Chapter I
INTRODUCTION & THEORY OF INCOME TAX ACT, 1961
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1.1. INTRODUCTION:

Under the Indian Tax systems taxes are collected by Central Government, State Government and Local Authority. The basic objective of economic policy is to expeditiously improve the standard of living of all people. Economic growth of the nation is an indicator of the economic development of any country. This economic growth not only ensures the overall development of the nation but it also helps in equitable distribution of wealth. This in turn helps to reduce the poverty.

Economic growth of a nation depends on several factors. However fiscal or monetary policy of a Government is one of the major factor for determining the shape of such growth. The monetary or fiscal policy of the Government is nothing but controlling inflow and outflow of money or revenue. The revenue is generated by various means and methods. The collection of taxes is one of the important tools available with the Government for generating income. Direct and Indirect taxes are the important sources of raising revenue for the Indian Government. Income tax is one of the major sources of revenue for the Indian government which is directly charged to the assessed on their direct income. The Collection of taxes through Custom duty, Excise Duty and Central Sales Tax (CST) are the indirect sources of income to the Central Government. The State Government is empowered to levy State Sales tax (VAT), Property Registration Fees i.e. Stamp Duty, Entertainment tax, and various other local taxes like Entry tax, Local Body Tax (LBT) & Octroi etc.

Every year on 28th February Finance Minister of India presents Union Budget before the parliament. The budget contains the statement of estimated revenue and estimated expenditure of the Government. The budget is presented on the basis of economic reviews conducted by the Government of India. The Finance Act presented at the time of Union Budget, enables the Government to introduce amendments in Fiscal Laws. This will impact synchronization of policies and changes in the economic situation of the country. The rates of taxes are declared or announced through the Finance Bill every year.

In our country, annual statement of affairs is considered from 1st April of every year to 31st March of next year. The rates of all Direct Taxes which are prescribed in the Annual Finance Act are made applicable uniformly throughout the country from the 1st April of that year. Indirect Taxes applicable on immediate basis or as per their notifications given by the Central Government.
1.2 HISTORY OF INCOME TAX

The Government of India levies the taxes to meet the various public expenditures for that they charge Direct and Indirect Taxes on the general public. Taxation is the most important source of revenue to Central Government and it includes Direct Taxes and Indirect Taxes levied from time to time. The Individuals, HUF, Partnership Firms, LLP, Companies, AOP, and BOI contributing the taxes to the nation. The Tax Payers assess their Income and file their Income tax returns considering the self assessment and pay the taxes as per the dates specified in the Income Tax Act 1961. The filing of Income Tax Return is compulsory for an Individual whose income exceeds the Basic Exemption Limit given for the particular assessment year. In other words taxation is the most important source to the Government for the revenue.

The Economic Development of the Nation is depends upon the Annual Budget of the Nation. The mobilization of resources plays a vital role for the vast development of various regions of the country.
Present Tax Structure in India:

Direct Taxes:

The Constitution of India empowers the Central Government to levy the taxes. Direct Taxes are charged directly on their incomes earned by the Assessee. Presently the Income Tax Act, 1961 levies direct taxes on the income of individuals and Corporate Entities as well as Non-Corporate entities too. Direct Tax is directly paid by the person to the Government treasury, thus it directly contributes to the Nation for regional development.
**Indirect Taxes:**

Indirect tax is levied on Manufacturing of goods, Sales, Imports and Export of goods or materials. The Central Government levies Excise Duties, Custom Duties, Service Tax where as State Government levies Local body Tax (LBT), Octroi, VAT, Entry tax and Entertainment Tax. The Indirect taxes are paid by a person indirectly to the Central Government and State Government.
i) **History of Income Tax Act 1961:**

"It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold" — **Kalidas in Raghuvansh eulogizing KING DALIP.**

The common peoples’ belief that the taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in ancient age.

The origin of the word "Tax" is from "Taxation" which means an estimate. These were levied either on the sale and purchase of merchandise or livestock and were collected in a haphazard manner from time to time.

The Governments collects taxes to meet their military and civil expenditure and not only to ensure safety to the subjects but also to meet the common needs of the citizens like maintenance of roads, administration, judiciary and other such functions of the State.

In India, the present system of taxation is very well known today to the common people; actually it has been executed from ancient times. There are references both in Manu-smruti and Arthashastra to a variety of tax measures.

In ancient times, the King levied the taxes on profit earned by traders and farmers were to pay on their production of food grains up to 10%, 12.5%, 16% depending up on their production. The detail analysis given by Manu that there was well plan taxation system in the ancient times. The King of the region or State levied the taxes not only on profit of businesses but also on acting, singing, dancing and other such activities.

With consideration of reference of Kautilya's Arthashastra, which deals with the system of taxation in a real, elaborate and planned manner. These well known treatise on state crafts written sometime ago in 300 B.C., when the Mauryan Empire was as its glorious upward move, is truly amazing, for its deep study of the civilization of that time and the suggestions given which should guide a king in running the State in the most efficient and fruitful manner. A major portion of
Arthashastra is devoted by Kautilya to financial matters including financial administration.

Kautilya described in detail, the trade and commerce carried on with foreign countries and the active interest of the Mauryan Empire to promote such trade. Goods were imported from China, Ceylon and other countries and a levy known as a ‘Vartanam’ was collected on all foreign commodities imported in the country. There was another levy called ‘Dvarodaya’ which was paid by the concerned businessman for the import of foreign goods. In addition, ferry fees of all kinds were levied to augment the tax collection.

A tax called ‘Yatrawetana’ was levied on pilgrims. Though revenues were collected from all possible sources, the underlying philosophy was not to exploit or over-tax people but to provide them as well as to the State and the King.

The reason why Kautilya gave so much importance to public finance and the taxation system in the Arthashastra is not far to seek. According to him, the power of the government depends upon the strength of its treasury. He states – "From the treasury, comes the power of the government and the Earth whose ornament is the treasury, is acquired by means of the Treasury and Army".

He placed land revenues and taxes on commerce under the head of tax revenues. These were fixed taxes and included half yearly taxes like Bhadra, Padika, and Vasantika. Custom duties and duties on sales, taxes on trade and professions and direct taxes comprised the taxes on commerce.

Kautilya also laid down that during war or emergencies like famine or floods, etc. the taxation system should be made more stringent and the king could also raise war loans. The land revenue could be raised from 1/6th to 1/4th during the emergencies. The people engaged in commerce were to pay big donations to war efforts.

While considering the overall view, it can be said without fear of contradiction that Kautilya's Arthashastra was the first authoritative text on public finance.
History of Taxation Post 1922

1. Preliminary:

The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. From 1922 to the present day, changes in direct tax laws have been so rapid that except in the bare outlines, the traces of the I.T. Act, 1922 can hardly be seen in the 1961 Act as it stands amended to date. It was but natural, in these circumstances that the set up of the department should not only expand but undergo structural changes as well.

2. Changes in administrative set up since the inception of the department:

The organizational history of the Income-tax Department starts in the year 1922. The Income-tax Act, 1922, gave, for the first time, a specific nomenclature to various Income-tax authorities. The foundation of a proper system of administration was thus laid. In 1924, Central Board of Revenue Act constituted the Board as a statutory body with functional responsibilities for the administration of the Income-tax Act.

During 1940 to 1947, Excess Profits Tax and Business Profits Tax were introduced and their administration was handed over to the Department. It was during this period in 1946, that a few Group 'A' officers were directly recruited. Later on in 1953, the Group 'A' Service was formally constituted as the 'Indian Revenue Service'.

In 1957, I.R.S. (Direct Taxes) Staff College started functioning in Nagpur. Today this attached office of the Board functions under a Director-General. It is called the National Academy of Direct Taxes.

In 1963, the I.T. department, burdened with the administration of several other Acts like W.T., G.T., E.D., etc. had expanded to such an extent that it was considered necessary to put it under a separate Board. Consequently, the Central Board of Revenue Act, 1963 was passed. The Central Board of Direct Taxes was constituted, under this Act.

In 1972, a very important administrative change occurred during this period. A whole new wing of Officers - Tax Recovery Officers was created and a new cadre of post of Tax Recovery Commissioners was introduced w.e.f. 1-1-1972.
In 1977 order to improve the quality of work, a new cadre known as IAC (Assessment) and in 1978 another cadre known as CIT (Appeals) were created. The Commissioners' cadre was further reorganized and five posts of Chief Commissioners (Administration) were created in 1981.

