

INCOME TAX ACT 1961 BASIC CONCEPTS

**What is Income U/S 2 (24)**

- 1) Money received during a period from work done
  - 2) Money received during a period from investments
  - 3) Inflow of money in cash, kind
  - 4) Inflow of money from Illegal activity
- However income from Mutual activity is excluded

Characteristics of income

- It makes you richer than before
- It is your own (not to be returned)
- It should be received from a person other than yourself

How does income tax look at income

- 1) Real income – Notional income
- 2) Revenue Income – Capital income
- 3) Accrued income – Received income
- 4) Taxable income – Nontaxable income

<b>Person U/S 2 (31) (who earns the income)</b>	
Individual	A natural person – includes male, female, minor, major, senior citizen
Hindu Undivided Family	A family consisting of members lineally descendent from a common male ancestor
Company	Incorporated under the Companies Act 1956
Firm	Partnership firm – two or persons coming together for earning profits having joint and several liability
Limited liability partnership (w.e.f. AY 2010-11)	Having the benefits of limited liability being in partnership. For all income tax purposes it is considered as Firm.
Association of Person or Body of Individuals	Two or person coming together to earn income when they are not in a partnership relationship (AOP) Two or more person come together for receiving an income jointly
Local Authority	Any authority constituted under the law which is responsible for maintaining a local fund
Artificial Juridical person	Any person not being an individual – who does not fall in any of the above categories

**Assessee U/S 2 (7)  
(the person who pays the tax)**

Is a Person

- 1) by whom any tax , any interest, any penalty is due
- 2) whose assessment of income , of loss, of refund is pending
- 3) who is deemed to be to be a representative assessee
- 4) who is deemed to be a assessee in default

**Assessement Year U/S 2 (9) 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024**

**Previous Year U/S 3 1<sup>st</sup> April 2022 to 31<sup>st</sup> March 2023**

<b>Residential Status U/S 6</b>				
Conditions	ROR	RNOR	NR	NR
<b>Basic Conditions U/S 6 (1)</b>				
1) Individual should be in India for 182 days or more during the previous year	YES	YES	YES	NO
	OR	OR	OR	AND
2) Individual should be in India for 60 days or more during the previous year AND Individual should be in Indi for an aggregate period of 365 days or more during the four immediately preceding previous years				
<b><u>Amendment to this condition in the following situations in A.Y. 2021-22:</u></b>				
1) A citizen of India leaves India for employment outside India				
2) A Indian Crew member of an Indian Ship leaves India on a voyage outside India	YES	YES	YES	NO
3) A citizen of India or a person of Indian Origin comes to India on a visit to India (PIO – the person or his parents or his grandparents were born in undivided India)				
<b>Individual should be in India for 120 days or more during the previous year and Their Indian Income is more than 15 Lacs in P.Y. will be directly NOR otherwise NR</b>				
	AND	AND	AND	
<b>Additional Conditions U/S 6 (6)</b>				
1) Individual should be resident in India in atleast 2 out of the 10 immediately preceding previous years	YES	YES	NO	
	AND	AND	AND	
2) Individual should be in India for 730 days or more during the 7 immediately preceding previous years	YES	NO	YES	
<b><u>Important points for Residential status</u></b>				
1) Fresh previous year fresh ascertainment of residential status				
2) How to count the number of days				

- the stay need not be in the same place
- the stay need not be continuous throughout the year
- physical presence of 24 full hours India is considered as a day
- if the time of arrival and time of departure is not given include both the day of arrival and day of departure as in India
- for a leap year count February as 29 days

**Amendment in A.Y. 2021-22 Deemed Resident: 6 (1A)** Notwithstanding anything contained in clause (1), an individual, being a citizen of India, having total income, **other than the income from foreign sources exceeding 15 lakhs during the previous year will be resident if he is in India for 120 days or more during the previous year** shall be deemed to be resident in India [DNOR] in that previous year, if he is **not liable to tax in any other country or territory by reason** of his domicile or residence or any other criteria of similar nature. **This Clause shall not apply in case of an individual who is said to be resident in the previous year U/S 6 (1).**

