Chapter 1

Basic Concepts of Income Tax

Introduction:

One of the important functions of a government is to promote welfare of the people in general and in particular the poorer section for which purpose the modern governments are working in a planned way. This envisages the Government to undertake economic activities in addition to welfare program. To undertake this program the government mobilizes the funds from various sources. One of the popular sources is through taxes, both direct and indirect. To remove the inequalities of income and to establish a socialistic pattern of society, direct taxes are resorted to.

What is Tax?

Income tax is a tax charged on the annual income of an individual or business earned in a financial year. The Income Tax system in India is governed by The Income Tax Act, 1961, which lays out the rules and regulations for income tax calculation, assessment, and collection.

Tax refers to compulsory contribution made by every person in the country towards public expenditure of the Government without expecting any return.

There are two types of Tax, viz., Direct Tax and Indirect Tax.

Direct Tax

Direct tax refers to the tax where the incident of tax and burden of the tax lies on the same person and it is not possible to shift or transfer the burden of the tax to the other person. Example: Income Tax, Estate Duty etc.,

Indirect Tax

Indirect Tax refers to the tax where the incident of tax and burden of the tax lies on the different persons who manages to shift or transfer the burden of the tax to the other. Example: Custom duty, Goods and Service Tax.

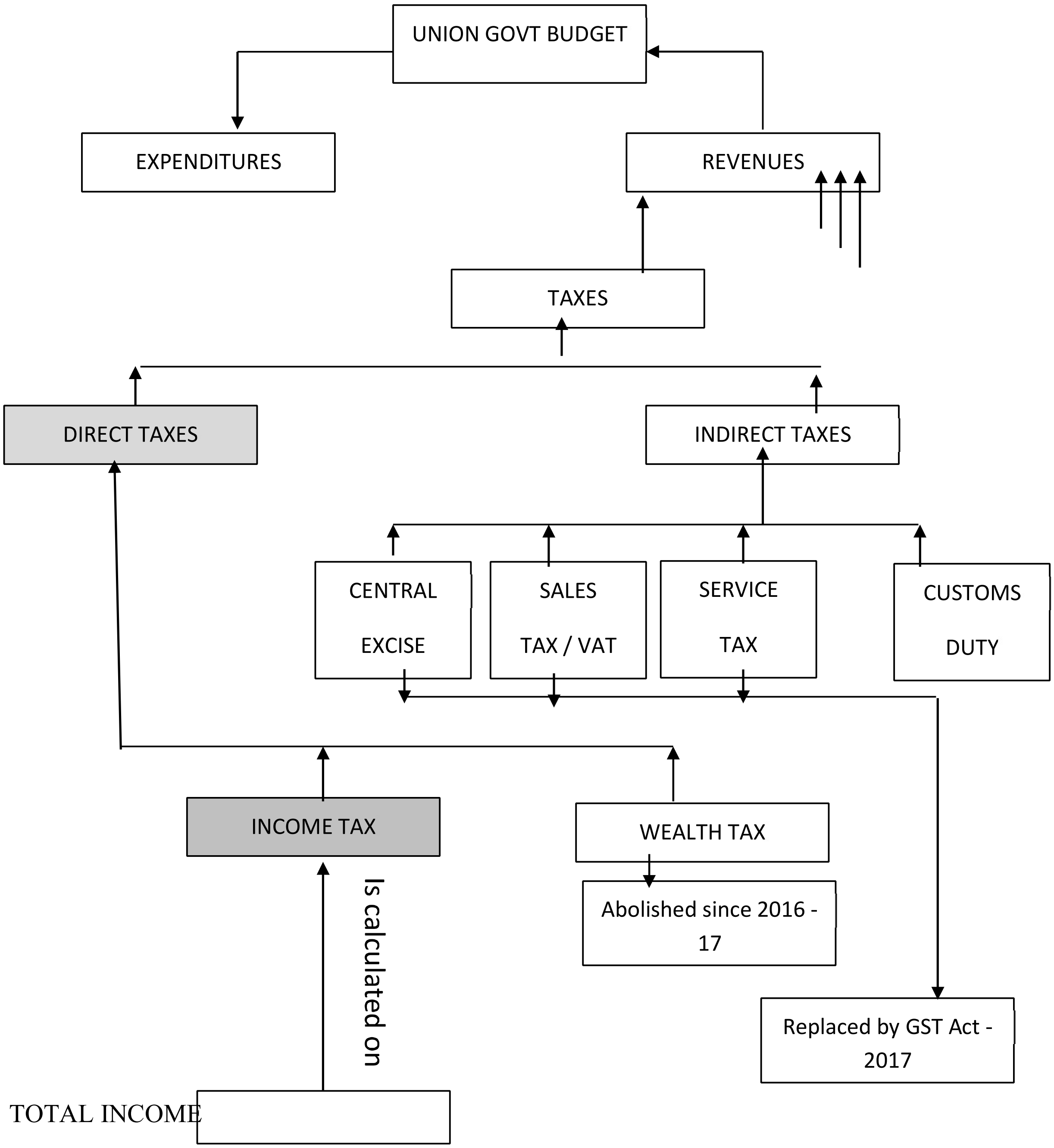
Brief History of Income Tax in India

In India, this tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857. After a several amendments, a new Income Tax Act was passed in 1886. This Act remained in force up to 1917, with various amendments from time to time. In 1918, a new Income tax Act was passed and again it was replaced by another new Act which was passed in 1922. This Act remained in force up to the assessment year 1961–62 with various amendments.

