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CONCEPT AND TERMS OF INCOME TAX: A STUDY

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Abstract
Income tax is an instrument used by the government to achieve its social and economic objectives. Simply put tax is a duty or tariff that earning individuals pay to the Government in exchange of certain benefits such as law and order, healthcare, education, infrastructure and a lot more. With proper planning tax liability can be reduced and optimized effectively, leaving you with a greater share of our income in our hands than being paid out as tax. In India, Income tax was first time introduced in the year 1860 by Sir James Wilson in order to meet the loss caused on account of military mutiny in 1857. In the year 1886, a separate Income Tax Act was passed; this act was in force for a long time, subject to the various amendments from time to time. In the year 1918, a new Income Tax Act was passed, but again, it was replaced by another new act of 1992. The Act of 1992 became very complicated due to various amendments. In the present paper an effort has been made to throw light on obtainable basic concepts of income tax. The study also covers the residential status and incidence of tax, components of Income Tax Law in India, computation income from salary and house property. The study is based on secondary data. The study found that, Income tax is not a voluntary fee but a compulsory contribution. The study also found that, Income tax act has undergone several amendments from the time it was originally enacted through the union budget.

Key Words: *Income Tax, Basic Concepts.*

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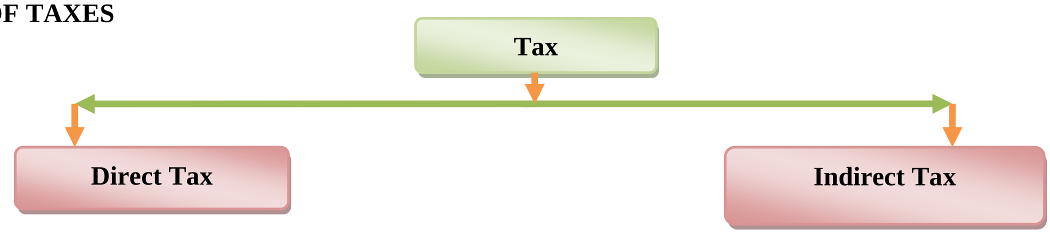
I. INTRODUCTION

TAX
Tax is an important source of Revenue or Income to the Central Government. This tax is collected from the rich people and is used for the social and economic development of the poor people or the country. Tax is the price which we pay to the civilized society. Tax is a compulsory payment to the Government without any proportionate return. Tax is levied on Individuals, Goods, Property, Business and Services etc.

TAXATION
Taxation is an important instrument of reducing wide gap between the rich and the poor or unequal distribution of wealth between the rich and the poor. This also helps in reducing the difficult problem of unemployment.

TYPES OF TAXES



1. **Direct Tax:** Direct tax is a tax which is levied and collected from the same person.
Examples: Income Tax, Wealth Tax and Gift Tax etc.
2. **Indirect Tax**: Indirect tax is a tax which is levied and collected from two different persons and not from the same person.
Examples: Sales Tax, Customs Duty, Excise Duty, GST etc.

II. OBJECTIVES OF THE STUDY

1. To study the basic concepts of Income Tax.
2. To study the Residential Status and Incidence of Tax.

3. To study the Components of Income Tax Law in India.
4. To study the Computation Income from Salary and House Property.

III. RESEARCH METHODOLOGY

The study is based on secondary data. The required data has been extracted from the various sources like research journals, periodicals, magazines, newspapers articles, government publications and the authenticated websites.

