MEANING

The word ‘tax’ is derived from a Latin word “Taxare” it means to estimate or value.

The term ‘ tax’ means statutory payment to be made by the public and imposed by the government. Tax is a compulsory payment by a person to the government. The constitution of India does not define the word Tax but according to Article 366 (28) of Indian Constitution taxation includes the Imposition of any Tax, general or Special and tax shall be constructed accordingly.

Prof. Adams Defines Tax as, from the stand point of the state, a tax is source of derivatives revenue, from the angle of citizen, a tax is a coerced payment, from the administrative point of view; it is a demand for money by state in conformity to establish rules from the point of of a theory a tax is a contribution from individuals for common expenditures.

CHARACTERESTICS OF TAX

1. Imposed by the government
2. Taxes are paid in the form of Cash
3. The aim is to promote the welfare of the people living in the country
4. Tax is a legal collection
5. The object of tax is to raise the revenue to the government
6. Tax may be imposed on income or wealth or on a commodity (either directly or indirectly). It is paid by the individuals.

OBJECTS OF TAX

The objects of tax can be studied from two angles

1. Traditional Approach

    a. Main objectives

    b. Subsidiary objectives

2. Modern Approach

TRADITIONAL APPROACH

<u>Main Objectives</u>

1. To generate and meet Day to Day expenditures of the Government
2. To make provisions to fulfill basic needs of the people
3. Taxation policy is a key instrument to bring socio and economic changes of the people.
4. Tax is levied to protect the home trade and domestic industry from the foreign businessmen.

5. Prevention and control of concentration of economic power i.e. income and wealth in the few hands.
6. A good taxation policies provide redistribution of income and wealth i.e. making the lower income people to become rich not to grow at a faster rate

Subsidiary objectives

1. One of the economic objective of imposing taxes is for formation of public capital for the rapid development of the economy.
2. In times of scarcity of a commodity heavy taxation or high tax reduces the domestic consumption.
3. TO encourage savings and channelize such savings into investments in the form of shares of limited companies/ units of mutual funds etc.

MODERN APPROACH

1. Ensuring accelerated economic development
2. Increasing employment opportunities
3. Reducing regional imbalance
4. Protection of domestic industries from the competition of foreign industries
5. Control and audience of Trade cycle through anti inflationary and anti deflationary measures.
6. Promoting capital formation
7. Promoting Exports and Restricting Import

CLASSIFCATION OF TAXES

The Following are the important types of taxes:

1. Direct Taxes

2. Indirect Taxes

Direct Taxes

Direct taxes are those which are paid after the incomes reaches the hands of tax payers. The immediate and ultimate burden will be on person. It is imposed on a person either on his income or wealth and the tax liability cannot be transferred to other person. In other words person cannot shift or transfer the burden to others and hence they are known as personal tax Income Tax, Professional Tax are the examples for Direct Taxes.

Merits of Direct Taxes:

1. Economy: The cost of collecting direct taxes is low as compared to indirect taxes. The payment of these taxes is made directly to the Government.
2. Certainty: The tax payer knows how much and when he has to pay tax. The Government also knows about ths tax revenue likely to be received.
3. Elasticity: Direct taxes are elastic in nature. Government can increase its revue just by increasing the tax rates and by withdrawing the deductions and exemptions.
4. Equity: Direct taxes are equitable basis because rich has to pay more tax and low income person has to pay less tax or no tax.
5. Convenience: Most of the direct taxes are collected at the source of income itself as such it is convenient to the tax payers.
6. Civic consciousness: It is believed that direct taxes create consciousness among the tax payers about their contribution to the revenues of the government.
7. Less possibility of shortage: The possibility of shortage in the amount collected as direct taxes is a rarity. The person who have deducted tax has to remit the amount within the time stipulated
8. Reducing the inequalities: Direct taxes are ultimately effects the rich persons and if the government spend the amount on increasing the incomes of the poor people it can improve the standard of livings.
9. Controls the effects of Business cycle: Direct taxes can be used as tool to mitigate the effects of inflationary and deflationary trends by increasing or decreasing the tax rates.