After the independence, The Government of India has set up a Law Commission in 1956 with a view to simplify and prevent the evasion of tax and it submitted its report in September 1958, but in the meantime the Government of India had appointed the Direct taxes Administration Enquiry Committee to suggest measures to minimize inconveniences to assess and to prevent evasion of tax. After considering report of both the committees The Government of India introduced a bill in the parliament in April 1961, it was passed by the parliament in September 1961. This Act came into force on 1st April 1962. The Income Tax Act 1961 till in force with various amendments made from time to time. This Act is applicable to whole territory of India including Jammu and Kashmir.

This Act is administered by a separate Board known as Central Board of Direct Taxes (CBDT) under the supervision of the Ministry of Finance.

Framework of Taxation in India



Cannons of Taxation

1. Equitable – equal treatment of similar situated tax payers
2. Convenient – a tax that can be readily and easily assessed
3. Certain –the tax payer should be able to predict his taxes over time
4. Economical – compliance and administration of a tax should be minimal in cost and time
5. Adequacy – tax should also meet the adequate requirement of the Government
6. Neutrality- not to encourage inefficient allocation of resources
7. Diversity – it should touch all possible incomes and expenses

8. Social and Economic effect,
9. Flexibility

Definitions

INCOME TAX

Income tax refers to tax levied on the income of a person whose income is exceeding the prescribed limit at a prescribed rate during any financial year.

ASSESSEE - sec 2(7)

Assessee is a person by whom any tax or any other sum of money is payable under the Income Tax Act. It includes:

a. Every person on whom any proceedings has commenced by Income Tax Department
b. Deemed Assessee (person liable to pay tax of other)
c. Assessee in default – one who has failed to carryout obligations related to income tax

ASSESSMENT – sec 2(8)

It is a process or procedure to compute taxable income and tax liability of a person in any particular financial year

ASSESSMENT YEAR – sec 2(9)

It is a period of twelve months commencing on 1^{st} April of every year and ending on 31^{st} March of the following year. During this period income of the previous is assessed and levied to tax. The present Assessment year is **2019 -2020.**

PREVIOUS YEAR – sec 3

It is a financial year immediately preceeding to the relevant assessment year. The present previous year is **2018-2019, i.e., from 1.4.2018 to 31.3.2019.** The income earned during this period will be assessed in the assessment year. **Exceptions to the general rule of previous year:** in the following cases the previous year and the assessment year is the same

a. Income of non–resident from shipping
b. Income of person leaving India either permanently or for a long period of time
c. Income of bodies formed for short duration
d. Income of a person trying to alienate his assets with a view to avoiding payment of tax
e. Income of a discontinued business

INCOME -Sec 2(24): the term ‘income ‘includes:

a. Profits and gains
b. Dividends
c. Special allowance or profit in lieu of salary
d. Perquisites
e. Capital gains
f. Casual income like winning from lottery, horse race, cross word puzzle etc.,
g. Contribution to provident fund
h. Amount received under keyman insurance policy
i. Any other revenues

PERSON -Sec 2(31): the term person includes;

a. An Individual
b. A HUF (Hindu Undivided Family)
c. A Firm
d. Body of individual or Association of persons whether registered or not e. A local authority
f. A company
g. Every Artificial juridical person not falling within any of the preceding categories.

HEADS OF INCOME: **Income Tax Act** 1961 categorized the incomes into 5 heads according to their nature viz.,

a. Income from Salary
b. Income from House Property
c. Profits and Gains from Business or Profession
d. Capital Gains
e. Income from Other Sources

GROSS TOTAL INCOME (GTI):

It refers to the aggregate of income from all the heads i.e., income from salary, house property, profits and gains from business or profession, capital gains and other sources computed as per the provision of income tax Act before allowing any deductions under section 80C to 80U.

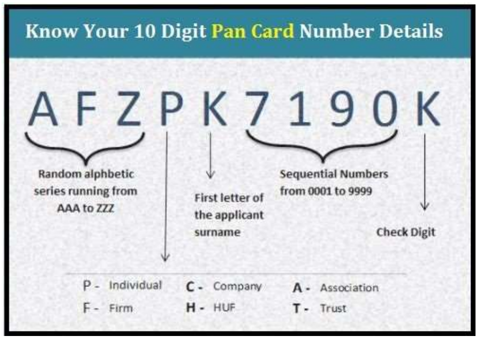
TOTAL INCOME Sec 2(45):

It refers to the aggregate of income from all the heads i.e., income from salary, house property, profits and gains from business or profession, capital gains and other sources computed as per the provision of income tax Act after allowing any deductions under section 80C to 80U.

