As per the Revised Syllabus of Mumbai University
for S.Y. BMS, Semester IV, 2015-16

DIRECT TAXES

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Dr. Himanshi D. Mansukhani
Sujata J. Gada

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Dedicated to

God, Our Parents, Our Gurus

&

Our Relatives

PREFACE

We are happy to present the book ***"Direct Taxes"*** to the students of Semester IV of S.Y. BMS, to the teachers and the readers. This book is written according to the syllabus prescribed by the University of Mumbai.

Outstanding Features:

1. As per the guidelines of University of Mumbai
2. Simple and lucid language
3. Bird's eye view boxes given in the text provides a snapshot of the subject matter covered
4. Diagrammatic representation of the content
5. Sufficient examples
6. Followed a method of simple to complex
7. Question paper pattern
8. Model question paper

Authors

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Adding on to our efforts, this book would not have been in existence without the support put forward by many people. We wish to thank first and foremost to our parents and family members for their valuable support, belief, motivation to write this book and making this attempt a success. We express our special thanks to Mrs. Harsha Rajwani, Mr. Dilip Mansukhani, Mr. Jignesh Gada, Mr. Jeet Joshi, Ms. Diya Rajwani and Ms. Juhi Rajwani for their valuable support throughout.

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Last but not the least, thanking to all those who have helped directly or indirectly in making this book a success.

Please feel free to provide us with your valuable suggestions for the further improvement of the book.

Authors

SYLLABUS

Learning Objectives:

1. The objective of this course is to acquaint the students with the basics of Direct Tax structure in India.
2. This paper enables the students to understand the tools and techniques of taxation for individual and business requirement.

Units	Name of the Topic	No. of Lectures
Unit - 1	**Introduction to Income Tax** Income Tax, Legal Framework, Types of Taxes, Cannons of Taxation, Important Definitions: Assessment Year, Previous Year, Exceptions to the General Rule of Previous Year, Assessor, Person, Income, Casual Income, Gross Total Income, Agricultural Income. Residential Status of an Individual – Resident, Not Ordinary Resident, Non-resident. Determination of Residential Status, Incidence of Tax, Problems on Scope of Total Income, Exempted Incomes u/s 10 (Restricted to Individual Assessment).	18
Unit - 2	**Income from Salary and House Property** Meaning, Basis of Charge, Advance Salary, Arrears of Salary Definition: Salary Allowances, Fully Taxable Allowance, Partly Taxable Allowance, Fully Exempted Allowances, Perquisites, Tax Free Perquisites, Taxable Perquisites, Perquisites Taxable in all Cases, Perquisites Taxable under Specified Cases, Profits in Lieu of Salary, Provident Fund, Transferred Balance, Deduction from Salary u/s 16 – Problems on Income from Salary (Excluding Retirement Benefits). Income from House Property, Basis of Charge, Deemed Owners, Exempted Incomes from House Property, Treatment of Composite Rent, Annual Value, Determination of Annual Value, Treatment of Unrealised Rent, Loss Due to Vacancy, Deductions from Annual Value, Problems on Income from House Property (Excluding Pre-construction Interest).	**18**
Unit - 3	**Profits and Gains from Business and Profession** Meaning and Definitions of Business, Profession, Expenses Expressly Allowed, Allowable Losses, Expenses Expressly Disallowed to Sole Trader only and Problems on Profession Relating to Chartered Accountant, Advocate and Doctor.	**12**
Unit - 4	**Computation of Total Income** Income from Capital Gains and Income from Other Sources (Problems and Theory) and Deduction u/s 80C, 80CC, 80D, 80E and 80U. Simple Problems on Computation of Total Income of an Individual, Skill Development Techniques, Form No. 49A (PAN) and 49B, Filling of Income Tax Returns, List of Enclosures, Preparation of Form 16, Computation of Income Tax and the Slab Rates.	**12**

