Unit 1 Introduction of Taxation and Bhartiya Knowledge System of Taxation

- Overview of Ancient Taxation System: 1.Vedic Period 2.Mauryan Empire
- Brief History of Income Tax Act'1961
- Meaning of Direct and Indirect Taxes
- Important Definitions: Income Tax, Assessment Year, Previous Year, Assessee, Person, Gross Total Income, Total Income.
- Tax Planning, Tax Avoidance, Tax Evasion and Tax Management
- Residential Status and their incidence of tax (including short numerical) (Only of individuals)

Ancient Taxation System:

Taxation has been an integral part of Indian civilization since ancient times. The concept of taxation in Bhartiya (Indian) knowledge systems was deeply rooted in Dharma (moral duty) and Rajadharma (duty of the king). Unlike the modern view of taxation as a mere financial obligation, ancient Indian taxation was considered a social and ethical responsibility where both the ruler and the citizens had a duty to contribute to the welfare of society.

Indian scriptures, including the Vedas, Smritis (like Manusmriti), Arthashastra (by Kautilya), and Dharmashastras, provide detailed insights into taxation principles. These texts emphasize fairness, proportionality, and the welfare of the people while ensuring the state had sufficient resources for governance, defense, and public welfare.

Key Features of Bhartiya Knowledge on Taxation

1. Moral and Ethical Taxation – Taxes were not seen as a burden but as a Dharma (duty) to maintain societal order.
2. Progressive Taxation – Taxes were levied based on one's ability to pay (Shulka, Bhaga, Bali).
3. Public Welfare Orientation – Taxes were used for irrigation, roads, defense, education, and social welfare.
4. Decentralized Tax System – Village assemblies and local rulers played a major role in tax collection.
5. Flexibility and Fairness – Taxation was adjusted based on crop yield, droughts, and economic conditions.

The knowledge of taxation in ancient India, from the Vedic period to the Mauryan, Gupta, and medieval times, has influenced modern economic and governance policies. Understanding Bhartiya taxation principles helps us appreciate the holistic and welfare-driven approach that India had towards economic governance.

Vedic Period (1500–500 BCE)

The taxation system in the Vedic period evolved gradually as society transitioned from a pastoral economy in the early Vedic period to an agrarian-based economy in the later Vedic period. During this time, taxes were not as structured as in later empires like the Mauryan or Gupta dynasties. However, certain forms of revenue collection existed to support the ruling class, priests, and administration.

1. Early Vedic Period (1500–1000 BCE)

The early Vedic society was largely pastoral, meaning cattle rearing was the main economic activity. There was no structured taxation system, but voluntary contributions played a crucial role.

Key Features:

- The king (*Rajan*) did not impose mandatory taxes on people but relied on voluntary offerings.
- The main form of contribution was called **Bali**, which was a voluntary offering of cattle, grains, or other resources to the king.
- The economy was primarily barter-based, and taxation in the form of money did not exist.
- Kings also received gifts (*Dakshina*) from subjects and nobles.
- The administration was simple, and there was no need for a rigid taxation system.

2. Later Vedic Period (1000–500 BCE)

With the rise of agricultural settlements and a more complex society, the taxation system became more structured. The king required revenue to maintain his administration, the army, and religious sacrifices.

Key Features of Taxation:

1. **Bali** (Compulsory Taxation): Initially voluntary, Bali became a mandatory tax imposed on the people. It was paid in the form of agricultural produce, cattle, or handicrafts. The king collected Bali as a source of revenue for governance and protection.
2. **Bhaga** (Agricultural Tax): As agriculture became the primary occupation, the king started collecting a portion of the agricultural produce. Usually, **one-sixth (1/6th) of the total yield** was collected as Bhaga. This was the most significant tax in the later Vedic period.
3. **Shulka** (Trade and Commercial Tax): Traders and merchants had to pay a tax on goods and trade activities. This included tolls and duties on imported and exported goods.
4. **Kara** (General Tax): It was a general tax levied on common people to support administrative activities.
5. **Hiranya** (Cash Tax): In some cases, people paid taxes in the form of gold (*Hiranya*), indicating the early use of metallic currency. This suggests a transition from a barter economy to a money-based system.
6. **Dana (Religious Contributions):** People made religious donations to priests (*Brahmins*), which indirectly supported the ruling class. The king also offered gifts and land grants to Brahmins in return for their support in governance.
7. **Forced Labor (Vishti):** Instead of paying taxes in goods or money, some individuals had to provide labor for state projects. This system later became widespread in the Mauryan and Gupta periods.

3. Administration of Tax Collection

- The king appointed officers to collect taxes from people and villages.
- The tax revenue was used for Administrative expenses (salaries, governance), Defense (maintaining soldiers and weapons), Public works (roads, irrigation) and Religious sacrifices and rituals.

Mauryan Empire (321–185 BCE)

The **Mauryan Empire**, under rulers like **Chandragupta Maurya** and **Ashoka**, had one of the most well-organized and efficient taxation systems in ancient India. The system was well-documented in **Kautilya's Arthashastra**, which provided a detailed guide on governance, including revenue collection. Taxes were crucial for maintaining the administration, army, welfare programs, and infrastructure.

1. Sources of Revenue in the Mauryan Empire

The Mauryan state collected revenue from multiple sources, including agriculture, trade, industry, and other economic activities.

A. Land Revenue (Agricultural Tax) – The Main Source

- **Bhaga** (Land Tax): The state took **one-sixth (1/6th) of the agricultural produce** from farmers as land tax. Sometimes, it could vary between **1/4th to 1/8th**, depending on fertility, irrigation, and productivity. Farmers had to pay this tax in kind (grains) or cash.
- **Bali** (Ancient Tribute): Originally a voluntary offering in the Vedic period, Bali became a mandatory tax in the Mauryan era. It was collected from the general public, including peasants and traders.
- **Sitadhyaksha (Superintendent of Agriculture):** Managed the state-owned lands (*Sita lands*), where revenues directly went to the king's treasury.

B. Trade and Commerce Taxes

- **Shulka (Customs and Toll Tax):** Merchants had to pay tolls on goods transported through roads and waterways. There were taxes on imports and exports. Different types of products had different tax rates.
- **Vanikpatha Tax (Road Tax):** Levied on traders using roads for commercial transport.
- **Karat (General Commercial Tax):** Taxes imposed on businesses and industries.
- **Nishka and Suvarna (Gold and Coin Taxes):** Taxes on minted coins, precious metals, and wealth accumulation.
- **Tax on Artisans and Guilds:** Skilled workers (blacksmiths, weavers, potters) paid a tax based on their income. Guilds (*Shrenis*) had to contribute a share of their earnings.

C. Forest and Natural Resource Taxes

- **Vanikadhyaksha (Superintendent of Forests):** Managed resources from state-owned forests. Taxes were collected from forest produce, timber, and animal products.
- **Panya (Mining Tax):** Taxes on mineral extraction, including iron, copper, and gems.
- **Pashu Tax (Livestock Tax):** Taxes on cattle, horses, elephants, and other domesticated animals.

D. Miscellaneous Taxes

- **Water Tax:** Farmers using **government-built irrigation** systems had to pay a water tax.
- **House Tax and Profession Tax:** Landowners and professionals had to pay annual taxes based on income and property.
- **Tirtha Shulka (Pilgrimage Tax):** Levied on religious travelers and temples.
- **Marriage and Birth Taxes:** Taxes were collected on marriages and childbirth registrations.
- **Slave and Servant Tax:** Owners had to pay taxes if they employed laborers or slaves.

2. Administration of Tax Collection

The Mauryan tax system was well-organized, with specialized officers ensuring efficient collection.

Key Tax Officials:

- **Samaharta (Chief Revenue Officer):** In charge of overall revenue collection and treasury management.
- **Sannidhata (Treasury Chief):** Maintained the empire's wealth and supervised tax collection.
- **Agrarian Tax Officials (Sitadhyaksha):** Collected land taxes from farmers.
- **Customs Officers (Shulkadhyaksha):** Managed tolls and trade-related taxes.
- **Ganikadhyaksha (Superintendent of Prostitutes):** Collected taxes from courtesans, an important revenue source in urban centers.

Collection Methods:

- Taxes were collected in **cash (coins), kind (grains, livestock), or labor (forced service).**
- Officials ensured strict **record-keeping** and **punished tax evaders.**

3. Utilization of Tax Revenue

The Mauryan state used taxes for:

1. **Military Expenditure** – Maintaining a large standing army and war elephants.
2. **Public Works** – Building roads, irrigation, hospitals, and rest houses.
3. **Religious and Welfare Activities** – Funding Buddhist monasteries and social programs under Ashoka.
4. **Administrative Expenses** – Paying government officials and law enforcement

4. Impact of the Mauryan Taxation System

- **Efficient Revenue Collection** – A well-planned system with designated officers.
- **State Control Over Economy** – Government controlled key industries (forests, mines, trade).
- **Fair but Strict Enforcement** – Farmers and merchants had to pay taxes, but revenue was used for public welfare.
- **Foundation for Future Tax Systems** – Influenced later dynasties like the Guptas and Mughals.

Introduction to Income Tax Act, 1961

The Constitution of India, in Article 265 lays down that "No tax shall be levied or collected except by authority of law." Accordingly, both the levy of tax as well as its collection shall be made under a law framed by the government.

Constitution of India gives the power to levy and collect taxes, whether direct or indirect, to the Central and State Government. The Parliament and State Legislatures are empowered to make laws on the matters enumerated in the Seventh Schedule by virtue of Article 246 of the Constitution of India.

The Seventh Schedule to Article 246 contains three lists which enumerate the matters under which the Parliament and the State Legislatures have the authority to make laws for the purpose of levy of taxes.

The following are the lists:

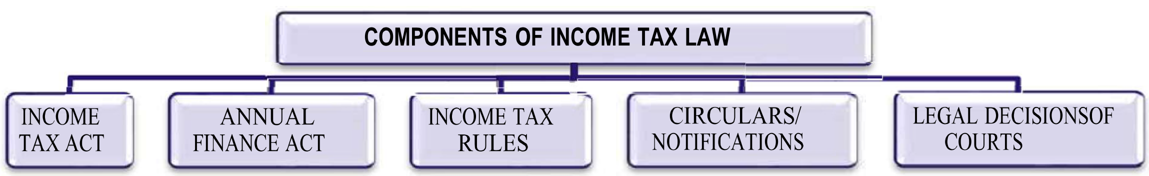
(i) Union List or List I: Parliament has the exclusive power to make laws on the matters contained in Union List.

(ii) State List or List II: The Legislatures of any State has the exclusive power to make laws on the matters contained in the State List.

(iii) Concurrent List or List III: Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent List.

*Income-tax is the most significant direct tax. **Entry 82 of the Union List** i.e., List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.*

The income-tax law in India consists of the following components –



Tax is a fee charged by a government on a product, income or activity. There are two types of taxes – direct taxes and indirect taxes.