Computerization in the Income-tax Department started with the setting up of the Directorate of Income tax (Systems) in 1981. The computerized activities were subsequently extended to allotment of PAN under the old series, allotment of TAN, and pay roll accounting. These computer centers used batch process with dumb terminals for data entry.

In 1993 a Working Group was set up by the Government to recommend computerization of the department. Based on the report of the Working Group a comprehensive computerized plan was approved by the Government in October, 1993. In 1994-95 Regional Computer Centers were set up in Delhi, Mumbai, and Chennai. Accordingly in the year in 1996-97 a National Computer Centre was set up at Delhi.

3. Important events affecting the administrative set up in the Income-tax department:

1939

- Appellate functions separated from inspecting functions.
- A class of officers known as AACs came into existence.
- Jurisdiction of Commissioners of Income tax extended to certain classes of cases and a central charge was created at Bombay.

1940

- Directorate of Inspection (Income-tax) came into being.
- Excess Profits Tax introduced w.e.f. 1-9-1939.

1941

- Income-tax Appellate Tribunal came into existence.
- Central charge created at Calcutta.
1943
- Special Investigation Branches set up.

1946
- A few officers of Class-I directly recruited.
- Demonetization of high denomination notes made.
- Excess Profits Tax Act repealed.

1947
- Business Profits Tax enacted
  (for the period 1-4-1946 to 31-3-1949).

1951
- Report of Income-tax Investigation Commission known as Vardhachari Commission was received.
- Voluntary Disclosure Scheme introduced.

1952
- Directorate of Inspection (Investigation) set up.
- Inspector of Income-tax declared as an I.T. authority.

1953
- Estate Duty Act, 1953 came into existence w.e.f. 15-10-1953.

1954
- Internal Audit Scheme in the Income-tax Department introduced.
- Taxation Enquiry Commission known as John Mathai Commission set up.
1957

- The Wealth tax Act, 1957 introduced w.e.f. 1-4-1957.
- I.R.S.(DT) Staff College started functioning at Nagpur and other four centres at Bombay, Calcutta, Bangalore and Lucknow were opened.

1958

- The Gift-tax Act, 1958 introduced w.e.f. 1-4-1958.
- Report of Law Commission was received.

1959

- Direct Taxes Administration Enquiry Committee submitted its report.

1960

- Directorate of Inspection (Research, Statistics & Publications) was set up.
- Two grades of Inspectors - selection and ordinary grades - merged into one single grade.

1961

- Direct Taxes Advisory Committee set up - Direct Taxes Administrative Enquiry Committee constituted. In the light of recommendations of Mahabir Tyagi committee in 1961, Income Tax Act 1961 was presented and passed in September, 1961
- Income-tax Act, 1961 came into existence w.e.f. 1-4-1962.
- Revenue Audit introduced for the first time in the Department.
- New system for evaluation of work done by Income-tax Officers introduced.
1.3 OBJECTIVES OF THE STUDY

The following are the objectives selected for the present study:

1) To understand the various reasons of scrutiny assessment.
2) To find out Assessment procedure of Individual Assessee having income from business.
3) To find out the problem that arises during the Assessment to the Assessing Officer.
4) To study the administrative set up of assessing officers in Income Tax Department.
5) To find out the common reasons of disallowances of expenses.
6) To know the list of allowances & disallowances of Incomes.
7) To know the disallowances of exemption of Income of Individual Assessee in Scrutiny Assessment

1.4 HYPOTHESIS

The following are the hypothesis based on the objectives selected for the study are as under:

1. The charging of personal expenses against business income, creating of dummy liabilities in the books, non-payment of statutory dues in time are the most likely reasons for disallowances of expenses in the assessment proceedings of individual assessee.
2. The income tax officers are overburdened with the assessment proceedings due to inadequate staff in their office, internal transfer of scrutiny assessment cases, prolonged arguments of the assessee and their representatives, etc.
3. The income tax officers are stressed in their duties due to their inconvenient transfers from one place to another, working on holidays etc.
1.5 GEOGRAPHICAL AREA OF THE STUDY

As far as primary data is concerned, the study is restricted to CIT-V Pune area and the researcher is working as well as staying in Pimpri-Chinchwad area which is within the jurisdiction of CIT V, therefore it is easy to have a direct dialogue with the respective authorities of CIT V office. CIT - V mainly covers the Pimpri Chinchwad Municipal Corporation area, Chakan Industrial Zone and Talegaon Industrial Zone.

1.6 DATA COLLECTION PERIOD

The data is collected by the researcher from the Income Tax Department for five years. The scrutiny assessment studied by the researcher for the period of financial year 2005-2006 to 2009-2010 and the interviews of assessing officers conducted in the year 2016-2017.

1.7 RESEARCH DESIGN

The main object of the study is to investigate “A critical study of administrative problems regarding assessment of individual assesses having income from business. The statistical data of the scrutiny assessment studied by the researcher for the period 2005-2006 to 2009-2010. The researcher had properly planned the research design for study work.

The research design contains the objective of study, research methodology, scope of study, limitation of study, data collection, data analysis, findings and conclusions of study, suggestions and chapter schema etc.

1.8 RESEARCH METHODOLOGY

Primary Data

The researcher has collected the primary and secondary data for conducting this research. Primary data is original research that is obtained through first-hand investigation of interviews and questionnaires of Income tax Assessing officers from Commissioner of Income tax - V

Secondary Data

The secondary data is collected by the researcher from the Income Tax Department, Journals, Report of Central Board of Direct Taxes (CBDT), Report of Controller and Auditor General of India (CAG), Direct taxes Code Manuals of
Sample Size

The Researcher collected the primary data from the Income tax Authorities of CIT –V Pune. The CIT –V Pune office having three Ranges i.e.Range 8, Range 9, Range 10. The researcher for the purpose 915 scrutiny assessment cases orders were studied and 15 Assessing Officer’s personal interviews were conducted with the help of questionnaires, which contained 20 questions. Questionnaires were distributed to them and were to be filled completely and personal interview was conducted and questionnaires were collected for analysis purpose. The data collected by way of primary sources and secondary sources is properly analyzed in tables and graphs with the help of statistical tools such as percentage, ratios and averages.

1.9 SCOPE OF THE TOPIC FOR STUDY

In the Modern age there has been tremendous progress and changes in the information technology which has brought about revolution in various fields. The concept of World becomes very small and is reflected as a Global Village. Hence the Government is also improving its Information Technology systems in various fields and revenue department is one of the beneficiary of this new Information Technology changes.

Maharashtra is the wealthiest and one of the most developed state in India contributing 38.50 % of Tax Revenue. Therefore, Maharashtra State is playing the vital role for collection of revenue to the central government by way of paying the direct and indirect taxes. In the Financial Year 2009-2010, the Maharashtra State had contributed Rs.1,45,507.6 crores by way of Direct Taxes. It includes Rs.14,800crores contributed by Pune Region. Considering the figures of last year, the Pune Region’s considerable growth rate is 14.7% in the revenue. The Pune office Principal Chief Commissioner of Income Tax (PCCIT) handles 23 district of the state and has 52.17 lakhs assesses in the ambit of the Income Tax.
The Income Tax Act 1961 contains 298 Sections and it includes the various sub-sections specifying the meaning and the Acts of the section but the implementation of the same is slightly difficult. The expert’s interpretation varies from one person to another having contradicting views between interpretation of provision and intention of legislature behind inserting such provisions in the Act. Therefore it is difficult to analyze the section for procedural part of assessment of the cases.

In the current Information Technology age, the trend of E-filing the Income Tax Return by the number of Assessee is increasing. E-filing of Income Tax Return started in the Financial Year 2007-2008. In that year 21,69,367 assessee filed their returns through E-filing mode. The awareness of Information Technology increasing day by day to the assesses for filing the Income Tax Return. In the Financial Year 2009-2010 the total no. of 50,73,977 assessees filed their returns through E-filing mode.

This study was carried out by the researcher getting the information from various Assessing Officers about their experience, opinions on the various aspects of Income Tax returns filing, procedure and Scrutiny Assessment. The researcher has done detailed study by going through the literature available on Income Tax Act 1961, Income Tax Rules 1962, journals and articles related to the research.