Demerits of Direct Taxes

1. Unpopular: Direct taxes are not popular when compared to indirect taxes. No person is willing to forgo his part of income or wealth towards payment of taxes i.e. people will oppose imposition of direct taxes.
2. Inconvenience: Indirect taxes are convenient because they are paid without being conscious of payment of tax and that too in small amounts.
3. Complex law: generally the provisions of direct taxes contain deductions, exemptions, and chargeability of income etc. to a common man it becomes a problem to understand the provisions of the act and is compelled to take the help of "tax consultants"

INDIRECT TAXES

Indirect tax is the tax where the incidence of tax is on the assessee, but the impact is on the consumer. If the tax is levied on the price of the goods or services then it is known as Indirect Tax. it is charged to a businessman, first he pays the tax and later on he shifts the tax burden to ultimate consumer by charging a higher price. Sales tax, excise duty, customs duty and service tax are the example of indirect tax.

Merits of Indirect taxes:

1. Convenience: Indirect tax are included in the price of the goods and services and as such tax payer is not aware of tax payment while purchasing the goods and services. Since the tax is paid, tax payer is aware of the payment of tax but he does not feel it as a burden.

2. Productivity: Indirect taxes are highly productive. By imposing few taxes government can get hue revenues. Government can impose tax on selected goods and services whose demand is in elastic.

3. Minimum Evasion: Generally indirect taxes are levied and collected at the time of production or purchase of the goods by the business man and the scope for tax evasion is minimum.

4. Wide coverage: Indirect taxes covers most of the people irrespective of rich or poor will make to contribute to the government i.e. indirectly it is helping one and all to participate for the development of the nation.

Demerits of indirect taxes:

1. Uncertainty: Revenue to be collected through indirect taxes contains uncertainty because it is not easy to estimate the demand of the goods, which is influenced by a number of factors.

2. Inflationary in nature: indirect taxes lead to a rise in prices. The increase in the prices of raw material, finished goods etc. creates inflationary trends in the economy.

3. High cost of collection: Administrative cost of collecting indirect taxes may be high because they have to be collected from large number of persons those too small amounts.

4. Absence of consciousness: Indirect taxes are collected through middle men like traders. The Tax payer does not feel the payment of tax while purchasing the goods i.e. indirect taxes may not create the civic consciousness in the people.

DIFFERENCE BETWEEN DIRECT TAXES AND INDIRECT TAXES

Direct taxes	Indirect Taxes
1. Direct taxes are levied on income or wealth of a person, as such it affects rich person i.e. low income people need not pay any tax or they are required to pay at lower rate tax at the most.	1. Indirect taxes are levied on manufacturer or seller of the goods or both. They shifts the burden to the nest purchaser and finally to the consumer by charging a higher prices.
2. The Tax bearer knows the tax liability, time and amount of tax to be paid.	2. Business men may charge much higher price than the tax amount and the same is included in the price as such the consumer is not aware about the tax effect.
3. Increase in tax rate may reduce savings and investment by the public. Increase in the rate will help to control the inflation.	3. Increase in the rate is bound to reduce consumption and it helps in intensifying the inflationary position in the economy.
4.There is a scope for tax evasion, either by not paying the taxes or tax payer may understate the income or wealth	4. The scope of tax evasion by the ultimate consumer is not there, but right from manufacturer to the retailer, the scope of tax evasion is possible
5. The government has to establish link with every tax payer as such the cost of collecting to the government will be higher.	5. There is no need of link with the consumer as government collects tax directly from the producers of the goods.
6. Ability of the tax payer is taken into account and thus it satisfies the principle of equity.	6. Ability of the tax payer is ignored both rich and poor has to pay tax.
7. Tax payer is having civic consciousness	7. Tax payer may not possess civic consciousness.

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BASIC CONCEPTS

1. ASSESSEE Sec. 2 (7)
   Assessee means a person by whom, any tax or any other sum of money such as interest or penalty etc. is due under the Income Tax Act or in respect of whom any proceedings under the act has been taken for the assessment of his income of the person for which he is assessable or any refund is due to him or to such person.

Deemed assessee:
The parent or guardian of Minor or trustee will be treated as Deemed to be an assessee, and is known as representative assessee. In the following situation the person is preated as Deemed Assessee.
1. Trustee of a trust
2. Legal representative of deceased person
3. legal guardian of a minor or lunatic person
4. Official receiver appointee by court
5. Representative or Agent of Nonresident person.

