TAXATION LAW

UNIT – II
Direct Tax Regime
Income Tax Act, 1961

Expanded 20+ Slides Edition

ROADMAP

UNIT-II Full Coverage

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2. Person & Assessee
3. Residential Status
4. Scope of Total Income
5. Heads of Income Overview
6. Income from Salaries
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01 • BASIS OF CHARGE

Sections 4 & 5

Section 4 is the charging section. Income-tax is charged for every assessment year in respect of the total income of the previous year of every person. Residential status determines the scope of total income under Section 5.

Previous Year

Financial year immediately preceding the assessment year. Income of PY is taxed in AY.

Assessment Year

12 months starting 1st April following the previous year.

Total Income

Income computed under the Act after all deductions and set-offs.

Charge on Person

Tax is on the person who earns; incidence depends on residential status.

02 • PERSON & ASSESSEE

Section 2(31) & 2(7)

Individual

Natural person. Includes minor, lunatic (through representative).

HUF

Hindu Undivided Family – separate taxable entity.

Company

Indian or foreign company. Domestic company has special rates.

Firm

Partnership firm. Taxed as a separate entity.

AOP / BOI

Association of Persons / Body of Individuals.

Local Authority & Artificial JP

Municipalities, universities, deities, etc.

Section 6 – Critical for Scope

Residential status is determined for each previous year. It decides whether global income or only Indian income is taxable.

Resident

In India ≥182 days in PY, OR ≥60 days in PY + ≥365 days in 4 preceding years (with exceptions).

Resident but Not Ordinarily Resident (RNOR)

Resident who does not satisfy additional conditions of 9 out of 10 years or 730 days in 7 years.

Non-Resident

Does not satisfy the basic conditions of residence.

Companies

Resident if Indian company or control & management wholly in India.

04 • SCOPE OF TOTAL INCOME

Section 5

Resident & Ordinarily Resident

Global income – Indian + Foreign income taxable.

RNOR

Indian income + foreign income from business controlled / profession set up in India.

Non-Resident

Only income that accrues/arises or is received in India, or is deemed to accrue in India.

Deemed Accrual (Sec 9)

Salary for services in India, interest, royalty, fees for technical services, business connection, etc.

Section 14 – Five Heads

A. Salaries	Employment income. Taxable on due or receipt basis. Includes perquisites.
B. House Property	Annual value of buildings/land appurtenant. Self-occupied vs let-out.
C. Business / Profession	Profits & gains. Wide deductions. Depreciation on block of assets.
D. Capital Gains	Transfer of capital asset. STCG vs LTCG. Indexation & exemptions.
E. Other Sources	Residuary head – interest, dividends, winnings, gifts (specified).

06 • INCOME FROM SALARIES

Key Rules

Basis of Tax

Due or receipt, whichever is earlier. Advance salary & arrears have special treatment.

Perquisites

Value of benefits from employer. Rule 3 for valuation. Some exempt (medical etc.).

Allowances

Fully taxable, partly exempt (HRA, LTA), or fully exempt (within limits).

Deductions

Standard deduction, professional tax, entertainment allowance (govt employees – limited).

Employer Contribution

PF, NPS, superannuation – taxability depends on limits.

Exam Focus

Computation of taxable salary is a favourite numerical question.

Annual Value & Deductions

Annual Value

Reasonable expected rent or actual rent (whichever higher) less municipal tax.

Self-Occupied

AV taken as nil (upto 2 properties under current law). Interest deduction limited.

Let-Out

Standard deduction 30% of NAV. Interest fully deductible (subject to conditions).

Pre-construction Interest

Allowed in 5 equal instalments from the year of completion.

Unrealised Rent

Can be deducted if conditions of Rule 4 are satisfied.

Exam Tip

Always show computation steps: GAV → Municipal tax → NAV → Deductions → Income.

08 • BUSINESS / PROFESSION

Profits & Gains

Charging Section

Sec 28 – profits & gains of business or profession carried on by the assessee.

Deductions

Sec 30–37. Expenses must be wholly & exclusively for business. Capital vs revenue.

Depreciation

Sec 32 – block of assets, WDV method. Additional depreciation for new plant & machinery.

Disallowances

Sec 40, 40A – cash payments above limit, related party excess, TDS default, etc.

Presumptive

Sec 44AD, 44ADA, 44AE – simplified taxation for small businesses / professionals / transporters.

Exam Focus

Distinguish capital & revenue expenditure; know major disallowances.

Transfer of Capital Asset

Capital Asset

Property of any kind except stock-in-trade, personal effects (with exceptions), rural agricultural land, etc.

