • Company in which public are substantially interested[Sec 2(18)]
Firm	Section 4 of the Indian Partnership Act, 1932 defines partnership as "relationship between persons who have agreed to have the profits of business carried on by all or any of them acting for all".

Association of person (AOP) v/s body of individuals (BOI)

	Association of person	Body of individuals
Meaning	AOP means a group of person who join together for a common object.	BOI means group of individuals who join together for certain activity.
Member	Member can be any person, i.e., even a company/ firm/ HUF/ individuals can be its member.	Member can be only individuals.

Example

If X, Y, & Z join together, it is called as BOI.
If X, ABC Ltd. And PQ & Co. join together for a particular venture then they may be referred as an AOP.

A Local Authority	The expression means Panchayat, Municipality,
Artificial Juridical persons	Are the entities, which are not natural persons, but they are separate entities in the eyes of law.

Examples of Person:

S N	PERSONS UNDER IT ACT	STATUS
1	Mr. Sunil	Individual
2	A joint family consist of P, Mrs. P and their son S	HUF
3	Reliance Industries Ltd.	Company
4	Shri Krishna Enterprises, a firm consisting of S & K	Firm
5	XYZ Ltd. & Amit	AOP
6	A and B are legal heirs of C, carry business without entering into a partnership	BOI
7	Municipal Corporation of Pune	A Local Authority
8	Pune University	Artificial juridical Person

ASSESSEE [SECTION 2(7)]

Assesse means	Any person who is liable to pay any tax or any other sum under the Income Tax Act, 1961.	
Assesse includes 	**a**	**Every person in respect of whom any proceedings has been taken for the assessment of** • **His Income or Fringe Benefits, or Income** of any other person. • **Loss** sustained by him or other person. • **Refund** due to him or such other person.
	b	**Every person who is deemed to be an Assessee under the Act** **"Deemed Assessee"** means a person who is treated an as Assessee under the IT Act. This would include: 1. Trustee of a Trust, 2. Legal Representative of a Deceased Person under section 159.
	c	**Every person who is deemed to be an Assesse in Default under the A.** **Assesse in Default:** Assessee in Default includes persons who: • Fail to deduct and remit TDS (Section 191). Fail to pay tax and any other sum demanded (Section 220).

My Notes

ASSESSMENT YEAR [SECTION 2(9)]

Assessment year is a year in which income is charged to tax or year in which income tax is payable. It is a period of 12 months commencing on 1st April every year.

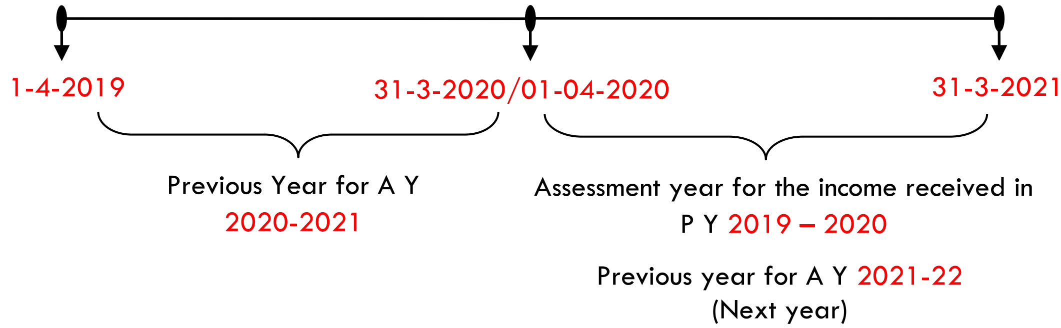
PREVIOUS YEAR [SECTION 3]

Previous year is a year in which income is earned. It is same as Financial Year. All assesses are required to follow a uniform previous year i.e. the financial year (1st April to 31st March) as their previous year for income tax purpose. From the AY 1989-90 onwards, all assesses are required to follow financial year (i.e. April to March) as the previous year. This uniform previous year has to be followed for all source of income.

Example:

If PY 19-20 then, AY is 20-21.

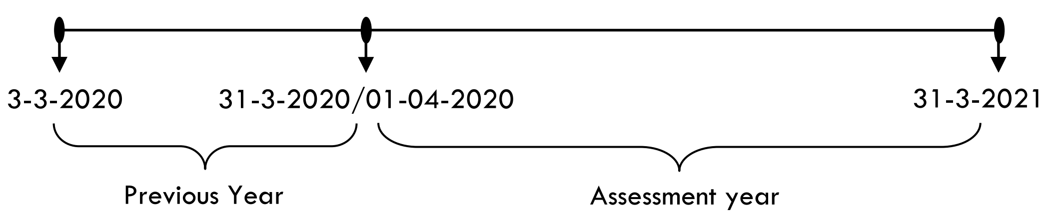
The assessment year 2020 -21 will commence on April 1, 2020 and will end on March 31, 2021.



PREVIOUS YEAR IN CASE OF NEWLY STARRED BUSINESS

In case of	Previous year is the period
Business or profession being newly set-up	Beginning with the date of setting up of the business & ending on 31st March of that financial year.
A source of income newly coming into existence	Beginning with the date on which the new source of income comes into existence & ending on 31st March of that financial year.

X set up a business on 3 March, 2020. What is the previous year for the assessment year 2020-2021?



EXCEPTIONS TO THE GENERAL RULE THAT INCOME OF A PREVIOUS YEAR IS TAXED IN ITS ASSESSMENT YEAR

PY 2019 - 20	**Exception** →	PY 2019 - 20
AY 2020 - 21		AY 2019 - 20

Section	Details	Assessment
172	Shipping Business of Non-Resident	Mandatory
174	Persons leaving India	Mandatory
174A	AOP / BOI / AJP formed for a particular event or purpose	Mandatory

175	Persons likely to transfer property to avoid tax	Mandatory
176	Discontinued Business	Assessment is discretionary

My Notes

INCOME [SECTION 2(24)]

"Income" Includes -	
(i)	Profits & Gains
(ii)	Dividend;
(iia)	Voluntary contributions received by a trust created wholly or partly for charitable or religious purposes or by an institution established wholly or partly for such purposes [or by an association or institution referred to in clause (21) or clause (23), or by a fund or trust or institution referred to in sub-clause (iv) or sub clause (v) or by any university or other educational institution referred to in sub-clause (iiiad) or sub clause (vi) or by any hospital or other institution referred to in sub clause (iiiae) or sub clause (via)] of clause (23C) of section 10 or by an electoral trust. Explanation: For the purposes of this sub-clause, "Trust" includes any other legal obligation;
(iii)	The value of any perquisite or profit in lieu of salary taxable u/s 17(2) and (3);
(iiia)	Any special allowance or benefit, other than perquisite included under sub-clause (iii), specifically granted to the assesse to meet expenses wholly, necessary and exclusively for the performance of the duties of an office or employment of profit;
(iiib)	Any allowance granted to the assesse either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living;
(iv)	The value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;
(iva)	The value of any benefit or perquisite, whether convertible into money or not, obtained by any representative assesse mentioned in clause (iii) or clause (iv) of sub-section (1) of section 160 or by any person on whose behalf or for whose benefit any income is receivable by the representative assesse (such person being hereafter in this sub-clause referred to as the "beneficiary") and any sum paid by the representative assesse in respect of any obligation which, but for such payment, would have been payable by the

