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**In case if you have opted for International Taxation Paper 6C – Elective Paper, you must study Chapters 21 to 29 as well our Black Money Act and Case Studies Book.**

## Chapter 1 : Income Tax - Basic Concepts

**Entry 82 of Union List** i.e., List I of Seventh Schedule to Article 246 of Constitution of India has given the power to Central Government to levy taxes on Income other than Agricultural Income.

**Income-Act, 1961:** It came into force w.e.f. **1<sup>st</sup> April 1962.**

### Body of Income Tax Law

Income-Act, 1961	Income-Tax Rules, 1962	Finance Act 2020	Notifications issued by Central Government	Circulars issued by CBDT	Case Laws
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<p><b>Sec 2(9): Assessment Year</b> means 12 months commencing on the 1st April every year. (<b>AY 2021-22 is applicable</b>)</p>	<p><b>Section 3: Previous Year</b> means the financial year immediately preceding the assessment year. (<b>PY 2020-21 is applicable</b>) If business or profession is newly set up, or a source of income newly coming into existence, PY shall be from date of setting up of the business or profession or when source of income newly comes into existence and ending with FY</p>
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### Cases when Income will be assessed in the Previous Year itself instead of AY

Shipping business of Non Resident	Assessment of persons leaving India	AOP / BOI / AJP formed for particular event or purpose	Persons likely to transfer property to avoid tax	Discontinued business
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### Section 2(31): Person includes

(a) Individual	(b) HUF	(c) Company	(d) Firm	(e) AOP, BOI even if incorporated or not	(f) Local authority	(g) artificial juridical person
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(e) to (g) shall be deemed to be a person, whether or not it was formed or established or incorporated with the object of deriving income, profits or gains.

**Section 2(7): Assessee** means person by whom income tax or any other sum of money is payable including

a) person for whom any proceeding under the Act has been taken for the assessment or loss or of refund due to him	b) person who is assessable in respect of income or loss of another person	c) person who is deemed to be an assessee or an assessee in default
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### Rates of Tax for Previous Year 2020-21 Assessment Year 2021-22

	<b>Individual</b>			<b>HUF / AOP / BOI / AJP/ Private trusts, political parties</b>
	<b>Resident below 60 years / Non Resident no age limit</b>	<b>Senior Citizen (Resident 60 years of age or above)</b>	<b>Very / Super Senior Citizen (Resident 80 years of age or above)</b>	
NIL	Up to 2,50,000	Up to 3,00,000	Up to 5,00,000	Up to 2,50,000
5%	From 2,50,001 to 5,00,000	From 3,00,001 to 5,00,000	--	From 2,50,001 to 5,00,000
20%	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000
30%	From 10,00,001	From 10,00,001	From 10,00,001	From 10,00,001

**Circular No.28/2016:** Person born on 1st April would be considered to have attained such age on 31st March.

**Section 87A: Rebate of income-tax in case of Resident Individuals**

<b>Assessee:</b> Resident Individual	<b>Net Taxable Income – upto</b> Rs. 5,00,000	<b>Deduction from Tax –</b> Lower of 100% of Tax or Rs. 12,500
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**Tax Rates for Other Persons**

Partnership Firms / LLP: 30%	Local Authority: 30%	Foreign Company: 40%
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**Domestic Company**

<b>Total Turnover or Gross Receipt in the previous year 2018-19 does not exceed Rs. 400 crores</b>	<b>Total Turnover or Gross Receipt in the previous year 2018-19 exceeds Rs. 400 crores</b>
<b>25%</b>	<b>30%</b>

<b>Co-operative Society</b>	
Up to ₹10,000	10%
₹10,000 – ₹20,000	20%
Above ₹20,000	30%

**Surcharge (on Basic Tax)**

<b>Net Taxable Income</b>	<b>Individual / HUF / AOP / BOI / AJP</b>
Up to ₹ 50 Lacs	Nil
It exceeds ₹ 50 Lacs up to ₹ 1 crore	10% of Tax
It exceeds ₹ 1 Crore up to ₹ 2 Crores	15% of Tax
It exceeds ₹ 2 Crores up to ₹ 5 Crores	25% of Tax
It exceeds ₹5 Crores	37% of Tax