PAPER PATTERN

Duration: 2 $^1/_2$ Hours **Total Marks:** 75

Q.1.	Unit 1 (Any 2 out of 3)	(15 Marks)
	(a)	(7.5 Marks)
	(b)	(7.5 Marks)
	(c)	(7.5 Marks)
Q.2.	Unit 2 (Any 2 out of 3)	(15 Marks)
	(a)	(7.5 Marks)
	(b)	(7.5 Marks)
	(c)	(7.5 Marks)
Q.3.	Unit 3 (Any 2 out of 3)	(15 Marks)
	(a)	(7.5 Marks)
	(b)	(7.5 Marks)
	(c)	(7.5 Marks)
Q.4.	Unit 4 (Any 2 out of 3)	(15 Marks)
	(a)	(7.5 Marks)
	(b)	(7.5 Marks)
	(c)	(7.5 Marks)
Q.5.	Practical Question	(15 Marks)

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Unit I

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- Types of Taxation
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    - Corporate Tax
  - Indirect Tax
    - Service Tax
    - Customs Duty
    - Excise Duty
    - VAT
- Canons of Taxation
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  - Canon of Convenience
  - Canon of Economy
- Important Definitions:
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  - Previous Year
    - Rules of Previous Year,
  - Assessee,
  - Person,
  - Income,
  - Casual Income,
- Gross Total Income
- Agricultural Income.
- Exempted Incomes Under Section 10

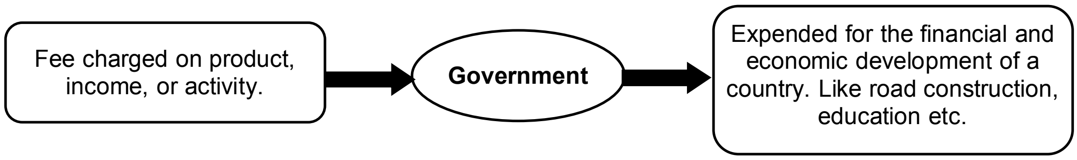
Meaning of Tax

Tax is a fee charged ("levied") by a government on a product, income, or activity. In general, tax can be defined as a levy or other type of a financial charge or fee imposed by state or Central governments on legal entities or individuals. Local authorities like local governments, provincial governments, counties and municipal corporations also have the right to impose taxes. The rates, rules, and regulations of taxation differ from one country to another and they are complex in character.

Tax is a principal source of revenue for a country's government. A country's tax laws determine who should bear the tax burden, or who should pay tax. The tax rate is imposed as a certain percentage of the income earned.

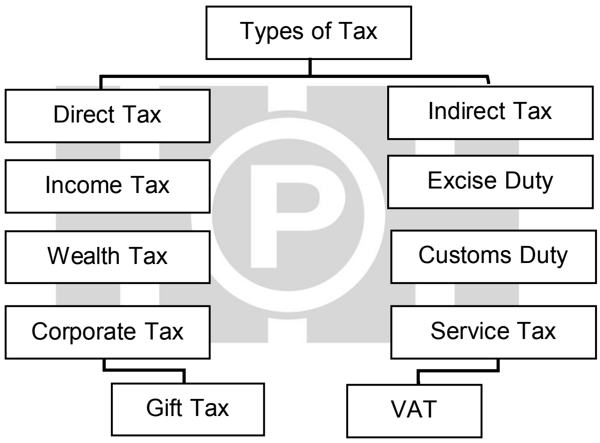
Taxation policies play an important role in the financial and economic development of a country. The default or partial payment of taxes attracts penalties. The penalties can be civil or criminal penalties.

In short if we have to understand tax let us understand through this diagram:



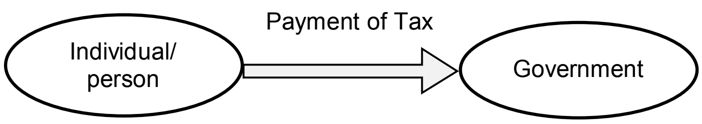
Types of Taxation

There are basically two types of tax.



Direct Tax

A direct tax is a form of tax is collected directly by the government from the persons who bear the tax burden. Taxable individuals file tax returns directly to the government. Examples of direct taxes are corporate taxes, income taxes, and transfer taxes. Let us understand direct tax with the following diagram:



1. Gift Tax

Gift tax in India is regulated by the Gift Tax Act which was constituted on April 1, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of ₹ 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable.

2. Wealth Tax

Wealth tax is normally levied on the basis of the net wealth of the assessee, which could be an individual, a company or a Hindu Undivided Family.