<table>
<tr><td></td><td colspan="2">beneficiary;]</td></tr>
<tr><td>(v)</td><td colspan="2">Any sum chargeable to income – tax u/s 28(ii) and (iii) or sec. 41 or sec. 59;</td></tr>
<tr><td>(va)</td><td colspan="2">Any sum chargeable to income tax u/s 28 (iiia);</td></tr>
<tr><td>(vb)</td><td colspan="2">Any sum chargeable to income tax u/s 28 (iiib);</td></tr>
<tr><td>(vc)</td><td colspan="2">Any sum chargeable to income tax u/s 28 (iiic);</td></tr>
<tr><td>(vd)</td><td colspan="2">The value of any benefit or perquisite taxable u/s 28(iv);</td></tr>
<tr><td>(ve)</td><td colspan="2">Any sum chargeable to income tax u/s 28(v);</td></tr>
<tr><td>(vi)</td><td colspan="2">Any capital gains chargeable u/s 45;</td></tr>
<tr><td>(viib)</td><td colspan="2">Any consideration received for issued of shares, as exceed the fair Market Value of the shares referred u/s 56(2)(viib) shall be treated as income.</td></tr>
<tr><td>(viii)</td><td colspan="2">Omitted</td></tr>
<tr><td rowspan="3">(ix)</td><td colspan="2">Any winnings from lotteries, crossword, puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.]
9Explanation.- For the purposes of this sub clause, -</td></tr>
<tr><td>(i)</td><td>“Lottery” includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called;</td></tr>
<tr><td>(ii)</td><td>“Card game and other game of any sirt” includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;]</td></tr>
<tr><td>(x)</td><td colspan="2">Any sum received by the assesse from his employees as contributions to any provident fund or superannuation fund or any fund set up under the provisions of the ‘employees’ State Insurance Act, 1948 (34 of 1948), or any other fund for the welfare of such employees’</td></tr>
<tr><td>(xi)</td><td colspan="2">Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.
Examination. – For the purposes of this clause*, the expression “Keyman Insurance Policy” shall have the meaning assigned to it in the explanation to clause (10D) of section 10</td></tr>
<tr><td>(xii)</td><td colspan="2">Any sum referred to in sec. 28(va)</td></tr>
<tr><td>(xiii)</td><td colspan="2">Any sum referred to sec. 56(2)(v)</td></tr>
<tr><td>(xiv)</td><td colspan="2">Any sum referred to sec. 56(2)(vi)</td></tr>
<tr><td>(xv)</td><td colspan="2">Any sum of money or value of property referred to sec. 56(2)(vii) and (viii)</td></tr>
<tr><td>(xvi)</td><td colspan="2">Assistance in form of subsidy or a grant or cash incentive or duty drawback or waiver or concession or reimbursement by whatever name called will be taxable as income.</td></tr>
</table>

FEATURES OF INCOME

1	**Cash vs. Kind**	Kind is to be valued as per the rules prescribed and if there is no specific direction regarding valuation in the Act or Rules. It may be valued at market price.
2	**Significance of method of accounting**	Where method of accounting is irrelevant: In case of income under the head "Salaries", "Income from house property" and "Capital gains" method of accounting is irrelevant. Where method of accounting is relevant: In case of income under the head "Profit & gains of business or Profession" and "Income from other sources" (other than Dividend) income shall be taxable on cash or accrual basis as per the method of accountancy regularly followed by the assessee.
3	**Notional income**	A person cannot make profit out of transaction with himself. Hence, goods transferred from one department to another department at a profit, shall not be treated as income of the business.
4	**Source of income**	Income may be from a temporary source or from a permanent source.
5	**Capital vs. Revenue receipt**	A capital receipt is not liable to tax, unless specifically provided in the Act, whereas, a revenue receipt is not exempted, unless specifically provided in the Act.
6	**Loss**	Income also includes negative income.
7	**Disputed income**	In case of dispute regarding the title of income, assessment of income cannot be withheld and such income, normally, be taxed in the hands of recipient.
8	**Lump-sum receipt**	There is no difference between income received in lump sum or in instalment.
9	**Reimbursement**	More reimbursement of expenses is not an income.
10	**Legality**	The Act does not make any difference between legal or illegal income
11	**Double taxation**	Same income cannot be taxed twice.
12	**Income by mutual activity**	In this regard it is to be noted that in case of mutual activities, where some people contribute to the common fund and are entitled to participate in the fund and the surplus arises which is distributed among the contributors of the fund, such surplus cannot be termed as income. **Exceptions**: • Income derived by a trade, professional or similar association from rendering specific services to its members shall be taxable u/s. 28(iii).

13	**Fair Market Value of Inventory**	Fair market value for inventory (which is converted into stock-in-trade) is treated as income of the year in which conversion takes place
14	**Pin money**	Pin money is money received by wife for her personal expenses & small savings made by a woman from money received from her husband for meeting household expenses. Such receipt is not treated as income. **Note**: Income on investment out of pin money shall be treated as income.
15	**Award**	Award received, by a person related to his business or profession, shall be treated as income incidental to such business or profession.
16	**Embezzlement**	Money embezzled is a gain to the embezzler and, therefore, falls within the wider definition of income.
17	**Contingent income**	A contingent or anticipated income is not taxable.
18	**Donation**	Receipt on account of "Dharmada" or donation is not taxable in the hands of recipient. (Refer chapter Assessment of Trust)
19	**Gift**	Value exceeds Rs. 50000 without consideration from any person; the value of such asset will be taxable under the head "Income from other sources". For further detail refer chapter "Income from Other Sources".
20	**Subsidy or Grant**	Assistance in form of subsidy or a grant or cash incentive or duty drawback or waiver or concession reimbursement by whatever name called will be taxable as income. • Whether received from CG, SG or local authority or body or agency • Whether received in cash or in kind • Whether subsidy is given for day to day today operation or for setting up new unit shall be taxable. • However, subsidy or grant reimbursement which is taken into consideration for determination of cost u/s 43(1) shall not be considered as income. • Subsidy of Grant by Central Government, for the purpose of corpus of a trust or Institution established by Central Government or a State Government, shall not be treated as income.

Example:

1. X Ltd. gets a subsidy from the Orrisa Government set up a chemical fertilizer plant in a backward area in Orrisa. Subsidy is not given for assisting it in carrying out the business operations but the object of subsidy is to encourage setting up of industries in backward area in Orrisa.
2. Subsidy received by Y Ltd., a manufacturing company, from the Central Government to acquire plant and machinery is not covered by the above provision [as the amount of subsidy is deducted from the "Actual Cost" for the purpose of claiming depreciation/ investment allowance by virtue of the Explanation 10 section 43(1)].

APPLICATION OF INCOME VS DIVERSION OF INCOME

1	**Diversion of income**	When income is diverted before is accrues to the assessee due to overriding title then it is called diversion of income. It is not taxable in the heads of assessee.
2	**Application of income**	When income is applied after is accrues to the assessee due to overriding title then it is called application of income. It is taxable in the hands of assessee.
3	**Example**	1. An employee instructs to his employer to pay a certain portion of his salary to a charity and claims it as exempts as it is diverted by overriding charge/title In the above case income is not diverted because the instruction given by the employee to employer is not having overriding title. Further here income is first accrued to assessee then applied. Hence it is called application of income and taxable in hands of assessee. 2. A, B and C are co-authors. Entire royalty of Rs.900000was received by A, Who in turn paid Rs.300000 each to B and C .Such a payments, is diversion of income.

EXEMPTIONS VS DEDUCTIONS

	Exempted Income	Deduction under chapter VIA
1	Sec. 10 provides the list of those incomes which are not to be included while computing that total income of the assessee.	Chapter VIA (sec 80C-80U) or sec. 10 AA specifies certain deduction which are allowed from the gross total income of the assessee subject to the fulfilment of the conditions mentioned therein.
2	Such an income is out of the purview of tax and the total income is computed ignoring the same.	Total income of the assessee is computed only after allowing deduction from gross total income.
3	Exemption is available without requiring the assessee to claim the same.	Deductions are available only when the assessee claims the same in his return of income.

RELIEF

Income tax liability of assessee is computed on the total income after allowing various exemptions & deductions under several sections of the Act. Relief are reduced from the amount of income-tax liability so computed on fulfilment of conditions as prescribed in Sec. 86, 89 etc.