**On what basis is income tax charged U/S 4**

Section 4 of income tax act prescribes the basis of charge

Tax is applicable on

Total Income – of the Person – earned during the Previous year

At the Rates – prescribed by the finance Act – for the Relevant Assessment Year

General Rule - Income earned in the Previous year is taxed in the Assessment year

Exceptions - Income earned in the Previous year is taxed in the Previous year itself

Sec. 172 – Shipping Business of a Non – Resident

Sec. 174 – Person leaving India with no intention to return to India

Sec. 174A – AOP/BOI/AJP formed for a particular event or purpose only

Sec. 175 – Persons likely to transfer property to avoid tax

Sec. 176(3A) – Discontinued business or Profession

**What is the scope of Total Income U/S (5)**

It is Based on the combination of

Location of the person earning the income

And

Location where the income is earned and received

SCOPE OF TOTAL INCOME (U/S 7-9)	Location of the person earning the income (Residential Status)		
	Resident & Ordinarily Resident in India	Resident But Not Ordinarily Resident in India	Non Resident in India
Location of the Income (Indian income or foreign income)			
Income accruing or arising in India	Taxable in India	Taxable in India	Taxable in India
Income deemed to accrue or arise in India	Taxable in India	Taxable in India	Taxable in India
Income received in India	Taxable in India	Taxable in India	Taxable in India

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(received in India as his own for the first time after earning outside India)			
Income deemed to be received in India	Taxable in India	Taxable in India	Taxable in India
Income accruing or arising outside India from a Business controlled in India or from a profession set up in India	Taxable in India	Taxable in India	Not Taxable in India
Income accruing or arising outside India from any other source	Taxable in India	Not Taxable in India	Not Taxable in India

## Income Deemed to Accrue or Arise in India (sec. 9)

- 1) All incomes arising from or through
  - A Property in India
  - An Asset in India
  - Any source of income in India
  - Transfer of Capital asset situated in India
  - A Business connection in India
- 2) Salary Earned in India
  - for services rendered in India
  - for Rest period preceding and succeeding the period of service in India (as per service contract)
  - for services rendered outside India to a citizen of India paid by Central Government
- 3) Dividend paid by Indian Company outside India

4) Following amounts	Paid by		
	Government	Resident	Non Resident
Interest		For Debts incurred in India for a business or profession in India or Outside India	For Debts incurred in India or Outside India for business or profession in India
Royalty		For Business or Profession in India Or To earn a source of income in India	For Business or Profession in India Or To earn a source of income in India
Fees for Technical service			

## Income Deemed to be received in India (sec. 7)

- 1) Annual Accretion
  - of employer's contribution in excess of 12% of Salary in Employee's Recognised Provident fund A/c
  - of interest in excess of 9.5% in Employee's Recognised Provident fund A/c
- 2) When unrecognized provident fund is converted into Recognised provident fund – the transferred balance in excess of the above mentioned limits
- 3) Contribution by Central govt. or any employer – in a Pension scheme referred to in sec. 80 CCD

**Exemption U/S 10:**

Indian Agriculture income: Section 10(1):

**Receipt by a member out of HUF income: Section 10(2):**

Share of income from partner from a firm: Section 10(2A):

**Interest received by a non-resident from prescribed securities: Section 10(4):**

Leave travel concession: Section 10(5):

**Remuneration received by foreign diplomats of all categories: Section 10(6):**

Foreign allowances and perquisites granted by Government of India to its employees posted outside India:10(7):

**Remuneration received for cooperative technical assistance programme: Section 10(8):**

Income of a family member of an employee of foreign government under coop. assistance programme [10(9)]:

**Gratuity [Section 10(10)]:**

Leave salary [Section 10(10AA)]:

**Retrenchment compensation [Section 10(10B)]:**

Compensation on retirement of employees of a public sector company [Section 10(10C)]:

**Amount (including bonus) received under a life insurance policy (not being keyman insurance policy)[10(10D)]**

Payment received from Public provident fund and a recognized provident fund [Section 10(11) and 10(12)]:

