B. Com II

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Topic — Income Tax

Income tax in India is imposed by the Government of India. Indian Taxation System is rooted in the era of Manu Smriti and Arthashastra. At present, taxation in India is based on ~~the theory of~~ ancient tax system. This was based on the theory of the maximum welfare of the society.

Income Tax Rules

The legislature introduced the Income tax Act 1961, to govern and administer income tax in the country. However in the year 1962, the income tax rules were created in order to help in the enforcement and application of law constituted in the Act. Moreover, one can only read the income tax rule in combination with the Income tax act.

Types of Taxes in India

As Per the Income-Tax Act, there are 2 types of taxes in India.

(1) Direct Taxes (2) Indirect Taxes

1- Direct Taxes — It is borne and paid directly by the individual on whom it is imposed such as - Wealth tax, Income tax gift tax etc. The taxpayer pays this tax directly to the government without any improvement of intermediary source.

2- Indirect Taxes — Indirect tax is the tax levied on goods and services and is collected by someone else on your behalf and is paid to the government like theatres restaurants etc. For example, service tax is what you pay in a restaurants and is an indirect tax, Whereas Income tax that is deducted from your salary every month in the form of Direct tax

Who are the Tax Payers — Any citizen below 60 years is liable to pay income tax. If their income exceeds 2.5 lakhs. If the individual is above 60 years of age and earns more than Rs 3 lakhs, he/she will have to pay taxes to the Government of India.

Additionally, the following entities that generates income are liable to pay direct taxes (Income tax, Wealth tax, Gift tax)

- Hindu undivided Family (HUF)
- Body of Individuals (BOI)
- Association of Persons (AOP)
- Local Authorities
- Corporate firms
- companies
- All Artificial Judicial Persons

<u>Financial year</u> — from an income tax perspective, FY is the year in which you earn an income.

<u>Assessment year</u> — AY is the year following the financial year in which you have to evaluate the Previous year's income and pay taxes on it. For instance, if your financial year is from 1 April 2019 to 31 March 2020, then it is known as FY 2019-2020. The assessment year for the money earned during this period would begain after the financial year ends — that is from 1 April 2020 to 31 March 2021.

Hence, the assessment year would be AY 2020-2

Assessee — An assessee is any indivi[dual] who is liable to pay taxes to the governm[ent] against any kind of Income earned for a particular assessment year.

Income tax heads — As per the section 14 Income Tax Act 1961, there are five main income tax heads for individual.

→ Income from salary
→ Income from House Property
→ Income from Business and Profession
→ Income from capital Gains
→ Income from other Sources

Gross Total Income (GTI) GTI is the sum of all the incomes received by the tax payer from various sources.

Total Income (T.I.) After deductions, the Total Income (T.I.) is calculated to ascertain the tax liability

Income tax slab and Rates 2020-2021, for HUF and individuals below the age of 60 years

Annual Income (in lakhs)	Old Rate	New Rate
2.5	NIL	NIL
2.5 to 5	5%	5%
5 to 7.5	20%	10%
7.5 to 10	20%	15%
10 to 12.5	30%	20%
12.5 to 15	30%	25%
15 and above	30%	30%