

 Income Tax

Taxation, imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well.

**A. Introduction**

|  |
| --- |
| Business |
| Goods | + | Services | = | Profit |
| Manufacture | Trading |  |  |  |
| Excise Duty | Sales Tax (VAT/CST) | Service Tax |  | Income Tax Wealth Tax |
| Goods and Service Tax |  |  |  |
|  |  |  | Direct Taxes |
| Indirect Taxes |  |  |  |

**Types of Tax**

**Direct**

**Indirect**

Burden of tax borne by the person himself

Burden of tax shifted to another person

**B. Difference Between Direct Taxes and Indirect Taxes**

|  |  |  |
| --- | --- | --- |
|  **CONTEXT** | **DIRECT TAX** | **INDIRECT TAX** |
| Imposition | Imposed on income or profits | Imposed on goods and services |
| Taxpayer | Individuals, HUFs, firms, and companies | End-consumer of the goods and services |
| Applicability | Applicable to the taxpayer alone | Applicable to every stage of the production-distributionchain |
| Tax burden | The burden falls directly on the individual | The burden is shifted to the consumer by themanufacturer or service provider |
| Transferability | Cannot be transferred to anyone else | Can be transferred from one taxpayer to the other |
| Coverage | Confined to an entity or individual taxpayer | Wide coverage, because all the members of the societyare taxed |
| Administrative cost | Higher administrative costs and many exemptions | Lesser administrative costs because of stable, convenientcollections |
| Tax evasion | Possible | Not possible |
| Allocative effects | Have good allocative effects since they put less burdenon the collection | Allocative effects not as good as those of direct taxes |
| Inflation | Helps in reducing inflation | Might help in increasing inflation |
| Orientation | Discourage investments, lessen savings | Growth-oriented, encourage savings |
| Mode of progress | Progressive, reduce inequalities | Regressive, enhance inequalities |
| Most common types (inIndia) | Income, Wealth, Corporate Tax | GST or Goods and Services Tax |



**C. Introduction to Income Tax Act, 1961**

* It came into force on 1st April ,1962.
* It undergoes changes every year, with additions and deletions brought out by the Annual Finance act passed by the parliament.
* In pursuance of the power given by the Income Tax Act, 1961, rules have been framed to facilitate proper administration of the Income Tax Act, 1961. The CBDT is empowered to make the rules.

**Circulars and Notifications:**

* Circulars are issued by the CBDT from time to time to Deal with certain problems and clarify doubts regarding the scope and meaning of provisions of this act.
* These are issued for guidance of the officers and IT Dept internals.
* Notifications are issued by The CBDT dept. for giving effect to the provisions of the act.

Income Tax Act

Income Tax Rules

Legal Decisions of Court

**COMPONENTS OF**

**INCOME TAX**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Circulars and Notifications |  |  |  |  |

Annual Finance Act

An income is treated as salary if the relationship between the payer and the receiver is of Master and Servant (Employer and Employee).

|  |
| --- |
| **Statement of Income From Salary** |
| **Particulars** | **Amount** |
| A. Basic Salary | XXX |
| B. Allowances | XXX |
| C. Perquisites | XXX |
| D. Provident Fund | XXX |
| E. Gratuity | XXX |
| F. Advance Salary, Bonus, Arrears of Salary | XXX |
| **Gross Total Salary** | **XXX** |
| **Less: Deductions U/s 16** |  |
| i. Profession Tax | (XXX) |
| ii. Entertainment Allowance | (XXX) |
| iii. Standard Deduction | (XXX) |
| **Taxable Income From Salary** | **XXX** |



The above statement includes a list of incomes and for each such income we have to learn, whether it is taxable or exempted. If the income is taxable, it should be included and if it is not taxable or

exempted, it should be excluded.



 **Basic Salary**

It is fully taxable.

It is taxable on receipt or due basis whichever is earlier.