Transfer

Sale, exchange, relinquishment, extinguishment of rights, compulsory acquisition, conversion to stock, etc.

STCG vs LTCG

Holding period. Equity shares & equity funds – 12 months. Immovable property – 24 months.

Indexation

Cost Inflation Index applied to long-term capital assets (except certain equity gains).

Exemptions

Sec 54 (house), 54F (any asset to house), 54EC (bonds), 54B (agricultural land).

Exam Tip

Computation + exemption conditions are high-scoring numerical areas.

Sec 56 & Sec 10

Other Sources

Interest, dividends, winnings from lotteries, gifts (above threshold from non-relatives), family pension, etc.

Gifts

Sum of money / property received without consideration from non-relatives above ₹50,000 is taxable.

Sec 10 Exemptions

Agricultural income, leave travel, gratuity (limits), PF interest (limits), scholarship, etc.

Agricultural Income

Exempt under Sec 10(1). Definition under Sec 2(1A). Partial integration for rate purposes.

Dividend

Now taxable in hands of shareholder (earlier DDT regime changed).

Exam Tip

List of important Sec 10 exemptions is a common short-note question.

From Gross Total Income

80C

LIC, PF, PPF, ELSS, principal repayment of housing loan, tuition fees, etc. Limit ₹1.5 lakh.

80D

Medical insurance premium – self/family and parents. Additional for senior citizens.

80G

Donations to approved funds/institutions. 50% or 100% with/without qualifying limit.

80TTA / 80TTB

Interest on savings account (TTA) / interest for senior citizens (TTB).

Other Important

80E (education loan interest), 80EEA/EEB (housing/EV loan), 80U (disability).

Order

Deductions are allowed from GTI after set-off of losses. Cannot create loss.

Inter-head & Intra-head

Intra-head Set-off

Loss from one source against income from another source under the same head.

Inter-head Set-off

Loss under one head against income under another head (with restrictions).

Business Loss

Cannot be set off against Salary. Can be carried forward 8 years.

Capital Loss

STCL can be set off against STCG & LTCG. LTCL only against LTCG. Carry forward 8 years.

House Property Loss

Can be set off against other heads (limit applied in some years). Carry forward 8 years.

Condition

Return must be filed within time for carry forward of most losses.

Sections 60–64

Transfer of Income

If income is transferred without transferring the asset, income is clubbed with transferor.

Spouse

Income from assets transferred to spouse without adequate consideration is clubbed (with exceptions).

Minor Child

Income of minor child is clubbed with parent who has higher income (exceptions for disabled child / manual work / skill).

Son’s Wife

Assets transferred to son’s wife – income clubbed with transferor.

Revocable Transfer

Income from revocable transfer is clubbed with transferor.

Exam Tip

Clubbing is a favourite theory + small numerical area.

Types & Procedure

Self Assessment

Assessee computes and pays tax before filing return (Sec 140A).

Summary Assessment

Intimation under Sec 143(1) – processing of return, apparent adjustments.

Scrutiny Assessment

Regular assessment under Sec 143(3) after notice under 143(2).

Best Judgment

Sec 144 – when assessee fails to comply with notices or return is not filed.

Income Escaping

Reassessment under Sec 147/148 when income has escaped assessment.

Time Limits

Strict limitation periods under Sec 153 for completion of assessments.

Procedure & Recovery

Income Tax Authorities

CBDT → Principal DGs → Commissioners → Assessing Officers (hierarchy under Sec 116).

TDS / TCS

Major collection mechanism. Different rates & thresholds. Credit available to deductee.

Advance Tax

Pay-as-you-earn. Instalments. Interest under Sec 234B/234C for default/deferment.

Appeals

CIT(A) → ITAT → High Court → Supreme Court. Time limits critical.

Penalties

For concealment, failure to file, TDS default, etc. Opportunity of hearing required.

Prosecution

Wilful attempt to evade tax, false statements – criminal liability under Chapter XXII.

KEY TAKEAWAYS

UNIT-II Direct Tax

01 **Charging Section + Residential Status**
Sec 4 + Sec 5 & 6 decide what is taxable and how much.

02 **Five Heads**
Each head has its own computation rules. Practice numericals.

03 **Deductions & Set-off**
Chapter VI-A + inter-head rules are high-scoring.

04 **Assessment & Appeals**
Types of assessment + appeal hierarchy must be clear.

05 **TDS & Advance Tax**
Main modes of collection. Interest and penalty consequences.

06 **Clubbing & Exemptions**
Sec 60–64 and Sec 10 are frequent short-note topics.

End of UNIT – II

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