HEADS OF INCOME: SEC 14

Distinguish between heads of income and sources of income

Basis	Heads of income	Source of income
Number	There are only five heads of income	There can be any number of source of income
Broader term	In a single head of income, there may be various sources of income.	A particular source of income shall fall under a particular head.
Term	Heads of income is a technical term	Source of income is a general term.

COMPARATIVE STUDY OF TAX, DUTY AND CESS

Particulars	Tax	Duty	Cess
Nature of payment	Compulsory Payment	Compulsory Payment	Compulsory Payment
Utilisation of amount so collected	General Purpose of the Government.	General Purpose of the Government.	Specific Purpose of the Government.
Based on	Revenue	Independent of revenue	Based on tax or duty.
Example	Income Tax, Wealth Tax, Sales Tax, VAT etc.	Excise Duty, Custom Duty, etc.	H & EC

TAX PLANNING, TAX AVOIDANCE, TAX EVASION AND TAX MANAGEMENT

Difference tax planning, tax avoidance, tax evasion & tax management

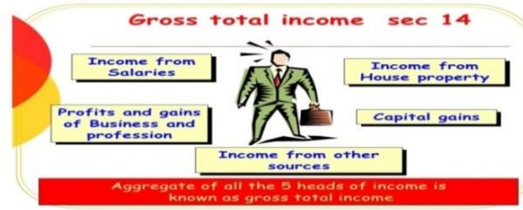
Basic	Tax Planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is way to reduce the tax bill by using advantages allowed by the Act through various exemptions, deductions & relief	It is a way to reduce the tax bill by bending the law without breaking it.	It is the way to reduce the tax bill by deliberately suppressing income or over showing expenditure etc.	It is a procedure to fulfil all requirements of the Income Tax Act.
Nature	It is moral in nature.	It is immoral in nature but legal	It is illegal hence immoral in nature	It is the duty to comply with the law
Benefit	Benefit arises in short run as well as in long run	Benefit arises in short run but not in long run	No benefit arises but causes penalty and prosecution	It avoids penalty, interest & prosecution
Objective	To reduce tax bill following script & moral of law	To reduce tax bill following script but not moral of law	To reduce tax bill by any means whether legal or illegal	To comply with the requirements of the law
Treatment of law	It takes advantages gifted	It takes advantages of	It violates the law	It follows the law

	by the law	loopholes in the law		
Requirement	It id valid	It is to be avoided	It is forbidden	It is the duty
Practice	It is a practice of tax saving	It is a practice of tax saving	It is a practice of tax concealment	It is a practice of tax administration

GROSS TOTAL INCOME (SEC. 80 B (5)]

Under section 14, income of a person is computed under the following five heads.

- Income from Salary
- Income from House Property
- Income from Business or Profession
- Capital Gains
- Income from other Sources.



	Particulars	Rs.
	Income from Salary Income from House Property Income from Business or Profession Capital Gains Income from other Sources	XX XX XX XX XX
Less:	**Set off & Carry forward**	**XX**
=	**GROSS TOTAL INCOME**	**XX**
Less:	Deduction Under Section 80C to 80U	XX
=	**Taxable Income**	XX
	Income Tax on above income	XX
Less:	Relief u/s. 87A (applicable in case of Resident individual having net income not exceeding 5 lakhs)	XX
=	**Balance**	
Add:	Surcharge on Income tax	XX
=	**Tax plus SC**	
Add:	4% Health & Education cess	XX
=	**Tax Liability (Tax + SC + H & EC)**	XX
Less:	Tax deducted at Source / Tax Collected at Source Advance Tax Rebate u/s 86, 89, 90, 90A & 91	XX XX XX
=	**Tax Payable/ (Refund)**	XX

ROUNDED OFF OF INCOME [SECTION 288A]

The total income as computed above shall be rounded off to the nearest multiple of ten rupees.

Income	Rounded off
Rs. 79,464.90	Rs. 79,460
Rs. 79,478	Rs. 79,480
Rs. 79,475	Rs. 79,480

ROUNDED OFF OF INCOME TAX [SECTION 288B]

The income tax on taxable income shall be rounded off to the nearest multiple of ten rupees.

Income	Rounded off
Rs. 79,464.90	Rs. 79,460
Rs. 79,478	Rs. 79,480
Rs. 79,475	Rs. 79,480

CHARGING SECTION 4

1	**Charging section**	**Sec. 4 of the Income Tax Act provides that the shall be charged –** **(a)** For any assessment year (AY), at the rate(s) specified in the annual Finance Act for that year, and **(b)** In respect of the total income of the previous year of every person. It lays down the rates for charging income – tax in certain cases, rates for deducting income tax from income chargeable under the head 'Salaries' and the rates for computing advance – tax for the financial year 2019 – 20 i.e. AY 2020 – 21.
First Schedule to Annual Finance Act: It contains four parts, which, as applicable for the **Finance Act, 2019** are as follows:		
2	**Part I**	It specifies the rates at which income tax is to be levied on income chargeable to tax for the PY 2019 – 20.
3	**Part II**	It lays down the rate at which tax is to be deducted at source during the financial year 2019 – 20 i.e. AY 2020 – 21.
4	**Part III**	It lays down the rates for charging income – tax in certain cases, rates for deducting income tax from income chargeable under the head 'Salaries' and the rates for computing advance – tax for the financial year 2019 – 20 i.e. AY 2020 – 21.
5	**Part IV**	It lays down the rules for computation of net agricultural income.

TAX RATES FOR AY 20-21

Tax rate	Resident Individual age < 60 (Male & Female), HUF, AOP, BOI & AJP	Resident Individual (Age >= 60 during PY) Senior citizen(Male& Female)	Resident Individual (Age >=80 during PY) Super senior citizen(Male & Female)
NIL	2,50,000	3,00,000	5,00,000
5%	2,50,001 to 5,00,000	3,00,001 to 5,00,000	NA
20%	5,00,001 to 10,00,000	5,00,001 to 10,00,000	5,00,001 to 10,00,000
30%	Above 10,00,000	Above 10,00,000	Above 10,00,000
Add: Surcharge	**Income**	**Rate**	
	50,00,000 to 1,00,00,000	10%	
	1,00,00,000 to 2,00,00,000	15%	
	200,00,000 to 5,00,00,000	**25% [FA 2019]**	
	Above 5,00,00,000	**37% [FA 2019]**	
Health & Education Cess	4% on Tax plus Surcharge		

REBATE U/ 87A

1	*Conditions*	
	1	A resident individual whose net income does not exceed Rs. 5,00,000 can avail rebate u/s. 87A. **[FA 2019]**
	2	**The amount of rebate is 100%** of income tax or Rs. 12,500 whichever is less. **[FA 2019]**
2	*Key notes*	
	a	**Net income = GTI – Deduction u/s 80C to 80U**
	b	**It is to be deducted before H & EC.**

NON RESIDENT ASSESSEE	
a	For Non-Resident individual exempted income shall be upto Rs. 2, 50,000 irrespective of Age
b	Surcharge : as per table given above
c	Health & Education Cess @ 4% on Tax + SC
d	Rebate u/s 87A is not available.

Illustration 1

Compute tax if income of Mr. X age 26 years is Rs.7 lac.