PERMANENT ACCOUNT NUMBER (PAN):

It is a ten-digit Alpha- numerical number allotted to the every assessee by the Income tax Department for their easy identification. Whenever the returns or correspondence made by the assessee with the tax department, he must mention this number. if the assessee files his returns without mentioning this number, it will attract a penalty of Rs. 10,000.

Example: - **AAAPA-1234- A** (i.e., 5 alphabets +4 numeric + 1 alphabet)



CASUAL INCOMES

Casual income refers to the income which is unexpected and non-recurring in nature, it arises from an unknown source, no specific efforts were put in to earn such income.

Example; winning from lottery, cross word puzzle, card games, horse races, races, gambling, betting etc.,

Agricultural Income Sec 2(1A):

The term 'Agricultural Income' includes:

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 agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market.
c. Income attributable to a farm house subject to certain conditions.

Some points to keep in mind while computing agricultural income

- There must be a land.
- The land should be used for agriculture o Land cultivation is necessary
- If rent is received on land, the land should be used in agriculture operations only
- If the income derived from farm house, the building of the farm house should be situated on that land only

Non-agricultural incomes:

The following are non-agricultural income even though they are related to the land:

1. Income from markets
2. Income from stones quarries
3. Income from mining royalties
4. Income from land for storing agricultural produce
5. Income from supply of water for irrigation
6. Income from sale of earth for brick making
7. Remuneration received as a manager of an agricultural farm
8. Income from butter and cheese making
9. Income from poultry farming
10. Income from fisheries
11. Interest on arrears of rent on agricultural land
12. Dividend from company engaged in agriculture
13. Income from sale of self-grown grass, trees, bamboos etc. (i.e., spontaneously grown)
14. Receipts from TV serial shooting in farm house
15. Profit from purchase of standing crop and resale of it after harvest by a merchant, having no interest in land except a mere license to enter upon the land and gather upon the produce, as land is not the direct, immediate or effective source of income
16. Interest received by money lender in the form of agriculture produce
17. Income of sale of agricultural produce received by way of price for water supplied to land
18. Commission earned by the landlord for selling agricultural produce of his tenant
19. Royalty income from mines
20. Maintenance allowance charged on agricultural land

Partial agricultural income:

Income	Agricultural Income	Non-Agricultural income
Growing and manufacturing Tea in India	60%	40%
Coffee grown and cured	75%	25%
Coffee grown, cured, roasted and grounded by the seller in India	60%	40%
Sale of centrifuged latex or cenex (variety of rubber)	65%	35%

Taxation of agricultural Income:
Agricultural income is totally exempted from tax u/s 10(1). But agricultural income from land situated outside India, it will be fully taxable under the head 'Income from other sources.
Partial Integration: the concept of partial integration has been introduced to ensure that non-agricultural income is taxed at higher slab rate. The scheme of partial integration of non-agricultural income with agricultural income is applicable if the following conditions are satisfied:

1. The taxpayer is an individual, a HUF, a body of individual, an association of persons or an artificial juridical person.
2. The taxpayer has non-agricultural income exceeding the amount of exemption limit
3. The agricultural income of the taxpayer exceeds Rs. 5000.

Step in partial integration:

a. **Add** Agricultural Income to Non-agricultural income and compute tax
b. **Add** Agricultural Income to maximum income exempted from income tax and compute the tax.
c. **Gross tax liability**, Step a minus Step b.

DIFFERENCE BETWEEN CAPITAL AND REVENUE RECEIPTS:

CAPITAL RECEIPT	REVENUE RECEIPT
Sale proceeds of a fixed assets	Sale proceeds of a trading assets
A receipt in substitution of a source of income is a capital receipt	A receipt in substitution of income is a revenue receipt
Compensation received for loss of business is a capital receipt	Compensation received for loss of profit is a revenue receipt
Subsidies or grants received from the government for any development scheme is a capital receipt	Subsidies or grants received from the government for meeting foreign competition is revenue receipt
Insurance money received for loss of a capital asset	Insurance money received for the loss of a trading asset

DIFFERENCE BETWEEN CAPITAL AND REVENUE EXPENDITURE:

CAPITAL EXPENDITURE	**REVENUE EXPENDITURE**
An expenditure which increases the earning capacity of a fixed asset	An expenditure incurred for maintaining a fixed asset
Cost of acquisition and installation of a fixed asset	Purchase price of goods bought for resale and purchase expenses
An expenditure incurred for the acquisition of a source of income	An expenditure incurred for the purpose of earning of an income
An expenditure incurred in obtaining capital by issuing shares	An expenditure incurred for raising loans or issuing debentures

DIFFERENCE BETWEEN CAPITAL AND REVENUE LOSS:

CAPITL LOSS	**REVENUE LOSS**
It is not arise in the course of regular business	It is arise in the course of regular business
Loss on sale of capital asset	Loss on sale of trading asset

Loss sustained by a person for being surety to another person	Loss suffered by a business on account of embezzlement by employees
Loss due to withdrawal of money from bank	Loss due to embezzlement

Rebate u/s 87A for FY 2021-22, 2022-23, and 2023-24 (AY 2022-23, 2023-24, and 2024-25)

Under both the old and new income tax regimes, the amount of the refund under Section 87A for FY 2021-22 2022-23 [(AY (2022-23) (2023-24)] has remained unchanged. A resident individual with taxable income up to Rs 5,00,000 will be eligible for a tax rebate of Rs 12,500, or the amount of tax payable (whichever is lower). Under the new income tax regime, the amount of the rebate under Section 87A for FY 2023-24 (AY 2024-25) has been modified. A resident individual with taxable income up to Rs 7,00,000 will receive a Rs 25,000 tax relief. The former tax regime remains the same, i.e., 12,500 for income up to Rs 5,00,000.