**House rent allowance [Sec. 10(13A)]:**

Special allowance for expenses [Sec. 10(14)]:

**Income by way of interest exempted from tax. (Section 10(15):**

Scholarship (Section 10(16)):

**Allowance received by member of parliament and state legislature. (Section 10(17)):**

Award (Section 10(17A)):

**The income of the minor up to Rs. 1,500: (Section 10(32)):**

Income of unit of US64 scheme of UTI: (Section 10(33)):

**Dividend received by shareholder from a domestic company: Section 10(34):**

Interest on units of a mutual fund: Section 10(35):

<b>Computation of TAXABLE INCOME</b>	<b>₹</b>	<b>₹</b>
Income from Salaries (U/S 15-17)		
Less: Exemptions		
Less: Deductions		
Income from House Property (U/S 22-25)		
Less: Exemptions		
Less: Deductions		
Profits and gains from Business or Profession (U/S 28-44)		
Less: Exemptions		
Less: Deductions		
Capital Gains (U/S 45-55)		
Less: Exemptions		
Less: Deductions		
Income from Other sources (U/S 56-59)		
Less: Exemptions		
Less: Deductions		
Gross Total Income		

Less: Deductions under Chapter VI A (U/S 80) u/s. 80 C to 80U		
Total Income (Taxable Income)		
<b>Computation of TAX LIABILITY</b>		
Tax on Total Income at Special Rates		
Tax on Total Income at Normal Rates		
Add: Surcharge if any		
Tax payable		
Add: Health and education cess@ 4% on tax payable		
Tax payable		
Less: Rebate u/s. 87A		
Balance Tax payable		
<b>Less: Prepaid Taxes</b>		
Tax Deducted at Source		
Advance Tax paid		
Self-Assessment Tax paid		
Balance Tax Payable or Refundable		

**RATES OF INCOME TAX FOR ASSESSMENT YEAR 2023-24**

For Male, Female (Below 60 years of Age as on the last day of the previous year) For HUF/AOP/BOI/AJP	
Net Income Range	Income tax rate
Up to ₹ – 250000	NIL
250001 – 500000	05%
500001 – 1000000	20%
1000001 – above	30%

For Male, Female (Above 60 years but less than 80 years of Age as on the last day of the previous year) Senior citizens	
Net Income Range	Income tax rate
Up to ₹ – 300000	NIL
300001 – 500000	05%
500001 – 1000000	20%
1000001 – above	30%

For Male, Female (Above 80 years of Age as on the last day of the previous year) Super Senior citizens	
Net Income Range	Income tax rate
Up to ₹ – 500000	NIL

500001 – 100000	20%
100001 – above	30%

**With Deductions of Chapter VI or Section 80 of Income Tax Act**

OR

**Income Tax Slab Rate form AY 2023-2024 - Applicable for New Tax Regime**

Net Income Range	Income tax rate
Up to ₹ – 2,50,000	NIL
2,50,001 – 5,00,000	05%
5,00,001 – 7,50,000	10%
7,50,001 – 10,00,000	15%
10,00,001 – 12,50,000	20%
12,50,001 – 15,00,000	25%
15,00,001 – above	30%

**Without any Deductions of Chapter VI or Section 80 of Income Tax Act**

**Note:**

- The enhanced surcharge of 25% & 37%, as the case may be, is not levied, from income chargeable to tax under sections 111A, 112, 112A and 115AD. Hence, the maximum rate of surcharge on tax payable on such incomes shall be 15%.
- The maximum rate of surcharge on tax payable on dividend income shall be 15%.
- The surcharge rate for AOP with all members as a company, shall be capped at 15%.
- The surcharge rate is nil if the total income of a 'specified fund' as referred to section 10(4D) includes any income in respect of securities as given under section 115AD(1)(a). [For assessment year 2024-25]
- In all cases, additional health and education cess of 4% will be added to the income tax liability
- A surcharge is applicable as per the tax rates mentioned above in all categories
  - 10% of income tax where total income exceeds ₹ 50,00,000
  - 15% of income tax where total income exceeds ₹ 1,00,00,000
  - 25% of income tax where total income exceeds ₹ 2,00,00,000
  - 37% of income tax where total income exceeds ₹ 5,00,00,000

PROBLEMS ON BASIC CONCEPTS OF RESIDENTIAL STATUS

Q1. Mr. Bert Lee a person of Australian Cricketer, who comes to India for 100 days every year. What is his residential status for the Assessment year 2023-2024?