3. Income Tax

Income tax is basically levied on the assessee if his total income exceeds the limits mentioned by the government. The total income is calculated by adding salary income, house property income, Business income etc.

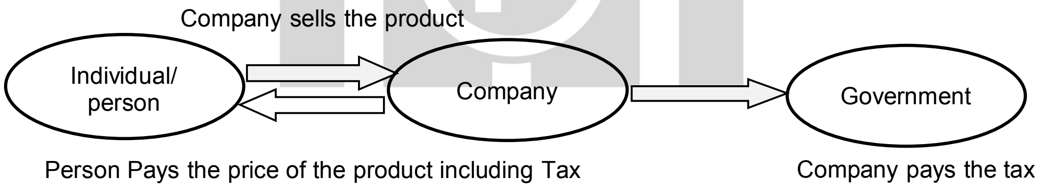
4. Corporate Tax

Corporation tax is a tax imposed on the net income of the company. Corporation tax is charged on the profits of a 'financial year' which runs from 1 April. The profits of a company are calculated by reference to its accounting periods and are then, where necessary, apportioned on a time basis between the financial years in which the accounting period falls.

Companies, both private and public which are registered in India under the Companies Act 1956, are liable to pay corporate tax. The domestic companies are taxed at the rate of 30%. In addition to that, surcharge at the rate of 5% is levied if net income is in the range of ₹ 1 crore to ₹ 10 crore. If the net income exceeds ₹ 10 cr, surcharge at the rate of 10% is levied. Education cess of 3% is levied on the sum of income tax and surcharge irrespective of the level of net income.

Indirect Tax

An indirect tax is a form of tax collected by mediators who transfer the taxes to the government, and also perform functions associated with filing tax returns. The customers bear the final tax burden. Examples of indirect taxes are sales tax and value added tax (VAT).Let us understand Indirect tax with the following diagram:



(a) Customs Duty

Customs Duty is a tax imposed on imports and exports of goods. Tax levied by the government on goods crossing the customs border, usually a tax imposed on imports. Duties, or tariffs, are either based on the value of the goods (ad valorem duties), some other factors such as weight or quantity (specific duties), or a combination of value and other factors (compound duties).

(b) Excise Duty

An excise or excise tax (sometimes called an excise duty) is a type of tax charged on goods produced within the country (as opposed to customs duties, charged on goods from outside the country). It is a tax on the production or sale of a good. This tax is now known as the Central Value Added Tax (CENVAT).

The liability to pay tax excise duty is always on the manufacturer or producer of goods. There are three types of parties who can be considered as manufacturers:

- Those who personally manufacture the goods in question
- Those who get the goods manufactured by employing hired labour
- Those who get the goods manufactured by other parties

(c) Service Tax

Service tax is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. It is categorised under Indirect Tax and came into existence under the Finance Act, 1994. In this case, the service provider pays the tax and recovers it from the customer. Service Tax is a tax levied by Central Government of India on services provided or to be provided excluding services covered under negative list and considering the Place of Provision of Services Rules, 2012 and collected as per Point of Taxation Rules, 2011 from the person liable to pay service tax. Person liable to pay service tax is governed by Service Tax Rules, 1994 he may be service provider or service receiver or any other person made so liable. Service Tax was earlier levied on a specified list of services, but in the 2012 budget, its scope was increased. Services provided by air-conditioned restaurants and short term accommodation provided by hotels, inns, etc. were also included in the list of services.

It is charged to the individual service providers on cash basis, and to companies on accrual basis. This tax is payable only when the value of services provided in a financial year is more than ₹ 10 lakh. This tax is not applicable in the state of Jammu & Kashmir. The Service Tax Rate is increased from 12.36% to flat 14%. This new rate of Service Tax @ 14% is applicable from 1st June 2015.

The rate of Service Tax for services provided before 1st June is 12.36% and for services provided after 1st June is 14%.