How much is the rebate allowed u/s 87A?

If an individual's total taxable income is up to Rs.7 lakh, they will be eligible for the following tax breaks under the new tax regime for the fiscal year 2023-24:

- Rs.25,000 or the applicable tax (whichever is lower).
- It is the same as earlier Rs.12,500 under the prior tax structure.

Steps to claim a tax rebate under section 87A

- Calculate your gross total income for the financial year
- Reduce your tax deductions for tax savings, investments, etc.
- Arrive at your total income after reducing the tax deductions.
- Declare your gross income and tax deductions in ITR.
- Claim a tax rebate under section 87A if your total income does not exceed Rs 5 lakh.
- The maximum rebate under section 87A for the AY 2022-23 is Rs 12,500.

Surcharge on Income Tax

Income tax surcharge is an additional charge payable on income tax. It is an added tax on the taxpayers having a higher income inflow during a particular financial year.

Surcharge rates for different taxpayers (Current Rates)

There are different rates of surcharge applicable to different taxpayers under the Income Tax Act, 1961. From 1st April 2023, the highest surcharge rate of 37% shall be reduced to 25% under the new tax regime.

Surcharge Rates for Individual/HUF/AOP/BOI/ Artificial Judicial Person

Net Taxable Income limit	Surcharge Rate on the amount of income tax
Less than Rs 50 lakhs	Nil
More than Rs 50 lakhs ≤ Rs 1 Crore	10%
More than Rs 1 Crore ≤ Rs 2 Crore	15%
More than Rs 2 Crore ≤ Rs 5 Crore	25%
More than Rs 5 Crore	37%*

***Budget 2023 Update:** Under new tax regime, the highest surcharge of 37% has been reduced to 25% which will be applicable from 1st April 2023 (FY 2023-24)

Note:

- Surcharge for **AOPs having only companies as its members** to 15%. It is applicable to AOPs whose total income during the financial year exceeds Rs 2 crores.
- Surcharge on long term capital gains (LTCG) on listed equity shares, units, etc., has been capped at 15%.

What is Cess on Income Tax?

The Government of India imposes a **cess on income tax** to raise funds for specific purposes. For instance, cess on road and infrastructure tax is used to fund the maintenance of roads and other infrastructures. However, these are not regular revenue sources as the government can discontinue them once the purpose of funding a particular project gets fulfilled.
Usually, the government imposes this tax to develop different sections of our economy or to fulfil specific social causes. The funds collected from **cess on tax** get deposited in the Consolidated Fund of India (CFI) like other types of collected taxes. However, it is allocated only to fulfil the specific purpose for which it was levied.

How to calculate cess on Income Tax?

Let us understand how to calculate health and education cess on income tax with the help of an example:
Suppose an Ms Anna has an income of Rs 10 lakh and her total tax payable comes to Rs 2 Lakh. Then, the cess would be calculated on the tax amount of Rs 2 lakh as under:

Particulars	Amount (Rs)
Annual Income	10,00,000
Tax payable	2,00,000
Add: Education Cess @ 4%	8,000

Total Tax Payable	2,08,000

What Are the Different Types of Cess Taxes?
Now that you know **what is cess in income tax**, take a look at the different types of cess tax for a better understanding:

Health and Education Cess
Financial Minister Arun Jaitley introduced the **health and education cess** in the 2018 Union Budget. It is levied on your income tax to meet the educational and health needs of people belonging to the BPL (below poverty line) category. The Union Government takes initiatives to improve educational infrastructure and quality through digitalisation, appoints qualified teachers, develops school buildings, etc.
Apart from that, the government uses the funds generated from cess to improve national health schemes for rural and underprivileged communities. Government used to levy a 3% **education cess on income tax**. However, from FY 2018-2019, a 4% of cess is levied for improvement of health and education services.

Road and Infrastructure Cess
This cess is levied on specific excisable and imported goods like high-speed diesel, petrol, etc., under sections 109 and 110 of the Finance Act, 2018. The Government of India imposes the road and infrastructure cess on four-wheelers and other heavy vehicles mandatorily. Owners of two-wheelers, three-wheelers, electrically operated or hybrid vehicles, etc., are excluded from paying this cess. As per the recent update, a road and infrastructure cess of Rs 1 is levied per litre of high-speed diesel and petrol.