PERSON Sec. 2(31)

The term person includes the following categories

- An Individual: An individual means a natural person i.e. male, female, minor child, lunatics or idiots.
- A Hindu undivided family: A HUF is a family conicting of all person lineally descending from a common ancestors and includes their wives and unmarried daughters.
- A Company: A company is an artificial person incorporated under the Indian Companies act, 1956.
- A Firm: A firm means a partnership firm where by two or more persons agree to share the profits and losses of a business carried on by all or any of them acting for all.
- An Association of person: An AOP is an entity or unit of assessment of two or more persons join for a common purpose with a view to earn an income.
- A Body of Individual: A BOI is a association of individuals who carries on some activity with the objective of earning income.
- A local Authority: A local authority means Panchayat, Municipality committee and legal board, cantonment board etc.
- Artificial judicial person: Artificial judicial person are non natural persons which are separate entities in the eyes of Law. Examples: God, Idols, and universities etc.

ASSESSMENT YEAR Sec. 2(9)

Assessment year is a period of 12 months commencing from the first day of April every year and ending on the last day of March the next year. For example, the current assessment year is 2018-19 commences from April 1,2018 and ends on March 31, 2018. Tax is levied in each assessment year, with respect to or on the total income earned by the assessee in the previous year.

PREVIOUS YEAR Sec. 3

Previous year is a period of 12 Months before the commencement of the assessment year. Generally, it is the financial year (1st April to 31st March) preceding the assessment year as the assessment year always follow the previous year.Total income earned during the above said period is considered for tax purposes, therefore it is also known as Income Year or Accounting Year. For the current assessment year 2018-19 relevant previous year is 2017-18

> In case of newly setup Business or profession or new source of Income: In case of newly set up business or profession or in case or new source of Income , then the first previous year for such is the period starting from the date of commencement till the 31 march. So the first previous year may be of 12 months or less than 12 months

Exception to the rule of Previous year:

Following are the exceptional cases for taxing the income of the previous year

1. Shipping business for Nonresident (Sec. 172): If any passengers, live stock, Mail, goods are shipped at any port in India by a ship owned by a non resident of India, Then 7.5 % of the amount charged by the ship for such carriage is deemed to be an Income. The collector of the customs at the port collect tax, on such deemed income of the ship.
2. Persons Leaving India (Sec. 174) If an Assessing officer feels that any individual leaving India during the current assessment year or shortly after its expiry, then total Income of such individual, for the previous year inclusive of period before his leaving India, shall be charged to tax in the assessment year.
3. Assessment of the AOP or BOI or artificial judicial person formed for the specific purpose (Sec.174 A): If AOP, BOI or Artificial judicial person is likely to be dissolved in the assessment year, then the total income of such , for the period starting till the end of the last previous year to the date of the dissolution, shall be taxable in the same assessment year.
4. Assessment of person trying to transfer his assets with a view to avoid tax (Sec.175): If assessing officer feels that any person is likely to sell, transfer, dispose off to any any assetswith an intention to avoid tax liability, then such income shall be chargeable of tax in the same assessment year.
5. Discontinued Business (Sec 176) If any person is discontinuing business or profession, he shall give a notice of such discontinuance within 15 days. In such case the Total Income of discontinued business or profession may be charged to tax un the same assessment year at the rates applicable

INCOME Sec. 2 (24)

The term Income Simply means Something Which comes in. It is a periodical return with regularity or expected regularity. It includes not only earning but also the amount of saved by using it himself.

Income generally includes any profits, gains, perquisite, dividends, Interest, allowances, profit on sale of assets, winning from lotteries etc.

1. Profits and gains
2. Dividends
3. Voluntary contribution received by Charitable or religious trust
4. Any Perquisites or profit in lieu of salary
5. Profit or gains of business or Professions
6. Any capital Gains
7. Profit and gains of any insurance business or by a cooperative societies
8. Any annuity
9. Any Casual Incomes
10. Any amount received by employer as contribution to employees towards any funds, for the welfare of employees
11. Any sum referred to in section 28(va)
12. Gifts received in cash in excess of Rs. 50,000
13. Forfeited advance amount of capital assets etc.

