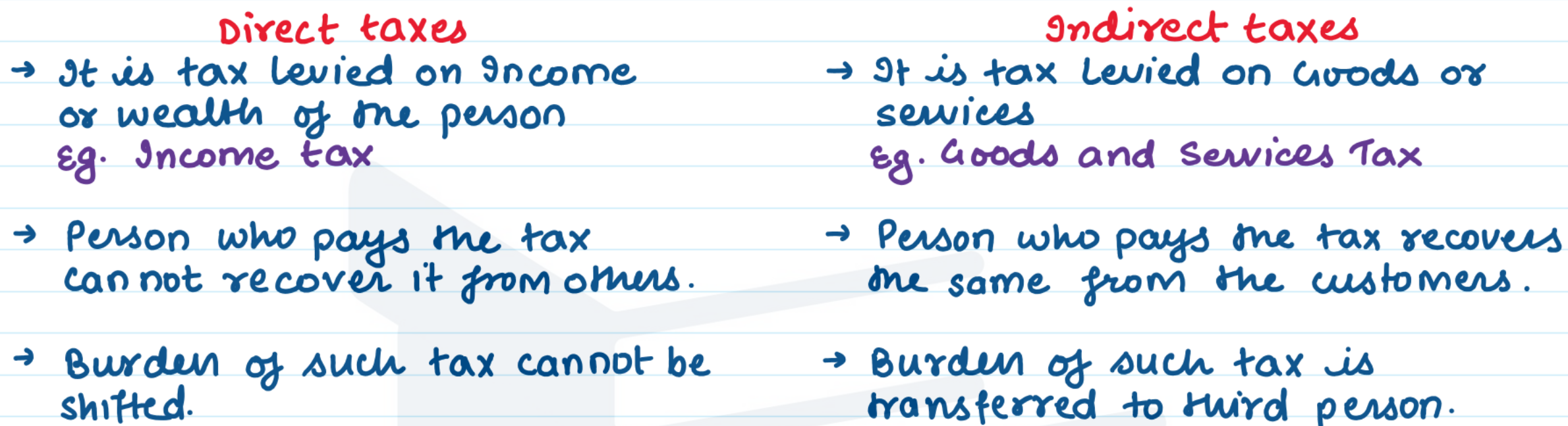


Chapter 1 - Basics of Income Tax

TP:1 What is tax?

Tax is the cost of living in a society. It is the amount collected by the government to meet the common welfare expenditure of the society.

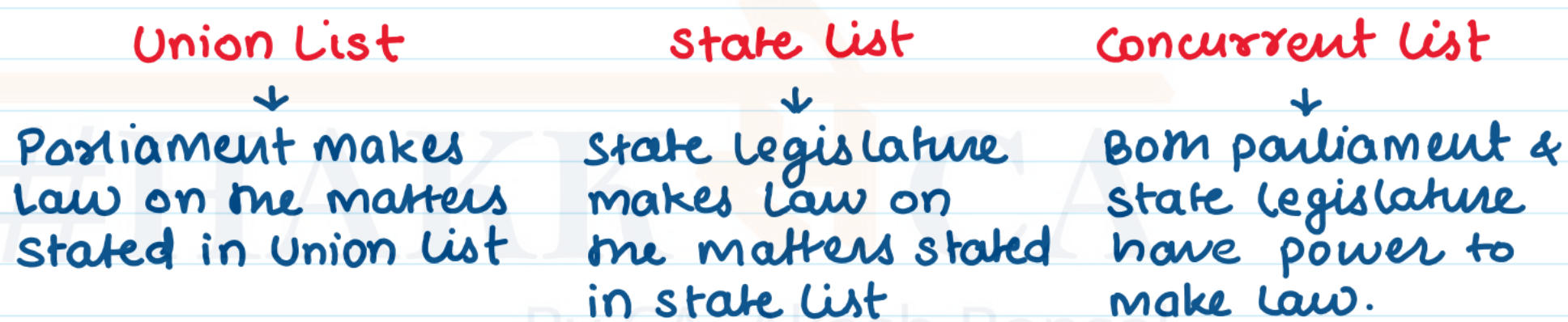
Types of taxes



TP:2 Power of Government to levy tax - Constitution of India

Article 265 of constitution - 'No tax shall be levied except by authority of law; which means, a law needs to be framed to collect taxes.'