GST Compensation Cess
You need to pay a GST compensation cess on goods of demerit and luxurious categories. Every Indian taxpayer is liable to pay this cess unless you have opted for the GST composition scheme or are exporting the notified goods only.

Construction Workers Welfare Cess
The construction workers' welfare cess is implemented under sections 3(1) and 3(3) of the Building and Other Construction Workers' Welfare (BOCWW) Cess Act, 1996. As per the provisions, employers need to pay 1% of the construction cost to the Government as BOCWW cess.

Cess on Crude Oil
Natural gas and crude oil produced from domestic oil blocks are subjected to ad valorem cess. The Central Government imposes a 20% cess on crude oil and natural gas for the development oil industry.

National Calamity Contingent Duty
The Central Government imposes NCCD or National Calamity Contingent Duty on cigarettes, chewing tobacco and pan masala. Moreover, the government proposed to increase the NCCD on specific cigarettes by 16% in the 2023 Budget.

Difference Between Cess and Other Taxes

The government imposes cess charges on taxes like income tax, GST, excise duty, etc., which constitutes the basic difference between cess and tax. Scroll down to check out some more differences between tax and cess:

- Government collects taxes to fund multiple employment schemes and welfare programs. However, cess is charged against a particular improvement or development program and the amount collected from cess is strictly to be used for that purpose. If the amount goes unspent for a particular year, it is carried forward to the next financial year.
- There are certain taxes that the Central Government needs to share with the state government. However, in the case of a cess charge, this rule is not applicable.
- Government can easily introduce and abolish cess charges, but general taxes need IT law amendments for initiation.

Scheme of Income Taxation in India

Income tax is charged under the Indian Income Tax Act, 1961, It is an annual tax on income levied by the Central Government. Tax is charged in respect of the income of the financial year (known as previous year) in the next financial year (known as assessment year) at the rates fixed for such assessment year in the Finance Act passed each year by the Parliament

Generally, the word 'income' covers receipts in the shape of money or money's worth which arise with certain regularity or expected regularity from a definite source. It is not all receipt that form the basis of taxation under the Act.

Broadly, an analogy is drawn of a tree and the fruits of that tree. The tree symbolises the source from which one gets fruits which symbolise 'income'. The receipt arising from the sale of tree itself is, therefore, considered a capital receipt which is not income; but the receipts flowing from this source viz., fruits is income.

On application of this analogy, it can be said that while the receipt arising from the sale of a house is not income, the receipt arising from the realisation of rent is income. In the same way, receipt from the sale of a machine is not income but from the sale of produce brought out from the machine is income. In these cases, however, if a person deals in purchase and sale of house properties or machines, these assets do not remain a source and the profit derived from activities of purchase and sale become income. The source need not necessarily be tangible as the return for human exertion is also income.

The above is a broad generalization. While a distinction is generally made between the capital receipt and revenue receipts, as illustrated above, the Act has widened the scope of income by expressly including within the meaning of 'income' the receipts which do not fall under the broad concept explained above. For instance, the Act specifically makes the profit arising from the sale of certain capital assets also subject to tax under certain circumstance. The winnings from lotteries, cross-word puzzles, races, card games etc. which do not arise from any definite source and do not have the element of regularity have also been specifically clarified to be 'income' under the Act.

<u>INCOME TAX RATE FOR ASSESSMENT YEAR 2023-24:</u>

1. **Resident male/female who is below 60 years of age:**

Net income range	Income tax rate
Up to Rs.2,50,000	NIL
Rs. 2,50,000 to 5,00,000	5%
Rs. 5,00,000 to 10,00,000	20%

above Rs. 10,00,000	30%

2. Resident senior citizen (who is 60 years or more at any time during the previous year)

Net income range	**Income tax rate**
Up to Rs.3,00,000	NIL
Rs. 3,00,000 to 5,00,000	5%
Rs. 5,00,000 to 10,00,000	20%
above Rs. 10,00,000	30%

3. Resident super senior citizen (who is 80 years or more at any time during the previous year)

Net income range	**Income tax rate**
Up to Rs.5,00,000	NIL
Rs. 5,00,000 to 10,00,000	20%
above Rs. 10,00,000	30%

Note:

1. **Education cess chargeable at 4% on the tax liability**
2. **Long term capital gain charged at 20% flat rate**
3. **If the income of an individual whose taxable income does not exceed Rs. 3,50,000 can avail rebate under section 87A up to Rs. 2,500**
4. **If the taxable income exceeding Rupees 50 lakhs but not more than Rs. 1 crore, a surcharge of 10% is to be levied, and if the net income exceeding Rs. 1crore surcharge of 15% is to be imposed.**

Income Tax Slabs FY 2023-24 & AY 2024-25 (New & Old Regime Tax Rates

- Indian Residents aged < 60 years + All the non-residents
- 60 to 80 years of age: Resident Senior citizens
- More than 80 years: Resident Super senior citizens

What Is Income Tax Slab?