Direct Taxes: If tax is levied directly on the income or wealth of a person, then, it is a direct tax e.g. income-tax.

Indirect Taxes: If tax is levied on the price of a good or service, then, it is an indirect tax e.g. Goods and Services Tax (GST) or Custom Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

Procedure for computation of total income of an individual for the purpose of levy of income-tax:

Step 1 – Determination of residential status

Step 2 – Classification of income under different heads

The Act prescribes five heads of income. These are Income from salary, income from house property, profits and gains from business and profession, income from capital gain and income from other sources.

Step 3– Computation of income under each head
Step 4 – Clubbing of income of spouse, minor child etc.
Step 5 – Set-off or carry forward and set-off of losses
Step 6 – Computation of Gross Total Income
Step 7 – Deductions from Gross Total Income
Step 8 – Total income
Step 9 – Application of the rates of tax on the total income
Step 10 - Surcharge / Rebate under section 87A
Step 11 – Education cess and secondary and higher education cess on income-tax
Step 12 – Advance tax and tax deducted at source
Step 13- Tax Payable/Tax Refundable

IMPORTANT DEFINITIONS

Section 2 gives definitions of the various terms and expressions used therein.

1. **Income [section 2(24)]:**
   The term income specifically includes the following

- Profits and gains
- Dividend
- Voluntary contributions received by a trust
- Perquisites in the hands of employee
- Any special allowance benefit
- City compensatory allowance / dearness allowance
- Any benefit or perquisite to a representative assesses
- Capital gains
- Insurance profit
- Banking income of a co-operative society
- Winning from lottery. Crossword puzzles, horse races, card games
- Amount received under keyman insurance policy

2. **Income Tax:**
   Income tax is a tax charged on the annual income of an individual or business earned in a financial year. The Income Tax system in India is governed by The Income Tax Act, 1961, which lays out the rules and regulations for income tax calculation, assessment, and collection.

3. **Assessment [Section 2(8)]:**
   This is the procedure by which the income of an assessee is determined by the Assessing Officer. It may be by way of a normal assessment or by way of reassessment of an income previously assessed.

4. **Assessment Year [Section 2(9)]:**
   This means a period of 12 months commencing on 1st April every year. The year in which income is earned is the previous year and such income is taxable in the immediately following year which is the assessment year. Income earned in the previous year 2022-23 is taxable in the assessment year 2023-24.

5. **Previous Year (Section 3):**
   It means the financial year immediately preceding the assessment year. As mentioned earlier, the income earned during the previous year is taxable in the assessment year.

6. **Assessee [Section 2(7)]:**
   Assessee" means a person by whom any tax or any other sum of money is payable under this Act.
   1. Every person in respect of whom any proceeding under this Act has been taken for the assessment of –

his income; or
the income of any other person in respect of which he is assessable; or
the loss sustained by him or by such other person; or
the amount of refund due to him or to such other person.

2. A person is termed as deemed assessee when he is liable to pay income tax on the income of another person.
3. If a person fails to fulfil the obligation due to which IT Department suffers a loss of revenue, then such person has to compensate this loss. For this loss, he is called assessee in default.

7. **Person [Section 2(31)]:**

As per this section, the term person includes following catagories:

(i) **An Individual** (Male, Female, minor child.)

(ii) **A HUF** (Hindu Undivided Family), as per Hindu Law, it means a family which consist of all persons lineally descended from a common ancestor including their wives and daughters.

(iii) **A Company**, incorporated in Indian under Company's Act 2013/1956.

(iv) **A Firm** (shall have meaning assigned to it in the Indian Partnership Act, 1932 and also includes limited liability partnership as definrd in LLP Act, 2008)

(v) **An AoPs** (Association of Persons- 2 or more persons who join for common purpose to earn Income) – may consist non individuals. BoIs (Body of Individuals – conglomeration of individuals who carry on some activity with the objective of earning some income), whether incorporated or not. – consist only individuals.

(vi) **A local authority** (Panchayat, Municipality, Muncipal Committee & District Board, Cantonment Board.)

(vii) Every **artificial juridical person** not falling above.

Not natural person but are separate entities in the eyes of law, sued through persons managing them.

8. Gross Total Income [Section 14]:

Income of a person is computed under the following 5 heads.

1. Salary
2. Income from house property
3. Profits and gains of business and profession
4. Capital gains
5. Income from other sources

Aggregate of incomes computed under the above 5 heads, after applying clubbing provisions and making adjustments of set off and carry forward of losses, is known as GTT.

9. **Total Income [Section 2(45)]:**

a. Total income means the amount left after making the deductions under section 80C to 80U from GTT.
b. It is also known as Net Taxable Income.
c. Net taxable income is rounded off for calculating income tax in multiple of Rs. 10 u/s 288A.e.g. Rs. 8,79,467 would be rounded off to Rs. 8,79,470.

Tax Planning, Tax Avoidance, Tax Evasion and Tax Management

Tax planning involves an intelligent application of the various provisions of the direct tax laws to practical situations in such a manner as to reduce the tax impact on the assessee to the minimum. Tax planning may be defined as an arrangement of one's financial affairs in such a way that, without violating in any way the legal provisions, full advantage is taken of all tax exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the Act so that the burden of taxation on the assessee is reduced to the minimum. The tax planner or the tax adviser should exercise great care and caution in designing any tax planning scheme as its failure will result in great difficulties and heavy burden of tax on the assessee for whom the scheme is evolved.

Three methods of reducing taxes have been developed in most countries of the world over a period of time.

Methods of reducing taxes	**Tax Planning**
	Tax Evasion
	Tax Avoidance

TAX PLANNING

Tax planning is a completely logical and legal way of minimising one's tax liability by availing the benefits of all the concessions, provisions, deductions and exemptions provided under the Income Tax Act.

Tax planning involves activities like income analysis, restructuring and investing, as particular investments made for a particular period can help the taxpayer avail a tax deduction. Life Insurance, Health Insurance, Fixed Deposits, Provident Funds, Mutual Funds and National Saving Certificate are taxpayer's some of the most preferred ways of making investments.

The primary aim of tax planning is not only to save taxes by any means, but to develop a long term, multi-faceted, logical and legal strategy that continues to channelise your income and optimise your taxes for years and years.

Tax planning is an activity conducted by the tax payer to reduce the tax liable upon him by making maximum use of all available deductions, allowances, exclusions etc feasible under law.
It is analysis of a financial situation from the taxation point of view.
It shields against high taxation and reduces tax burden.
It increases disposable income.

TAX AVOIDANCE

Tax avoidance primarily is an act of minimising one's tax liability by using legitimate methods that are within the limits of law or methods that do not break the law. Though tax avoidance also helps a taxpayer to minimise the tax liability like tax planning, but it is not as simple, straightforward and advisable as tax planning.

The activities in tax avoidance primarily focus on taking unfair advantages of the loopholes or lacunae in the income tax laws and manipulating the accounts in ways that help to avoid the taxes without breaking any rules or laws.

Though the process of tax avoidance does not break any laws or rules, but in some cases that reflect acts like;

Disclosing / Reporting less income
Hiding important facts related to tax calculation
Showing fake transactions that do not relate to their true purpose
Using fabricated contracts and statements
Channelizing the funds through fake offshore branches
Tax avoidance may be included under the categories of fraud and crime.

An arrangement made to beat the intent of law by taking unfair advantage of theshortcoming in the tax rules is known as tax avoidance.

It refers to finding out new methods or tools to avoid the payments of taxes which arewithin limits of law.
It postpones or shifts or eliminate the tax liability.
It does not includes making any offence or breach of law.
It is hedging of tax
It is immoral in nature which involves bending the law without breaking it.

Finding loop holes in law and taking unfair advantage of shortcomings in tax laws.
It uses justified means.
It occurs before the occurrence of tax liability.
It is legal.
It reduces tax liability by applying the script of law.

TAX EVASION

Tax evasion is the activity in which an individual or an organisation deliberately underreports the income, inflates the deductions and shows bogus expenses in order to minimise the tax liability. Moreover, acts like not reporting cash transactions and hiding money in offshore accounts, are also termed as techniques of tax evasion.
Unlike tax avoidance which may or may not come under the category of fraud or crime, tax evasion is undoubtedly considered as a crime and the individual or organization opting the means of tax evasion to save the taxes are liable to face prosecution in criminal court and may be given a stringent punishment in the form of a heavy fine or imprisonment or both.
An illegal act, made to escape from paying taxes is known as tax evasion.

It is criminal activity.
It includes acts like,
Deliberate misrepresentation of material facts.
Hiding relevant documents.
Not maintaining complete records of all the transaction.
Making false statements.
It is concealment of tax.
Deliberate manipulations of accounts resulting in fraud.
It uses such means which are forbidden by law.
It occurs after tax liability arises.
It results in penalty or imprisonment.
It reduces tax liability by exercising unfair means.

Difference Between: Tax Planning, Tax Avoidance and Tax Evasion

Tax Planning	**Tax Avoidance**	**Tax Evasion**
Minimising Tax Liability	Minimising Tax Liability	Minimising Tax Liability
Legal	Legal	Illegal
Ethical	Unethical	Unethical & Illegal
Using the provisions of the law	Using loopholes in the law and manipulating the accounts	Disclosing wrong or misleading information
No Penalty	Penalty or imprisonment or both if violating the tax laws	Penalty or imprisonment or both
Long Term	Short Term	Short Term

Tax Management
Tax management is the process deployed by taxpayers to comply with tax laws. All the tax-related aspects, such as penalties, appeals, prosecutions, and tax case settlements, are parts of tax management.

Under a tax management strategy, a taxpayer's past, present, and future tax-related activities are analysed to ensure compliance and avoid the imposition of penalties and interest. Unlike tax planning, tax management is mandatory for every assessee. Therefore, every taxpayer must comply with all the tax laws or face interest penalties.

Tax Slabs

The Income Tax slab is different as per old and new regime.

1. Old Tax Regime: the slab rates under the **old tax regime** are divided into three categories:
   (i) Indian Residents below 60 years age + All NRI
   (ii) Indian Residents above 60 and below 80 years age (Resident Senior Citizen)
   (iii) Indian Resident above 80 years age (Resident Super Senior Citizen)

Total Income (₹)	**Below 60 years**	**Total Income (₹)**	**Above 60 and below 80 years**	**Total Income (₹)**	**Above 80 years**
Up to ₹2,50,000	Nil	Up to ₹3,00,000	Nil		
₹2,50,001 – ₹5,00,000	5%	₹3,00,001 – ₹5,00,000	5%	Up to ₹5,00,000	Nil
₹5,00,001 – ₹10,00,000	20%	₹5,00,001 – ₹10,00,000	20%	₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%	Above ₹10,00,000	30%	Above ₹10,00,000	30%

2. New Tax Regime (Section 115BAC) do not categorize the individuals on the basis of their age. It is uniform for all.

Total Income (₹)	**Tax Rate**
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹12,00,001 – ₹16,00,000	15%
₹16,00,001 – ₹20,00,000	20%
₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

RESIDENTIAL STATUS [SECTION 6]

The incidence of tax on any assessee depends upon his residential status under the Act. For all purposes of income-tax, taxpayers (individuals and HUF) are classified into three broad categories on the basis of their residential status viz.

a. Resident and ordinarily resident
b. Resident but not ordinarily resident
c. Non-resident

Taxpayers (other than individuals and HUF) are classified into two broad categories on the basis of their residential status viz.

a. Resident
b. Non-resident

The income which is to be assessable in India depends on the residential status of an assessee.
There are separate rules for determining the residence of different kinds of assessees.