Seventh Schedule to Article 246 of constitution - It empowers government to make law. It has 3 lists



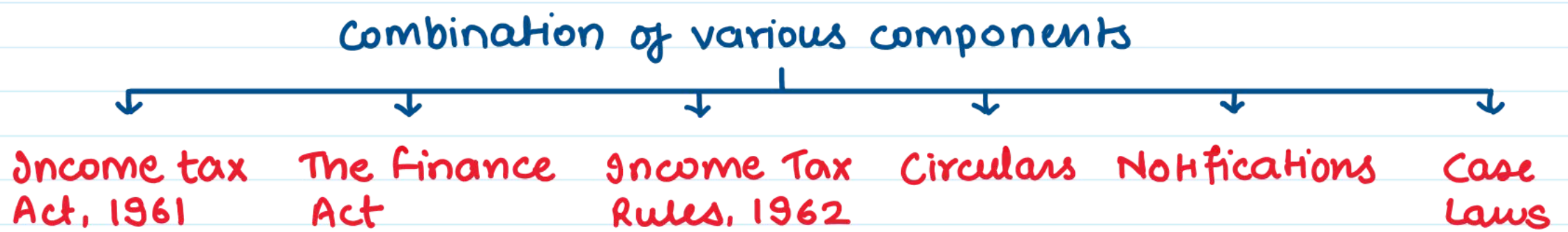
Entry 82 of union list - Empowers CG to levy taxes on income **other than agricultural income.**

Entry 46 of state list - Empowers SG to levy taxes on **agricultural income**

[Note: No state Govt. has levied taxes on Agri. Income]



TP:3 What is Income tax Law ?

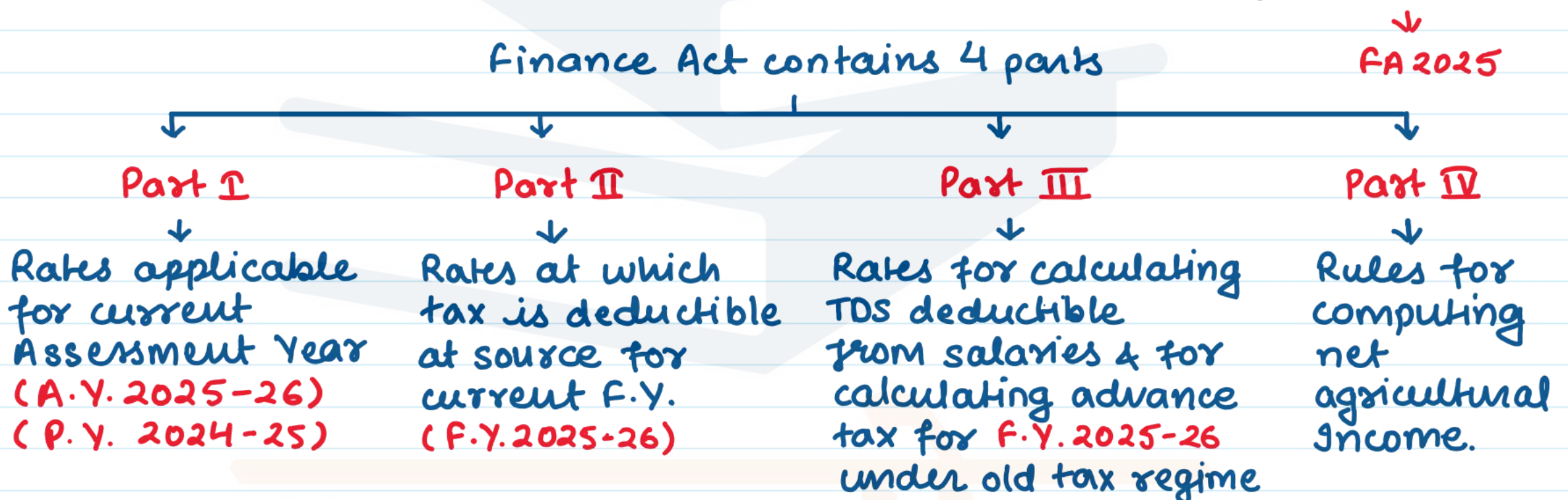


1. Income Tax Act, 1961 -

- Extends to whole of India including J&K.
- Came into force on 1st April, 1962
- contains section 1 to 298 and schedule I to XIV

2. The Finance Act -

- Finance bill is introduced by Finance Minister of India in the parliament during budget session i.e. 01st Feb.
- When bill is passed by both houses of parliament & gets assent of the president, it becomes **Finance Act**.
- Amendments in Income Tax Act are introduced through Finance Act



3. Income tax Rules, 1962

- Central Board of Direct taxes (CBDT) looks after the administration of direct taxes
- CBDT has power to make rules for carrying out the purpose of the Act.
- The rules formed by the CBDT is called 'Income Tax Rules, 1962'

Who is CBDT?