In India, the Income Tax applies to individuals based on a slab system, where different tax rates are assigned to different income ranges. As the person's income increases, the tax rates also increase. This type of taxation allows for a fair and progressive tax system in the country. The income tax slabs are revised periodically, typically during each budget. These slab rates vary for different groups of taxpayers. Let us take a look at all the slab rates applicable for FY 2022-23 (AY 2023-24) and FY 2023-24(AY 2024-25).

Income tax slab rates for FY 2023-24/ AY 2024-25			
Old Regime			
Slabs	Individuals (Age < 60 years)	Resident Senior Citizens (≥60 but <80 years)	Resident Super Senior Citizens (80 years and above)
Up to Rs 2,50,000	Nil	Nil	Nil
Rs 2,50,001 to Rs 3,00,000	5%	Nil	Nil
Rs 3,00,001 to Rs 5,00,000	5%	5%	Nil
Rs 5,00,001 to Rs 10,00,000	20%	20%	20%
Above Rs 10,00,000	30%	30%	30%
New Regime			
Slabs	Income Tax Rates		
Up to Rs 3,00,000	Nil		
Rs 3,00,001 to Rs 6,00,000	5% (Tax rebate u/s 87A)		
Rs 6,00,001 to Rs 900,000	10% (Tax rebate u/s 87A up to Rs 7 lakh)		
Rs 9,00,001 to Rs 12,00,000	15%		
Rs 12,00,001 to Rs 1500,000	20%		
Above Rs 15,00,000	30%		

Income Tax Slab Rates for FY 2022-23 (AY 2023-24)
a. New Tax regime

Income Slabs	New Tax Regime FY 2022-23 (AY 2023-24)
₹0 - ₹2,50,000	–
₹2,50,000 - ₹5,00,000	5% (tax rebate u/s 87A is available)
₹5,00,000 - ₹7,50,000	10%
₹7,50,000 - ₹10,00,000	15%
₹10,00,000 - ₹12,50,000	20%
₹12,50,000 - ₹15,00,000	25%
>₹15,00,000	30%

Revised Income Tax Slab Rate FY 2023-24 (AY 2024-25) – For New Regime

Income Slabs	Income Tax Rates FY 2023-24 (AY 2024-25)
Up to Rs 3,00,000	Nil
Rs 3,00,000 to Rs 6,00,000	5% on income which exceeds Rs 3,00,000
Rs 6,00,000 to Rs 900,000	Rs. 15,000 + 10% on income more than Rs 6,00,000
Rs 9,00,000 to Rs 12,00,000	Rs. 45,000 + 15% on income more than Rs 9,00,000
Rs 12,00,000 to Rs 1500,000	Rs. 90,000 + 20% on income more than Rs 12,00,000
Above Rs 15,00,000	Rs. 150,000 + 30% on income more than Rs 15,00,000

How to Calculate Income Tax from Income Tax Slabs?
Rohit has a total taxable income of Rs 8,00,000. This income has been calculated by including income from all sources such as salary, rental income, and interest income. Deductions under section 80 have also been reduced. Rohit wants to know his tax dues for FY 2022-23 (AY 2023-2024).

Income Tax Slabs	Tax Rate	Tax Amount
*Income up to Rs 2,50,000	No tax	-
Income from Rs 2,50,000 – Rs 5,00,000	5% (Rs 5,00,000 – Rs 2,50,000)	Rs 12,500
Income from Rs 5,00,000 – 10,00,000	20% (Rs 8,00,000 – Rs 5,00,000)	Rs 60,000
Income more than Rs 10,00,000	30%	-
Tax		Rs 72,500
Cess	4% of Rs 72,500	Rs 2,900
Total tax in FY 2022-23 (AY 2023-24)		Rs 75,400

*Please note that Rohit is an individual taxpayer assessee having an income tax exemption of Rs 2,50,000. For other taxpayers assessee i.e. senior citizens and super senior citizens, the Income tax limit for availing the exemption would be Rs 3,00,000 & Rs 5,00,000 respectively.

INCOME TAX AUTHORITIES

For effective and efficient administration and implementation of the income tax act 1961, the following classes of income tax authorities have been constituted under sec 116 of the act by the Government of India:

a. The central board of direct taxes (CBDT)
b. Directors general of income tax (DGIT) or chief commissioner of income tax (CCIT)
c. Directors of income tax (DIT) or Commissioner of Income Tax (Appeals)
d. Additional directors of Income Tax or Additional Commissioner of Income Tax or Additional Commissioner of Income Tax (Appeals)
e. Joint Directors of Income Tax or Joint Commissioner of Income Tax
f. Deputy Directors of Income Tax or Deputy Commissioner of Income Tax
g. Assistant directors of income tax or assistant commissioner of income tax h. Income tax officers
i. Tax Recovery Officers (TRO)
j. Inspectors of Income Tax

Power and functions of Central Board of Direct Taxes (CBDT)

The highest authority in the administrative set up of the income tax department is the central board of direct tax. The board is constituted as per The Central Board of Revenue Act 1963. The board is functioning under the control of ministry of finance. The board has the following powers:

1. It has the power to make rules and to issues orders, instructions and directions to other income tax authorities for the proper administration of the act
2. To determine the jurisdictions of various authorities of the Act
3. To declare any organization, institution or body as company
4. To authorize any income tax authority to accept applications of claim for any exemption, deduction. Refund or any other relief after the expiry of the prescribed period
5. To approve reductions of waving of penalty by the commissioner in excess of specified amount
6. It may authorize to empower authorities with the power of search and seizure
7. The board may for avoiding genuine hardship, relax the compliance of any requirement contained in section 14 to 59 and 80A to 80U or claiming deductions
8. The board may delegate the authority to any income tax authority below it, so as to discharge their duties efficiently

Powers of commissioner of income tax

Following are the important powers of the commissioner

1. Under the directors of CBDT he can exercise the power of an assessing office
2. To revise any order issued by income tax officer
3. To appoint income tax authorities below the rank of an deputy commissioner
4. To transfer any case from one assessing officer to another
5. Has the power of search and seizure
6. He is vested with the power to call for the books of accounts of an assessee
7. To approve with holding of refund in certain cases
8. Power to revision of orders passed by the subordinate authority on the application of the assessee

Power of income tax officers/ assessing officers

The income tax officers is the most important authority in the income tax department. He initiates assessment proceedings and make assessment of the income of the assessee. Their power are as under:

1. To granting relief in a special case
2. To discover and production of evidence
3. To inspect the registers of companies
4. To allot the permanent account number to an assessee
5. He is vested with the power of search and seizure
6. Power to make regular assessment and can issue notice of demand
7. Power to direct any assessee to get his accounts audited with the prior permission from higher authority
8. Power to refund of tax
9. To improve penalty for non-payment of tax

Assessment: Sec 2(8)

Assessment refers to the process of procedure of ascertaining the taxable income and tax liability of a person for a particular financial year

Types of assessment

There are five types of assessment viz

a. Self-assessment
b. Assessment on the basis of return
c. Regular assessment
d. Re-assessment
e. Precautionary or protective assessment

a. Self-assessment sec 140A

It is a type of assessment, where the assessee himself compute the his taxable income and tax liability as per the provision and deduct any tax paid in advance or tax deducted at source and balance is paid along with interest if any. The return shall be filed along with the proof of payment of such tax and interest

b. Assessment on the basis of return sec 143 (1)

After filing the return by the assessee the income tax authorities, verity the computation. If there, any difference is bought to the notice of the assessee. The excess tax payment if any is refunded and if there is any shortage, intimation is sent to for the remittance of such shortage

c. Scrutiny assessment: Sec 143 (3)

When the income tax authority not satisfied with a return of an assessee, they may issue the notice for getting the complete information regarding the return. Whatever the evidence given by the assessee in support of the return, the income tax authorities may make the assessment on such evidence

d. Best judgment assessment sec 144

When the assessee fails to make a voluntary return or not produce such accounts or documents as the assessing officers may refuse etc in such cases the assessing officer relies on his own judgment by considering the available materials and facts in relation to assessment while doing the assessment he must not act dishonestly. He must make fair estimate by using local knowledge and considering previous accounts and his own knowledge. Best judgment can be compulsory in discretionary

e. Re-assessment: (Income escaping Assessment) Sec 147

When the assessing officer has a reason to believe any income chargeable to tax has escaped from the assessment for any assessment year, he may assessor re-assess such income

f. Precautionary assessment or protective assessment

When it is not clear as to who has received the income and prima facie, the assessing officer can commence proceedings against any or all of them to determine the questions has to who is responsible to pay tax

Exempted incomes of individuals under section 10 of the Income Tax Act, 1961.
Most income that is exempted from tax is listed under Section 10 of the Income Tax Act. This section contains a list of income that is deemed or considered to be free from taxation. Exempted income specified under Section 10 is as follows:

Section	Exemptions
Section 10(1)	Income earned through agricultural means
Section 10(2)	Any amount received by an individual through a coparcener from an HUF
Section 10(2A)	Income received by partners of a firm, as shared between them
Section 10(4)(i)	Any interest that has been paid to a person who is not a resident Indian
Section 10(4)(ii)	Any interest that has been paid to the account of a person who is not a resident Indian
Section 10(4B)	Any interest that has been paid to a person who is not a resident Indian, but of Indian origin
Section 10(5)	Concession on travel given to an employee who is also a citizen of India
Section 10(6)	Any income earned or received by a non-Indian citizen
Section 10(6A), (6B), (6BB), (6C)	Government tax paid on the income of a foreign firm
Section 10(7)	Allowances received by government employees stationed abroad
Section 10(8)	Income earned by foreign employees in India under the Cooperative Technical Assistance Program
Section 10(8A)	Income earned by a consultant
Section 10(8B)	Income earned by a consultant's staff or employees
Section 10(9)	Income earned by any family member of a foreign employee in India under the Cooperative Technical Assistance Program
Section 10(10)	Gratuity
Section 10(10A)	The commuted value of the pension earned by an individual
Section 10(10AA)	Any amount earned via encashment of leave at the time of retirement
Section 10(10B)	Compensation paid to workers due to relocation
Section 10(10BB)	Any remittance obtained as per the Bhopal Gas Leak Disaster Act 1985
Section 10(10BC)	Any compensation obtained in the event of a disaster
Section 10(10C)	Compensation in lieu of retirement from a PBC or any other firm
Section 10(10CC)	Any income received through taxation on perquisites
Section 10(10D)	Any amount acquired via a Life insurance policy
Section 10(11)	Any payment received via the Statutory Provident Fund
Section 10(12)	Any payment received via a recognized or authorized Fund