Residential status of individual: (section 6)

Section 6(1) - An individual is said to be resident in India, if he satisfies any of the following *two basic conditions:*

1. Basic condition 1:
   Stay in India for **182 days or more** during the Previous Year 2025-26.
   OR
2. Basic condition 2:
   - Stay in India for **60 days or more** during Previous Year 2025-26, and
   - Stay in India for **365 days or more** during the four preceding previous years.

Exceptions to the above basic rules:

1. **Indian Citizen leaving India for employment abroad**
   For an Indian citizen leaving India:
   - For employment outside India, or
   - As a crew member of an Indian ship,

   the 60 days in Basic Condition 2 are replaced by **182 days**.

2. **Indian Citizen or Person of Indian Origin (PIO) visiting India:**
   An individual shall be considered to be of Indian origin if he/she or either his/her parents or any of his/her grandparents was born in undivided India.
   a) Where Indian income does not exceed ₹15 lakh:
      The 60-day requirement is replaced by **182 days**.
   b) Where Indian income exceeds ₹15 lakh:
      The 60-day requirement is replaced by **120 days**.

Deemed Resident [Section 6(1A)]

An Indian citizen shall be deemed to be resident in India if:

1. Total income (excluding foreign income) exceeds **₹15 lakh**, and
2. He is **not liable to tax in any other country**.

Such a person is treated as **Resident but Not Ordinarily Resident (RNOR)**.

Individual is resident and ordinarily resident in India :

Section 6 (6)(a) – Two Additional Conditions
After satisfying the basic conditions, determine whether the resident is **Ordinarily Resident**.

Both additional conditions must be satisfied:

Additional Condition 1

The individual has been a resident in India in **at least 2 out of the 10 previous years immediately preceding the relevant previous year**.

Additional Condition 2

The individual has stayed in India for **730 days or more during the 7 previous years immediately preceding the relevant previous year**.

Individual is not ordinarily resident in India : (section 6(6)(a))

If an individual satisfies any one of the 2 basic conditions but does not satisfy the 2 additional conditions, he is said to be ‘not ordinarily resident’.

Incidence of Tax of an individual on the basis of residential status: Scope of total income (Section 5)

Particulars of income	**Whether taxable**		
	Resident and ordinarily resident	**Not ordinarily resident**	**Non-resident**
1. Income received or deemed to be received in India whether earned in India or elsewhere.	Yes	Yes	Yes
2. Income which accrues or arise or is deemed to accrue arise in India during the PY, whether received in India or elsewhere.	Yes	Yes	Yes
3. Income which accrues or arise outside India and received outside India from a business controlled from India.	Yes	Yes	No
4. Income which accrues or arise outside India and received outside India in the PY from any other source.	Yes	No	No
5. Income which accrues or arise outside India and received outside India during the years preceding the PY and remitted to India during the PY.	No	No	No

Extra points:

1. Income received in India - taxable for all (ROR, NOR & NR)
2. Income deemed to accrue or arise in India – taxable to all (ROR, NOR & NR)
3. Income received abroad:
   If business is controlled from India – taxable for ROR & NOR
   If business is controlled from foreign – taxable to only ROR
4. Income received outside India and remitted in India in P.Y. – not taxable to all.

Unit 2 Heads of Income

- Brief Introduction of Heads of Income
- Computation of Income under the head salary (Numerical including Basic Salary, Allowances – HRA, Children Education & Hostel Allowance, Entertainment Allowance, Retirement Benefits - Pension, Gratuity, PF, Perquisites – Rent Free Accommodation, Motor Car)

Different Heads of Income

1. INCOME UNDER THE HEAD SALARY

Definition:

The term 'salary' for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc). Section17(1), defined the term "Salary". It is an inclusive definition and includes monetary as well as non-monetary items.

'Salary' under section 17(1), includes the following:

1. wages,
2. any annuity or pension,
3. any gratuity,
4. any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages,
5. any advance of salary,
6. any payment received in respect of any period of leave not availed by him i.e. leave salary or leave encashment,
7. Provident Fund: - the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable
8. Transferred balance in recognized provident fund to the extent it is taxable,
9. the contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD.

BASIS OF CHARGE (SECTION 15)

1. Section 15 deals with the basis of charge. Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.

2. However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.

If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

2. INCOME UNDER THE HEAD HOUSE PROPERTY

The income from Houses, Building, Bungalows, Godowns etc. is to be computed and assessed to tax under the head "INCOME FROM HOUSE PROPERTY". The income under this head is not based upon the actual income from the Property but upon Notional Income or the Annual Value of the Building.

Basis of Charge [Section 22]:

Income from house property shall be taxable under this head if following conditions are satisfied:
a) The house property should consist of any building or land appurtenant thereto;
b) The taxpayer should be the owner of the property;
c) The house property should not be used for the purpose of business or profession carried on by the taxpayer.

3. INCOME UNDER THE HEAD PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Income earned through profession or business is charged under the head 'profits and gains of business or profession. The income chargeable to tax is the difference between the credits received on running the business and expenses incurred.

Basis of Charge [Section 28]:

➢ Profits of any B&P.
➢ Compensation received or due for: Termination/ Modification of contract relating to Mgt. of Affairs of Co. or Agency business in India Vesting of mgt. of any property or business to govt./ govt.-controlled corp.
➢ Income of Trade, professional or similar associations from specific services to members
➢ Profit on sale of import license
➢ Cash assistance against exports
➢ Excise or Custom duty drawback
➢ Profit on transfer of duty entitlement passbook scheme or duty-free replenishment certificate
➢ Value of perquisites
➢ Salary, interest, etc. received by partners (taxable only if deduction allowed to firm)
➢ Any sum recovered for capital asset allowed as deduction u/s 35AD.
➢ Sum received or due for: Not carrying out any business, Sharing know-how, patent, etc.

4. INCOME UNDER THE HEAD CAPITAL GAIN

Any profit or gain which is earned by transferring the capital assets which was held for investment will be taxable under the head of 'Income from Capital Gain'. The gain can be earned from any of the short-term capital asset and long-term capital asset. When Capital Asset is transferred then only Capital Gain is earned.

Basis of Charge [Section 45(1)]:

- ➢ Capital Asset
- ➢ Transfer
- ➢ Capital Gain: Short-term or Long-term
- ➢ Not Exempt u/s 54/54B/54D/54EC/54F/54G/54GA/54GB

5. INCOME UNDER THE HEAD INCOME FROM OTHER SOURCES

Income from Other Sources is one of the heads of income chargeable to tax under the Income tax Act. 1961. Any income that is not covered in the other four heads of income is taxable under income from other sources, because of this, it is known as residuary head of income.

1.5.1. Sec. 56(1): Chargeability:

- ➢ Income which is not to be excluded from Total Income
- ➢ Not chargeable under any other Heads of Income
- ➢ Shall be chargeable under this head

Sec. 56(2): Specific Incomes included in this head:

1. Dividend (Sec. 2(22))
2. Winnings from lottery, puzzles, races, card games, etc. or any other form of betting. (Taxable at 30% +4% cess)
3. Contribution received from employees towards welfare fund if not taxable under B&P.
4. Interest on securities if not taxable under B&P
5. Income from letting out of P&M and furniture if not taxable under B&P.
6. Income from composite letting out of P&M and furniture and Build. if not taxable under B&P.
7. Sum received under keyman insurance policy if not taxable under B&P and Salary.
8. Gift: I/ HUF
9. Interest on compensation or enhanced compensation
10. Any sum of money received as an advance or otherwise in the course of negotiations for transfer of Capital Asset, if such sum is forfeited and the negotiations do not result in transfer of such Capital Asset.

<u>Income under the head income from salary</u>

Definition:

The term 'salary' for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc). Section 17(1), defined the term "Salary". It is an inclusive definition and includes monetary as well as non-monetary items.

'Salary' under section 17(1), includes the following:

1. wages,
2. any annuity or pension,
3. any gratuity,
4. any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages,
5. any advance of salary,
6. any payment received in respect of any period of leave not availed by him i.e. leave salary or leave encashment,
7. Provident Fund: - the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable and - transferred balance in recognized provident fund to the extent it is taxable,
8. the contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD.

BASIS OF CHARGE (SECTION 15)

a. Section 15 deals with the basis of charge. Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
b. However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.

If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

Taxability of different forms of Salary:

1. Wages (Basic Salary)

The term "wages" means fixed regular payment earned for work or services. The words "wages", "salary", "basic salary" are used interchangeably. For Example, wages, salary, bonus, dearness allowance etc. are **fully taxable payments.**

2. Allowances

Different types of allowances are given to employees by their employers. Generally, allowances are given to employees to meet some particular requirements like house rent, expenses on uniform, conveyance etc. Under the Income-tax Act, 1961, allowance is taxable on due or receipt basis, whichever is earlier.

Allowances		
Fully Taxable	**Partly Taxable**	**Fully Exempt**
Entertainment Allowance Dearness Allowance Overtime Allowance Fixed Medical Allowance City Compensatory Allowance (to meet increased cost of living in cities) Interim Allowance Servant Allowance Project Allowance Tiffin/Lunch/Dinner Allowance Any other cash allowance Warden Allowance Non-practicing Allowance	House Rent Allowance [u/s 10(13A)] Special Allowances [u/s 10(14)]	Allowances to High Court Judges Allowance paid by the United Nations Organization. Compensatory Allowance received by a judge Sumptuary allowance granted to High Court or Supreme Court Judges Allowance granted to Government employees outside India.

Important Note for AY 2026–27

- Most exemptions under **Section 10(14)** are available only when the employee opts for the **Old Tax Regime**.
- Under the **New Tax Regime under Section 115BAC**, many allowance exemptions are not available, except a few such as:
    - Travelling allowance on tour or transfer;
    - Daily allowance during absence from normal place of duty;
    - Conveyance allowance incurred wholly for official duties;
    - Transport allowance to specially-abled employees.