<u>Features of Income:</u>

1. Definite source: The existence of source of Income is somewhat essential to bring the receipt under the charge of Tax
2. Periodical monetary return: periodical monetary returs of an Assessee shall be termed as an Income.
3. Cash or In Kind: Any receipt whether in the form of Cash Or in kind, shall be considered as an Income.
4. Income must come from outside: No one can earn income from himself. It must arrived from out sources. Contributions made by members for the mutual benefits and found cannot be termed as Income.
5. Legal Or Illegal Income: Income earned legal or Illegal remains a Income and it will be taxed according to the provisions of the act.
6. Temporary or permanent Income: Whether the Income is Temporary or Permanent, it is Taxable.
7. Treatment of Gifts: Monetary Gifts, gifts of immovable property, gifts of movable property are the part of Income, and taxable under the heads Income from Other Sources.
8. Income Includes Loss: Income can be Positive or Negative. Loss Represents Negative Income and is very well included in the income. A loss can be set off or adjusted against the positive income as per the rules under IT Act.

AGRICULTURAL INCOME

MEANING:
Any Income derived from any Agricultural Land Or any house property situated on agricultural land which is used for agricultural purpose.

Section 2 (1A)
Under Sec2 (1A) of IT Act 1961: Agricultural Income Means

1. If the owner or tenant of the agricultural land situated in India receives sale money of crop either in cash or in Kind.

2. If the owner or the tenant of the agricultural land performs certain processes to make the agricultural products fit for sale in the primary market and receives sales money in the primary market.

3. income derived by any owner or tenant of the agricultural land from a building situated in the farm house, if the house is situated in the rural areas.

The 3 incomes are treated as Agricultural Income only when the following Conditions are satisfied:

1. Rent or revenue must derived from the Land: If the owner of the land gives the land on the lease or on rental basis for using the land for Agricultural purpose, then the rent received by the landlord, either in form of cash or in kind, shall be treated as an agricultural Income.

2. The land is used for Agricultural Purpose: To consider an Income as Agricultural Income, It is Compulsory that the land is used for agricultural purpose. In agricultural the activities are classified into 2 categories
   - Basic Operations: If an agricultural involved the human skills and labour to the germination of Plants, then these operations are known as Basic Operations. The Examples of basics operations are cultivation, seeding, plantations, watering, and sowing etc.
   - Subsequent Operations: Operations performed after the sprouts then these operations are known as subsequent operations. Examples are wedding, cutting, Harvesting etc.

If an Assessee performed Basic Operations and Subsequent operation both, or performed only Basic Operations, Then Incomes shall be termed as Agricultural Income. Where as if Assessee performed only subsequent operation, then the income received by him is not considered as agricultural Income.

3. Land Must be situated In India: The Agricultural land must be situated in India, Income from agricultural land which are situated in a foreign Country is not considered as Agricultural Land.

GROSS TOTAL INCOME Sec. 80B

Gross Total Income is the aggregate of incomes computed under different heads of income of an assessee:

1. Income from Salaries Sec. 15 to 17
2. Income from House property Sec. 22 to 27
3. Income from Business and Profession Sec. 28 to 44A
4. Capital Gains Sec. 45 to 55
5. Income from Other Sources Sec. 56 to 59

The aggregate value of all these heads of income is called as the Gross Total Income.

TOTAL INCOME Sec. 2 (45)

The term Total Income means the Gross total Income minus Deduction u/s 80c To 80U

PERMANENT ACCOUNT NUMBER Sec. 139A (PAN)

Permanent account number means the number which is allotted by the tax assessing officer to the assessee for easy identification. In case of need, this number is useful to trace out the previous returns submitted by the assessee and assessment orders passed on by the department.

Under section 139A and rule 114, the number is allotted by the assessing officer when the assessee applies for the same. Once the number is allotted the assessee or PAN card holder need not apply every year. The assessee shall intimate assessing officer in case of any changes in address, or if any other correction are required.

Person liable to obtain PAN

1. Every person whose Total Income exceeds maximum exemption limits
2. Any person is having business or profession and when the gross receipts are more than 5,00,000
3. Charitable trusts and Religious Institutions
4. Assessee under VAT or Excise
5. Exporter and Importer under Customs Act.
6. Service provider under Service Tax Act.

AVERAGE RATE OF TAX Sec. 2 (10)

To find the average Rate of IncomeTax first total tax will be calculated on Total Income and Then the tax calculate is divided with with Total income and multiplies by 100.

With the help of average tax a person can assess his tax liability on the total income .

$$\text{Average rate of Tax} = \frac{\text{Total Tax}}{\text{Total Income}} \times 100$$

RATES OF TAX

1. FLAT RATES: Under this method the entire income is taxed with One rate. The following incomes are taxed at flat Rates.
   1. Casual Incomes are taxed at a flat rate of 30%
   2. Short term capital gain arising out transfer of equity shares and units of equity oriented mutual funds is taxed at a flat rate of 15%
   3. long term capital gain is taxed at a falt rate of 20%
   4. Transactions of undisclosed income/ investment/assets are taxed at 30%

2. SLAB RATES: Under this method income is divided into different parts known as Slab and each part or slab of income is taxed with different rates.