Income Tax is a source of revenue, which plays an important role in shaping the economic system of our nation, Therefore it is a need to the nation that more number of Income Tax Assessee must assess under the Income Tax Act. Considering the growth of revenue to the nation, the assessees from Maharashtra state and Pune region in particular are more conscious and responsible with regard to filing their returns in time.

The population of our country has already crossed 123.09 crores. Out of these, not more than 1% of population pays their income tax to the Central Government. This shows how narrow and feeble is the base of our tax structure. In the orbit of tax payment procedure, all sources of income are covered still collection of Income Tax from all persons is not possible. In other words, the main problem which is being faced by our country is how to widen the network of Income Tax structure and simplify the procedures and bring it under control. In India, 4012 ‘A’ Grade officers and 5966 ‘B’ Grade officers are doing the scrutiny assessment of all the assessees. Due to the limited strength of available income tax officers, it is difficult to complete
the scrutiny assessment within time. Hence, the limited assessing officers are one of the major problems for completion of scrutiny assessment. After studying some scrutiny assessment cases related to Individual having Income from Business the researcher was interested in doing his research on the topic:

“A critical study of administrative problems regarding assessment of individual assesses having income from business with special reference to jurisdiction of CIT-V Pune for the period 2005-2010”

The Study is mainly related to Administrative procedure regarding the scrutiny assessment of the Individual considering the business income. For this research purpose, questionnaire was framed to collect the information from Assessing officers.

This study highlights the mindset of Income Tax Officers and their approaches towards the Income Tax System.

1. Direct and indirect taxes are the important sources of raising revenue for the Government of India. 'Income tax' is one of the major sources of revenues of the Indian Government. All countries in the world make use of taxations for their economic growth.

2. The Government needs money to maintain law and order in the country, to safeguard the security of the citizens of the country. The Government promotes the welfare of the people by using the taxes collected by revenue department, to reduce the gap between the rich and poor.

3. CBDT introduced E-filing of Income Tax Return mode in the Year 2007 is a vital step taken by the Government of India. More number of assesses are using this technique for filing of income tax return day by day. Therefore, physical acceptance of income tax return forms, storage, and preservation of the documents submitted by the assesses etc. reduces the burdens on the Assessing Officer.

4. Every year, the Finance Minister presenting the Union Budget of India keeps in mind, the manner in which the Government can collect revenue and utilize the said resources for development of the nation considering the various sections of our society in order to maintain a balance in the budget.

5. The administrative procedures of Income Tax Act 1961 of scrutiny Assessment of Individual Assessee having income from business is studied and views or approaches of Income Tax Officers had been taken into consideration.

The Researcher had personally met the respective Assessing Officers of CIT V. The majority of Assessing Officers have expressed the opinion that the Income
Tax Assessment procedure is delayed due to non compliance of documentary evidences produced by the assessee during the course of assessment proceeding. They also expressed their views regarding the work pressure due to time bounding cases of scrutiny assessment as per the Income Tax Act 1961.

This study is related of CIT V - Pune area and the researcher is working as well as staying in Pimpri-Chinchwad area which is within the jurisdiction of CIT V, therefore it’s easy to have a direct dialogue with the respective authorities of CIT V office.

The Commissioner of Income Tax, Pune plays the vital role in the collection of direct taxes to the Nation. Considering the assessing officers and the competent authorities for revenue collection clearly indicates that the sanctioned staff for the collection of such huge revenue is very limited.

CIT V mainly covers the Pimpri Chinchwad Municipal Corporation area, Chakan Industrial Zone, Talegaon Industrial Zone where the Industrial belt is located. In this region, many Multinational Companies, Engineering Companies, Automobile Companies, Information Technology Companies are located. It includes mainly Tata Motors, Force Motors, Jai Hind Industries, SKF Bearings, Thermax, Forbes Marshall, Sandvik Asia, Atlas Copco, Mahindra and Mahindra, Mercedes Benz, Volkswagen, Bajaj Auto, General Motors, JCB, Rajiv Gandhi InfoTech Park etc. Due to these companies, small scale industries started on a large scale. At present, more than 25,000 units of small scale and medium Enterprises are operational in Pimpri-Chinchwad area.

Due to this industrial hub quite a few educational institutes, colleges, schools have been established. As result, the different types of assessee such as Proprietary Firms, Partnership Firms, HUF and LLP have tremendously increased in this area.

The CIT V is one of the major revenue contributing areas in Commissioner of Income Tax, Pune. The researcher had proper dialogue with Assessing Officers and collected the essential statistical information for research work. The study of research enables the researcher to conclude research work in a more systematic and properly planned manner. The policy and procedure of implication of the study is important not only to the common assessee but also to the Government.

The study of research is mainly based on direct dialogues with the Assessing Officers and the information and data collected from the competent authority of CIT.
V. A detailed questionnaire had been distributed to the Income Tax Assessing Officers and collected first hand information for the research study. Proper tabulations and statistical analysis of primary data have been ensured accurate and logical inferences in the area of various aspects of the research.

1.10 IMPORTANCE OF THE STUDY

The present study is to be considered as a significant in the study of the research. The researcher studied the Income Tax Scrutiny Assessment procedure and the practical approach taken during the course of research study. The researcher studied the scrutiny assessment of individual assessee having income from business. During the course of research study, the various reasons of disallowances of expenses made were found by the Assessing Officers. The study is definitely useful to the Assessing officers, Research Scholars, Income tax Professionals, Tax Practitioners, Lawyers and the Individual Assessee also.

1.11 LIMITATIONS OF THE STUDY

Direct Tax is a very broad concept and the subject for the purpose of the study. The researcher selected the study of scrutiny assessment of Individual Assessee having income from business. This is only one area of research. The following are the main limitations of the study of this research.

i. The research is attempted only in CIT-V, Pune.

ii. The study is based on secondary data and the limitations of using secondary data may affect the results.

iii. The information collected by way of questionnaire is restricted for assessment procedure only.

iv. The information collected by way of questionnaire is restricted for specific assessment period only.

v. Any primary data based study through pre-designed questionnaire suffers from the basic limitation of the possibility of difference between what is recorded and what is the truth, no matter how carefully the data has been collected. The
same may be with the present study because the respondents may not deliberately report their true opinion.

vi. It was really difficult to collect the information in one attempt.

vii. The period of the study is restricted to 5 years only.

viii. Conclusions are based on the quality of information furnished by Income Tax authorities.

1.12 CHAPTER SCHEMA

The entire research study is divided into seven chapters. These chapters are as under:

1. Introduction and Theory of Income Tax Act 1961
2. Comparative study of Tax Structure in Foreign Countries.
3. Computation of total Income of Individual Assessee
4. Income Tax Scrutiny Assessment Procedure
5. Collection and Analysis of Data
6. Findings & Conclusion
7. Recommendations & Suggestions
8. Bibliography & Appendix

1.13 IMPORTANT DEFINITIONS UNDER THE INCOME TAX ACT 1961:

1. Advance Tax:

As per section 2(1) "advance tax" means the advance tax payable in accordance with provisions of Chapter XVIIC; (i.e. sections 207 to 219).w.e.f. financial year 2009-10 advance tax will be payable if the amount payable is Rs.10,000 or more. Earlier the limit was Rs.5,000.

2. Agricultural Income

As defined in section 2(1A) "agricultural income" 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-
   (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-

(i) 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, and

(ii) the land 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 or where the land is not so assessed to land revenue or subject to a local rate, it is not situated-

(A) in any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee or by any other name) or a cantonment board and which has a population of not less than ten thousand according to the last preceding census of which the relevant figures have been published before the first day of the previous year; or

(B) in any area within such distance, not being more than eight kilometers, from the local limits of any municipality or cantonment board referred to in item (A), as the Central
Government may, having regard to the extent of, and scope for, urbanization of that area and other relevant consideration, specify in this behalf by notification in the Official Gazette;

3. **Additional Commissioner**

Under Section 2 (1C) "Additional Commissioner " means a person appointed to be an Additional Commissioner of Income Tax u/s 117 (1). [Inserted by Finance Act, 2007 w.r.e.f. 1.6.1994]

4. **Annual Value**

Under Section 2(2) "annual value" in relation to any property, means its annual value as determined u/s 23.