Solution

Income range	Detail	Rate	Tax
Upto Rs.250000			
250000 to 500000			
500000 to 700000			
Tax liability before cess			
Add: Health & Education cess @ 4%			
Tax liability after H & EC			

Illustration 2

Compute tax if income of Mrs. X age 26 years, is Rs.3.3 lakhs

Solution

Income range	Detail	Rate	Tax
Upto Rs.250000			
2,50,000 to 3,30,000			
Tax liability before surcharge			

Less: Rebate u/s 87 A			
Tax liabilities after rebate			
Add: Health and Education cess @ 4%			
Tax Liability			

Illustration 3

Compute the tax liability in the following cases:-

Assessee	Status	Rebate u/s 87A (y/n)	Total Income (in Rs.)
(a) Mr. Mohan	Resident Individual of 40 years	Yes	2,60,000
(b) Mrs. Swati	Non-resident Individual of 65 years	No	2,75,000
(c) Mr. Bansal	Resident Individual of 25 years	Yes	4,50,000
(d) Mrs. Priyanka	Resident Individual of 21 years	No	5,10,000
(e) Mrs. Resham	Resident individual of 60 years	No	12,00,000
(f) Mrs. Radhika	Resident Individual of 80 years	No	18,00,000
(g) Ms. Madhuri	Resident Individual of 21 years	Yes	2,65,500

Solution

The computation of tax liability is given below:-

Assessee	Total Income	Income-tax	Rebate u/s. 87A	Income tax after rebate	H&EC @4%	Total Tax	Total Tax (rounded off)
(a) Mr. Mohan							
(b) Mrs. Swati							
(c) Mr. Bansal							
(d) Mrs. Priyanka							
(e) Mrs. Resham							
(f) Mrs. Radhika							
(g) Ms. Madhuri							

Illustration 4

Compute tax if income of Mrs. X, a resident in India, aged 60 years is Rs.115 lakhs

Solution

Computation of tax liabilities:

Income range	Detail	Rate	Tax

Upto Rs.300000			
300000 to 500000			
500000 to 1000000			
Above 1000000			
Tax liabilities before surcharge			
Add: surcharge			
Tax liability after surcharge			
Add: health & Education Cess @ 4%			
Tax Liability			

FOR DOMESTIC COMPANIES

		Surcharge		
Particulars	**AY 20-21**	**Income between 1 cr to 10 cr**	**Above 10 cr**	**cess**
If turnover of or gross receipt during PY 16-17 dose not exceeds 250 cr	25%	7%	12%	4%
If turnover of or gross receipt during PY 17-18 dose not exceeds 400 cr **[Amendment FA 2019]**	25%	7%	12%	4%
Otherwise	30%	7%	12%	4%

FOR OTHER ASSESSEES / PERSONS

			Surcharge		
Assesse	**Rate of tax**	**TI <Rs. 1 Crore**	**TI > Rs.1 Crore, but TI ≤ Rs.10 Crores**	**TI > Rs.10 crores**	**Rate of EC + H & EC**
Foreign Companies	40%		2%	5%	4%
Firms and LLP	30%		12%	12%	4%
Local Authorities	30%		12%	12%	4%
Co – operative Societies For First Rs.10,000 For Next Rs.10,000 For the Balance	10% 20% 30%		- - 12%	- - 12%	 4%

Illustration 5

Compute tax if the income of R Ltd. (a Domestic Company) during the previous years is 98 lakhs. How would your answer differ if the assessee is a foreign company?

Solution

Statement showing computation of tax liability of R. Ltd (a Domestic Company)

Income	Rate	Tax
Total Income of the company: 98 lakhs		
Tax liabilities before surcharge		
Add: Surcharge (since the total income does not exceed 1 crores)		
Tax liabilities after surcharge		
Add: Health & Education cess @ 4%		
Tax Liability		
Rounded Off		

Statement showing computation of tax liabilities of R Ltd (a foreign company)

Income	Rate	Tax
Total income of the company: 98 lakhs		
Tax liability before surcharge		
Add: Surcharge (since the total income does not exceed 1 crores		
Tax liability after surcharge		
Add: Health & Education Cess @ 4%		
Tax Liability		

Illustration 6

Compute tax if the income of G Ltd (a Domestic Company) during the previous year is 112 lakhs how would your answer differ if the assessee is a foreign company

Solution

Statement showing computation of tax liability of tax liability of G Ltd (a Domestic Company)

Income	Rate	Tax
Total Income of the company: 112 Lakhs		
Tax liability before surcharge		
Add: Surcharge @7% of 33,60,000 (Since the total income exceeds 1 crore)		
Tax liability after surcharge		
Add: Health & Education Cess @ 4%		

Tax Liability		
Rounded off		

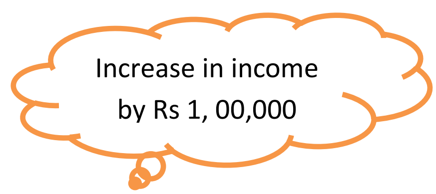
Statement showing computation of tax liability of G Ltd (a foreign company)

Income	Rate	Tax
Total Income of the company: 112 lakhs		
Tax liability before surcharge		
Add: Surcharge @2% of 44,80,000(Since the total income exceeds 1 crores)		
Tax + Surcharge		
Tax liability after surcharge		
Add: Health & Education cess & 4%		
Tax Liability		
Rounded off		

	***MY NOTES***

CONCEPT OF MARGINAL RELIEF

Why Relief is given?



Particulars	Difference	Rate	Tax on 50,00,000	Tax on 51,00,000
Up to 2,50,000	2,50,000	Exempt	-	-
2,50,000 to 5,00,000	250000	5%	12500	12500
5,00,000 to 10,00,000	500000	20%	100000	100000
Above 10,00,000	4000000	30%	1200000	
	4100000	30%		1230000
Total Tax			1312500	1342500
Add: Surcharge	13,42,500	10%		134250
Tax plus Surcharge			13,12,500	14,76,750

Add: Health & Education Cess @ 4%	14,76,750	4%	52,500	59,070
Tax liability			13,65,000	15,35,820

Tax is increased by Rs 1,70,820

To remove above defect Marginal relief is given as under

1	**Meaning**	Marginal relief in provided to insure that the additional income tax payable including surcharge on excess of income over Rs. 50,00,000 / 1,00,00,000/ 2,00,00,000/ 5,00,00,000 is limited to the amount by which the income is more than Rs.50,00,000 /1,00,00,000/ 2,00,00,000/ 5,00,00,000
2	**Applicable to**	All assessee
3	**How to calculate Marginal relief**	**Step 1**: Compute Tax + SC **Step 2**: Marginal Relief = [Difference in Tax – Difference in Income] **Step 3**: Deduct marginal relief computed above [if positive] from Tax + Surcharge on actual income **Step 4**: **Add:** H&EC
4	**Key Note**	When increase in income is more than increase in tax Marginal relief shall not be given. [when step 2 is negative]

Illustration 7

Compute the amount of marginal relief available if the income of Mr. Apple is Rs. 51 lakhs and tax payable

Solution

Particulars	Difference	Rate	5000000	5100000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 11 crore as the case may be)] –[actual income – 50 L / 1 crore]

Calculation of Tax Liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge on actual income	
Less: Marginal relief computed above	
= Tax	
Add: Health & Education Cess @ 4%	
Tax Liability	

Analysis of Tax liability before Relief and after relief

Particulars	Before Relief	After Relief
Income		
Tax liability		
Difference		
Marginal relief as above		
Add: Health & Education Cess @ 4%		

Illustration 8

Compute the amount of marginal relief available if the income of Mr. Raju cha cha is Rs 51.50 lakhs and tax Payable

Solution

Particulars	Difference	Rate	5000000	5150000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				

Add: SC @ 10% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 1 crore as the case may be)] –[actual income – 50 L / 1 crore]

Calculation of tax liability after marginal relief

Particulars	Amount
= Tax plus surcharge on actual income	
Less: Marginal relief computed above	
= Tax	
Add: Health & Education Cess @ 4%	
= Tax liability	

Illustration 9

Compute the amount of marginal relief available if the income of Mr. Raju cha cha is Rs 52 lakhs and tax Payable

Solution

Particulars	Difference	Rate	5000000	5200000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 1 crore as the case may be)] –[actual income – 50 L / 1 crore]

Note: No relief shall be provided as increase in income is more than increase in tax.