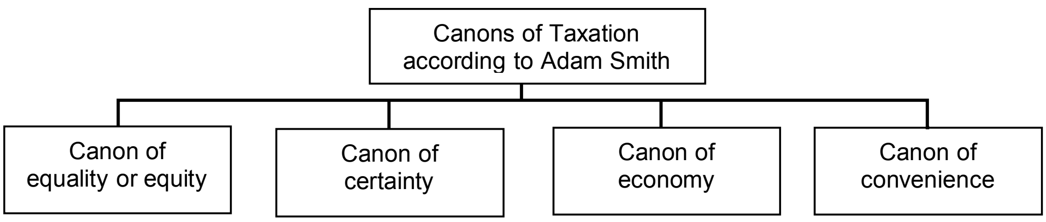
(d) VAT

A consumption tax which is levied at each stage of production based on the value added to the product at that stage. A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Canons of Taxation

Canons of taxation refer to the administrative aspects of a tax. They relate to the rate, amount, method of levy and collection of a tax. In other words, the characteristics or qualities which a good tax should possess are described as canons of taxation. It must be noted that canons refer to the qualities of an isolated tax and not to the tax system as a whole. A good tax system should have a proper combination of all kinds of taxes having different canons.

According to Adam Smith, there are four canons or maxims of taxation, they are:



1. **Canon of Equality or Equity:** Every fiscal economist, along with Adam Smith, stresses that taxation must ensure justice. According to him, the burden of tax should be equally distributed among the people as per their ability to pay the tax. In other words rich people should bear a heavy burden of tax than the poor one.

   It may, however, be mentioned here that there are two aspects of ability to pay principle. First is the concept of horizontal equity. According to the concept of horizontal equity, those who are equal, that is, similarly situated persons ought to be treated equally. This implies that those who have same income should pay the same amount of tax and there should be no discrimination between them.

Second is the concept of vertical equity. The concept of vertical equity is concerned with how people with different abilities to pay should be treated for the purposes of division of tax burden. In other words, what various tax rates should be levied on people with different levels of income, A good tax system must be such as will ensure the horizontal as well as vertical equity.

2. **Canon of Certainty:** Another important principle of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person. A successful function of an economy requires that the people, especially business class, must be certain about the sum of tax that they have to pay on their income from work or investment.
3. **Canon of Convenience:** According to the third canon of Adam Smith, the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. If land revenue is collected at the time of harvest, it will be convenient since at this time farmers reap their crop and obtain income. In recent years efforts have made to make the Indian income tax convenient to the tax payers by providing for its payments in instalments as advance payments at various times during the year. Further, income tax in India is levied on the basis of income received rather than income accrued during a year. This also makes the income tax system convenient.
4. **Canon of Economy:** The Government has to spend money on collecting taxes levied by it. Since collection costs of taxes add nothing to the national product, they should be minimised as far as possible. If the collection costs of a tax are more than the total revenue yielded by it, it is not worthwhile to levy it. More complicated a tax system, more elaborate administrative machinery will be employed to collect it and consequently collection costs will be relatively larger. Therefore, even for achieving economy in the tax collection, the taxes should be as simple as possible and tax laws should not be subject to different interpretations.

   However some other economists added few more canons to the theory of Adam smith. Canons like:
5. **Canon of elasticity:** Taxation should be elastic in nature in the sense that more revenue is automatically fetched when income of the people rises. This means that taxation must have built-in flexibility.
6. **Canon of productivity:** This implies that a tax must yield sufficient revenue and not adversely affect production in the economy.
7. **Canon of simplicity:** This norm suggests that tax rates and tax systems ought to be simple and comprehensible and not to be complex and beyond the understanding of the layman. This is what rarely found in the Indian tax structure.
8. **Canon of diversity:** Canon of diversity implies that there should be a multiple tax system of diverse nature rather than having a single tax system. In the former case, the tax payer will not be burdened with a high incidence of tax in the aggregate.

Important Definitions

1. Assessment Year: [Sec. 2 (9)]

"Assessment Year" means the period of 12 months commencing on the 1st day of April every year. In India, the Govt. maintains its accounts for a period of 12 months i.e. 1st April to 31st March every year. As such it is known as Financial Year. The Income Tax department has also selected same year for its Assessment procedure.