Q.2. Mr. Jain an Indian Citizen has settled abroad for the last twenty-five years. His stay in India in the last few years was as under.

Year	Days	Year	Days
2011-2012	170	2017-2018	196
2012-2013	59	2018- 2019	25
2013-2014	110	2019-2020	105
2014-2015	39	2020- 2021	121
2015-2016	210	2021- 2022	57
2016-2017	10	2022- 2023	183

He did not come to India prior to 2011. Determine his residential status for the Assessment Year 2023-2024. **Would your answer change** if his stay in India in the previous year 2022-2023 were only 63 days instead of 183 days? **Or** He went for Employment after 120 days his Indian Income is more than 15 lakhs? **Or** income from foreign sources exceeding 15 lakhs during the previous year he is not liable to tax in any other country or territory by reason of his domicile?

Q.3. Mr. Bhatia, an Indian Citizen staying in Bangalore takes up a job at U.S.A. He leaves India on August 16, 2022, for U.S.A. He has not gone out of India before that. What is his Residential Status for assessment year 2023-2024 if his Indian income is less than 15 lakhs? **Would your answer change** his Indian Income is more than 15 lakhs during previous year?

Q.4. Mr. Abhijit an Indian citizen, furnishes the following particulars of income earned during the previous year relevant to assessment year 2023-24:

	₹
1. Professional fees received in India	11,000
2. Income earned in India but received in Rome	12,000
3. Dividend on shares of Indian companies:	
(i) Received India	06,000
(ii) Received abroad	07,000
4. Salary earned and received in Paris	14,000
5. Income from agriculture in Nepal	15,000
6. Income from business in U.K. controlled from India	16,000

Compute his total income for the assessment year 2023-24 assuming the residential status as: (i) Resident and Ordinarily Resident; (ii) Resident but Not Ordinarily Resident; (iii) Non Resident in India.

Q.5. From the following particulars, computer the taxable income of A when his residential status is (i) Resident and Ordinarily Resident, (ii) Resident but Not Ordinarily Resident, and (iii) Non Resident.

	₹
(i) Interest for debentures in an Indian company received in London	05,000
(ii) Interest on a Company deposit in India but received in Germany	22,000
(iii) Interest on U.K. Development Bonds 50% of interest received in India	40,000
(iv) Profits on sale of shares of an Indian Co. received in London	24,000
(v) Dividend from British Co. received in London	10,000
(vi) Profits on sale of plant at Germany 50% of profits are received in India	60,000
(vii) Income earned from business in Germany which is controlled from Delhi Rs. 40,000 is received in India	70,000
(viii) Profits from a business in Delhi but managed entirely from London	45,000
(ix) Rent from property in London deposited in a Indian Bank at London, brought to India	50,000
(x) Interest received in London on money lent to a resident in India in London but the same money was used in India	46,000
(xi) Fees for cooperative technical services rendered in India but received in London	25,000
(xii) Royalty received in London for a right given to Non-Resident in India to be used for business in India	34,000

Q. 6. Mr. X is a director employee in Z ltd. Which is in South Africa And P ltd. which is in Pune. In every financial year he leaves India on 5<sup>th</sup> July to work in Z ltd. and returns to India on 31<sup>st</sup> March. Thereafter he works in P ltd. He has been following this routine for the past 15 years. He earns a salary of ₹5,00,000 each from both the companies. Compute his taxable Income from the AY 2023-24. **Would your answer change** his Indian Income is more than 15 lakhs during previous year?

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Understanding the U.S. Tax System in 5 Minutes - Types of Taxes in the United States

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Concept of Direct & Indirect Taxation in India

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Direct Taxation Basic