Section 10(13)	Any payment received through a Superannuation Fund
Section 10(13A)	House Rent Allowance
Section 10(14)	Allowances utilized to meet business expenses
Section 10(15)	Income received in the form of interest
Section 10(15A)	Income received by an Indian firm through the lease of an aircraft from a foreign firm or government
Section 10(16)	Income in the form of a scholarship
Section 10(17)	Allowances granted to MLCs, MLAs or MPs
Section 10(17A)	Income received in the form of a government award
Section 10(18)	Income received in the form of pension by winners of awards for heroism
Section 10(19)	Income received by family members of the armed forces in the form of pension
Section 10(19A)	Income received from a single palace of an ex-ruler
Section 10(20)	Income received by a localized body or authority
Section 10(21)	Income received by an association involved with scientific research
Section 10(22B)	Income earned by a news or broadcasting agency
Section 10(23A)	Income earned by certain Professional Institutes
Section 10(23AA)	Income acquired through Regimental Fund
Section 10(23AAA)	Income acquired through an employee welfare fund
Section 10(23MB)	Insurance pension fund income
Section 10(23B)	Income earned by village industry development institutions
Section 10(23BB)	Income earned by state level Khadi and Village Industries Board
Section 10(23BBA)	Income earned by regulatory bodies of institutions affiliated with religion and charity
Section 10(23BBB)	Income received by the European Economic Community
Section 10(23BBC)	Income received through SAARC funded regional projects
Section 10(23BBE)	Income received by the IRDA
Section 10(23BBH)	Income received through Prasar Bharti
Section 10(23C)	Income received by any individual through certain specified funds
Section 10(23D)	Income earned via Mutual Funds
Section 10(23DA)j	Income earned via a Securitization Trust
Section 10(23EA)	Income earned through an IPF
Section 10(23EB)	Income received by the Credit Guarantee Trust for Small Industries
Section 10(23ED)	Income exemption of IPF
Section 10(23DFB)	Income exemption of specified income received by Venture Capital Firms, Funds or Businesses
Section 10(24)	Income earned by authorized trade unions

Section 10(25)	Income earned via provident funds and superannuation funds
Section 10(25A)	Income earned via Employee's State Insurance Fund
Section 10(26), 10(26A)	Income earned by Schedule Tribe Members
Section 10(26AAN)	Income earned by an individual of Sikkimese origin
Section 10(26AAB)	Marketing regulation with regards to agricultural produce
Section 10(26B)	Income earned by corporations established for the upliftment of backward tribes and classes
Section 10(26BB)	Income earned by corporations established for the protection of Minority interests
Section 10(26BBB)	Income earned by corporations established for former servicemen
Section 10(27)	Income earned by cooperative societies established for protection of scheduled castes and tribes' interests
Section 10(29A)	Income received by Community Boards
Section 10(30)	Income earned in the form of subsidies via the Tea Board
Section 10(31)	Income earned in the form of subsidies via the concerned Board
Section 10(32)	Income earned by a child in accordance with Section 64 of the Income Tax Act
Section 10(33)	Income earned through Unit Trust of India capital asset transfer
Section 10(34)	Income earned in the form of dividends through an Indian firm
Section 10(34A)	Income earned by a shareholder through the buyback of unlisted companies
Section 10(35)	Income received through the sale or transfer of Unit Trust of India units as well as other mutual funds
Section 10(35A)	Income from a securitization trust that is exempt
Section 10(36)	Income received on the sale of shares under specific conditions
Section 10(37)	Any capital gains made on the mandatory acquirement of land in relation to urban agriculture
Section 10(38)	Any long-term capital gains made from share and security transfers that fall under the purview of Security Transaction Tax
Section 10(39)	Any income received from any international event or function relating to sports
Section 10(40)	Any income acquired in the form of a grant from a company deemed to be a subsidiary of the parent company
Section 10(41)	Any income received on any asset transfer of a company or project that conducts power distribution, generation and transmission
Section 10(42)	Any income earned by any authority that has been established by more than one country

Section 10(43)	Any income in relation to reversal of mortgage
Section 10(44)	Income generated through the NPS Trust
Section 10(45)	Any allowance or perks granted to the chairman or any member of the UPSC
Section 10(46)	Any income that comes under the category of 'specified income' with regards to specific authoritative bodies
Section 10(47)	Any income that is exempt under the category of infrastructure debt fund
Section 10(48)	Any income earned by a foreign firm or company due to crude oil sales within India
Section 10(49)	Any income earned by the NFHC (National Finance Holdings Company)