Calculation of Tax Liability after Marginal Relief

Tax plus surcharge	
Add: Health & Education Cess @ 4%	
Tax Liability	

Illustration 10

Income of Mr. Mote is Rs 53,00,000 compute tax payable

Solution

Particulars	Difference	Rate	53,00,000
Up to 2,50,000			
2,50,000 to 5,00,000			
5,00,000 to 10,00,000			
Above 10,00,000			
Total Tax			
Add: SC @ 10% on Tax			
= TAX + SC			
Add: health & Education Cess @ 4%			
Tax Liability			

Illustration 11

Compute the amount of marginal relief available if the income of Mr. Raju cha cha (Age 62) is Rs 51.50 lakhs and tax Payable

Solution

Particulars	Difference	Rate	5000000	5150000
Up to 3,00,000				
3,00,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 1 crore as the case may be)] –[actual income – 50 L / 1 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge on actual income	
Less: Marginal relief computed above	
= Tax	
Add: Cess @ 4%	
= Tax liability	

Illustration 12

Compute the amount of marginal relief available if the income of Mr. Raju cha cha (Age 82) is Rs 51.50 lakhs and tax Payable

Solution

Particulars	Difference	Rate	5000000	5150000
Up to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 1 crore as the case may be)] –[actual income – 50 L / 1 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less: Marginal relief computed above	
= Tax	
Add: Cess @ 4%	
= Tax liability	

MARGINAL RELIEF WHEN INCOME EXCEEDS 1CR

Illustration 13

Compute the amount of marginal relief available if the income of Mr. Santra is Rs 1.01cr and tax Payable

Solution

Particulars	Difference	Rate	10000000	10100000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 1 crore as the case may be)] –[actual income –1 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge on actual income	
Less: Marginal relief computed above	
= Tax	
Add: Health & Education cess @ 4%	

= Tax liability	

Analysis of Tax liability before Relief and after relief

Particulars	Before Relief	After Relief
Income		
Tax liability after cess		
Difference		
Marginal relief as above		
Add: Health Education Cess @ 4%		

Illustration 14

Compute the amount of marginal relief available if the income of Mr. Santra is Rs 1.02cr and tax Payable

Solution

Particulars	Difference	Rate	10000000	10200000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 1 crore as the case may be)] –[actual income – 1 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less: Marginal relief computed above	
= Tax	

Add: Cess @ 4%	
= Tax liability	

Illustration 15

Compute the amount of marginal relief available if the income of Mr. Bhatura is Rs 10210000 and tax Payable

Solution

Particulars	Difference	Rate	10000000	10210000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 1 crore as the case may be)] –[actual income – 1 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less: Marginal relief computed above	
= Tax plus surcharge	
Add: Cess @ 4%	
= Tax liability	

Illustration 16

Compute the amount of marginal relief available if the income of Mr. Tappu is Rs 10220000 and tax Payable

Solution

Particulars	Difference	Rate	10000000	10220000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 1 crore as the case may be)] –[actual income – 1 crore]

Key Note	Marginal relief is not given as increased in income is enough to pay increase in tax

Tax Payable

Tax on 10220000	
Health & Education Cess 4%	
Tax liability	
Rounded off	

Illustration 17

Compute the amount of marginal relief available if the income of Mr. Mantra is Rs 1.07cr and tax Payable

Solution

Particulars	Difference	Rate	10000000	10700000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 50L / 1 crore as the case may be)] –[actual income – 50 L / 1 crore]

Note: Marginal Relief shall not be provided as increase in income is more than tax.

Calculation of Tax liability after Marginal Relief

Particulars	Amount
Tax plus surcharge on actual income	
Add: Cess @ 4%	
= Tax liability	

MARGINAL RELIEF WHEN INCOME EXCEEDS 2 CR

Illustration 18

Compute the amount of marginal relief available if the income of Mr. Sada Bahar is Rs 20200000 and tax Payable

Solution

Particulars	Difference	Rate	20000000	20200000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 15% / 25% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 2 crore as the case may be)] –[actual income – 2 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less: Marginal relief computed above	
= Tax plus surcharge	
Add: Cess @ 4%	
= Tax liability	

Illustration 19

Compute the amount of marginal relief available if the income of Mr. Sada Bahar is Rs 2,12,00,000 and tax Payable

Solution

Particulars	Difference	Rate	20000000	2,12,00000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 15% / 25% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 2 crore as the case may be)] –[actual income – 2 crore]

Key Note	Marginal relief is not given as increased in income is enough to pay increase in tax

Tax Payable

Tax on 2,12,00,000	
Health & Education Cess @ 4%	
Tax liability	

MARGINAL RELIEF WHEN INCOME EXCEEDS 5 CR

Illustration 20

Compute the amount of marginal relief available if the income of Mr. Darwaja is Rs 50200000 and tax Payable

Solution

Particulars	Difference	Rate	50000000	50200000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				

Total Tax				
Add: SC @ 25% / 37% on Tax				
= TAX + SC				

Marginal Relief	[(Income tax + surcharge on actual income) – (Income tax on 5 crore as the case may be)] –[actual income – 5 crore]

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less: Marginal relief computed above	
= Tax plus surcharge	
Add: Cess @ 4%	
= Tax liability	

INCOME RANGE WHEN MARGINAL RELIEF IS APPLICABLE – MARGINAL RELIEF WILL BE APPLICABLE IN CASE NET INCOME FALLS IN THE FOLLOWING RANGE –

Resident senior citizen	Rs. 50 lakh – Rs. 51.9552 lakh
Resident super senior citizen	Rs. 50 lakh – Rs. 51.9402 lakh
Any other resident individual, any non-resident individual, any HUF or AOP/ BOI	Rs. 50 lakh – Rs. 51.9589 lakh
Resident senior citizen	Rs. 100 lakh – Rs. 102.145 lakh
Resident super senior citizen	Rs. 100 lakh – Rs. 102.1374 lakh
Any other resident individual, any non-resident individual, any HUF or AOP/ BOI	Rs. 100 lakh – Rs. 102.1469 lakh

PREVIOUS YEAR FOR UNDISCLOSED INCOME

UNEXPLAINED CASH CREDITS [SEC. 68]

1	The amount is credited in the books of the Assessee.
2	(i) The Assessee offers no explanation about its nature &source, or (ii) the explanation offered is not satisfactory.
3	The amount credit is treated as the income of the previous year in which it is found credit.

UNEXPLAINED INVESTMENTS [SEC. 69]

1	The Assessee has made investments, but has not recorded in his books.
2	He offers no explanation about its nature and source, or the explanation offered is not satisfactory.
3	The value of the investment made shall be treated as the Income of that financial year in which the Investment is made.

UNEXPLAINED MONEY, BULLION OR JEWEL OR VALUABLE ARTICLE [SEC. 69A]

1	The assessee is found to be the Owner of any Money, Bullion or Jewel or other Valuable Article, etc.
2	Such Money, Bullion, etc. are not recorded in the books of accounts of the Assessee.
3	He offers no explanation about its nature and source of acquisition, or the explanation offered is not satisfactory.
4	The value of such items shall be treated as the Income of that financial year in which it is found.

INVESTMENT NOT FULLY DISCLOSED [SEC. 69B]

1	The Assessee has made Investments, or found to be the owner of Bullion, Jewellery or other valuable article, but has not fully records in his books of accounts.
2	He offers no explanation about such excess amount, or the explanation offered is not satisfactory.
3	The excess amount (i.e. to the extent not recorded in the books of account) shall be treated as the income of that FY.

UNEXPLAINED EXPENDITURE [SEC. 69C]

1	The Assessee has incurred expenditure during the Financial Year.
2	He offers no explanation about the source of such expenditure, or the explanation offered is not satisfactory.