5. **Appellate Tribunal**

Under Section 2(4) "Appellate Tribunal" means the Appellate Tribunal constituted under section 252.

6. **Assessee**

"Assessee" as defined u/s 2(7), means a person by whom any tax or any other sum of money is payable under the Income-tax Act, and include-

(a) every person in respect of whom any proceeding under the Income-tax Act has been taken for the assessment of his income or assessment of fringe benefit 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 the Income-tax Act;

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

7. **Assessing Officer**

Under Section 2(7A) "Assessing Officer" means the Assistant Commissioner or Deputy Commissioner or Assistant Director or Deputy Director or the Income-tax
Officer who is vested with the relevant jurisdiction by virtue of directions or orders issued under section 120 (1) or 120 (2) or any other provision of I.T. Act 1961.

8. Assessment

Under Section 2 (8) "assessment" includes reassessment-

9. Assessment Year

Under Section 2 (9) "assessment year" means the period of 12 months commencing on the 1st day of April every year.

10. Assistant Commissioner

Under Section 2(9A) "Assistant Commissioner" means a person appointed to be an Assistant Commissioner of Income-tax or a Deputy Commissioner of Income Tax under section 117 (1).

11. Block of Assets

"Block of assets" as defined in section 2(11), means a group of assets falling within a class of assets, comprising-

(a) Tangible assets, being buildings, machinery, plant or furniture.
(b) intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, in respect of which the same percentage of depreciation is prescribed;

12. Board

Under Section 2(12) "Board" means the Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963.

13. Books or Books of Account

Under Section 2 (12A) "Books or books of account" includes ledger, day books, cash books, account books and other books, whether kept in the written form or as print out of data stored in a floppy, disc, tape or any other form of electromagnetic data storage device.
14. Business

Under Section 2 (13) "Business" includes any trade, commerce or manufacturer or any adventure of concern in the nature of trade, commerce or manufacture.

15. Capital Asset

"Capital asset" as defined in section 2(14), means property of any kind held by an assessee, whether or not connected with his business or profession, but does not include-

(i) any stock-in-trade, consumable stores or raw materials held for the purposes of his business or profession;

(ii) personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him, but excludes -

(a) jewellery
(b) archaeological collections;
(c) drawings;
(d) paintings;
(e) sculptures; or
(f) any work of art.

(iii) **agricultural land in India**, not being land situated -

(a) in any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee, or by any other name) or a cantonment board and which has a population of not less than 10,000 according to the last preceding census of which the relevant figures have been published the first day of the previous year; or

(b) in any area within such distance, not being more than 8 kilometers, from the local limits of any municipality or cantonment board referred to in item (a), as the Central Government may, having regard to the extent of, and scope for,
urbanization of that area and other relevant considerations, specify in this behalf by notification in the Official Gazette;


(v) Special Bearer Bonds, 1991, issued by the Central Government;

(vi) Gold deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

16. Chief Commissioner

Under Section 2 (15A) "Chief Commissioner" means a person appointed to be a Chief Commissioner of Income-tax under section 117(1).

17. Child

Under Section 2 (15B) "Child", in relation to an individual, includes a step-child and an adopted child of that individual.

18. Commissioner

Under Section 2 (16) "Commissioner" means a person appointed to be Commissioner of Income-tax or w.r.e.f. 1.4.1988 a Director of Income Tax under section 117 (1).

19. Commissioner (Appeals)

Under Section 2 (16A) "Commissioner (Appeals)" means a person appointed to be a Commissioner of Income-tax (Appeals) under section 117(1).

20. Deputy Commissioner

Under Section 2(19A) "Deputy Commissioner" means a person appointed to be a Deputy Commissioner of Income-tax under section 117 (1).

21. Deputy Commissioner (Appeals)

Under Section 2(19B) "Deputy Commissioner (Appeals)" means a person appointed to be a Deputy Commissioner of Income-tax (Appeals) u/s 117 (1).
22. Director General or Director

Under Section 2(21) "Director General or Director" means a person appointed to be a Director General of Income-tax or as the case may be, a Director of Income-tax, u/s 117 (1), and includes a person appointed under that sub-section to be an Additional Director of income tax or a Joint Director of Income tax or an Assistant Director or Deputy Director of Income-tax.

23. Document

Under Section 2(22AA) "Document" includes an electronic record. Electronic record means data, record or data generated, image or sound stored, received or sent in an electronic form or microfilm or computer generated microfiche of the Income-tax Act read with section 2(1)(t) of the Information Technology Act, 2000.

24. Exempted Income

Under Section 10 of Income tax Act exempted income means incomes not included in total income of assessee.

25. Hindu Undivided Family (HUF)

The Hindu Undivided Family can best be defined as a family that consists of a common ancestor and all his lineal male descendants and their wives and unmarried daughters.

26. Firm/ LLP

As per section 2(23), person who have entered into partnership with one another are collectively called "a firm" (section 4 of Indian Partnership Act, 1932). It shall include a limited liability partnership as defined in the Limited Liability Partnership Act, 2008.

27. Partner

"Partner" shall have the meaning assigned to it in the Indian Partnership Act, 1932; and shall include -

(a) any person who, being a minor, has been admitted to the benefits of partnership; and

(b) a partner of limited liability partnership as defined in the Limited Liability Partnership Act, 2008.
28. Income

"Income" as defined in section 2(24), includes -

(i) profits and gains;
(ii) dividend;
(ii-a) 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, 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 sub-clause (iv) or sub-clause (v) or by any university or other educational institution referred to in sub-clause (vi) or by any hospital or other institution referred to in sub-clause (via) of clause (23C), of section 10 or by an electoral trust.

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

(iii) the value of any perquisite or profit in lieu of salary taxable u/s 17 (2) and 17(3);

(iii-a) 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;

(iii-b) 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;
(iv-a) 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 section 160(1) 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;

(v-a) any sum chargeable to income tax under clause (iii-a) of section 28;

(v-b) any sum chargeable to income tax under clause (iii-b) of section 28;

(v-c) any sum chargeable to income tax under clause (iii-c) of section 28;

(v-d) 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 u/s 45;

(vii) the profits and gains of any business of insurance carried on by a mutual insurance company or by 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;

(vii-a) the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members;

(ix) 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;

*Explanation* - for the purpose of this sub-clause,-

(i) lottery includes winning from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever under any scheme or arrangement by whatever name called;

(ii) card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode
in which people compete to win prizes or any other similar game.

(x) any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set up under the provisions of the Employees State Insurance Act, 1948 (34 of 1948), or any other fund for the welfare of such employees;

(xi) Any sum received under a Keyman insurance policy including the sum allotted by way of bonus on such policy;

Explanation - for the purposes of this clause the expression Keyman insurance policy shall have the meaning assigned to it in the Explanation to clause (10D) of section 10.

(xii) any sum referred to in clause (v-a) of section 28;

(xiii) any sum referred to in clause (v) of sub-section (2) of section 56.

(xiv) any sum referred to in clause (vi) of sub-section (2) of section 56.

(xv) any sum of money or value of property referred to in clause (viii) or (viia) of sub section (2) of section 56.

(xvi) any consideration received for issue of shares as exceeds the fare market value of the shares referred to in clause (viib) of sub-section (2) of section 56 (w.e.f. asst. year 2013-14);

29. Income-tax Officer

Under Section 2(25) "Income-tax Officer" means a person appointed to be an Income-tax Officer u/s 117.

30. Individual

Individual means only a natural person, i.e. a human being including a minor and lunatic. Trustees of a discretionary trust and charitable trust are also being assessed as individuals.
31. India

Section 2(25A) which defines "India", has been amended w.e.f. 25th August 1976. The new definition of "India" for the purpose of Income Tax and Wealth Tax is as under:

- territory of India as referred to in Article 1 of the Constitution;
- territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976;
- air space above the Indian territory and the territorial waters.

32. Interest

Under Section 2(28A) "Interest" means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of credit facility which has not been utilized.

33. Joint Commissioner

Under Section 2(28C) "Joint Commissioner" means a person appointed to be a Joint Commissioner of Income-tax or an Additional Commissioner of income-tax under sub-section (1) of section 117.

34. Joint Director

Under Section 2 (28D) "Joint Director" means a person appointed to be a Joint Director of Income-tax or an Additional Director of Income-tax u/s 117(1).