IV. REVIEW OF LITERATURE

- **Yadawananda Neog and Achal Kumar Gaur (2020)** the article entitled "Tax Structure and Economic Growth: A Study of Selected Indian States". The present study examines the long-run and short-run relationship between tax structure and state level growth performance in India for the period 1991-2016. The analysis in this paper is based on the model of Acosta - Ormaechea and Yoo 2012 and for the verification of the relationship between taxation and economic growth the panel regression method is used. With the use of 14 Indian states data, Panel Pool mean group estimation indicates that income tax and commodity service tax have negative effects whilst property and capital transaction tax have a significant positive effect on state economic growth. This study found that, 'U' shape relationship between tax structure and growth performance.
- **Puttaswamy (2018)** the article entitled "Income Tax Reforms in India a Study on Perceptions of Income Tax Assesses and Authorities". The main objective of the study is to examine the Income tax reforms in India. The study also examined the growth Income Tax Revenue and Performance of Income Tax Department from 2000-01 to 2015 16 and studied the perception of Income Tax Assesseees and Authorities towards Income Tax System and administration, Professional guidance, Income Tax compliance, Tax morale, Tax incentives, Tax payer services. TDS and refund measures, issues in tax administration and measures to widen the tax base newlines.
- **Ashish Mishra and Brijesh Kumar Yadav (2017)** the article entitled "Personal Income Structure in India: An Evaluation". In the present paper an effort has been complete to throw light on obtainable personal tax structure India. The paper briefly investigation the issues involving in high tax load on people lessening improvement in the personal income tax structure in the form of development, the additional improvement in the personal income tax structure in the form of development of exemption limits, lowering the tax tariff, reorganize the dissimilar income tax slabs and make simpler income tax process so that people could be positive for obedience of tax laws. The study found that, reduction in tax rate has caused positive impact on tax buoyancy.
- **Sopan Kasinath (2016)** the article entitled "A Study of Income Tax in India: Taxpayers Point of View". This paper proposes the study of income tax in India from both theoretical and practical aspects. The Income Tax Act, 1961 came into effect from 1st April, 1962 in India. Taxation comprises of Direct and Indirect Taxes in India. The total taxes in India have gone up to 14.54 lakh crore during the year 2015-16 in contrast to 627 crores during the year 1950-51. The study found that, the income from total taxes has increased substantially by 2,319.26 fold during the above study period. The contribution of total taxes is highly substantial in India. The study also found that, the direct tax to GDP ratio has gone up substantially during the above study period.

V. BASIC CONCEPTS

➢ **INCOME Section 2(24)**

Any monetary benefit received by assessee is called income. Indian Income Tax Act does not define what is income? It merely states that what the income is. It is nothing but dark cat in the bag of Income Tax Officer.

➢ **INCOME TAX**

Income tax is a tax on the total income of an Assesses. Income tax is a direct tax.

➢ **ASSESSEE Section 2(7)**

The person who is liable to pay tax is called Assessee. Assesses means a person by whom any tax or any other sum of money is payable under this act.

➢ **PERSON Section 2(31)**

The term person means and includes the following:

1. An Individual
2. A Hindu Undivided Family (HUF)
3. A Joint Stock Company
4. A Partnership Firm
5. An Association of person or body of individuals
6. A Local Authority

➢ **ASSESSMENT Section 2(8)**

Assessment is an act of

1. Computation of Total Income
2. Computation of Total Tax
3. Computation of Actual Tax Liability.

➢ **GROSS TOTAL INCOME (GTI)**

Gross Total Income =

Sl. No.	Particulars	Amount (Rs.)
1	Income from Salary	XXXX
2	Income from House Property	XXXX
3	Profits and Gains of Business or Profession	XXXX
4	Income from Capital Gains	XXXX
5	Income from Other Sources	XXXX
	GROSS TOTAL INCOME (GTI)	**XXXX**

➢ **NET TOTAL INCOME (NTI) OR TOTAL INCOME**

Net Total Income =

Particulars	Amount (Rs.)
Gross Total Income (GTI)	XXXX
Less: Deductions under section 80C to 80U	XXXX
NET TOTAL INCOME (NTI)	**XXXX**

➢ **ASSESSMENT YEAR Section 2(9)**

Assessment Year is a period of 12 months, commencing on 1st April of every year and concluding on 31st March immediately following year. Present Assessment Year is 2020-2021.

➢ **PREVIOUS YEAR Section 2(34)**

Previous year is a period of 12 months commencing on 1st April of every year and concluding on 31st March immediately following year. This is immediately proceeding to the assessment year. This is also called as income year. Present Previous Year is 2019-2020.

➢ **CASUAL INCOME**

Any receipt of non recurring and unexpected is called casual income.

Examples: Winnings from lotteries, Card games, Betting's, Gambling etc.

➢ **AGRICULTURAL INCOME Section 2(1A)**

The amount of rent or revenue derived from land, which is situated in India and is used for agricultural purpose is called as agricultural income,

➢ **EXEMPTED INCOMES Section 10**

While computing the total income certain incomes are fully exempted and certain incomes are partly exempted. Such incomes are called exempted incomes.

TAX FREE INCOMES

❖ **Section 10(1) Agricultural Income**

Agricultural income in India is fully exempted from tax.

❖ **Section 10(2) Receipts from Hindu Undivided Family**

Generally, when two or more elderly male members and their family are living together is called Hindu Undivided Family. Being an individual member of the family any income received from the Hindu Undivided Family is fully exempted from tax.

❖ **Section 10(2A) Share of Income of Partner**

Being an individual but a partner of firm, if any share of profit received from the firm is fully exempted from tax.