Allowances which are partially taxable

1. House rent allowance [Section 10(13A)]:

HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the employee. HRA granted to an employee is exempt to the extent of least of the following:

Metro Cities (i.e. Delhi, Kolkata, Mumbai, Chennai)	Other Cities

1) HRA actually received.	1) HRA actually received
2) Rent paid -10% of salary for the relevant period	2) Rent paid - 10% of salary for the relevant period
3) 50% of salary for the relevant period	3) 40% of salary for the relevant period

Notes:

1. Exemption is not available to an assessee who lives in his own house, or in a house for which he has not incurred the expenditure of rent.

2. Salary for this purpose means basic salary, dearness allowance, if provided in terms of employment and commission as a fixed percentage of turnover.

3. Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

Example:

Particulars	**Amount (₹)**
Basic Salary	6,00,000
Dearness Allowance (forms part of retirement benefits)	1,20,000
House Rent Allowance (HRA) Received	2,40,000
Rent Paid	2,10,000
Place of Residence	Mumbai (Metro City)

Step 1: Calculate Salary for HRA Purposes

Salary for HRA = Basic Salary + Dearness Allowance (forming part of salary)

= ₹6,00,000 + ₹1,20,000= **₹7,20,000**

Step 2: Compute Exemption

The exemption under Section 10(13A) is the **least of the following**:

Particulars	**Amount (₹)**
(A) Actual HRA Received	2,40,000
(B) Rent Paid – 10% of Salary	
Rent Paid	2,10,000
Less: 10% of Salary (₹7,20,000 × 10%)	72,000
Amount	**1,38,000**
(C) 50% of Salary (Metro City)	3,60,000

Step 3: Determine Exemption

Least of ₹2,40,000, ₹1,38,000 or ₹3,60,000

Therefore, **HRA Exempt = ₹1,38,000**

Step 4: Taxable HRA= HRA Received – Exempt HRA

= ₹2,40,000 – ₹1,38,000

= ₹1,02,000

Note: If it is non metro city 40% of salary is to be considered.

2. Allowances prescribed for the purposes of section 10(14)(ii)

Sr. No.	Name of Allowance	Extent to which allowance is exempt
1.	Children Education Allowance	₹100 per month per child upto a maximum of two children.
2.	Any allowance granted to an employee to meet the hostel expenditure on his child	₹300 per month per child upto a maximum of two children.

Examples: Mr. A has 2 children going to school. He receives ₹1,000 per month as children education allowance and ₹900 per month as hostel expenditure allowance for his 1 child staying in hostel. What will be taxable children education allowance and hostel expenditure allowance.

Children education allowance:

Received (1,000 x 12)	12,000
Less: Exemption (₹100 × 12 × 2 children)	2,400
Taxable Allowance	9,600

Hostel expenditure allowance:

Received (900 x 12)	10,800
Less: Exemption (₹300 × 12 × 1 child)	3,600
Taxable Allowance	7,200

3. Annuity or Pension

a. Annuity

• As per the definition, 'annuity' is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.

• Annuity received by a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.

• Annuity received from a past employer is taxable as profit in lieu of salary.

• Annuity received from person other than an employer is taxable as "income from other sources".

b. Pension

Concise Oxford Dictionary defines 'pension' as a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement.

Pension is of two types: commuted and uncommuted.

• Uncommuted Pension: Uncommuted pension refers to pension received periodically. It is fully taxable in the hands of both government and nongovernment employees.

• Commuted Pension: Commutation means inter-change. Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.

Exemption in respect of Commuted Pension [section 10(10A)]

1. Employees of the **Central Government/local authorities/Statutory Corporation/ members of the Defence Services**: Any commuted pension received is fully exempt from tax.
2. **Non-Government Employee:**

(i) If the employee is in receipt of **gratuity**,

Exemption = 1/3rd of the amount of pension which he would have received had he commuted the whole of the pension.

$$= \left[\frac{1}{3} * \frac{computed\ pension\ received}{computation\ percentage} * 100\right]$$

Example:

Suppose, Pension commuted = 40%, Lump sum received = ₹8,00,000

Exemption= 1/3 × ₹8,00,000/40x100

= **₹6,66,667**

Taxable Commuted Pension

= ₹8,00,000 − ₹6,66,667

= **₹1,33,333**

(ii) If the employee **does not** receive any **gratuity**

Exemption = ½ of the amount of pension which he would have received had he commuted the whole of the pension.

$$=\left[\frac{1}{2} * \frac{computed\ pension\ received}{computation\ percentage} * 100\right]$$

Example:

Suppose, Pension commuted = 40%, Lump sum received = ₹8,00,000

Exemption= 1/2 × ₹8,00,000/40x100

= **₹10,00,000**

Taxable Commuted Pension = Nil

c. **Gratuity**

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days gratuity has become a normal payment applicable to all employees. In fact, Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.

Exemption in respect of Gratuity [Section 10(10)]

1. Retirement gratuity received under the Pension Code Regulations applicable to members of the Defence Service is **fully exempt** from tax.
2. Central / State Government Employees: Any death cum retirement gratuity is **fully exempt** from tax.
3. **Non-government employees:** These employees are further classified into following two categories:

(a) Non-government employees covered by the Payment of Gratuity Act, 1972

Any death-cum-retirement gratuity is exempt from tax to the extent of least of the following:

i. Maximum Limit ₹20,00,000

ii. Gratuity actually received

iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

Note: 1. Salary for this purpose means basic salary and dearness allowance.
2. No. of days in a month for this purpose, shall be taken as 26.

Example: Mr. R retired after **25 years and 8 months** of service. He was having basic salary of ₹60,000 p.m., DA ₹10,000 p.m. and gratuity received is ₹18,00,000. Calculate his taxable amount of gratuity.

Salary = ₹60,000 + ₹10,000 = **₹70,000**

Completed service =26 years

15 days salary for each complete year of service =70,000×15/26× 26=₹10,50,010

Exempted Gratuity least of following

Actual gratuity received	₹18,00,000
Statutory ceiling	₹20,00,000
15 days salary × completed years	₹10,50,010

Least = ₹10,50,010

Taxable gratuity = ₹18,00,000 − ₹10,50,010

=₹ 7,49,990

(b) Non-government employees not covered by the Payment of Gratuity Act, 1972

Any death cum retirement gratuity is exempt from tax to the extent of least of the following:

i. Maximum Limit ₹20,00,000

ii. Gratuity actually received

iii. Half month's salary (based on last 10 months' average salary immediately preceding the month of retirement or death) for each completed year of service (fraction to be ignored)

Note: Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover.

Examples: Mr. Ramesh retired from a private company on **31st March 2026** after rendering **28 years and 7 months** of service. The company is **not covered under the Payment of Gratuity Act, 1972**. His Basic Salary (average of last 10 months) is ₹80,000 p.m., Dearness Allowance (forms part of salary for retirement benefits) is ₹20,000 p.m., Commission (as a fixed percentage of turnover achieved by the employee; average of last 10 months) is ₹10,000 p.m. and Gratuity Received is ₹20,00,000. Compute the amount of gratuity exempt from tax and the taxable gratuity for AY 2026–27.

Average salary = (₹80,000+ ₹20,000+ ₹10,00) x 10/10

= ₹1,10,000

Half month's average salary × 28 years = ½ x ₹1,10,000 x 28

= ₹15,40,000

Exemption is the **least of** the following:

Actual gratuity received	₹20,00,000
Statutory ceiling	₹20,00,000
Half month's average salary × 28 years	₹15,40,000

Least = ₹15,40,000

Taxable gratuity = ₹20,00,000 − ₹15,40,000

=₹ 4,60,000

Points to be noted:

(1) Gratuity received during the period of service is fully taxable.

(2) Where gratuity is received from 2 or more employers in the same year then aggregate amount of gratuity exempt from tax cannot exceed ₹10,00,000.

(3) Where gratuity is received in any earlier year from former employer and again received from another employer in a later year, the limit of ₹10,00,000 will be reduced by the amount of gratuity exempt earlier.

(4) The exemption in respect of gratuities would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

4. **Fees, commission, perquisite or profits in lieu of or in addition to any salary or wages**

The payment in the form of fees or commission by the employer to the employee are **fully taxable**. Commission may be paid as fixed percentage of turnover or net profits etc. Section 17(2) and 17(3) contains the provisions relating to perquisites and profits in lieu of salary, respectively.

5. **Any Advance of Salary**

Advance salary is **taxable** when it is received by the employee irrespective of the fact whether it is due or not. Section 89(1) provides for relief.

6. **Leave Salary or Leave Encashment**

Generally, employees are allowed leaves during the period of service. Employee may avail such leaves or in case the leaves are not availed, then the leaves may either be lapsed or accumulated for future or allowed to be encashed every year or at the time termination/ retirement. The payment received on account of encashment of unavailed leave would be form part of salary.

7. **Provident fund**

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contribution of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee.

Thus, the credit balance in a provident fund account of an employee consists of the following:

1. Employee's contribution
2. Interest on employee's contribution
3. Employer's contribution
4. Interest on employer's contribution.

The accumulated balance is paid to the employee at the time of his retirement or resignation. In the case of death of the employee, the same is paid to his legal heirs. The provident fund represents an important source of small savings available to the Government. Hence, the Income-tax Act, 1961 gives certain deductions on savings in a provident fund account.

The tax treatment for various provident funds is given below:

	Particulars	**Recognized PF**	**Unrecognized PF**	**Statutory PF**	**Public PF**
1.	Employer's Contribution	Amount in excess of 12% of salary is taxable	Not taxable yearly	Fully exempt	N.A. (as there is only assessee's own contribution)
2.	Employee's Contribution	Eligible for deduction u/s 80C	Not eligible for deduction	Eligible for deduction u/s 80C	Eligible for deduction u/s 80C
3.	Interest Credited	Amount in excess of 9.5% p.a. is taxable	Not taxable yearly	Fully exempt	Fully exempt
4.	Payments received at the time of Retirement	Fully exempt	• Employee's contribution is not taxable • Interest on Employee's contribution is taxable under 'Income from Other Sources'. • Employer's contribution and interest thereon is taxed as salary.	Fully exempt	Fully exempt

Exemption of Accumulated balance of RPF, payable to an employee:

1. Employee rendered continuous service for at least 5 years with the employer.
2. If not so, the termination should be due to His ill heath, Contraction and discontinuance of the employer's business, Any other cause beyond the control of the employee.
3. After termination of his employment with one employer, the employee obtains employment under another employer, then, only so much of the accumulated balance in his provident fund account will be exempt which is transferred to his individual account in a recognised provident fund maintained by the new employer. In such a case, for exemption of payment of accumulated balance by the new employer, the period of service with the former employer shall also be taken into account for computing the period of five years' continuous service.