35. Legal Representative

As per section 2(29) "legal representative" has the meaning assigned to it in clause (11) of section 2 of the Code of Civil Procedure, 1908, which is reproduced below-

'legal representative' means a person who in law represents the estate of a deceased person, and includes any person who intermeddles with the estate of the
deceased and where a party sues or is sued in a representative character the person on
whom the estate devolves on the death of the party so suing or sued.

36. Long-term Capital Asset

Under Section 2(29A) "Long-term capital asset" means a capital asset which is
not a short-term capital asset

37. Long-term Capital gain

Under Section 2 (29B) "Long-term capital gain" means capital gain arising
from the transfer of a long-term capital asset.

38. Person

"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;

The definition is inclusive and not exhaustive. The word person has been held
to include the Crown, the Government of an Indian State, the Secretary of
State for India when engaged in commercial enterprises and a Society
registered under the Societies Registration Act.

39. Prescribed

Under Section 2 (33) "Prescribed" means prescribed by rules made under this
Act.
40. Previous Year

Under Section 2(34) read with section 3 "Previous year" means the financial year immediately proceeding the assessment year. In case of a business or profession newly set up or a source of income newly coming into existence in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.

41. Regular Assessment

Under Section 2(40) "Regular assessment" means the assessment made u/s 143 or section 144.

42. Resident

Under section 2(42) "resident" means a person who is resident in India within the meaning of section 6.

43. Short-term capital asset

Under section 2(42A) "short-term capital asset" means a capital asset held by an assessee for not more than thirty-six months immediately preceding the date of its transfer.

Provided that in the case of a share held in a company, or any other security listed in a recognized stock exchange in India or a unit of the Unit Trust of India established under Unit Trust of India Act, 1963 (52 of 1963) or a unit of a mutual fund specified under clause (23D) of section 10 or a zero coupon bond the provision of this clause shall have effect as if for the words "thirty-six months", the words "twelve months" had been substituted.

44. Short-term capital gain

Under section 2(42B) "Short-term capital gain" means capital gain arising from the transfer of a short-term capital asset.
45. Tax


46. Total Income

Under section2 (45) "Total income" means the total amount of income referred to in section 5, computed in the manner laid down in this Act.

1.14  BASIC CONCEPTS UNDER INCOME TAX ACT 1961:

1.14.1 Capital and Revenue receipts

Any receipt is taxable in the hands of the assessee if it is in the nature of income. However any receipt which are of capital nature are generally not taxable. The basic scheme of income-tax is to tax the income and not the capital. But this general principle is subject to certain exceptions.

The distinction between the capital receipt and revenue receipt is not in rigid form, the revenue receipt and capital receipt can be elaborated as under:

i. Any amount of money received by assessee on account of sale of trading goods or receipts in respect of circulating capital or of flowing capital is treated as revenue receipt.

ii. An amount of money received by assessee by way of substitution or addition of an income is a revenue receipt.

iii. Any amount of money received by the assessee as a compensation for loss of future profit under an agreement is a revenue receipt. But an amount received in consideration of the surrender of certain rights under an agreement, is a capital receipt, because such rights are capital assets which have been given up by assessee.
iv. A pension received by a former employee is a revenue receipt as it is in the nature of compensation of past services. But, a lump sum amount received as commuted pension is a capital receipt being in the nature of compensation for surrendering the rights to pension. Such commuted amount of pension is exempted u/s 10 (10A) subjects to certain limits.

1.14.2 Computation of Taxable Income in hands of Individual Assessee

1) The following are the heads of income where taxable income is computed:
   1. Income from Salary
   2. Income from House property
   3. Income from Business and Profession
   4. Income from Capital Gains
   5. Income from other sources

While computing income under the aforesaid heads, the assessee should claim the applicable exemptions as per the Income Tax Act provided in section 10 to 13A. While calculation of total income the provisions for clubbing of income also to be considered.

2) Gross total income computed after adjusting losses of the current year or brought forward losses of the earlier years are to be set off.

3) After computing the Gross Total Income the assessee should claim the various deductions under chapter VIA applicable to him in the particular financial year.

4) The taxable income arrived after providing the deductions under Chapter VIA and it shall be rounded off u/s 288A to the nearest Rs. 10.

5) After computing total income, tax is computed on such total income at the rate applicable for the relevant assessment year.
6) The Income Tax rates applicable to the individual assessee as per their nature of regular income and the capital gain tax is being charged at the specified rate.

7) Tax computed after deducting the rebate is subject to addition of surcharge and education cess, as applicable for the assessment year.

8) After adding the surcharge to the tax liability the relief u/s 86, 89, 90 and 91 are claimed.

9) The aforesaid total tax liability is then reduced by the prepaid taxes like TDS, TCS and Advance Tax Paid.

10) The final tax liability is to be paid by the assessee along with interest under section 234A, 234B, 234C if applicable for the respective year.

11) Rounding off amount payable and refund due, under Section 288B inserted by the Taxation Laws (Amendment) Act, 2006, provided that any amount payable, and the amount of refund due, shall be rounded off to the nearest multiple of ten rupees.

If tax liability is more than prepaid taxes, the difference should be paid as self assessment tax, and in case where the prepaid taxes exceed the tax liability, refund should be claimed.

1.14.3 Taxable income of previous year

The income of the previous year is generally taxable in the hands of assessee in the immediately following assessment year. However, there are certain exceptions to this rule, that the income of the previous year is assessed in the same previous year.

Under Section 172 clarified that the income of Shipping business of non-residents assessed in the same previous year with considering the following conditions need to be satisfied:

(a) the assessee must be a non-resident.
(b) he must own a ship or a ship is chartered by him.
(c) the ship carries passengers, livestock, mail or goods shipped at a port in India, and
(d) the assessee may (may not) have a agent or a representative in India.

If all the above conditions are satisfied then, 7.5% of the amount paid or payable on account of such carriage (including demurrage charge or handling charge) to the assessee, shall be his deemed income.

For this purpose before the departure of ship from Indian Port, the Master of the ship shall submit the return of income. Whereas, if the A.O. is satisfied that it will be difficult to submit the return before departure and if the satisfactory arrangement made by the master of the ship for the payment of the tax has been made, then such return may be filed within 30 days from the day of departure of the ship.

The Collector of Custom shall not grant the certificate of clearance unless, tax has been paid or satisfactory arrangements have been made by the Master of Ship for such payment.

Under the provisions of the section 172, a sum of 7.5% of the freight, fare etc. shall be deemed to be the income of the non-resident taxpayer and the tax is payable at the rate applicable to the foreign company. Thus, income is taxable in the year, in which the amount so taxed is collected and not in the immediately following assessment year.

1) Under Section 174 of the Income Tax Act any Persons leaving India is assessed in the same previous year, when it appears to the A.O. that an individual may leave India during the current assessment year or shortly thereafter and moreover he has no present intention of returning to India, the total income of such individual upto the probable date of his departure from India shall be chargeable to tax in that assessment year.

2) Under Section 174A of the Income Tax Act 1961, the Assessment of Association of Person or Bodies of Individuals or Artificial Juridical Persons formed for particular event or purpose,

If it appears to the A.O. that the association of persons, body of individuals or a artificial juridical person formed, established or incorporated for a particular event or purpose, is likely to be dissolved in the assessment year in which it
was formed, established or incorporated or immediately after such assessment year, then the total income of such assessee for the period from the expiry of the previous year upto the date of the dissolution shall be chargeable to tax in that assessment year.

3) Under Section 175 of Income tax Act 1961 Persons likely to transfer property to avoid tax,
   If it appears to the A.O. during the current assessment year, that a person is likely to charge, sell, transfer, dispose off (or otherwise part with) any of the movable or immovable assets or to part with the asset with the view to avoid any income tax liability, then the total income of such person from the first day of the assessment year to the date when the proceeding is started u/s 175 is taxable in that assessment year.

4) Under Section 176 of Income Tax Act, the Assessment of Discontinued business - In case a business or a profession is discontinued in any assessment year, then, the income of such business or profession from 1st April of the assessment year in which it is discontinued, to the date of discontinuation may be taxable in the assessment year in which such business or profession is discontinued.
   The above income is taxable at the discretion of the A.O. in the assessment year in which the business is discontinued or it may be taxed in the normal assessment year. In case it is taxed in the assessment year in which the business or profession is discontinued, then, it is chargeable to tax at the rate applicable to that assessment year.