❖ **Section 10(5) Travel Concession to an Individual**

Employee goes on travel in India with his family and the cost of such journey is reimbursed by the employer is exempted from tax.

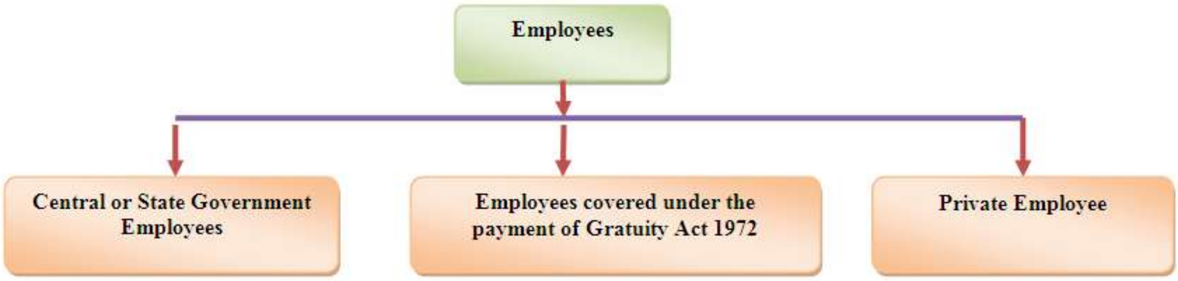
❖ **Section 10(7) Perquisite or Allowances paid outside India**

Any allowances or perquisites paid by the government to its employee who is citizen of India for services rendered outside India is exempted from tax.

❖ **Section 10(10) Death Cum Retirement Gratuity**

The amount received by an employee from his employer at the time of his retirement or death is called as gratuity.

Classification of Employees for Gratuity purpose



Computation of Exempted and Taxable Gratuity

1. Central or State Government Employees

Fully exempted from tax

2. Employees covered under the Payment of Gratuity Act 1972

Least of the following is exempted

i. Actual Gratuity received
ii. 15 Days Salary for each completed years of service and in excess of 6 months
iii. Maximum Rs. 20 lakhs

Note: Month = 26 days and Salary = Average of last 10 last month's drawn

3. Private Employee

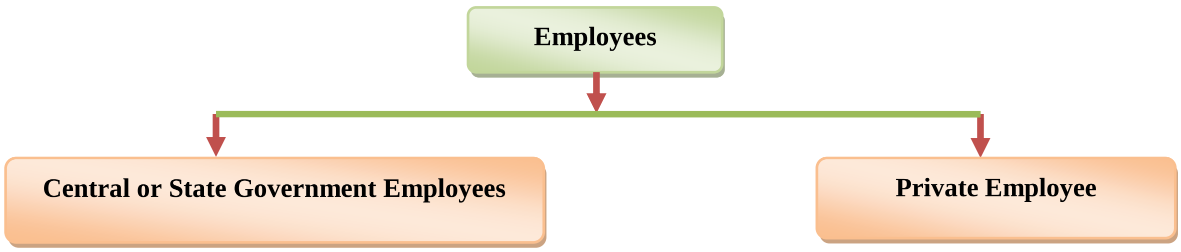
Least of the following is exempted

i. Actual Gratuity received
ii. ½ (Half) month's Salary for each completed years of service only
iii. Maximum Rs. 20 lakhs

❖ **Section 10(10A) Commutation of Pension**

The lump sum amount of pension received by an employee from his employer at the time of his retirement or death is called as commutation of pension.

Classification of Employees for Commutation of Pension purpose:



Computation of Exempted and taxable Pension

1. Central or State Government Employees

Fully exempted from tax

2. Private Employee

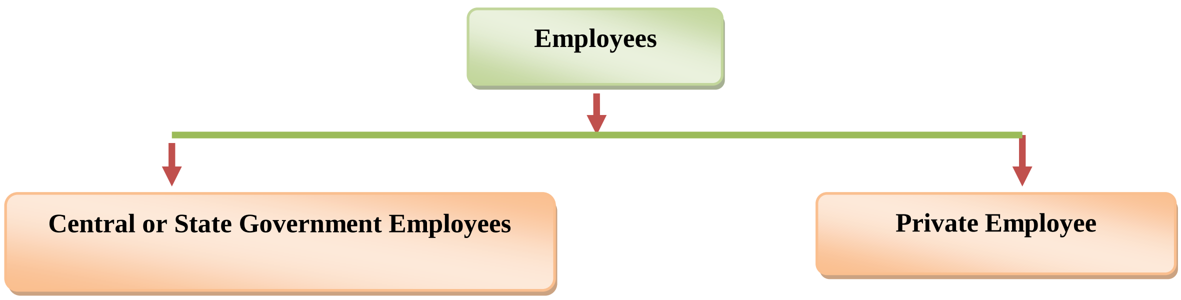
A. If Employee receives Gratuity

Exemption = 1/3 of the commutated value of pension is exempted

B. If Employee does not receives Gratuity

Exemption = 1/2 of the commutated value of pension is exempted.