For this purpose, **Salary** means:

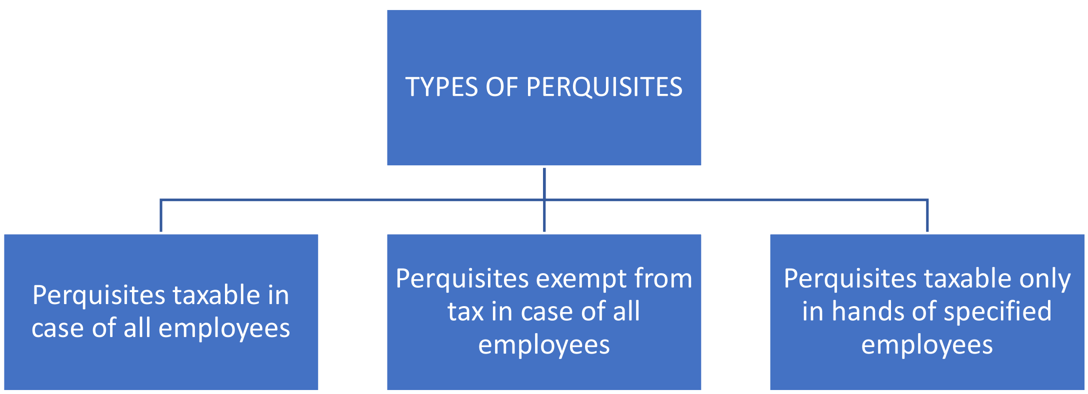
Basic Salary + Dearness Allowance (to the extent it forms part of retirement benefits) + Commission, if it is a fixed percentage of turnover achieved by the employee

8. Profits in lieu of salary [Section 17(3)]

It is **fully taxable.**

9. Perquisites

The term 'perquisite' indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered. In modern times, the salary package of an employee normally includes monetary salary and perquisite like housing, car etc. The term "perquisite" is defined under section 17(2).



A. Perquisites taxable in the case of all employees:

Rent Free Accommodation	Value of rent-free accommodation provided to the assessee by his employer [Section 17(2)(i)]. [Refer discussion on valuation of perquisite) Exception: Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable. Similarly, rent-free furnished house provided to an Officer of Parliament, is not taxable.
Concession in rent	Value of concession in rent in respect of accommodation provided to the assessee by his employer [Section 17(2)(ii)].
Payment by the employer in respect of an obligation of employee	Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employee [Section 17(2)(iv)]. For example, if a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an

	obligation which the employee would have discharged even if the employer did not reimburse the same. This perquisite will be covered by section 17(2)(iv) and will be taxable in the hands of all employees.
Specified security or sweat equity shares allotted or transferred, by the employer	The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee. [Section 17(2)(vi)]
Amount of any contribution to an approved superannuation fund	The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds ` 1,50,000. [Section 17(2)(vii)]
Any other fringe benefit or amenity	The value of any other fringe benefit or amenity as may be prescribed by the CBDT. [Section 17(2)(viii)]

1. **Valuation of residential accommodation [Sub-rule (1) of Rule 3]**

A. **In case of unfurnished accommodation provided to employees:**

1. Government employees –

License fee determined by the Central Government or any State Government in respect of accommodation in accordance with the rules framed by such Government.

2. Non-government employees–

a. If accommodation owned by the employer:

Type of accommodation based on 2011 Census population	Deemed concession in the matter of rent
In cities having a population exceeding 40 lakhs	10% of salary minus rent recoverable from the employee.
In cities having a population exceeding 15 lakhs but not exceeding 40 lakhs	7.5% of salary minus rent recoverable from the employee.
In other cities having population up to 15 lakhs	5% of salary minus rent recoverable from employee

Example: Mr. Raj is employed by XYZ Ltd. in **Ahmedabad**. His Basic Salary is ₹8,40,000, Dearness Allowance (forms part of salary for retirement benefits) is ₹1,20,000, Commission (2% of turnover achieved by the employee) is ₹80,000, Bonus ₹60,000. Employer provides an unfurnished house owned by the employer. Population of the city is less than 40 lakhs. Compute the taxable value of Rent-Free Accommodation.

Salary = Basic salary + DA + Bonus + Commission

= ₹8,40,000+₹1,20,000+₹60,000+₹80,000

= ₹11,00,000

Value of RFA = ₹11,00,000 x 7.5%

=₹82,500

b. If accommodation taken on lease or rent by the employer:

Rent paid by the employer or 10% of salary, whichever is lower, minus rent recoverable from the employee.

Example: if in the above example the house provided is not owned by the employer and employer pays rent of ₹12,000 p.m.

Rent paid = ₹12,000 x 12 = ₹1,44,000

10% of salary = ₹11,00,000 x 10%

= ₹1,10,000

Therefore, value of RFA = ₹1,10,000.

B. In case of furnished accommodation provided to employees

1. In case of Government employees
The licence fees determined by the employer plus hire charges paid or 10% p.a. of cost of furniture.

2. Non-government employees
The value determined as per the unfurnished accommodation plus hire charges paid or 10% p.a. of cost of furniture.
Example: in the above example if employer provides furniture of ₹1,50,000. Then value shall be
Value = ₹1,10,000 + ₹15,000
= ₹1,25,000

C. In case the accommodation is provided by any employer, whether Government or any other employer, in a hotel

The value shall be the actual charges paid to hotel or 24% of salary, whichever is lower, minus rent recovered/recoverable from the employee would be deemed to be the concession in the matter of rent.

However, where the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on his transfer from one place to another, there would be no perquisite.

Meaning of Salary for the purpose of rent-free accommodation. **(BABC)**

"Salary" includes pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be.

However, it does not include the following, namely–

(1) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;

(2) employer's contribution to the provident fund account of the employee;

(3) allowances which are exempted from the payment of tax;

(4) value of the perquisites specified in section 17(2);

(5) any payment or expenditure specifically excluded under the proviso to section 17(2) i.e., medical expenditure/payment of medical insurance premium specified therein.

2. Value of gift, voucher or token in lieu of such gift [Sub-rule 7(iv) of Rule 3]

(i) The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift:

(ii) However, if the value of such gift, voucher or token, as the case may be, is below **₹5,000** in the aggregate during the previous year, the value of perquisite shall be taken as 'Nil'.

(iii) If gift is given in cash or cheque or voucher the entire amount received shall be taxable.

B. Perquisites exempt from tax in case of all employees

Telephone	Telephone provided by an employer to an employee at his residence
Refreshment	Refreshment provided to all employees during working hours in office premises;
Recreational facilities	Recreational facilities, including club facilities, extended to employees in general i.e., not restricted to a few select employees;
Amount spent on training of employees	Amount spent by the employer on training of employees or amount paid for refresher management course including expenses on boarding and lodging;
Medical facilities Medical facility in a hospital maintained by employer Medical reimbursement	Medical facilities subject to certain prescribed limits; Tax free in case of employees & family members Nil w.e.f. A.Y. 2019-20 if, Treatment done in Govt. Hospital ii. treatment for specified disease in approved hospital. iii. health insurance premium of employee paid by employer iv. health insurance premium of family member reimbursed by employer

Medical treatment outside India	medical treatment and stay of patient with 1 attendant- tax free to the extent of foreign exchange released by RBI. Travel of patient with one attendant- tax free if gross total income excluding this benefit does not exceed Rs.2,00,000.

C. Perquisites taxable only in the hands of specified employees [Section 17(2) (iii)

Specified employees are:

1. Director employee
2. An employee who has substantial interest in the company
3. Employee drawing in excess of Rs.50,000

1. Motor Car [Sub-rule (2) of Rule 3]

Circumstances	Where cubic capacity of engine does not exceed 1.6 litres	Where cubic capacity of engine exceeds 1.6 litres
Where the motor car is owned or hired by the employer and –		
(A)Expenses met by employers-		
a. Used wholly and exclusively in the performance of his official duties	Nil	Nil
b. Used exclusively for the private or personal purposes	Actual amount of expenditure incurred by the employer **Plus** 10%p.a. of cost of car or the hire charges paid **Minus** amount recovered from employee	Actual amount of expenditure incurred by the employer **Plus** 10%p.a. of cost of car or the hire charges paid **Minus** amount recovered from employee
c. Used partly in the performance of duties and partly for private or personal purposes	₹1,800 (plus ₹900, if chauffeur is also provided to run the motor car)	₹2,400 (plus ₹900, if chauffeur is also provided to run the motor car)
(B) Expenses met by employee or reimbursed by the employer		
a. Used for office and personal purpose	₹600 (plus ₹900, if chauffeur is also provided by the employer to run the motor car)	₹900 (plus ₹900, if chauffeur is also provided by the employer to run the motor car)

b. Used for personal purpose only	10%p.a. of cost of car or actual hire charges	10%p.a. of cost of car or actual hire charges
Where the employee owns a motor car-		
The actual running and maintenance charges (including remuneration of the chauffeur, if any) are met or reimbursed to him by the employer and the use of the vehicle is partly for official purposes and partly for personal or private purposes.	The actual amount of expenditure (less) ₹1800pm (₹900pm for driver)	The actual amount of expenditure (less) ₹2400pm (₹900pm for driver)

Example: Employer provides car having capacity **1.4 litres,** running and maintenance expenses borne by employer and driver also provided by employer. Compute taxable perquisite.

Value of motor car = (₹1,800 + ₹900) x 12

= ₹32,400

2. Valuation of benefit of provision of domestic servants [Sub-rule (3) of Rule 3] (sweeper, a gardener, a watchman or a personal attendant)

The value shall be the actual cost paid by the employer as reduced by any amount paid by the employee for such services.

3. Valuation of gas, electricity or water supplied by employer [Sub-rule (4) of Rule 3]

If payment is made to agency supplying of gas, electricity etc- The value shall be determined as the sum equal to the amount paid on that account by the employer.

If supply is made from resources owned by the employer- The value of perquisite would be the manufacturing cost per unit incurred by the employer.

DEDUCTIONS FROM SALARY [SECTION16]

1. Standard Deduction [section 16(ia)]
2. Entertainment allowance [Section 16(ii)]
3. Professional tax [Section 16(iii)]

1. Standard Deduction [section 16(ia)]

The standard deduction from gross salary shall be ₹50,000 under old regime and ₹75,000 under new regime or the amount of salary whichever is lower.

2. Entertainment allowance [Section 16(ii)]

Entertainment allowance received is fully taxable and is first to be included in the salary and thereafter the following deduction is to be made:

However, deduction in respect of entertainment allowance is available in case of **Government employees only**.

The amount of deduction will be least of following:

(i) Entertainment allowance received.
(ii) One-fifth of his basic salary (20% of Basic Salary)
(iii)₹5,000

Amount actually spent by the employee towards entertainment out of the entertainment allowance received by him is not a relevant consideration at all.

3. Professional tax [Section 16(iii)]

Professional tax or taxes on employment levied by a State under Article 276 of the Constitution is allowed as deduction only when it is actually paid by the employee during the previous year.

If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 16.