1.14.4 Incidence of tax in India in the case of resident and ordinary resident.

As per section 5(1) following incomes are taxable in the hands of a resident and ordinarily resident in India:-

a) income which is received or deemed to be received in India in the previous year by him or on his behalf.

b) income which accrues or arises or is deemed to accrue or arise to him in India during the previous year.

c) income which accrues or arises or deemed to arise to him outside India during the relevant previous year.
1.14.5 The incidents of tax in the case of resident but not ordinary resident assessee are as under:

As per section 5(1), a resident and not ordinarily resident in India is assessable to tax in respect of

a) income which is received or deemed to be received in India in the previous year by him or on his behalf,

b) income which accrues or arises or is deemed to accrue or arise to him in India during the previous year.

c) income which accrues or arises or is deemed to arise to him outside India from a business controlled or profession set-up in India, and

d) income received outside India from a business controller or profession set-up in India.

1.14.6 The incidences of tax in the case of non-resident assessee in India.

As per section 5(2), a non-resident is assessable to tax in respect of -

a) income which is received or deemed to be received in India in the previous year by him or on his behalf.

b) income which accrues or arises or is deemed to accrue or arise to him in India during the previous year.

Therefore, it can be said that the following incomes are not chargeable in case of non-residents of India:

a) income, which is neither received or deemed to be received in India,

b) it neither accrue or deemed to accrue in India.

c) it is derived from a business controlled or profession set-up outside India.
1.14.7 Allowable expenses to Assessee

While computing the total income of Assessee, the deductions shall allow is respect of the expenditures incurred for the Income earned by the Assessee. Therefore, under section 14 A of the Income Tax Act 1961, clearly specified the allowable expenditures to the assessee.

For the purpose of computing the total income under this Act, nodeduction shall be allowed in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income. In other words, any expenditure relatable to income which does not form part of total income cannot be set off against other taxable income.

In the Case of DCIT v. S.G. Investments & Industries Ltd. [2004] 89 ITD 44 (Kol.) it has been observed that the deduction in respect of any expenditure incurred by the assessee, in relation to income which does not form part of the total income under the Act will not allowed from taxable Income. In other words, it is clarified that the intention of this provision is that the expenses incurred can be allowed only to the extent they are related to the earning of taxable income. Hence, the assessee cannot claim the expenses, to reduce the tax payable on the non-exempt income, by debiting the expenses incurred, to earn the exempt income.

The burden of proof of any expenditure, for taxable income or exempt income comes naturally to the assessee.

1.14.8 The Basic principles for charging income to tax

The following basic principles have been laid down by section 4 of the Income Tax Act 1961 for charging Income Tax:

1) income-tax is an annual tax on income. In other words the income is taxed annually.

2) The income earned in a previous year is taxed in the subsequent year.

3) Tax rates are fixed annually by the Finance Act.

4) The tax is charged on every person.
5) The tax is levied on the "total income" of every assessee and computed in accordance with the provisions of the Income-tax Act.

6) Total income is calculated in accordance with the provisions of the Income-tax Act as applicable in the relevant assessment year.

1.15 REVIEW OF LITERATURE

The following published and unpublished literature related to the research study proved extremely valuable.

Ph.D. Thesis

1. Eranna M. in his thesis entitled as ‘Evaluation of Tax Administration Machinery under the Income-Tax Act, 1961’ has studied the weaknesses of the existing tax administration machinery in India. His study includes the various basic concept of Income Tax Act such as casual income, Capital receipt, Revenue receipt and the administrative set up of Income tax in India. The researcher studied income tax procedure for filing of income tax returns and he also recorded the administration for scrutiny assessment. In this research he found out the various infrastructural problems in Income tax office.

He had suggested the various training programmers to the administrative officers for the development of their personal skills. He also suggested the regular manual of Income Tax Department to be published for the benefit of Assessees, Income Tax Officers, and Legal Representatives such as Chartered Accountants, Cost Accountants, Advocates and Tax Practitioner. Considering the publication of Income Tax Department particularly he specify that the Departmental publications also to be available in their regional languages. He also suggested the reengineering of administrative staff in all over India. Concluding remark is that the aim of publications of Tax Manuals of the Income Tax Departments will be helpful for the tax education.
2) P.G.Kulkarni in his thesis has studied the significance of the overall direct tax structure in Indian economy entitled 'Evaluation of Law, Practice and Administration of Union Direct Taxes in India'. He has studied the evaluation of direct tax laws in India, along with their amendments made from time to time. He had studied drawbacks and loopholes in the administrative systems of Income Tax, he also justified the confusion of concept of direct tax laws, with considering the certain parameters.

He recommended that the Tax structures in India to be drastically changed for the proper implication of Income Tax in India. In this research, he studied the overall administrative structures in the Income Tax Department. He analyzed the present available resources to the assessing officers and required new resources to the assessing officers in the system. He pointed out that there should be the proper computerized system setup to be established in all Income tax department. There is still some Income tax offices not linked with computerization. He recommended that there should be the proper infrastructure facility available to the Assessing Officers.

3) Deshpande RhishikeshVithalrao, in his thesis studied the significance of ‘A study of Personal Income Tax Structure in India with Special reference to selected Districts in Maharashtra’ . The basic object of his study was to understand the background of Taxation in India, to know the role of taxation in development of country, to know the income tax policy structures and amendments there in. His research area was eight district places in Maharashtra i.e. Aurangabad, Nashik, Pune, Ahmednagar, Nagpur, Kolhapur, Solapur and Raigad. He collected the financial data of 10 years from the year 2000-01 to 2009-10 and conducted the survey in the financial year 2011-12.

He analyzed the data which was collected by way of secondary data and analyzed his study of personal income tax with reference to the salary income and the business income of assessee. He studied the Total Tax Revenue of India by way of Direct Taxes. He also studied the various Tax reforms taken place in India for the Direct Taxes. He found out that the Income Tax system is complicated to the individual Income Tax Assessee. He concluded that the Income Tax rates to the Individual Assessee changes takes place from time to time. The Direct Tax and Indirect Tax is the main source of
revenue to the Central Government. The vision of Income Tax Department is the partner in the Nation building. He also concluded that the income of assessee from 1st April to 31st March is subject to the Income tax in every Assessment year. He suggested that the tax Structures of India to be widen and to increase the number of Assessee instead of increasing the rate of Taxes, he suggested to the non tax payers to file the Income Tax Return properly and not to evade tax and avoid the actions of Income tax authorities for recovery of Income tax by way of search procedure. He suggested that if the assessee is not satisfied with order issue by assessing officer for their refund then assessee shall file an appeal to the Appellate Authority. He also suggested the telephonic communication to be made with assessee for interaction with their assessment.

4) Mayank Bandhu, in his thesis studied the Income Tax provisions in significance of ‘An analytical study of simplification and rationalization of income tax provisions relating to heads of income’. He studied the total income heads of Income Tax Act with considering the various provisions regarding the separate heads of income. He analyses the legal provisions for Computation of Income of Assessee. He studied the various complications for determination of income the Individual assessee.

He studied the complex provisions under the head Income from Salary, Income from House Property, Income from Business or Profession, Income from Capital Gain and Income from Other Sources. The complex provision includes the various obstacles occurs while finding out the net income of assessee. He also pointed out that some income chargeable to Income from Business but due to complex provision it is chargeable under the head Income from Other Sources. While studying the Income from Capital Gain, he had pointed out the complex exemptions provisions in the Act which are sometime difficult to apply to the assessee. This provision includes the construction of house property before the realization of present house property sold by the assessee.

He also pointed out the Income of Assessee under the head Income from Other sources but it is chargeable under the head Income from Business being the complex provision recorded in the Income tax Act. He suggested the
guidelines for such complex provisions. He had given suggestions that such
types of Income tax sections shall be omitted in the Income tax Act. He
recommended that the tax procedure to be simplified with considering the
various complex tax implication in the Income tax Act.

5) Shailaja Deobagkar, in her thesis had studied the problem faced by the
individuals for filing of income tax returns in her research title ‘Analytical
study of problems faced by Individuals, Income Tax Payers in Pune City and
Pimpri-Chinchwad Area from 1997-2003’. She had studied the comparative
study of tax rate with the foreign countries. She analyzed the Income from
salary in detail along with the provisions of perquisites. She pointed out the
various exemptions available to Individual Assessee under section 10 of the
Income tax Act. She also analyzed the Annual financial Budgets of Income tax
of last 10 years. She made the comparative study of Income tax rate with
United states of America and United Kingdom. Her core area of research
study was the individuals facing the problems while the filing the Income tax
returns of the financial years.