❖ **Encashment of Leave Salary Section 10(10AA)**



Computation of Exempted and taxable Encasement of Leave Salary

1. Central or State Government Employees

Fully exempted from tax

2. Private Employee

Least of the following is exempted

- **i.** Actual amount received
- **ii.** Maximum Rs. 3 lakhs
- **iii.** 10 month's average Salary
- **iv.** Average Salary for the approved period

❖ **Dividend from Domestic Company Section 10(34)**

Any income by way of dividend from a domestic company declared or paid is exempted from tax

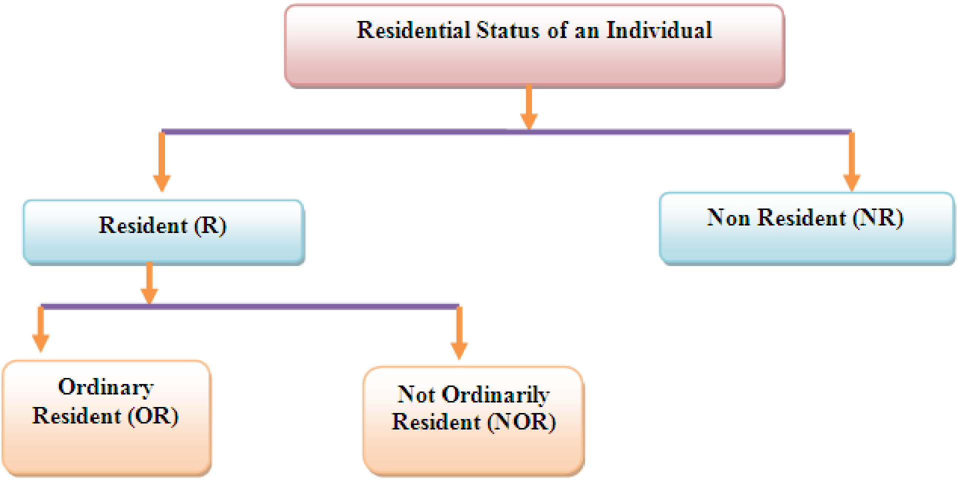
❖ **Income from Units of Mutual Funds Section 10(35)**

Any income received in respect of units of mutual fund or in respect of units from administration of the specified undertakings is exempted from tax.

VI. RESIDENTIAL STATUS

The tax liability of each person is based upon his residential status. Residential status of person depends upon the territorial connection of the person with this country that is the number of days he or she physically stayed in the country.

Classification of Residential Status:



CONDITIONS

I. <u>Basic Condition:</u>

❖ Staying in India for at least 182 days in the current previous year.

OR

❖ Staying in India for at least 60 days in the current previous year and at least 365 days during the last 4 previous years immediately preceding the current previous year.

II. <u>Additional Conditions:</u>

❖ Staying in India for at least 2 year out of 10 previous years immediately preceding the current previous year.

AND

❖ Staying in India for 730 days out of 7 previous years immediately preceding the current previous year.

<u>Exceptions to the General Rule:</u>

❖ If a person who is a citizen of India or being a citizen of Indian origin leaves India during the previous year for employment in abroad, his stay in India should be more than 182 days instead 60 days in the current previous year.

❖ If a person who is a citizen of India or being a citizen of Indian origin living abroad visits to India during the previous year, his stay in India should be more than 182 days instead 60 days in the current previous year.

➢ **<u>Resident (R):</u>**

1. Fulfillment of the Basic Condition.

2. Fulfillment of both of the Additional Conditions.

➢ **Not Ordinarily Resident (NOR):**

1. Fulfillment of the Basic Condition.
2. Non fulfillment of the Additional Conditions.

➢ **Non Resident (NR):**

1. Non fulfillment of the Basic Condition.
2. Fulfillment or Non fulfillment of the Additional Conditions.

VII. INCIDENCE OF TAX AND TAX LIABILITY

INCIDENCE OF TAX:

It depends on the residential status of an assesses. Incidence of tax means burden of tax. Incidence of tax and residential status are closely related. In case of direct tax incidence of tax is on the payer of tax.