3	The amount of such expenditure shall be treated as Income of the previous year in which it was incurred.
4	Such amount shall not be allowed as a deduction under any head of income.

AMOUNT BORROWED / REPAID ON HUNDI OTHER THAN BY A/C PAYEE CHEQUE [SEC. 69D]

1	This Section Relates to a situation when any amount is borrowed on a Hundi or is repaid otherwise than through an Account Payee Cheque.
2	The amount so borrowed or paid shall be treated as Income of the person borrowing or repaying the amount for the previous year in which the amount was borrowed or repaid.
3	The amount repaid shall include the amount of interest paid on the amount borrowed.
4	No double taxation: Any amount borrowed on Hundi and treated as income u/s 69D shall not be taxed once again at the time of repayment.

- All above mentioned income shall be chargeable to tax under the head Income from Other Source @ 60%
- No deduction in respect of any expendable allowance or any set off shall be allowed

PRACTICAL QUESTIONS ON TAX CALCULATION

1. **Kalu (Age: 35 years, Resident)**

Total income	2,60,000	6,72,000	15,70,000	51,45,000	1,00,28,000	1,01,74,000	1,05,00,000
First 2,50,000 @ Nil							
Next 2,50,000 @ 5%							
Next 5,00,000 @ 20%							
Bal @ 30%							
Total Tax							
Less: Rebate u/s 87A							
Add Surcharge							
Total (Tax + Surcharge)							
Less: Marginal relief (Additional Tax – Additional Income)							
Balance							
Add: Health & Education Cess @ 4%							
Total							

2. **Amitabh Bacchan (Age: 67 yrs, Resident)**

Total income	**2,60,000**	**6,72,000**	**15,70,000**	**5,14,5000**	**1,00,28,000**	**1,01,74,000**	**1,05,00,000**
First 3,00,000 @ Nil							
Next 2,00,000 @ 5%							
Next 5,00,000 @ 20%							
Bal @ 30%							
Total Tax							
Less: Rebate u/s 87A							
Add Surcharge							
Total (Tax + Surcharge)							
Less: Marginal relief (Additional Tax – Additional Income)							
Balance							
Add: H & EC @ 4%							
Total							

3. **Dev Anand (Age: 85 Yrs, Resident)**

Total income	**2,60,000**	**6,72,000**	**15,70,000**	**51,45,000**	**1,00,28,000**	**1,01,74,000**	**1,05,00,000**
First 5,00,000 @ Nil							
Next 5,00,000 @ 20%							
Bal @ 30%							
Total Tax							
Add Surcharge							
Total (Tax + Surcharge)							
Less: Marginal relief (Additional Tax – Additional Income)							
Balance							
Add: H & EC @ 4%							
Total							

MULTIPLE CHOICE QUESTIONS

CONSTITUTIONAL PROVISIONAL

1. For the purpose of levying tax on income other than agricultural income, Union List contained entry

a. 82
b. 92D
c. 92C
d. 92E

2. Income tax Act extends to:

a) Whole of India
b) Whole of India except Jammu & Kashmir
c) Whole of India except Sikkim
d) Whole except Jammu& Kashmir

3. Finance bill becomes the finance Act when it is passed by:

a) The Loksabha
b) Both the Loksabha and Rajya Sabha
c) Both the house of Parliament and given the assent of the president
d) Both the house of parliament and given the assent of the Prime Minister / Finance Minister

4. The circulars issued by CBDT are binding on:

a) Assessee
b) Income tax Authorities
c) Both the above

5. The income tax Act, 1961 came into force w.e.f…….

a) 1st April, 1962
b) 1st April, 1961
c) 31st March, 1961
d) None of above

6. Amongst the following ____________ is empowered to levy tax on agricultural income.

(a) Central Government
(b) State Government
(c) Commissioner
(d) President

7. Circulars and Notification are binding on the __________

(a) Central Board of Direct Taxes (CBDT)
(b) Assessee
(c) Income Tax Appellate Tribunal (ITAT)
(d) Income Tax Authorities

8. Supreme Court precedent is binding on ____________

(a) Courts
(b) Appellate Tribunals
(c) Income Tax Authorities
(d) All of the above

9. High Court's precedents are not binding on ____________

(a) Tribunal
(b) Income Tax Authorities
(c) Assessee
(d) None of the above

10. Income tax is a

(a) Indirect tax
(b) Entertainment Tax
(c) Direct Tax
(d) State Tax

11. Who among the following is the administrative body of the Income – Tax Act?
(a) SEBI
(b) CBEC
(c) CBDT
(d) RBI

PERSON

12. X and Y are legal heirs of Z. Z died in 2019 and X and Y carry on his business without entering into a partnership. What will the status?
a. Firm
b. Limited Liability Partnership
c. Company
d. Body of Individual

13. Mr. X, partner of M/s XYZ, is assessable as
a. Firm
b. An individual
c. HUF
d. Body of individual

14. Determine the status of X and Y who are the legal heirs of Z
a. An individual
b. HUF
c. BOI
d. A Local authority

15. A.O.P. should consist of:
a) Individuals only
b) Persons other than individuals
c) both the above

16. Body of individuals should consist of:
a) Individuals only
b) Persons other than individuals only
c) Both the above

17. As per section 2(31), the following is not included in the definition of 'person' –
(a) An individual
(b) A Hindu Undivided Family
(c) A company
(d) A minor

ASSESSE

18. Every assesse is a person, and
a. Every person is also an assesse
b. Every person need not be an assesse
c. An individual is always an assesse
d. A HUF is always an assesse

19. According to Section 2(7) of Income Tax Act "Assesses" means
(a) A person by whom any tax or other sum of money is payable
(b) A person against whom any proceeding under the Act has been taken
(c) A person who is deemed to be an assesses in default under any provision of this Act
(d) All of the above

20. The term "Person" includes
(a) A Registered Firm
(b) An Unregistered Firm
(c) Both of a and b
(d) None of a or b

21. Assesses is always a person but a person may or may not be an assesses.

(a) True

(b) False

22. A person may not have assessable income but may still be assesses

(a) True

(b) False

PY & AY

23. First previous year is case of a business / profession newly set up on 31.3.2020 would:

a. Start from 1st April, 2020 end on 31st March, 2020

b. Start from 31.3.2020 and will end on 31.3.2020

c. Start from 1st January, 2020 and end on 31st December, 2020

d. Start from 1st January, 2020 and will end on 31st March, 2020

24. A person follows Calendar year for accounting. For taxation, he has to follows:

a. Calendar year only – 1st January to 31st December

b. Financial year only – 1st April to 31st March

c. Any of the Calendar or Financial year as per his choice

d. He will to follow extend year from 1st January to next 31st March (a period of 15 months)

25. In which of the following cases, income of previous year is assessable in the previous year itself:

a. Assessment of persons leaving India

b. A person in employment in India

c. A person who is into illegal business

d. A person who is running a charitable institution

26. Financial year 2019 – 20 shall be considered as

a. Assessment year for the previous year 2017-18 and previous year for the assessment year 2020 -21.

b. Assessment year for the previous year 2018 – 19 and previous year for the assessment year 2020 – 2021

c. Assessment year for the previous year 2018 -19

d. Previous year for the assessment year 2020 -21

27. In which of the following cases, Assessing Officer has the discretion to assess the income of previous year in previous year itself or in the subsequent assessment year:

a. Shipping business of non-residents

b. Assessment of association of persons or body of individuals formed for a particular event of purpose

c. Assessment of persons likely to transfer property to avoid tax

d. Discontinued business

28. Year in which income is taxable is known as ________________ and year in which income is earned is known as ______________.

a. Previous year, assessment year

b. Assessment year, previous year

c. Assessment year, assessment year

d. Previous year, previous year

29. Assessment year can be a period of:

a. Only more than 12 months

b. 12 months and less than 12 months
c. Only 12 months
d. 12 months and more than 12 months

30. A new business was set up on 15.10.2019 and it commenced its business from 1.12.2019. the first previous year in this case shall be:
a) 15.10.2019 to 31.3.2020
b) 1.12.2020 to 31.3.2020
c) 2019 – 20

31. A person leaves India permanently on 15.11.2019. The assessment year for income earned till 15.11.2019 in this case shall be:
a) 2018 – 19
b) 2019 – 20
c) 2020 – 21

32. Which amongst the following is an exception to the previous year rule?
a) Business or Profession newly set up.
b) Where a source of income newly set up.
c) Non-resident engaged in shipping business.
d) None of the above.