She had also studied computation of Income tax from the various
heads of income with their particular Income tax Provisions.. She concluded
that the filing of Income Tax return by Individual Assessee is the difficult task
to them. She also found out that 94 % of assessee do not know the provision of
interest for late filing of Income tax return, also she found out that 79% of
respondent do not doing any tax planning of their Income tax. She also found
out that 70% of respondent maintaining their books of accounts with their
chartered accountant and their consultants. She concluded that the reasonable
time to be given to the Individual assessee for the filing of Income tax return. She
recommended that there should be the proper system for filing of Income
tax return to be given by the Income Tax Department.

6) S.Hiremath Sangamesh, in his research work had studied the Effectiveness of
personal income tax in India. He studied that there are various Tax rates
applicable to the different assesses. The Income tax Act revised the tax
structure and applied the various provisions from time to time. He concluded
in his research work that cost of collection of revenue is considerably very low.

He also concluded that the rate structure is very much moderate to avoid black money through tax evasions. He suggested that the personal Income Tax rate and slab rate to be reduced so that the number of assessee will increase and revenue of Government will increase drastically.

7) Raj Singh, in his thesis studied the Income tax structure in India in the research title ‘A synthesized Study of Indian Income Tax Structure’. In his research work he had taken the brief review of Indian Income Tax and he analyses the important composition of Income Tax revenue of Central Government. In this analysis he studied the direct Income Tax collection of Individual business assessee and the corporate tax collections from the companies.

He also studied the growth of Income Tax revenue to the central Government. He analyzed the relations of Direct and Indirect taxes to the Individual Assessee. He studied the house rent allowance and the various changes taken place in the Income Tax Act in respect of entertainment allowance and the perquisites to the salaried person. He studied the rate structure in India and analyzed the how the basic limit of Income tax is increased from time to time. In the topic of performance of Indian Administration in Income Tax he studied the disposal of assessment of assessee and he analyzed the summary assessment and scrutiny assessment only. He also studied the role of Income tax Officer in determination of tax liability with the help of Income Tax return file by assessee.

He analyzed the research and he recommended few points in relation to the Income Tax Rate and Exemption from income such as the provision for valuation of perquisites, not to tax the pension, basic limit should be raised, ceiling limit of standard deduction to be deleted and straightway 1/3rd of salary to be exempt from tax. He also recommended that the interest on Post Office shall not be taxed and change the recruitment procedure of Income tax officers in the Income Tax Department etc.
8) Direct Taxes Code August 2009: (Publish By Department of revenue Ministry of Finance Government of India)

In this book, the Direct Income Tax Act provisions are given in short details. This book contains total Chapter XXIV in includes Computation of Income of assessee with general rules the various tax incentives available to the assessee. Chapter XIX specifies that the procedural law and enforcement of strategy. It includes the filing of Income Tax returns, selection of cases for scrutiny and the various directions given to assessing officers by commissioner, Additional Commissioner and Joint Commissioner.

In this books collection and recovery procedure along with penalties and prosecutions provisions given in detail. Chapter XXI specify for assessment orders, rectifications, appeals and revisions available to the assessee. The detail of establishment of Income tax department includes Income tax Authorities with their appointment and control of Income tax Authorities given in detail. In case of Assessment procedure this book guides for the proper completion of scrutiny assessment and rectifications of errors by the assessee.


In this book, highlights of Finance Bills of 2010 are given in detail with the all new amendments of Direct Taxes. The authors analyzed the various important concept of direct taxes and explain in detail the tax structure in India. In this books income from various heads elaborated properly with the income tax provisions and given the format of computation of total income after considering the various deductions and exemptions available to the assessee. In case of Income Tax authorities in this book the administrative hierarchy are given in detail with chart. The book also contains the various practical problems of determination of total income of assessee under the different heads of income. Finally the total tax liability and the tax relief is given in the book.
In this book the various Income tax relating practical cases are analyzed in detail. Division One of this books clearly gives the role of authorize representative and procedure for registration of Income Tax Practiceners. In this book, more than 200 cases studied in relation to tax procedures. The detail regarding types of assessment, procedure of assessment and rectification of mistake provisions available to the assessee given in the book. Special provisions regarding settlement commission, TDS and TCS also given in the book. The various drafts of Appeal, Drafts of Statements in scrutiny Assessment, the various objections statement and affidavits for filing of appeal etc are also given in detail.

1.16 RESEARCH GAP

The researcher review the literature of research work done in the Income Tax. The researcher analyzed the contents already studied by the various researchers. The contents includes the Income tax structure, types of revenue resources to the Central Government, the growth of revenue to the Central Government, Income Tax Rates applicable to Assessee and the various heads of income of assessee with the deductions and exemptions.

The researcher studied the scrutiny assessment of Individual Assessee having Income from business is the actual research gap in the above research work. None of the above researchers studied the actual scrutiny assessment of Individual assessee and the problems arising to the Assessing Officers during the course of actual scrutiny assessment work.

The researcher also analyzed in detail, the reasons of scrutiny assessment and the actual procedure of various types of scrutiny assessment laid down in the Income Tax Act. With considering the above facts it is clear that, this is the real research gap between the earlier research work done by the researchers and the present research work done by the researcher.
1.17 STATISTICAL DATA REPRESENTATION

The following Statistical data was used for the research and is presented in tabular form:

Table 1.1: Total Population, Pune, All Local Bodies, 2001 and 2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pune Municipal Corporation (PMC)</td>
<td>2,538,473</td>
<td>62.03%</td>
<td>3124458</td>
<td>23.08%</td>
</tr>
<tr>
<td>Pimpri-Chinchwad Municipal Corporation (PCMC)</td>
<td>1,012,472</td>
<td>95.80%</td>
<td>1727692</td>
<td>70.64%</td>
</tr>
<tr>
<td>Pune Cantonment Board (PCB)</td>
<td>79,965</td>
<td>-2.65%</td>
<td>71781</td>
<td>-10.23%</td>
</tr>
<tr>
<td>Khadki Cantonment Board (KCB)</td>
<td>77,473</td>
<td>-1.09%</td>
<td>78684</td>
<td>0.02%</td>
</tr>
<tr>
<td>Dehu Cantonment Board (DCB)</td>
<td>46,921</td>
<td>15.70%</td>
<td>48961</td>
<td>4.34%</td>
</tr>
<tr>
<td>Pune Urban Area</td>
<td>265157</td>
<td>58.56%</td>
<td>445459</td>
<td>68%</td>
</tr>
</tbody>
</table>
Figure No 1.1 Growth Rate of Population 2001-2011

Source: Census of India Primary Census Abstract (PCA), 1991 and 2001, and Authors’ Computations.

http://www.citypopulation.de/php/india-maharashtra.php
Table 1.2: Total number of Income Tax Assessing Officers: 9870

Sanctioned manpower of the Income-tax Department in India

<table>
<thead>
<tr>
<th>S.no</th>
<th>Designation of post</th>
<th>Scale of pay (Rs.)</th>
<th>Sanctioned strength</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Group 'A'</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>CCIT/DGIT</td>
<td>22400-24500</td>
<td>116</td>
</tr>
<tr>
<td>2</td>
<td>CIT/DIT</td>
<td>18400-22400</td>
<td>698</td>
</tr>
<tr>
<td>3</td>
<td>Addl. CIT</td>
<td>14300-18300</td>
<td>469</td>
</tr>
<tr>
<td>4</td>
<td>Jt. CIT</td>
<td>12000-16500</td>
<td>647</td>
</tr>
<tr>
<td>5</td>
<td>DCIT</td>
<td>10000-15200</td>
<td>1,240</td>
</tr>
<tr>
<td>6</td>
<td>AC IT</td>
<td>8000-13500</td>
<td>734</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3,904</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Group 'B'</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Income Tax Officer</td>
<td>7500-12000</td>
<td>4204</td>
</tr>
<tr>
<td>2</td>
<td>Administrative Officer Grade-II</td>
<td>7500-12000</td>
<td>35</td>
</tr>
<tr>
<td>3</td>
<td>Senior Pvt. Secretary</td>
<td>7500-12000</td>
<td>116</td>
</tr>
<tr>
<td>4</td>
<td>Pvt. Secretary</td>
<td>6500-10500</td>
<td>701</td>
</tr>
<tr>
<td>5</td>
<td>Addl. Asst. Director</td>
<td>-do-</td>
<td>11</td>
</tr>
<tr>
<td>6</td>
<td>Administrative Officer Grade-III</td>
<td>-do-</td>
<td>774</td>
</tr>
<tr>
<td>7</td>
<td>DPA Gr. B</td>
<td>-do-</td>
<td>55</td>
</tr>
<tr>
<td>8</td>
<td>AD (OL)</td>
<td>-do-</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5966</strong></td>
</tr>
</tbody>
</table>