If net basic salary is given in the question, then find out gross basic salary as follows: -

|  |  |
| --- | --- |
| Net Basic Salary | XXX |
| Add: PF Contribution | XXX |
|  Professional Tax | XXX |
| Gross Basic Salary | XXX |

 **Allowances**

 Allowances are fixed amount received on monthly basis for a particular expense.

Allowances

Entertainment Allowance

Special Treatment

* H.R.A.
* Travel

Allowance

Other Allowances

Fully Taxable

Partly Taxable Partly Exempt



 **Perquisites**

Perquisites are additional benefits (comes besides the salary), in which the employer provides **Money or Facility** for the **Personal Expenses** of the employee.

If employer provides **Money,** then it is **Monetary Perquisite.**

If employer provides **Facility,** then it is **Non-Monetary Perquisite.**

|  |
| --- |
| **Expense** |
| **Allowance** | **Perquisite** |
| Allowances are fixed amounts received on monthly basis whether the expense is incurred or not. | They are provided at the time when the expense is actually incurred. |
| E.g., Medical Allowance | E.g.,1. Medical bills paid or reimbursed by the employer (Monetary),
2. Free medical facility (Non-Monetary)
 |

**Perquisites**

Medical Facility

Leave Travel

Others

Monetary Perquisites

Non-Monetary Perquisites

ST Others

House

EGS

Taxable for all

Specified Employees - Taxable Non-specified Employees - Exempt

### Medical Facility

In India Outside India

Treatment In

* Government Hospital
* Recognized Hospital
* Employer's Hospital

Fully Exempt

Otherwise

Exempt Up To Rs. 15,000

Benefit of Treatment

Exempt to the extent foreign exchange is permitted by RBI

Benefit of Stay

Exempt to the extent foreign exchange is permitted by RBI

Benefit of Travel

Fully Exempt if the GTI (excluding the benefit of travel) is up to Rs.

2,00,000

**Medical Facility**

**Note 1**: Benefit of **Stay** and benefit of **Travel** is exempt only for the **patient** and one **attendant**.

**Note 2**: Medical facility (In / Outside India) shall be exempted, only if the patient is:

-

-

-

-

Employee Spouse Children

Dependent (Parents / Brothers / Sisters)

**Note 3**: **Mediclaim Insurance Premium** paid by employer is **fully exempted.**

**Leave Travel Concession**

###  Amount of Exemption:

Journey

Performed By Air

Performed By Other Mode

1. Air Economy Class Fare
2. Amount Spent

Railway Facility Available

Railway Facility Not Available

1. FC AC Rail Fare
2. Amount Spent

RMT Available

RMT Not Available

1. FC /Deluxe Fare of RMT
2. Amount Spent
3. FC AC Rail Fare of Similar Journey
4. Amount Spent

**Leave Travel Concession**

FC – First Class

RMT – Recognized Mode of Transport

**Note 1:** Exemption for leave travel is allowed for the journey of:

* Employee
* Spouse
* Children\*
* Dependent (Parents/Brothers/Sisters)

\* Maximum two children, if the children are born on or after 01.10.1998 (No limit for children born before 01.10.1998)

**House**

Government Employee

Other Employees

Hotel Accommodation

Employer's Own House Rented House

Taxable Amount = Rent As Per Government

Rules

(Given In The Question)

**+**

Furniture

10% of Cost of Furniture (For Owned Furniture) or

Rent Paid By Employer (For Rented Furniture) **(-)**

Rent Charged by Employer (If Any)

Taxable Amount =

7.5%/10%/15% of BDA BCM

**+**

Furniture

10% of Cost of Furniture (For Owned Furniture) or

Rent Paid By Employer (For Rented Furniture) **(-)**

Rent Charged by Employer (If Any)

Taxable Amount = 15% of BDA BCM

or

Rent Paid By Employer

**+**

Furniture

10% of Cost of Furniture (For Owned Furniture) or

Rent Paid By Employer (For Rented Furniture) **(-)**

Rent Charged by Employer (If Any)

Taxable Amount = 24% of BDA BCM

or

Hotel Charges Paid By Employer

**Provident Fund**



Thank You!

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