33. The charging section of the Income-Tax Act, 1961, states that the income earned in the year is taxable in the next year. This is known as ___________.
(a) Principal of mutuality
(b) Previous year rule
(c) Financial year rule
(d) None of these.

INCOME

34. Following is not a head of income
a. Income from house property
b. Salaries
c. Income from interest on securities
d. Capital gains

35. Total income is to be rounded off to nearest multiple of __________ and tax is to be rounded off to nearest multiple of _____________
a. Ten, rupee
b. Hundred, ten
c. Ten, ten
d. Rupee, rupee

36. Income tax is a
a. Indirect tax
b. Entertainment tax
c. Direct tax
d. State tax

37. The term income includes the following types of incomes
a. Legal
b. Illegal
c. Legal and illegal both
d. Legal income from India only

38. Income tax is rounded off to:
a) Nearest ten rupees
b) Nearest one rupee
c) No rounding off of tax is done

39. Which amongst the following is not a head of Income?
a) Salaries
b) Income from house property
c) Capital gains
d) Income from exports

40. Amongst the following which activity will be taxable

(a) Profits & gains of any insurance business carried on by a co-operative society.
(b) Income from specific services provided by trade, professional or similar association.
(c) The Profit & Gains of any banking business carried on by a co-operative society.
(d) All of the above

41. Subsidy if given as assistance to carry on business already commenced is a ___________.
(a) Revenue receipt
(b) Capital receipt
(c) it is not a receipt
(d) None of these

42. According to section 2(24) definition of 'income; is -
(a) Inclusive
(b) Exhaustive
(c) Exclusive
(d) Descriptive

43. Method of accounting is not relevant for –
(a) Salaries
(b) Income from house property
(c) Capital Gains
(d) All of the above

CHARGING SECTION

44. Which part of the First Schedule attached to the Finance Bill prescribes the rates of the advance income tax:
a. Part I
b. Part II
c. Part III
d. Part IV

45. The charging section of the Income Tax act is
a. Section 1
b. Section 2
c. Section 3
d. Section 4

46. Part II of the First Schedule of Finance Bill gives
a. Rates of Income Tax
b. Rates of TDS
c. Rates of agricultural income
d. Rates of advance income tax

47. Part I of schedule I of the finance Act, 2019 has given rates of income tax for the assessment year.
a) 2019 – 20
b) 2020 – 21
c) 2021 – 22

48. Part II of schedule I of the finance Act, 2019 has given the rates of tax deductible at source for the finance year:
a) 2019 – 20
b) 2020 – 21
c) 2021 – 22

49. Part III of schedule I of the finance Act, 2019 has given the rates of advance tax & tax to be deducted in case of salary for the assessment year:
a) 2019 – 20
b) 2020 – 21
c) 2021 – 22

50. Amendments by the finance act are made applicable for ___________.

(a) First day of next financial year
(b) First day of same financial year
(c) last day of same Accounting year
(d) None of the above

TAX RATES

51. In case of a female individual, who is of 59 years of age, what is the maximum exemption limit for A.Y. 2020 – 21
a. Rs.2,50,000
b. Rs.3,00,000
c. Rs.5,00,000
d. Rs.2,10,000

52. The surcharge applicable in case of an individual is
a. 15% of tax payable
b. 10% if income exceeds 50 lakhs % & 15% of tax payable if total income exceeds Rs.100 lakh, 25% if income exceeds 2cr & 37% if income exceeds 5cr
c. Nil
d. 7% of tax payable if total income exceeds Rs.100 lakhs

53. Co-operative society is subject to tax at
a. Flat 30%
b. 10%, 20% and 30%
c. 40%
d. None of the above

54. The rates of income tax are mentioned in
a. Income tax act, 1961
b. The Annual Finance Act
c. Partly in the Income Tax Act, 1961 and partly in the Annual Finance Act
d. The tax rates are declared by the CBDT

55. A person firm is taxable at rate of
a. 20%
b. 30%
c. Slab rates
d. Profit of the firm shall be clubbed in hands of the partner

56. Additional surcharge (H& EC cess) of 4% per cent is payable on -
a. Income Tax
b. Income tax plus surcharge
c. Surcharge
d. None of the three

57. Surcharge on income tax is payable by a domestic company at the rate of:
a) 7% of income – tax payable provided its total income exceeds Rs. 10,00,000
b) 7% of income – tax payable irrespective of the amount of its total income
c) 7% of income – tax payable provided its total income exceeds Rs. 1 crore and 12% of income tax if total income exceeds Rs. 10 crores
d) 5% of income – tax payable provided its total income exceeds Rs. 1 crores

58. Surcharge in case of a foreign company is payable at the rate of:
a) 2% of the income – tax payable provided its total income exceeds Rs. 1 crore
b) 2% of the income – tax payable irrespective of the amount of its total income
c) 2% of the income – tax payable provided its total income exceeds Rs. 1 crore & 5% of income tax if total income exceeds Rs. 10 crores

59. Surcharge on income tax is payable by:
a) All assessee except a foreign company
b) A company, domestic or foreign
c) All assessee except local authority or co – operative society
d) All assessee provided their total income exceeds Rs 50 lakhs / 1Cr as the case may be.

60. The maximum amount on which income tax is not chargeable in case of HUF for assessment year 2020 -21 is:
a) Rs. 2,00,00
b) Rs. 2,50,000
c) Rs. 2,00,000

61. The maximum amount on which income tax is not chargeable for the assessment year 2020 – 21 in case of an individual other than a resident women or a resident individual less than 60 years old is:
a) Rs. 2,00,000
b) Rs. 2,50,000
c) Rs. 3,00,000
d) Rs. 2,40,000

62. The maximum amount on which income tax is not chargeable for the assessment year 2020– 21 in case of a resident women who is less than 60 years old is:
a) Rs. 2,50,000
b) Rs. 5,00,000
c) Rs. 3,00,000
d) Rs. 2,40,000

63. The maximum amount on which income tax is not chargeable for the assessment year 2020 – 21 in case of an individual who is resident in India and 60 years old is:
a) Rs. 2,40,000
b) Rs. 2,50,000
c) Rs. 3,00,000
d) Rs. 2,00,000

64. The maximum amount on which income tax is not chargeable for the assessment year 2020 – 21 in case of women who is not resident in India and who is less than 60 years old is:
a) Rs. 1,90,000
b) Rs. 3,00,000
c) Rs. 2,50,000
d) Rs. 2,00,000

65. The maximum amount on which income tax is not chargeable in case of firm is:
a) Rs. 1,60,000
b) Rs. 1,80,000
c) Rs. 2,00,000
d) Nil

66. The maximum amount on which income tax is not chargeable in case of a co – operative society is:
a) Rs. 1,80,000
b) Rs. 2,00,000
c) Nil

67. Health & Education Cess is leviable at
a) 2%
b) 5%
c) 4%

68. Health & Education cess is leviable in case of:
a) An individual assessee only
b) An individual and HUF
c) A company assessee only
d) All assessee