Source: [http://www.incometaxindia.gov.in/Pages/about-us/manpower.aspx](http://www.incometaxindia.gov.in/Pages/about-us/manpower.aspx)
Figure No:1.2 Sanctioned Manpower of Income Tax Department for Group A

Sanctioned manpower of the Income Tax department
Group A

<table>
<thead>
<tr>
<th>Designation of post</th>
<th>Sanctioned strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCIT/DGIT</td>
<td>116</td>
</tr>
<tr>
<td>CIT/DIT</td>
<td>698</td>
</tr>
<tr>
<td>Addl. CIT</td>
<td>469</td>
</tr>
<tr>
<td>Jt. CIT</td>
<td>647</td>
</tr>
<tr>
<td>DCIT</td>
<td>1,240</td>
</tr>
<tr>
<td>AC IT</td>
<td>734</td>
</tr>
</tbody>
</table>

Figure No:1.3 Sanctioned Manpower of Income Tax Department for Group B

Sanctioned manpower of the Income Tax Department
Group B

<table>
<thead>
<tr>
<th>Designation of post</th>
<th>Sanctioned strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Officer</td>
<td>4204</td>
</tr>
<tr>
<td>Administrative Officer Grade II</td>
<td>35</td>
</tr>
<tr>
<td>Senior Pt. Secretary</td>
<td>116</td>
</tr>
<tr>
<td>Pt. Secretary</td>
<td>701</td>
</tr>
<tr>
<td>Addl. Asst. Director</td>
<td>11</td>
</tr>
<tr>
<td>Administrative Officer Grade III</td>
<td>774</td>
</tr>
<tr>
<td>DPA Gr. B</td>
<td>55</td>
</tr>
<tr>
<td>AD (OL)</td>
<td>70</td>
</tr>
</tbody>
</table>
**Table 1.3 : Workload and Disposal of Income Tax Cases in India**

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Number Of Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Workload</td>
</tr>
<tr>
<td>2005-06</td>
<td>33934874</td>
</tr>
<tr>
<td>2006-07</td>
<td>38128779</td>
</tr>
<tr>
<td>2007-08</td>
<td>40192130</td>
</tr>
<tr>
<td>2008-09</td>
<td>48280589</td>
</tr>
<tr>
<td>2009-10</td>
<td>52158000</td>
</tr>
</tbody>
</table>

Source: [http://www.incometaxindia.gov.in/Pages/Direct-Taxes-Data.aspx](http://www.incometaxindia.gov.in/Pages/Direct-Taxes-Data.aspx)

**Figure No 1.4 Workload and Disposal of Income Tax Cases in India**

![Graph showing workload and disposal of income tax cases from 2005-06 to 2009-10](attachment:image.png)

**Workload and Disposal of Income Tax cases**

- Workload
- Disposal

**No. of assessments**

**Financial years**

- 2005-06
- 2006-07
- 2007-08
- 2008-09
- 2009-10
Table 1.4: Details of Revenue Collection of Direct Taxes in India.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Actual Collection (Rs in Crores)</th>
<th>Corporate Tax</th>
<th>Personal Income Tax</th>
<th>Other Direct Tax</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td></td>
<td>101277</td>
<td>63689</td>
<td>250</td>
<td>165216</td>
</tr>
<tr>
<td>2006-07</td>
<td></td>
<td>144318</td>
<td>85623</td>
<td>240</td>
<td>230181</td>
</tr>
<tr>
<td>2007-08</td>
<td></td>
<td>192911</td>
<td>118962</td>
<td>340</td>
<td>312213</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>213395</td>
<td>120034</td>
<td>389</td>
<td>333818</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>244725</td>
<td>132833</td>
<td>505</td>
<td>378063</td>
</tr>
</tbody>
</table>

Source: Pr CCA CBDT# 1997-98 figure includes collection of Rs 9803 on account of VDIS

http://www.dor.gov.in/revenue_previous.ctc

Figure no:1.5 Details of Revenue Collection of Direct Taxes in India
Table 1.5: Contribution of Direct Taxes to Total Tax Revenue (Rs. in crore)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Direct Taxes</th>
<th>Indirect Taxes</th>
<th>Total Taxes</th>
<th>Direct Tax As % Of Total Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>165216</td>
<td>199348</td>
<td>364564</td>
<td>45.32%</td>
</tr>
<tr>
<td>2006-07</td>
<td>230181</td>
<td>241538</td>
<td>471719</td>
<td>48.80%</td>
</tr>
<tr>
<td>2007-08</td>
<td>312213</td>
<td>279031</td>
<td>591244</td>
<td>52.81%</td>
</tr>
<tr>
<td>2008-09</td>
<td>333818</td>
<td>269433</td>
<td>603251</td>
<td>55.34%</td>
</tr>
<tr>
<td>2009-10</td>
<td>378063</td>
<td>243939</td>
<td>622002</td>
<td>60.78%</td>
</tr>
</tbody>
</table>

Source: [http://www.incometaxindia.gov.in/Pages/Direct-Taxes-Data.aspx](http://www.incometaxindia.gov.in/Pages/Direct-Taxes-Data.aspx)

Figure No: 1.6 Contribution of Direct Taxes to Total Tax Revenue (Rs. in crore)
### Table 1.6: Direct Tax - GDP Ratio (Rs. In crores)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Net collections</th>
<th>GDP at current market prices</th>
<th>Direct Tax GDP ratio</th>
<th>GDP Growth Rate</th>
<th>Tax Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>165208</td>
<td>3706473</td>
<td>4.46%</td>
<td>17.69%</td>
<td>24.43%</td>
</tr>
<tr>
<td>2006-07</td>
<td>230181</td>
<td>4283979</td>
<td>5.37%</td>
<td>15.58%</td>
<td>39.33%</td>
</tr>
<tr>
<td>2007-08</td>
<td>312213</td>
<td>4947857</td>
<td>6.31%</td>
<td>15.50%</td>
<td>35.64%</td>
</tr>
<tr>
<td>2008-09</td>
<td>333828</td>
<td>5574449</td>
<td>5.99%</td>
<td>12.66%</td>
<td>6.93%</td>
</tr>
<tr>
<td>2009-10</td>
<td>377982</td>
<td>6231171</td>
<td>6.07%</td>
<td>11.78%</td>
<td>13.23%</td>
</tr>
</tbody>
</table>

Source: [http://finmin.nic.in/reports/AnnualReport2010-11.pdf](http://finmin.nic.in/reports/AnnualReport2010-11.pdf) - Table No 3.11

### Table 1.7: Cost of Collection (Rs. In crores)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Total Collections</th>
<th>Total Expenditure (Revenue)</th>
<th>Exp as % of Colln</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>165208</td>
<td>1194</td>
<td>0.72%</td>
</tr>
<tr>
<td>2006-07</td>
<td>230181</td>
<td>1348</td>
<td>0.59%</td>
</tr>
<tr>
<td>2007-08</td>
<td>312213</td>
<td>1687</td>
<td>0.54%</td>
</tr>
<tr>
<td>2008-09</td>
<td>330427</td>
<td>2286</td>
<td>0.68%</td>
</tr>
<tr>
<td>2009-10</td>
<td>377854</td>
<td>2724</td>
<td>0.72%</td>
</tr>
</tbody>
</table>

Source: [http://finmin.nic.in/reports/AnnualReport2010-11.pdf](http://finmin.nic.in/reports/AnnualReport2010-11.pdf) - Table No 3.10
Figure No. 1.7 Cost of Collection (Rs. In crores)