Computation of Income under the head salary

Particulars	**Amount**	**Amount**
Basic Salary		xxx
Bonus		xxx
Commission		xxx
Allowances (Fully taxable and partly taxable)		xxx
Perquisites		xxx
Retirement Benefits (Pension, Gratuity and Provident fund)		xxx
Total Gross Salary		xxx
(less) Deductions u/s 16 Standard deduction (₹50,000) Entertainment Allowance (only for Govt. Employees) (if applicable) Professional Tax (actual amount paid)	 xxx xxx xxx	 xxx
Net Taxable Salary		xxx

Unit 3 Heads of Income

- Income under the Head: House Property (Only theory)
- Capital gains – Numerical including Section 54, 54F, 54EC

Income under the Head House Property

Introduction:

Income from house property refers to the rental income earned by an individual from a property that he or she owns. This income is chargeable to tax under the head "Income from House Property" as per the income tax laws in many countries.

Basis of Charge [Section 22]:

Income from house property shall be taxable under this head if following conditions are satisfied:

a) The house property should consist of any building or land appurtenant thereto;

b) The taxpayer should be the owner of the property;

c) The house property should not be used for the purpose of business or profession carried on by the taxpayer.

Computation of income from house property:

Particulars	Amount	Amount
Gross Annual Value		xxx
Less: Municipal Taxes (actually paid by owner)		xxx
Net Annual Value		xxx
Less: Standard deduction at 30% of NAV[Section 24(a)]	xxx	
Less: Interest on borrowed capital [Section 24(b)]	xxx	xxx
Income from house property		xxx

1. Gross Annual value [Sec. 23(1)]

The Gross Annual Value of the house property shall be higher of following:

(i) Expected rent, i.e., the sum for which the property might reasonably be expected to be let out from year to year. Expected rent shall be higher of municipal valuation or fair rent of the property, subject to maximum of standard rent;

(ii) Rent actually received or receivable after excluding unrealized rent but before deducting loss due to vacancy

Out of sum computed above, any loss incurred due to vacancy in the house property shall be deducted and the remaining sum so computed shall be deemed to the gross annual value.

a. Municipal Value

Municipal value refers to the assessed value of a property as determined by the local municipality or government authorities. It is used as a basis for property taxation

b. Fair Rent

Fair rent of house property is the reasonable rental value that a property could fetch in the open market under normal circumstances.

c. Standard Rent

Standard rent typically refers to the maximum rent that a landlord is legally allowed to charge for a residential property under the regulations of rent control or tenancy laws.

Gross Annual Value in Different Cases

Self-Occupied Property	Nil	Property occupied by owner for residence and not let out actually. No benefits derived from it.
Let Out Property	Higher of expected rent or actual rent	House is actual rented
Vacancy Allowance	Actual Rent	Property is vacant during the year and actual rent less than expected rent
Deemed Let Out Property	Expected Rent	No actual rent received

2. Municipal taxes

From the GAV, deduct any municipal taxes paid during the relevant financial year. The municipal taxes are the property taxes paid to the local municipal authority.

3. Net Annual Value

The result of deducting municipal taxes from the Gross Annual Value gives the Net Annual Value. The formula is:

Net Annual Value (NAV)=Gross Annual Value (GAV)−Municipal Taxes Paid

The Net Annual Value is an important figure because it forms the basis for calculating the taxable income under the head "Income from House Property." It represents the income that is chargeable to tax.

The NAV of Self occupied house property or property which is vacant for Two whole years is NIL.

4. Deductions

1. Standard Deductions under section 24A

A standard deduction of 30% of the Net Annual Value to account for repairs, maintenance, and other related expenses.

2. interest on borrowed capital under section 24B

Section 24(b) allows for the deduction of interest on borrowed capital when computing the income from house property for taxation purposes. This deduction is applicable for both self-occupied properties and properties that are rented out. The interest should be paid on capital borrowed for the purpose of purchase, construction, repair, renewal, or reconstruction of the house property. If multiple individuals have jointly taken a home loan, each of them is eligible to claim a deduction for the interest paid on the loan, subject to the specified limits.

Let out/ Deemed let out	Self-occupied		Interest for pre-construction period
NO LIMIT	Loan for	Loan for Construction	Interest from date of loan to

	repair		31^{st} march preceding date of completion ofconstruction
	Max. 30,000	if after 01/04/99 and construction completed in 5 yrs from the end of FY inwhich loan taken: Max. 2,00,000, otherwise: Max. 30,000	Deduction: in 5 equal installments from year of completion.

5. Taxable income from House Property

The taxable income from house property is determined by subtracting the deductions from the Net Annual Value.

Income from Capital Gain

Meaning

Income from capital gains refers to the profit earned by an individual or entity from the sale of a capital asset. Capital assets can include various types of property, such as real estate, stocks, bonds, and other investments. When the sale price of a capital asset exceeds its purchase price or cost of acquisition, the resulting gain is considered a capital gain.

Basis of Charge under Sec. 45(1)

- ➢ Capital Asset
- ➢ Transfer
- ➢ Capital Gain: Short-term or Long-term
- ➢ Not Exempt u/s 54/54B/54D/54EC/54F/54G/54GA/54GB

Capital Asset under section 2(14)

Capital assets refer to various types of properties or investments that individuals or entities can own. When these assets are sold, any profit or loss resulting from the sale is considered a capital gain or capital loss. The classification of an asset as a capital asset is essential for determining the tax treatment of the gains or losses associated with its sale.
Examples of Capital Assets:
Non-agricultural land in rural area, Agricultural Land in **Urban Area**, Land, Building, House property, Jewellery, Motor Car (personal-use implications may differ for taxation), Shares, Securities, Mutual Fund Units, Goodwill, Patents, Trademarks, Copyrights, Leasehold Rights, Real Estate, Precious Metals, Business Assets, Collectibles (art, antiques, stamps, and coins), Cryptocurrencies, etc.

Non capital assets: Some items or transactions may fall outside the scope of capital gains taxation, and they are generally not considered capital assets.
Examples:

1. Personal Use Property:
   Items used for personal enjoyment or personal purposes, such as personal furniture, clothing, and household items like personal electronic gadgets and utensils, are generally not considered capital assets.
2. Consumable Items:
   Items that are consumed or used up over time, such as food, fuel, and other consumables, are not considered capital assets.
3. Gifts and Inheritances:
   In many jurisdictions, receiving a gift or inheritance is not treated as a sale or disposition, and there may be specific rules governing the tax treatment of such transfers.
4. Certain Business Assets:
   Some assets used in a business may be considered non-capital assets if they are specifically excluded from the definition of capital assets for tax purposes. For example, inventory and accounts receivable are often treated differently than capital assets.
5. Gold Deposit Bonds:
   Specified Gold Deposit Bonds notified by the Central Government are not treated as capital assets.

6. Agricultural Land:
   Agricultural land situated in **rural India** is **not** treated as a capital asset. It is **not situated within the limits of a municipality or cantonment board** having a population of **10,000 or more**.

Types of capital assets:
Capital assets are classified as short-term or long-term based on their holding period before being sold.

Short term Capital Assets:
A short-term capital asset refers to an asset that is held for a short period before being sold or transferred. The holding period is upto 12/24 Months.

- **Listed equity shares, listed preference shares, listed debentures, listed bonds and government securities, Units of UTI, zero coupon bonds and units of equity oriented mutual funds:** Held for 12 months or less.
- **Unlisted debentures, unlisted bonds, Immovable property (land or building/both), and unlisted shares:** Held for 24 months or less.
- **Other capital assets (gold, debt mutual funds, jewellery):** Generally held for 24 months or less.

Long Term Capital Assets:
A long-term capital asset is an asset that is held for an extended period before being sold or transferred. Holding period is more than 12/24 Months.

- **Listed equity shares, listed preference shares, listed debentures, listed bonds and government securities, Units of UTI, zero coupon bonds and units of equity oriented mutual funds:** Held for more than 12 months.
- **Unlisted debentures, unlisted bonds, Immovable property (land or building/both), and unlisted shares:** Held for more than 24 months.
- **Other capital assets (gold, various other investments):** Held for more than 24 months.

(Note: **Depreciable assets** → Taxed under the special provisions as short-term capital gains regardless of the holding period.)

Transfer under section 2(47)
As per Section 2(47) of the Income Tax Act, the term "transfer" includes the following:
1. Sale, Exchange or Relinquishment of capital asset
2. Extinguishment of any RIGHT
3. Compulsory acquisition
4. Conversion of capital asset in to stock
5. Maturity or Redemption of Zero coupon bond
6. Possession of Immovable property u/s 53A of Transfer of Property Act, 1882
7. Acquiring shares or membership of Housing Co-operative Society for enjoyment of immovable property.

Capital Gain

Capital gain refers to the profit or financial gain obtained from the sale or exchange of a capital asset. Capital assets can include various types of properties and investments, such as real estate, stocks, bonds, precious metals, and other securities. When a capital asset is sold for a price higher than its original purchase or acquisition cost, the difference represents the capital gain.

There are two types of capital gain:

Short Term Capital Gain:
If a capital asset is held for a short duration (less than 12/24 months) before being sold, any resulting gain is considered a short-term capital gain. Short-term capital gains are often taxed at higher rates than long-term gains.

Long Term Capital Gain:
If a capital asset is held for a longer duration (more than 12/24 months) before being sold, the resulting gain is considered a long-term capital gain. Long-term capital gains may qualify for preferential tax rates in many jurisdictions.

Computation of capital gain.

1. Short term capital gain

Particulars	**Amount**	**Amount**
Full value of consideration		xxx
(less) a. expenditure incurred wholly and exclusively in connection with such a transfer	xxx	
b. Cost of acquisition	xxx	
c. Cost of improvement	xxx	xxx
Gross Short Term Capital Gains		xxx
(Less) Exemption, if available, u/s 54B/54D/54G/54GA		xxx
Taxable Short term capital gain		xxx

2. Long term capital gain

Particulars	**Amount**	**Amount**
Full value of consideration		xxx
(less) a. expenditure incurred wholly and exclusively in connection with such a transfer	xxx	
b. Indexed Cost of acquisition (if applicable)	xxx	
c. Indexed Cost of improvement (if applicable)	xxx	xxx
Gross Long Term Capital Gains		xxx
(Less) Exemption, if available, u/s 54/54B/54D/54EC/54EF/54F/54G/54GA/54GB		xxx
Taxable Long term capital gain		xxx

Computation Indexed cost of acquisition:

$$\text{Actual Cost of Acquisition} * \left(\frac{\text{Cost Inflation Index (CII) in the year of sale}}{\text{Cost Inflation Index (CII) in the year of acquisition}}\right)$$

Computation Indexed cost of improvement:

$$\text{Actual Cost of Improvement} * \left(\frac{\text{Cost Inflation Index (CII) in the year of sale}}{\text{Cost Inflation Index (CII) in the year of improvement}}\right)$$

Cost of Acquisition:

1. **Asset acquired by gift, will or inheritance:** Cost of acquisition is equal to Cost paid by the previous owner.
2. **Bonus Shares:** Cost of acquisition is **NIL**
3. **Rights Shares:** Cost of acquisition is equal to amount actually paid
4. **Self-generated assets:** Example goodwill, trademark, brand name, etc cost of acquisition is **NIL.**
5. **Listed Equity Shares:**
   1. **If acquired before 01-02-2018:** Higher of actual cost or lower of FMV as on 31-01-2018 or sale consideration.
   2. **If acquired on or after 01-02-2018:** Actual cost of acquisition.
6. **Listed debentures:** Actual cost of acquisition.
7. **Gold, Silver and Jewellery:** Actual cost of acquisition.
8. **Land/Building/both:** It also covers any land like commercial, residential, urban agricultural land, flat, house property, apartment, office, factories, godowns, villa or bungalow. Indexed of cost of acquisition is applicable if following conditions are fulfilled:
   1. Person should be resident individual or resident HUF
   2. Transfer should be of land/building/both
   3. It is acquired on or before 22-07-2024
   4. It is sold after 23-07-2024
9. **Depreciable Assets:** Can never have LTCG even if held for many years. Written Down Value of the block of assets is to be considered as cost of acquisition. Examples: building used for business/profession, plant and machinery, furniture & fittings, computers, motor cars, commercial vehicles, intangible assets, etc.