<b>Net Taxable Income</b>	<b>Domestic Company</b>	<b>Foreign Company</b>	<b>Co-operative Society / Local Authority / Firm / LLP</b>
Up to ₹ 1 crore	Nil	Nil	Nil
It exceeds ₹ 1 Crore up to ₹ 10 Crores	7%	2%	12%
It exceeds ₹10 Crores	12%	5%	

**Computation of Total Income and Tax payable**

<b>A</b>	Gross Total Income (Losses have to be set off under each head of Income as permissible)
<b>B</b>	Less : Deductions under Chapter VI-A
<b>C</b>	Net Taxable Income ( <b>Round off to nearest ₹ 10 as per section 288A</b> )
<b>D</b>	Tax on above at prescribed rates
<b>E</b>	Add: Surcharge or Less: Rebate u/s 87A (as applicable)
<b>F</b>	(D) +(E) or (D) – (E) (as applicable)
<b>G</b>	Add: Health and Education Cess @ 4% on (F)
<b>H</b>	Total Tax Payable [(F) +(G)]
<b>I</b>	Less: TDS / TCS Credit / Advance Tax / Relief u/s 90/90A/91 / MAT Credit / AMT Credit
<b>J</b>	Self-Assessment Tax Payable / Refund ( <b>Round off to nearest ₹ 10 as per section 288B</b> )

**Section 14: Heads of Income**

Income from Salary	Income from house property	Profits and gains of business or profession	Capital gains	Income from other sources
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**Illegal Income**

The Income Tax Law does not make any distinction between income accrued or arisen from a legal source and income tainted with illegality. By bringing the profits of an illegal business to tax, the State does not condone it or take part in crime, nor does it become a party to the illegality.

**Disputed title**

- Income tax assessment cannot be held up or postponed merely because of existence of a dispute regarding the title of income.
- The recipient is, therefore, chargeable to tax, though there may be rival claims to the source of income.
- A mere claim, on the other hand, by a person against the recipient of income is not sufficient to make income accrue to claimant and render him liable to tax.

<b>Capital Receipts</b>	<b>Revenue Receipts</b>
Receipt on account of fixed capital is a Capital Receipt.	Receipt on account of circulating capital is a Revenue Receipt.
Fixed Capital is what owner turns to profit by keeping it in his own possession.	Circulating Capital is what he makes profit of by parting with it and letting it change matter.
Receipt in lieu of source of Income is Capital Receipt.	Receipt in lieu of Income is Revenue Receipt.
The amount received as a compensation for surrender of any right of ownership is a Capital Receipt.	Any compensation received for the loss of future profit is a Revenue Receipt.
Profit on sale of Capital Asset is taxable under the head "Capital Gains".	Profit on sale of Trading Asset is taxable under the head "Business Income".
<b>Capital Receipt is not taxable unless it is specifically or expressly taxable.</b>	<b>Revenue Receipt is taxable unless it is specifically or expressly exempted.</b>

<b>Diversion of Income</b>	<b>Application of Income</b>
Income is received by a person other than who is actually entitled to it. The recipient later diverts the Income under a pre-existing title to the person who is actually entitled to it.	Income is received by the person who is actually entitled to it. It is utilised for some other purpose.
Income is not taxable in the hands of the recipient but to whom it is diverted by overriding title.	Income is taxable in the hands of person receiving it.

**Section 5A: Apportionment of income between spouses governed by Portuguese Civil Code**

If husband and wife are governed by system of community of property ( <b>Communiao Dos Bens</b> ) in force in Goa, Dadra and Nagar Haveli and Daman and Diu	Income of husband and wife under <b>each head of income</b> (except Salaries) shall be <b>apportioned equally</b> between husband and wife. It shall not be assessed as that of such community of property.	Salary shall be included in the total income of the spouse who has actually earned it.
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