The following are the slab rates for the assessment year 2018-19

FOR INDIVIDUAL (MEN or WOMEN) WHOSE AGE IS BELOW 60 YEARS

INCOME SLABS	TAX RATE
UPTO 2,50,000	NIL
2,50,000 TO 5,00,000	5%
5,00,001 TO 10,00,000	20%
ABOVE 10,00,000	30%

FOR INDIVIDUAL (MEN or WOMEN) WHOSE AGE IS ABOVE 60 YEARS AND BELOW 80YRS

INCOME SLABS	TAX RATE
UPTO 3,00,000	NIL
3,00,001 TO 5,00,000	5%
5,00,001 TO 10,00,000	20%
ABOVE 10,00,000	30%

FOR INDIVIDUAL (MEN or WOMEN) WHOSE AGE IS ABOVE 80 YEARS

INCOME SLABS	TAX RATE
UPTO 5,00,000	NIL
5,00,001 TO 10,00,000	20%
ABOVE 10,00,000	30%

COMPUTATION OF TAX LIABILITY

Step 1: Computation of Tax amount:

As per Flat rates and Slab Rates

Step 2: Less: Rebate Sec. 87A

Rebate is the relaxation given to the individual whose earning income is below Rs. 3.5lakhs

Rule:
Rebate is least of the following 2 amounts: 1) Tax amount 2) Rs. 2,500

Step 3: Add Surcharges:

- When total income of an individual exceeds Rs. 50 lakhs below 1 crore- 10%
- When total income of an individual exceeds Rs. 1 crore- 15%

Step 4: Add:

- Education Cess @ 2 %
- Higher education cess @ 1%

PROBLEMS ON TAX LIABILITY

Case No. 1 Smt. Jaya prada age 45 years is having a total income of Rs. 4,23,000 for the previous Year. Tax rate is flat 15%. Calculate Tax liability for the assessment year 2018-19

Case No. 2 Calculate the Tax liability in the following situations

	An Individual	Senior citizen	Super senior citizen
Situation 1	Rs. 2, 46,363	Rs. 2,96,904	Rs.4,86,363
Situation 2	Rs. 5, 65, 403	RS. 5,65,403	Rs. 5,65,403
Situation 3	Rs. 10,15,309	Rs. 10,15,309	Rs. 10,15,309

Case No. 3 During the previous year 2017-18 the Total Income of an assessee (whose age is 58 years) is Rs. 12,30,497. Calculate Tax liability for the assessment year 2018-19.

Case No. 4 During the previous year 2017-18 the Total Income of an assessee (whose age is 70 years) is Rs. 11,50,000. Calculate Tax liability for the assessment year 2018-19.

Case No. 5 Mr. ravinder reddy has submitted the following particulars of income for the current assessment year 2018-19. Compute the Tax liability and Tax Due:

I. Income From Other heads: Rs.2,80,000
II. Long Term Capital Gain: Rs.78,000
III. Winning from Lottery: Rs. 1,00,000

Case No. 6 Sri A. Chalapathi submitted the following particulars for the previous year. Compute his Tax liability.

Gross Total Income -Rs. 16,67,498 ; Total Deduction u/s 80 Rs. 1,20,000; Tax deducted at source- Rs. 2,10,000; Advance Tax Rs. 1,22,000.

RESIDENTIAL STATUS

Section 6 of the income tax act provides the provisions regarding residential status of a person. The scope of tax on the total income of a person lies on the residential status. The residential status of a person broadly classified into two categories:

1. Resident
2. Non resident

In case of individual and HUF we will further determine whether the individual/ HUF is ordinarily resident or Not ordinarily resident.

RESIDENTIAL STATUS OF AN INDIVIDUAL (SECTION 6)

An individual can be categorized broadly into 2 categories-

1) Resident in India
2) Non-Resident in India

An individual can again be sub categorized into

- a) Resident and ordinarily Resident
- b) Resident and Not- Ordinarily Resident

Now, to determine the residential status of an Individual, there are two sets of conditions:

The Basic conditions are:

1. **The individual shall be in India for a period of 182 days or more during the relevant previous year**
2. **The individual shall be India for a period of 60 days or more during the relevant previous year AND shall also be in India for a period of 365 days or more during four years preceding the relevant previous year.**

An individual who fulfills the any one of the basic conditions is called Resident in India and an individual is said to be Non Resident of India if he fulfills neither (None) of the above basic conditions.