The Assessment Year is the Financial Year of the Government of India during which income a person relating to the relevant previous year is assessed to tax. Every person who is liable to pay tax under this Act, files Return of Income by prescribed dates. These Returns are processed by the Income Tax Department Officials and Officers. This processing is called Assessment. Under this Income Returned by the assessee is checked and verified. Tax is calculated and compared with the amount paid and assessment order is issued. The year in which whole of this process is undertaken is called Assessment Year. At present the Assessment Year 2015-2016 (1-4-2015 to 31-3-2016).

2. Previous Year: [Sec. 3]

As the word 'Previous' means 'coming before', hence it can be simply said that the Previous Year is the Financial Year preceding the Assessment Year e.g. for Assessment Year 2015-2016 the Previous Year should be the Financial Year from 1st april 2014 to 31st March 2015. As per S.3 of Income Tax Act, 1961, for the purposes of this Act, the term "previous year" means the financial year immediately preceding the assessment year.

In other words, previous year is a period of up to 12 months just preceding the assessment year. Since financial year is always a period of 12 months, so the term previous year is used under Income Tax to cover income or source of income coming into existence after the commencement of financial year to cover income or source of income coming to an end before completion of the financial year.

- **(a) Previous Year in case of a continuing Business:** It is the Financial Year preceding the Assessment Year. As such for the assessment year 2015-2016, the Previous Year for continuing business is 2014-2015 i.e. 1-4-2014 to 31-3-2015.
- **(b) Previous Year in case of newly set up Business:** The Previous Year in case of newly started business shall be the period between commencement of business and 31st March next following e.g. in case of a newly started business commencing its operations on Dashera 2014, the Previous Year in relation to Assessment Year 2015-16. shall be the period between Dashera 2014 to 31 March 2015.
- **(c) Previous Year in case of newly created source of income:** In such case the Previous Year shall be the period between the day on which such source comes existence and 31st March next following.

Exceptions to the General Rule of Previous Year

Income of the Previous Year is always taxable in the following subsequent Assessment Year. The general Rule for the payment of tax is that, an Assessee is required to pay income tax in the Assessment Year for the income earned during the previous year. However, there are some exceptions to this rule. There are certain situations in which assessee is liable to pay tax in the same previous year in which income is earned. This is to ensure smooth collection of income tax. In other words, in these cases tax has to be paid in the same previous year in which income is earned and not in the following Year.

1. Shipping Business of Non Residents (NR) (Sec. 172)

Conditions

(a) Assessee should be NR.

(b) Assessee should own a Ship or Chartered by NR.

(c) Business of carrying passengers, livestock, mail or goods shipped at a port in India.

(d) The NR may (may not) have an agent in India.

1. In such a case 7.5% of amount paid (or payable) to NR shall be deemed to be the income of NR. Tax shall be paid at the rate applicable to Foreign Company (i.e. 40%).
2. The master of ship shall submit a return of income before the departure of the ship from the Indian Port.
3. Such return may be submitted within 30 days of the departure of the ship, if the assessing officer is satisfied that it is difficult to file return before departure and satisfactory arrangements have been made for payment of tax.
4. A port clearance shall not be granted by the Collector of Customs unless the tax has been paid or satisfactory arrangements have been made for payment of tax.

2. Persons Leaving India (Sec. 174)

Conditions

1. It appears to the Assessing Officer that an Individual may leave India during the current Assessment Year (A.Y.) or shortly thereafter.
2. He has no present intention of returning to India.
3. The total income up to the probable date of his departure from India shall be chargeable to tax in that A.Y.

E.g. Mr. A is residing in India since 2005. While completing his assessment for the A.Y. 2015-16, on March 31, 2016, the Assessing officer comes to know that A will leave India on 15 June 2014 with no intention of returning. In this case, the Assessing officer will make 3 assessments:

3. Bodies formed for Short Duration (Sec. 174A)

Conditions

1. There is an Association Of Persons (AOP) or a Body Of Individuals (BOI) or an artificial judicial person, formed or established or incorporated for a particular event or purpose.
2. It appears to the Assessing officer (A.O.) that it is likely to get dissolved in the A.Y. in which it is formed or immediately after such A.Y.
3. e.g. AB & Co. is an association of two individuals A and B. It is formed on 15th May 2008 for a specific project. It is likely to dissolved on 20th December 2009. The A.O. comes to know on 10th August 2009 about the probable date of dissolution. In this case A.O. will make two assessments
   (i) Regular Assessment for the Previous Year 2008-09 (Tax Rate = A.Y. 2009-10)
   (ii) Assessment for the income of the period, 1st April 2009 to 20 December 2009 (Tax Rate = A.Y. 2010-11)

4. Person likely to transfer property to avoid Tax (Sec. 175)

Conditions

(a) It appears to the A.O. during any current Assessment Year that a person is likely to charge, sell, transfer, dispose of any of his asset.