69. In case of an individual and HUF H & EC is leviable only when the total income of such assessee:
a) Exceeds Rs. 10,00,000
b) Is less than or more than Rs. 10,00,000

70. For assessment year 2020 – 21, a firm is subject to income – tax at a flat rate of:
a) 30% + surcharge @ 12% if the total income exceeds Rs. 1 crores + H & EC @ 4%
b) 30% + 5% surcharge + H & EC @ 4%
c) 30% + 5% surcharge if its total income exceeds Rs. 1 crore + H & EC @ 4%

71. Surcharge applicable for Domestic company is
a) 5% if income exceeds 1cr
b) 7% if income exceeds 1cr
c) 12% if income exceeds 1cr
d) 7% if income exceeds 1cr & 12% if income exceeds 10CR

72. In case of Firms ,LLP, Local authorities and Co-operative society rate of surcharge is
a) 5% if income exceeds 1cr
b) 7% if income exceeds 1cr
c) 12% if income exceeds 1cr
d) 7% if income exceeds 1cr & 12% if income exceeds 10CR

73. In respect of a resident assessee, who is of the age of 60 years or more at any time during the previous year but less than 80 years on the last day of previous Year relevant to Assessment Year 2020-21 is eligible for
(a) Rebate on tax payable subject to a maximum of Rs. 20,000.
(b) Higher basic exemption of Rs. 1, 50,000.
(c) Higher basic exemption of Rs. 3, 00,000.
(d) Higher basic exemption of Rs. 1, 35,000.

TAX CALCULATION

74. If total income of Mr. X, Resident, age 50 years, is Rs.3,50,000, his tax liability including cess shall be
a. Nil
b. Rs.2,575
c. Rs.5,150
d. Rs.8,300

Solution

Particulars	Rs
Income	
up to 2,50,000	
250000 to 350000 (5%)	
Total	
Add: Surcharge	
Tax + SC	
Less: Rebate u/s 87A	

Tax payable	
Add: HEALTH & EDUCATION CESS @ 4%	
Tax Liability	

75. Calculate income tax payable by an individual (aged 30 years) for AY 2020 – 21 if his total income is Rs.1,01,70,000

a. Rs. 33,61,663

b. Rs.33,94,300

c. Rs.32,93,025

d. Rs.33,33,790

Solution

Particulars	Difference	Rate	10000000	10170000
Up to 2,50,000				
2,50,000 to 5,00,000				
5,00,000 to 10,00,000				
Above 10,00,000				
Total Tax				
Add: SC @ 10% / 15% on Tax				
= TAX + SC				

Marginal Relief [(Tax on Actual income - Tax on 1cr) - (Actual Income - 1cr)

Calculation of Tax liability after Marginal Relief

Particulars	Amount
= Tax plus surcharge	
Less : Marginal relief computed above	
= Tax	
Add : H & EC @ 4%	
= Tax liability	
Rounded off	

76. Calculate the amount of rebate under section 87A in case of a resident individual having total income of Rs.3,00,000

a. Nil

b. Rs.5,000

c. Rs.2,500

d. Rs.2,000

Solution

Particulars	Rs
up to 2,50,000	
250000 to 300000 (5%)	
Total	
Less : Rebate u/s 87A	
Tax payable	
Add : Health & Education Cess @ 4%	
Tax Liability	

77. The total income of the assessee has been computed at Rs. 3, 83,494.90. for rounding off, the total income will be taken as:
a) Rs. 3,83,500
b) Rs. 3,83,490
c) Rs. 3,83,495

78. The total income of the assessment has been computed at Rs.4, 83,495. For rounding off the total income will be taken as:
a) Rs. 4,83,500
b) Rs. 4,83,490
c) Rs. 4,83,495

79. A (Resident Individual) is 57 years old. His total income for the assessment year 2020 – 21 is Rs. 3, 00,000. His tax liability shall be:
a) NIL
b) Rs. 5,150
c) Rs. 3,150
d) Rs. 5,410

80. A, a resident in India, is 61 years old. His total income for the assessment year 2020 – 21 is Rs. 3, 55,000. his tax liability shall be:
a) Rs. 10,820
b) Rs. 11,850
c) Nil
d) Rs. 257

81. Mrs. A, a resident of India, is 56 years old. Her total income for the assessment year 2020 – 21 is Rs. 11, 20,000. Her tax liability shall be:
a) Rs. 1,69,950
b) Rs. 1,12,500
c) Rs. 1,54,440
d) Rs. 1,68,920

Solution

Particulars	Rs
Income	
up to 2,50,000	
250000 to 500000 (5%)	
500000 to 1000000 (20%)	
1000000 to 1120000 (30%)	

Total	
Add : Health & Education Cess @ 4%	
Tax Liability	

82. Mrs. A resident of India is 61 years old. Her total income for the assessment year 2020 – 21 is Rs. 4, 50,000. Her tax liability shall be:

a) Rs. 7,500
b) Nil
c) Rs. 5,000

83. A's total income for the assessment year 2020 – 21 is Rs. 10, 20,000. His tax liability shall be:

a) Rs. 1,40,080
b) Rs. 1,22,055
c) Rs. 1,23,240

84. Mrs. A, a non – resident in India is 66 years old. Her total income for the assessment year 2020 – 21 is Rs. 6, 35,440. Her tax liability shall be –

a) Rs. 39,580
b) Rs. 38,570
c) Rs. 41,000

85. A's total income for the assessment year 2020 – 21 is Rs. 7, 90,000. His tax liability shall be –

a) Rs. 71,000
b) Rs. 73,320
c) Rs. 90,640

86. The income tax payable by a XYZ Inc. a foreign company on total income of Rs. 12,25,500 will be:

(a) Rs. 5,09,810
(b) Rs. 5,04,906
(c) Rs. 3,78,520
(d) Rs. 3,78,525

87. The income tax payable by a XYZ cooperative society on total income of Rs. 50,000 will be

(a) Rs. 12,480
(b) NIL
(c) Rs. 20,600
(d) Rs. 15,450

88. The income of Mr Tora tora is Rs 54, 00,00 Compute marginal relief for AY 19-20.

(a) 1,79,500
(b) 29,500
(c) Nil
(d) None of the above

89. Unexplained cash credits are chargeable to tax @ ______________.

a) 10%
b) 15%
c) 20%
d) 60%

ANSWER

Q NO	ANS	Q NO	ANS	Q NO	ANS	Q NO	ANS	Q NO	ANS
1	A	21	A	41	A	61	B	81	C
2	A	22	A	42	A	62	A	82	B
3	C	23	B	43	D	63	C	83	C
4	B	24	B	44	C	64	C	84	B
5	A	25	A	45	D	65	D	85	B
6	B	26	B	46	B	66	C	86	A
7	D	27	D	47	B	67	C	87	A
8	D	28	B	48	B	68	D	88	C
9	D	29	C	49	B	69	B	89	D
10	C	30	A	50	A	70	A		
11	C	31	B	51	A	71	D		
12	D	32	C	52	B	72	C		
13	B	33	B	53	B	73	C		
14	C	34	C	54	B	74	A		
15	C	35	C	55	B	75	B		
16	A	36	C	56	B	76	C		
17	D	37	C	57	C	77	B		
18	B	38	A	58	C	78	A		
19	D	39	D	59	D	79	A		
20	C	40	D	60	B	80	C		

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CMA Vipul Shah is one of the renowned & experienced faculty for Taxation Subject. He believes in conceptual clarity & is very famous among CA/CS/CMS students. Student love his teaching style and call him the "Guru of Taxation".He believes "If a child can't learn the way we teach, maybe we should teach the way they learn."–Ignacio Estrada. With this objective, he started his teaching journey and helped 8000+ CA/CS/CMA student to score good mark in Taxation Subject. His focus is on conceptual teaching and have devised many strategies which help students to remember & understand the concept very well.