Cost of Improvement:

1. Improvement made before 01-04-2001: **NIL**
2. **Improvement made after 01-04-2001:**
   1. Indexed cost of improvement for Land/Building/Both: It also covers any land like commercial, residential, urban agricultural land, flat, house property, apartment, office, factories, godowns, villa or bungalow. Indexed of cost of improvement is applicable if following conditions are fulfilled:

(i) Person should be resident individual or resident HUF
(ii) Transfer should be of land/building/both
(iii) It is acquired on or before 22-07-2024
(iv) It is sold after 23-07-2024

   2. Actual cost of improvement for all other assets than mentioned above.

Cost Inflation Index Table

Financial Year	Cost Inflation Index
2001-02	100
2002-03	105

2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301
2021-22	317
2022-23	331
2023-24	348
2024-25	363
2025-26	376
2026-27	384

Exemptions:

Section	Applicable to whom	Conditions to be satisfied	Amount of exemption
54	Individual/HUF	LTCG on Residential house property Residential house property should be either purchase 1 year before or 2 years after; or construction should be within 3 years after. Only one Residential house property in India if LTCG exceeds Rs. 2 crores & two Residential house property If LTCG doesn't exceed Rs. 2 crores.	Long Term Capital Gain computed Or Amount deposited on purchase of new Residential House Property Whichever is Less
54EC	Any Assessee	Long term capital gain on land or building or both Within a period of 6 months after the date of transfer, capital gain must be invested in the specified	Long Term Capital Gain computed Or Amount invested subject to maximum Rs.50 lakhs per F.Y. in new asset Whichever is Less

		assets i.e. bonds (redeemable after 5 years issued by NHAI, RECL & Power Finance Corporation & other bonds notified by the Central Government)	
54F	Individual/HUF	LTCG on assets other than Residential house property Residential house property in India should be either purchase 1 year before or 2 years after; or construction should be within 3 years after. Assessee should hold only 1 Residential house property besides new Residential house property The assessee should not either purchase within 2 years or construct within 3 years any residential house other than the new asset.	If the cost of new residential house is more than the net consideration (sales value), whole amount of long term capital gain is taxable. If the cost of new residential house is less than the net consideration (sales value), then following formula is used for computing exemption: $\text{LTGC} * (\text{amount invested} / \text{net } consideration\ price)$

Unit 4 Deductions and Filing of ITR

- Standard Deduction, Deduction from gross total income as applicable to an individual (Section 24B, 80C, 80CCC, 80CCD, 80CCG, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80QQB, 80TTA,80U).
- Steps in filing ITR Online.

Deductions meaning

Income tax deductions under the Income Tax Department are specific expenses, investments, or payments that you subtract from your gross total income. They lower persons overall taxable income and reduce the tax liability. Most tax-saving deductions are only available if the old tax regime is selected.

Deductions" typically refer to the amount that is subtracted or allowed to be subtracted from a person's gross income or from a company's revenue to arrive at the taxable income. Deductions can significantly impact the amount of income that is subject to taxation. Different types of deductions are available for individuals and businesses, and they serve various purposes.

1. Standard Deductions

A fixed deduction available to individuals, irrespective of their actual expenses.

The standard deduction available for salaried individuals under both the regimes for the FY 2025-26 (AY 2026-27) is as follows:

- **Old Tax Regime:** Rs. 50,000 or amount of salary whichever is lower is allowed.
- **New Tax Regime:** Rs. 75,000 or amount of salary whichever is lower is allowed.

2. Deductions from Gross Total Income of an Individual

Section	**Deduction**	**Maximum limit**
80C	Life Insurance Premiums Employee Provident Fund (EPF) Public Provident Fund (PPF) National Savings Certificate (NSC) Tax-saving Fixed Deposits (FDs) Equity-Linked Savings Schemes (ELSS) Tuition Fees Principal Repayment on Home Loan Sukanya Samriddhi Account Five-Year Fixed Deposit with Banks/Post Office	Upto Rs.1,50,000(aggregate).
80CCC	In respect of contribution to certain pension/annuity	Included in Rs.1,50,000 limit with 80C & 80CCD(1)
80CCD (1)	Employee's own contribution to NPS	Included in ₹1.5 lakh overall limit
80CCD(1B)	Additional NPS contribution	₹50,000
80CCD(2)	Employer's contribution to NPS	1. **14%** of salary (Basic + Dearness Allowance) for central/state government employees

		2. 10% for private-sector and other non-government employees. [1, 2]
80CCH	Contribution to Agnipath scheme	100% of amount
80D	Medical insurance premium Payment of health checkup Contribution to Central Government Health Schemes or other similar schemes	For individual- Max. Rs.25,000 For parents- Max. Rs.25,000 HUF- Max. Rs.25,000 For senior citizen additional Rs.25,000
80DD	Dependent who is a person with disability (only in old regime)	Rs.75,000 (40% or more disability) (Rs.1,25,000 for sever disability(80% or more disability))
80DDB	Medical treatment of specified diseases (only in old regime)	For individual- Rs.40,000 For Senior Citizen- additional Rs.60,000
80E	Interest paid on loan taken for pursuing higher education	Actual amount paid
80EE	Interest on loan for residential house	up to ₹50,000
80EEA	Interest on affordable housing loan	up to ₹1,50,000
80EEB	Interest on loan for electric vehicle	Up to **₹1,50,000**, subject to conditions
80G	Donations to certain funds, charitable institutions, PM cares fund, etc.	100% or 50% of eligible donation
80GG	Rent paid (if HRA is not received)	Whichever is lower: 1. Max. Rs.5,000p.m. or 2. 25% of adjusted gross total income 3. Excess of rent paid over 10% of adjusted gross total income
80GGA	Donations for scientific research/rural development	100% of amount
80GGB	Contribution given by companies to political partities	100% of amount
80GGC	Contribution to political party/electoral trust	100% of amount
80JJAA	Employment of new employees	30% of additional wages for 3 years
80QQB	Royalty income of authors of certain books other than text books	100% of such income or Rs.3,00,000 Whichever is less
80RRB	Royalty on patents	As per condition
80TTA	Interest on deposits in savings account	Max. Rs.10,000
80TTB	Interest income of resident senior citizens	Up to **₹50,000**
80U	Person with disability	Rs.75,000 for disability or Rs.1,25,000 for sever disability

Filing of ITR

Meaning of ITR

ITR stands for "Income Tax Return." It is a document or a set of forms that taxpayers use to report their income earned during a financial year and calculate the tax liability thereon. Essentially, it is a declaration of income, deductions, and taxes paid by an individual or entity to the tax authorities.

Filing of income tax return fulfils the following purposes:

1. **Income Declaration:** It allows individuals and entities to declare their sources of income, including salary, business income, capital gains, and other earnings.
2. **Calculation of Tax Liability**: Taxpayers use the ITR form to calculate their taxable income and determine the amount of tax they owe to the government.
3. **Claiming Deductions and Exemptions:** Individuals can use the ITR to claim deductions and exemptions allowed by the tax laws. This includes deductions under various sections like 80C, 80D, 80G, etc.
4. **Refund Processing:** If an individual has paid more tax than required through TDS (Tax Deducted at Source) or advance tax, filing an ITR helps in claiming a tax refund.
5. **Compliance with Tax Laws:** Filing an Income Tax Return is a legal requirement in many jurisdictions. Non-compliance may result in penalties and other legal consequences.
6. **Financial Documentation:** It serves as a comprehensive record of an individual's or entity's financial transactions and tax-related activities.

Types of ITR forms:

ITR Form	Who can use it?	Major sources of income
ITR-1 (Sahaj)	Individual resident, generally with total income up to ₹50 lakh	Salary/pension, one house property, other sources, agricultural income up to ₹5,000
ITR-2	Individual/HUF not having income from business or profession	Salary, house property, capital gains, foreign income/assets, etc.
ITR-3	Individual/HUF having income from business or profession	Business/profession + salary, house property, capital gains, other sources
ITR-4 (Sugam)	Resident Individual/HUF/Firm (other than LLP), satisfying prescribed conditions and opting for presumptive taxation	Business u/s 44AD/44AE or profession u/s 44ADA, along with specified other income
ITR-5	Firms, LLPs, AOPs, BOIs, certain associations, etc.	Business/profession and other applicable income
ITR-6	Companies other than companies claiming exemption under section 11	Income of companies

ITR Form	Who can use it?	Major sources of income
ITR-7	Persons including trusts, political parties, institutions, etc., required to file return under sections 139(4A) to 139(4D)	Income of charitable/religious trusts, political parties, certain institutions, etc.

Steps in filing ITR Online

Step 1: Keep the Required Information Ready: like PAN, Aadhaar, Bank account details, form 16, 16A, 26A, etc

Step 2: Login to the Income Tax E-Filing Portal- Go to the official Income Tax e-Filing Portal and log in using your credentials.

Step 3: Select "**File Income Tax Return**"

Step 4: Select the Right 'Assessment Year'- Select 'Assessment Year' as 'AY 2026-27' and mode of filing as 'Online'

Step 5: Select Status- Select preferred filing status: Individual, HUF, or Others and 'Continue'.

Step 6: Select ITR Form- The taxpayer must first ascertain which ITR form they must fill out before proceeding to file returns. There is a total of 7 ITR forms available. For example, individuals and HUFs without income from business or profession but with capital gains can use ITR 2

Step 7: Choose the Reason for Filing ITR- In the following step, it is prompted to specify the reason for filing the returns. Select the appropriate option that is applicable to the assessees situation like:

- Taxable income is more than basic exemption limit
- Meets specific criteria and mandatorily required to file ITR
- Others

Step 8: Review Pre-filled Information: Check and, wherever permitted, edit/add information. The official instructions specifically require taxpayers to review the pre-filled data and enter additional information wherever necessary.