(b) Such asset may be movable or immovable.

(c) The intention is to avoid tax liablity.

e.g. The Assessing Officer comes to know on 16th Jan 2010 that ABC Ltd. is likely to dispose of a house property during the month of Feb. 2010 with a view to avoid payment of income tax. A notice is issued by the Assessing Officer on 28th Jan 2010 to ABC Ltd. U/S 175 to submit return of income of the period commencing on 1st April 2010 to 28th Jan 2010.

In this case, income from 1st April 2010 to 28th Jan 2010 is chargeable to tax in the Assessment Year 2009-10 and tax is calculated at the rate applicable for the Assessment Year 2010-11.

5. Discontinued Business

Conditions

(a) A business or profession is discontinued in any Assessment Year.

e.g. Mr. A discontinues his business on 15 September 2009. In this case, Income will be taxable as follows

(i) Income from 1st April 2008 to 31st March 2009 is taxable in Assessment Year 2009-10.

(ii) Income from 1st April 2009 to 15 September 2009 is taxable in Assessment Year 2009-10 or 2010-11.

Conclusion: The Assessing Officer has a discretion to tax the income from 1st April 2009 to 15 September 2009 in the same year i.e. 2009-10 or in the normal Assessment Year 2010-11. In both the cases tax rate applicable will be as for Assessment Year 2010-11.

(3) Assessee Sec. 2(7)

2(7) "assessee" means a person by whom [any tax] or any other sum of money is payable under this Act, and includes—

(a) every person in respect of whom any proceeding under this Act has been taken for the assessment of his income 25 [or assessment of fringe benefits] or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person;

(b) every person who is deemed to be an assessee under any provision of this Act;

(c) every person who is deemed to be an assessee in default under any provision of this Act;

Deemed Assessee

Deemed assessee are those persons who are treated as assessees although they are not, it includes

(i) legal representative of a deceased person

(ii) trustee of a trust

(iii) Agent of any non resident...

So the income becomes taxable in the hands of these deemed assessees...

(4) Person Section 2(31)

"Person" includes:

(i) an individual,

(ii) a Hindu undivided family,

(iii) a company,

(iv) a firm,

(v) an association of persons or a body of individuals, whether incorporated or not,

(vi) a local authority, and

(vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

[**Explanation:** For the purposes of this clause, an association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not such person or body or authority or juridical person was formed or established or incorporated with the object of deriving income, profits or gains;]

(5) Income: Section 2(24)

"Income" includes:

(i) profits and gains;

(ii) dividend;

(iia) voluntary contributions received by a trust created wholly or partly for charitable or religious purposes or by an institution established wholly or partly for such purposes 8[or by an association or institution referred to in clause (21) or clause (23), or by a fund or trust or institution referred to in subclause (iv) or sub-clause (v) of clause (23C) of Section 10.

Explanation: For the purposes of this sub-clause, "trust" includes any other legal obligation;

(iii) the value of any perquisite or profit in lieu of salary taxable under Clauses (2) and (3) of Section 17;

(iiia) any special allowance or benefit, other than perquisite included under sub-clause (iii), specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit;

(iiib) any allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living;

(iv) the value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;

(iva) the value of any benefit or perquisite, whether convertible into money or not, obtained by any representative assessee mentioned in clause (iii) or clause (iv) of sub-section (1) of section 160 or by any person on whose behalf or for whose benefit any income is receivable by the representative assessee (such person being hereafter in this sub-clause referred to as the "beneficiary") and any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary;

(v) any sum chargeable to income-tax under clauses (ii) and (iii) of Section 28 or Section 41 or Section 59;

(va) any sum chargeable to income-tax under clause (iiia) of Section 28;

(vb) any sum chargeable to income-tax under clause (iiib) of Section 28;