↓
Govt. of India >> Finance Ministry >> Revenue Dept. >> CBDT

4. Circulars

- Circulars deal with certain specific problems & clarify the doubts regarding the **scope & meaning** of certain provisions.
- Issued by CBDT
- Issued to guide the deptt. officers and/or to the Assessors.
- **Binding on deptt.** (not on the assessee).

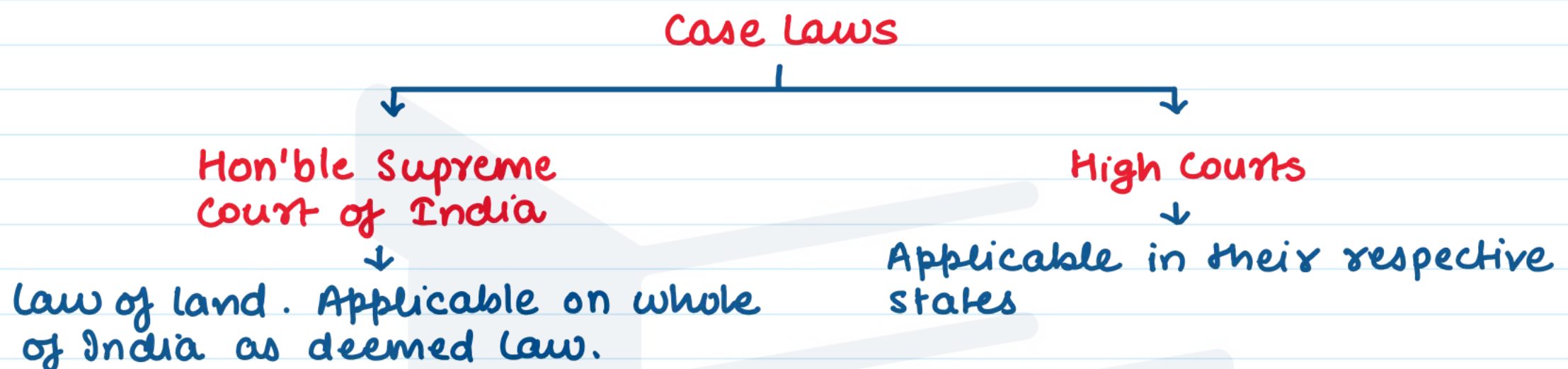


5. Notifications

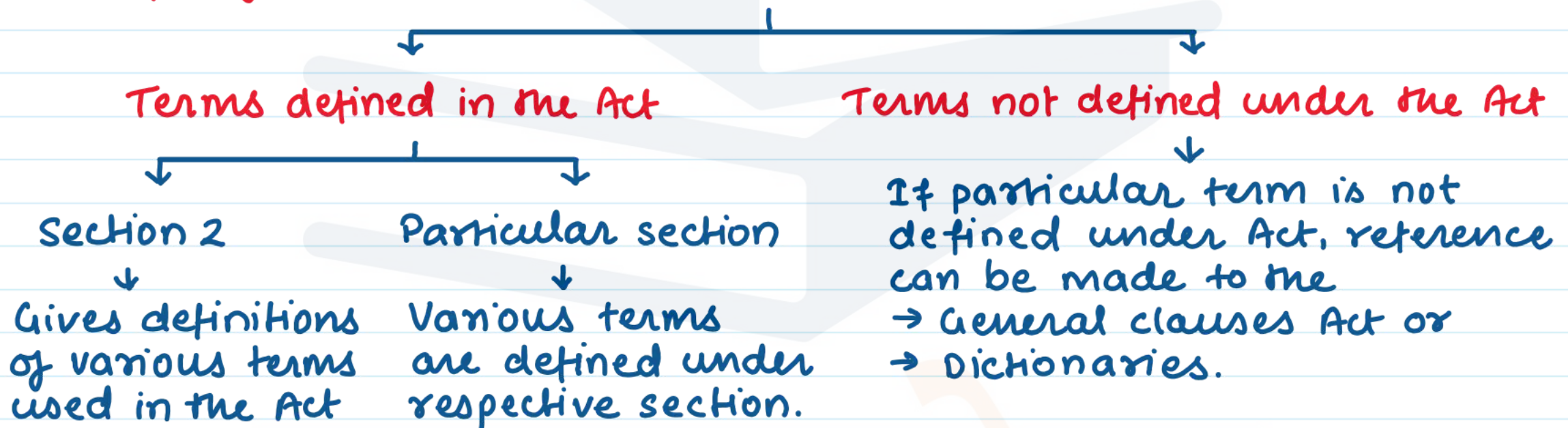
- Issued by **CA** to give effect of the provisions of the **Act**
- **CBDT** issues notifications to make / amend rules.
- Binding on both dept. & assessee.