TAX LIABILITY:

I. RESIDENT:

Total Income =All types of Indian Income + All types of Foreign Income

II. NOT ORDINARILY RESIDENT:

Total Income =All types of Indian Income + Certain types of Foreign Income which are controlled from India

III. NON RESIDENT:

Total Income =All types of Indian Income only

CLASSIFICAION OF INCOME:

➢ **Indian Income:**

- Income received in India, whether earned in India or outside India.
- Income earned in India, whether received in India or outside India.

➢ **Foreign Income:**

- Income earned and received outside India.

COMPUTATION OF TOTAL INCOME OF AN ASSESSEE
For the Assessment Year
For the Previous Year

Sl. No.	Kinds of Income	Resident	Not Ordinarily Resident	Non Resident
1.	Indian Income	Taxable	Taxable	Taxable
2.	Foreign Income	Taxable	Not Taxable	Not Taxable
3.	Foreign Income controlled from India	Taxable	Taxable	Not Taxable

COMPONENTS OF INCOME TAX LAW IN INDIA

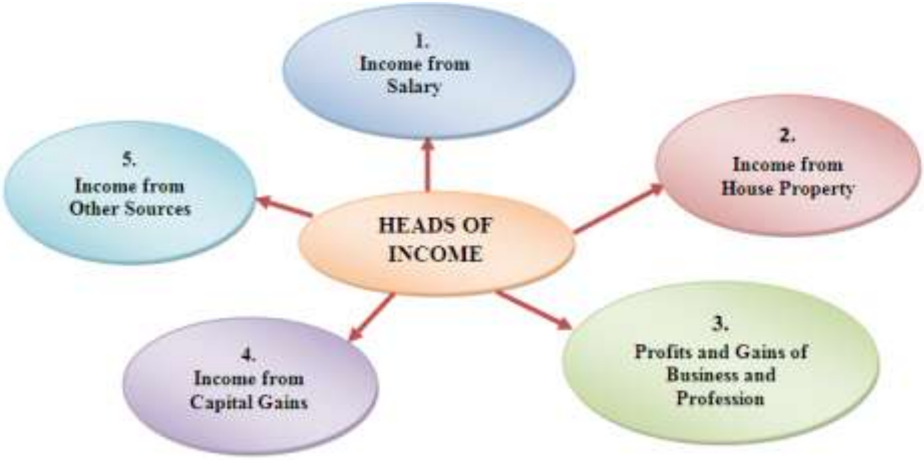
1. **Income Tax Act 1961:** The Act contains the major provisions related to Income Tax in India.

2. **Income Tax Rules 1962:** Central Board of Direct Taxes (CBDT) is the body which looks after the administration of direct Tax. The CBDT is empowered to make rules for carrying out the purpose of this Act.

3. **Finance Act:** Every year Finance Minister of Government of India presents the budget to the parliament. Once the finance bill is approved by the parliament and gets the clearance from President of India it became the fiancé act.

4. **Circulars and Notifications:** Sometimes the provisions of an act may need clarification and that clarification usually in a form of circulars and notifications which has been issued by the CBDT from time to time. It includes clarifying the doubts regarding the scope and meaning of the provisions.

VIII. HEADS OF INCOME



IX. FINDINGS OF THE STUDY

1. The study found that, Income tax is not a voluntary fee but a compulsory contribution.
2. Income of the previous year of an assesses is charged to tax in the immediately following assessment year.
3. The rate of tax is applicable as specified by annual finance act of that year.
4. Income tax act has undergone several amendments from the time it was originally enacted through the union budget.
5. Every year, a finance bill is presented before the Parliament by the finance minister.

X. SUGGESTIONS

1. Bring reform in present tax regime by framing tax friendly policy so that those who come under tax catch should freely come forward and feel pride to pay tax.
2. The tax brackets required to be redesigned and tax tariff is wanted to be reframed in such a method that high tax should be imposed on high income and lower income should be taxed with lower rates.

XI. CONCLUSION

In a welfare state, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment infrastructure, social security and other development needs. To facilitate these, Government needs revenue. The taxation is the primary source of revenue to the Government for incurring such public welfare expenditure. In other words, Government is taking taxes from public through its one hand and through another hand; it incurs welfare expenditure for public large. Thus, taxes are compulsory or enforced contribution to the Government revenue by public. Government may levy taxes on all types of income. As per Income Tax Act 1961, every assesses whose total income beyond the exempted limit is liable to pay income tax at the rate prescribed in the Act.

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