Step 9: Select the Tax Regime: For **AY 2026–27**, the **New Tax Regime is the default regime**. If eligible and the taxpayer want to opt for the **Old Tax Regime**, the taxpayer must make the appropriate choice in the return.

Step 10: Enter Income and Deduction Details: Enter/verify the details under the relevant sections/schedules:
Income → Deductions → Tax computation → Taxes paid
The portal then calculates the total income and tax liability based on the information entered.

Step 11: Check Tax Payable/Refund: After entering all details, the system calculates gross total income, eligible deductions, total income, tax liability, tax already paid and tax payable or tax refund.

Step 12: Preview the Return: Check complete details and then proceed to validation.

Step 13: Validate the Return: Once successfully validated, proceed to submission.

Step 14: Submit the ITR: Enter the required declaration details, including place, and submit the return.

Step 15: E-Verify ITR- The last and crucial step is to verify the return. Failing to verify the return is equivalent to not filing it at all. It provides the option to e-verify the return using different methods such as Aadhaar OTP, electronic verification code (EVC) or other permitted e-verification methods.

Step 16: Download/Save the Acknowledgement
After successful verification, keep the **ITR acknowledgement** safely for future reference.

Unit 5 Goods and Service Tax Act, 2017

- Goods and Service Tax – Introduction & Meaning
- Advantages of GST,
- GST – Short Comings and Challenges
- Basic Definitions of GST- Goods, Services, SGST, CGST, IGST, UTGST, Person, Aggregate Turnover, Taxable Person, Business, Place of business

Introduction

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017, the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017, the GST Law came into force.
The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017.

Meaning

The constitution defines "goods and services tax" as any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. The Central and State governments have simultaneous powers to levy GST on Intra-state supply.

Features of GST

1. **Value Added Tax:** GST is a single value added tax on the supply of goods and services levied by the government of India. Under GST, tax is levied only on the value added at each stage in the supply chain from producer to the ultimate consumer. For example, if a business house purchases the goods of Rs. 1,000 and sells it for Rs. 1500 by adding Rs. 500 to the initial cost (consisting of say business overheads Rs. 200 and Profits of Rs. 300) he will have to pay GST only on the value addition of Rs. 500 and not on the total cost of Rs. 1500.

2. **Comprehensive:** GST subsumes all the prevailing indirect taxes. Moreover, by bringing in a unified taxation system across the country, it ensures that there is no more arbitrariness in tax rates.

3. **Multi-stage:** GST is levied at each stage in the supply chain from manufacturer to the ultimate consumer where the transaction takes place. GST offers comprehensive and continuous chain of tax credits from the producer's point or service provider's point up to the retailer's level or consumer's level thereby taxing only the value added at each stage of supply chain.

4. **Credit of GST paid on Purchases:** The supplier at each stage is permitted to avail credit of GST paid on purchase of goods and or services and can set-off this credit against the GST payable on supply of goods and services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set-off benefits at all previous stages.

5. **Destination based consumption:** GST is collected at the point of consumption. The tax authority with appropriate jurisdiction in the place where the goods / services are finally consumed will collect the tax. For example: let us say that the cotton garments are shipped from Gujarat to Maharashtra. Gujarat is producer state and Maharashtra is the consumer state. Tax revenue under GST shall be collected by GST authorities in Maharashtra.

6. **No Cascading Effect:** Since only the value added at each stage is taxed under GST, there is no tax or cascading of taxes under GST system. GST does not differentiate between goods and services and thus the two are taxed at a single rate.

7. **Rates of GST:** Currently there are four slabs of GST on the various categories of goods and services. They are 5%, 12%, 18% and 28%.

8. **Registration under GST:** Every supplier who makes a taxable supply of goods and / or services liable to get himself registered in the state from where he supplies. Threshold limit for Manipur, Mizoram, Nagaland & Tripura states are Rs.10 lakhs, For Arunachal Pradesh, Meghalaya, Sikkim, Uttarakhand, Puducherry & Telangana states are Rs.20,00,000 and for Other states for supply of Goods Rs.40 lakh, Supply of Services 20 lakh and Supply of Goods and Services Rs.20 lakh.

9. **GST for sale within the state:** In case the buyer and seller of goods or service are from the same state transaction would be taxed simultaneously under Central GST (CGST) and State GST (SGST). The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except the exempted goods and services. Further, both would be levied on the same price or value. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, however, SGST would be chargeable only when the supplier and the recipient are both located within the State.

10. **GST for Inter-state Salea:** Integrated Goods and Service Tax (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. The GST on supplies in the course of Inter-State trade or commerce shall be levied and collected by the Government of India. Such tax shall be apportioned between the Union and the States in the manner as may be provided by the law

Benefits of GST

For Business and Industry:

1. **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

2. **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and 2 ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

3. **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

4. **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

5. **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments:

1. **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

2. **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.

3. **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the 3 Government, and will therefore, lead to higher revenue efficiency.

For the consumer:

1. **Single and transparent tax proportionate to the value of goods and services:** Due

to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

2. **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Challenges to GST

1. **Understanding between Center and States:** Unlike in many other countries where GST is a centralized tax, in India it is to be executed by both central and state governments, according to the proposals. This implies that both the structure and administration of the levy had to emerge after detailed negotiations and bargaining between the centre, 29 states and the two Union Territories with legislatures. Given the sharp differences in the structure of the economy and sales tax revenue (as a ratio of gross state domestic product, or GSDP) across states, the interests of the states did not always coincide. Hence considerable effort was needed to persuade them to adopt a uniform or even a broadly harmonized structure and administrative system for the tax.

2. **Information Technology Platform:** For ensuring seamless input tax credit, they had agreed on a mechanism wherein the tax levied at the stage of interstate sale was to be collected and pooled separately and transferred to the destination state through a clearing house. They had also established the GST Network (GSTN), a special purpose vehicle with equity contributions from the technology partner (NSDL), and central and state governments to erect the information technology (IT) platform to administer GST.

3. **Issue of compensation for the loss of revenue:** The 13th Finance Commission's recommendation that states should levy "flawless" GST to be eligible to receive compensation for any loss of revenue put the entire negotiation process on the back burner. The problem was compounded by the central government's refusal to pay compensation for the loss of revenue arising from the reduction in central sales tax (CST). CST is the sales tax levied on inter-state transactions. The tax which was levied at 4% by the exporting state was reduced to 2% in 2007 in preparation for the introduction of GST. The central government had agreed to pay compensation for the loss of revenue to the states until 2010, when the GST was to be implemented. When the central government refused to compensate the states after 2010, a huge trust deficit was created and the entire negotiation process virtually broke down. The new finance minister has promised to clear the backlog of dues to the states and the states have resumed the negotiation process. The finance minister has also announced that the Constitution Amendment Bill will be placed in the winter session of Parliament. These developments bode well.

4. **Contentious issues and negotiation process:** There are a number of issues on which negotiations are necessary to reach a consensus between the centre and the states and

among the states themselves. The first issue relates to the inclusion of taxes within the ambit of GST. The bone of contention relates to inclusion of purchase taxes on foodgrain, taxes on motor spirit and high-speed diesel (GSD), and octroi or entry tax in lieu thereof. The foodgrain surplus states have been levying the purchase tax, the burden of which is exported to non-residents. The states were reluctant to bring motor spirit and high-speed diesel within the ambit as presently the tax is levied at a floor rate of 20% and the states derive about 35% of their sales tax collections from these petroleum products.

5. **Determination of Revenue Neutral Rate:** Another issue to be decided is the rates of central and state GSTs to be levied. It was expected that the tax rates 16 would be revenue neutral. This implies that in the short term, there would not be any revenue loss or gain, but over time the revenue productivity is expected to increase due to better compliance of the tax and increased productivity of the economy. However, estimation of revenue-neutral rate required consensus on the exemption list, number of tax rates to be levied and the list of goods and services to be included in different rate categories. Revenue-neutral rates had to be estimated for the center and for each of the states. Furthermore, when there was a preference for two rates— one for essential goods and services consumed by common people and another general rate—the estimation of revenue-neutral rates becomes further complicated.

6. **Setting up of an administrative system:** Another area where a lot of work is needed is the setting up of an administrative system for GST and working out the transitional arrangements. Ideally, from the viewpoint of reducing compliance cost, a unified administration would be desirable. However, that is not likely to happen as each state would like to control the administration of its GST. In this situation, harmonization of administrative processes with uniform systems, forms and procedures would be necessary. This would also require additional training of tax collectors in the administration and enforcement of the tax. Equally important is the dissemination of information about the tax to taxpayers.

Basic definitions of GST

1. **Goods-**
   "Goods" means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply;

2. **Services-**
   "Services" means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which charges may apply for separate consideration.

3. **SGST-**

The State Goods and Services Tax or SGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. In the case of an intrastate supply of goods and/or services, both State GST and Central GST are levied.

4. **CGST-**

   The Central Goods and Services Tax of CGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. The CGST is governed by the CGST Act. The revenue earned from CGST is collected by the Central Government.

5. **IGST-**

   The Integrated Goods and Services Tax or IGST is a tax under the GST regime that is applied on the interstate (between 2 states) supply of goods and/or services as well as on imports and exports. Under IGST, the body responsible for collecting the taxes is the Central Government. After the collection of taxes, it is further divided among the respective states by the Central Government.

6. **UTGST-**

   UTGST, the short form of Union Territory Goods and Services Tax, is nothing but the GST applicable on the goods and services supply that takes place in any of the union territories of India.

7. **Person-**

   'Person' here includes individuals, HUF, company, firm, LLP, an AOP/ BOI, any corporation or Government company, body corporate incorporated under laws of foreign country, co-operative society, local authority, government, trust, artificial juridical person.

8. **Aggregate Turnover-**

   Aggregate Turnover' refers to the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax as payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, shall contain data at all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess.

9. **Taxable Person-**

   A 'taxable person' under GST, is a person who carries on any business at any place in India and who is registered or required to be registered under the GST Act. Any person who engages in economic activity including trade and commerce is treated as a taxable person.

10. **Business-**

    Business" includes:

1. Any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether it is for a pecuniary benefit.
2. Any activity or transaction in connection with or incidental or ancillary to point 1;

3. Any activity or transaction in the nature of point 1, whether or not there is volume, frequency, continuity or regularity of such transaction.
4. Supply or acquisition of goods including capital goods and services in connection with commencement or closure of business.
5. Provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members.
6. Admission, for a consideration, of persons to any premises.
7. Services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation.
8. Services Provided by a race club by way of totalisator or a licence to bookmaker in such club.
9. Any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities.

11. **Place of business-**

"Place of business" includes—

(*a*) a place from where the business is ordinarily carried on, and includes a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both; or

(*b*) a place where a taxable person maintains his books of account; or

(*c*) a place where a taxable person is engaged in business through an agent, by whatever name called.