6. Case Laws / Legal decisions of courts

- It is not possible for the Parliament (means Act) to provide solutions to all possible issues that may arise in the implementation of the Act.



TP:4 Concept of Definitions



TP:5 Some Important Definitions

① **Person [sec 2(31)]** - It includes a) Individual, b) Hindu Undivided family (HUF), c) Company d) Firm, e) Association of person (AOP), f) Body of Individual (BOI), g) Local Authority h) Artificial Juridical Persons (AJP).

② **HUF** - Not defined in the Income Tax Act, 1961.
As per Hindu Law, HUF is a family which consists of all male lineally descended from a common ancestors and includes their wives & daughters.

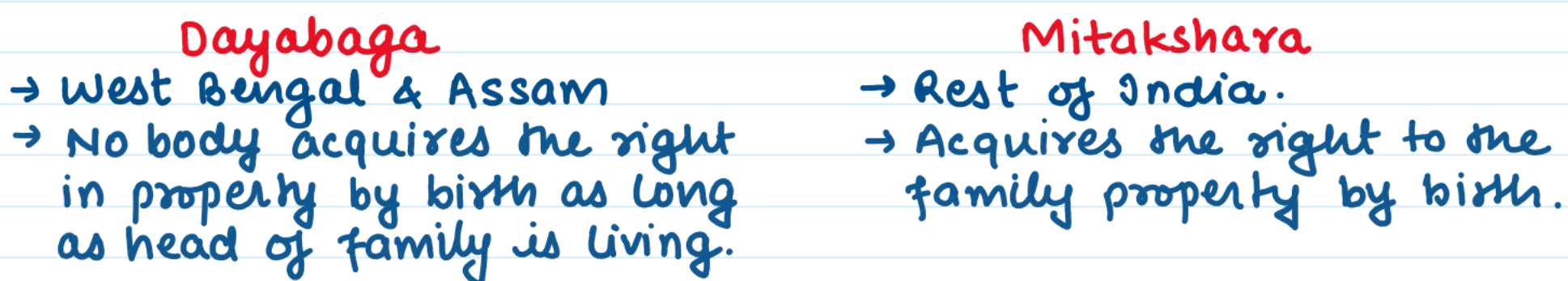
Co-Parceners - Persons who acquires an interest in joint family property by birth.

Before 06th sept 2005, only male descendants were considered as co-parceners.

Now, w.e.f. 06th sept 2005, **Daughters** have also been accorded co-parcenary status. ↳ Not wives