(vc) any sum chargeable to income-tax under clause (iiic) of Section 28;

(vd) the value of any benefit or perquisite taxable under clause (iv) of Section 28;

(ve) any sum chargeable to income-tax under clause (v) of Section 28;

(vi) any capital gains chargeable under Section 45;

(vii) the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society, computed in accordance with Section 44 or any surplus taken to be such profits and gains by virtue of provisions contained in the First Schedule;

(viii) any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever;

The word 'income' is of the widest amplitude and it must be given its natural and grammatical meaning. The definition of income in Section 2(24) is inclusive. The purpose of the definition is not to limit the meaning of 'income' but to widen its net and the several clauses therein are not exhaustive of the meaning of income; even if a receipt did not fall within the ambit of any of those clauses, it might still be income if it partook the nature of income. The words "other games of any sort" were of wide amplitude and their meaning was not confined to mere gambling or betting activities. Assuming that the expression "winnings" had acquired a particular meaning viz. receipts from activities of a gambling or betting nature only, it did not follow that monies received from non-gambling or non-betting activities were not included within the ambit of income.

(6) Total Income: Section 2(25)

Section 2(25): Defines 'Total Income'

The purpose of the definition is not to limit the meaning of 'income' but to widen its net and the several clauses therein are not exhaustive of the meaning of the 'income'.

Five major heads of income according to the Act:

- Income from Salaries
- Income from House Property
- Profits and Gains of Business or Profession
- Income from Capital Gains
- Income from Other Sources

Tax is imposed on real income – not on notional income except when the Act allows so taxable income is the income upon which tax can be imposed. It excludes income that is not taxable (Ex: Income from Agriculture, Foreign income in the hands of a resident/non-resident etc.) Advance Tax, if payable, should be paid Definition of Previous Year, Assessment Year and Financial Year are dealt. Income is taxable whether or not it is legal or illegal. Earning illegally will be punished by other Acts but the income is taxed by the Income Tax Act. Income is taxed whether it is received by way of Money or Kind (Example: Maruti Car won in a lottery. Income Tax does not differentiate if the income is received in lumpsum or periodically. Income is taxable as long it is not already taxed.

i.e, Double Taxation is avoided.

(7) Agricultural Income

"Agricultural income" means—

(a) any rent or revenue derived from land which is used for agricultural purposes and is either assessed to land revenue in India or is subject to a local rate assessed and collected by officers of the Government as such;

(b) any income derived from such land by—

(i) agriculture; or

(ii) the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market; or

(iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, in respect of which no process has been performed other than a process of the nature described in paragraph (ii) of this sub-clause;

(c) any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any process mentioned in paragraphs (ii) and (iii) of sub-clause (b) is carried on:

Provided that the building is on or in the immediate vicinity of the land, and is a building which the receiver of the rent or revenue or the cultivator, or the receiver of rent-in-kind, by reason of his connection with the land, requires as a dwelling house, or as a store-house, or other out-building.

(8) Casual Income

Casual income is a non-recurring income that is not likely to occur again in a year. It is an income which is earned by chance. Such income is neither anticipated nor provided for in any agreement. Such incomes are received at uncertain times, examples like winning from lottery, winning from crossword puzzles, winning from game shows etc.

Exempted Incomes Under Section 10

1. Agricultural Income [Section 10(1)]

As per Section 10(1), agricultural income earned by the taxpayer in India is exempt from tax. Agricultural income is defined under Section 2(1A) of the Income-tax Act. As per Section 2(1A), agricultural income generally means:

(a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

(b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

(c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in Section 2(1A).

Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

2. Amount received by a member of the HUF from the income of the HUF, or share of profits received by partners of partnership firm [Section 10(2)]

As per Section 10(2), amount received out of family income, or in case of impartible estate, amount received out of income of family estate by any member of such HUF is exempt from tax. Share of profit received by a partner from the firm [Section 10(2A)]. As per Section 10(2A), share of profit received by a partner from a firm is exempt from tax in the hands of the partner. Further, share of profit received by a partner of LLP from the LLP will be exempt from tax in the hands of such partner. This exemption is limited only to share of profit and does not apply to interest on capital and remuneration received by the partner from the firm/LLP.