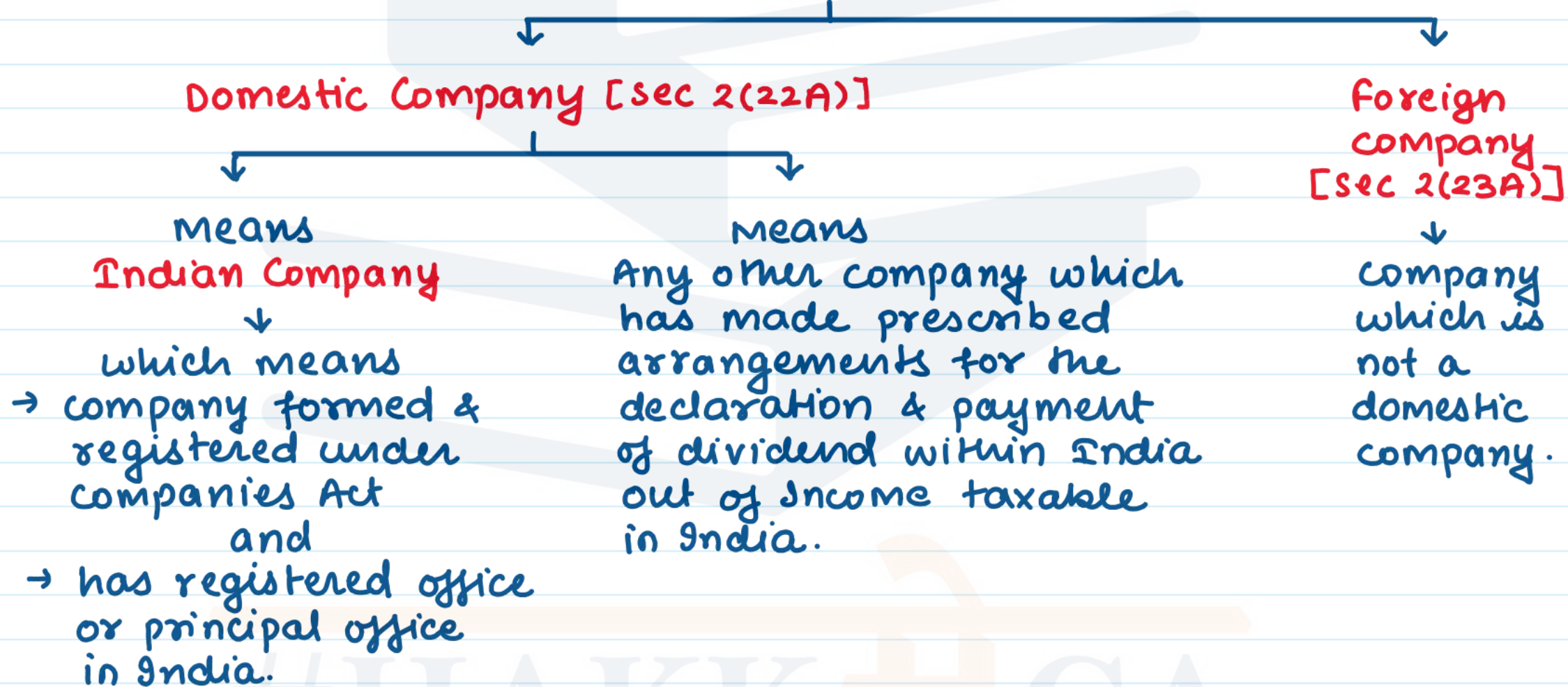


School of Hindu Law



- ③ **Company** - Company means -
[sec 2(17)]
- any Indian Company as defined in section 2(26) of Income Tax Act, 1961.
 - any Foreign company.
 - any institution, association or body which is assessable or was assessed as a company under IT Act.
 - any institution, association or body declared by CBDT as company.

Classes of Companies



- ④ **Firm** - [sec 2(23)] → It has same meaning as assigned under Indian Partnership Act, 1932
- It includes **Limited Liability Partnership (LLP)** as defined under LLP Act, 2008
 - **Minor** is also treated as Partner.

⑤ Association of Persons (AOP)

- Where persons combine together for promotion of joint enterprises without forming a partnership, they are assessable as AOP.
- Persons come together for a common purpose or action & their objective is to produce income.
- It is not enough that the persons receive income jointly.

Eg. Mr. X & Mr. Y come together to carry out construction of road otherwise than as partnership firm.



⑥ Body of Individuals (BOI)

- Persons who merely receives income jointly & their interests are indivisible
- Income tax is payable by BOI as separate entity.
- Members shall not be liable to pay tax.

Eg. Club, trade associations etc.

⑦ Artificial Juridical Persons - It means any artificial person not falling under any above category. Eg. Bar council, universities, ICAI etc.

⑧ India [sec 2(25A)] - India means

- the territory of India as per Article 1 of the constitution
- its territorial water, seabed and subsoil under water
- continental shelf
- exclusive economic zone
- Maritime zone
- air space above territory & water.

TP:6 Meaning of PY & AY

Previous Year

↓
sec 3

→ It means the Financial Year preceding the assessment year

→ It may or may not have 12 months

&

Assessment Year

↓
sec 2(9)

→ It means a period of 12 months commencing on 01st April every year

→ It always has 12 months.

Eg. Mr. X started his CA firm on 01.09.2025, in this case, P.Y. shall start from 01.09.2025 & shall end on 31.03.2026. However, A.Y. shall be 2026-27 (12 months).

Year of Assessment of Income

General Rule

↓
Income of PY is assessed in the A.Y. i.e. following the P.Y.

Exception to General rule

↓
Cases where income of a P.Y. is assessed in the P.Y. itself -

- shipping business of NR
- Person leaving India
- AOP / BOI / ATP formed for a particular event or purpose
- Person likely to transfer property to avoid tax
- Discontinued business.



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