Generally these conditions are applicable for all individuals, but these conditions are exceptional in the following cases:

- ➢ If the individual is an Indian citizen leaving India in any previous year for the purpose of employment outside India OR to work as a member of the crew of an Indian citizen, then for that previous year, of the above conditions, only the first condition is applicable.
- ➢ If the individual is a person of Indian origin, and during the previous year is visiting India, then the second condition shall have the 60 days replaced by the words 182 days, and the rest remaining the same.

Once an Individual is said to be Resident Of India, Then we have to determine the further status of an individual by following Additional Conditions:

The Additional conditions are:
1. The individual is Resident of India during 2 years out of 10 previous years preceding the relevant previous year. AND
2. The individual shall be in India for a period of 730 days or more during Seven previous years preceding the relevant previous year.

If the individual fulfills both the additional conditions, then he is said to be a Resident and Ordinarily Resident of India. But if he fulfills only one or none of the additional conditions, then he is said to be a Resident but Not Ordinarily Resident of India.

RESIDENT AND ORDINARILY RESIDENT	RESIDENT AND NOT ORDINARILY RESIDENT	NON RESIDENT
BASIC CONDITION: The individual must satisfy any one of the basic conditions ADDITIONAL CONDITION: The individual must satisfy both the additional conditions	BASIC CONDITION: The individual must satisfy any one of the basic conditions ADDITIONAL CONDITION: The individual must satisfy one or none of the additional conditions	BASIC CONDITION: The individual must not satisfy any of the Basic conditions.

RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY [Sec. 6(2)]

A HUF can broadly be of 2 categories:
1. Resident
2. Non Resident
A HUF is said to be Resident of India if the control and management of its affairs is situated wholly or partly in India and a HUF is said to be Non Resident if the control and management of its affairs is situated wholly outside India.
Control and management means the decision making capacity regarding the affairs of the HUF.
Once a HUF is said to be resident in India, Then it is necessary to further classify it into two subcategories:

1. Resident and Ordinarily Resident
2. Resident and Not- Ordinarily resident

For this, the Additional Conditions are applicable with regards to KARTA of the HUF. If the karta satisfies both the Additional Conditions, the HUF gets a status of ORDINARILY

RESIDENT and if the Karta satisfy one or none of the Additional Conditions, then the HUF gets a status of NOT ORDINARILY RESIDENT of India.

RESIDENTIAL STATUS OF A COMPANY [SEC 6(3)]

The residential status of a company is determined on the basis of its incorporation.

Resident: A company is said to be a RESIDENT in India in any previous year if it is an Indian company or its place of effective management in that year, is in India during the relevant previous year.

Non Resident: A company is said to be NON- RESIDENT in India in any previous year if it is not an Indian company and the control and management of the affairs is situated wholly or partially outside India.

RESIDENTIAL STATUS OF FIRMS, AOP, BOI AND EVERY OTHER PERSON [SEC. 6(2) and SEC. 6 (4)]

Resident: These persons is said to be a RESIDENT in India in any previous year if the control and management of the affairs of such organization wholly or partly is in India during the relevant previous year. Here the control and management generally lies in the hands of the partners or the members of such organization. Hence if the partners meets in India for decision making regarding the affairs of such organization, then such organization is said to be Resident of India

Non Resident: These persons is said to be a RESIDENT in India in any previous year if the control and management of the affairs of such organization wholly situated outside India during the relevant previous year.

TYPES OF INCOME

Broadly there are 2 types of income:

1. Indian Income
2. Foreign Income

INDIAN INCOME

1. Income Received: Income received in India during the previous year is Taxable in the hands of all the assessees.

2. Income deemed to be received in India: These incomes are not actually received but the law treated them as income received for Income Tax purposes.

3. Income Accruing or Arising in India: Income is assessed to tax not only on receipt basis but also on accrual basis. " Accrual" of incomes means a stage where the assessee acquires the right the income. On the other hand "arise" means coming into existence or notice or presenting itself.

4. Income Deemed to be Accrue or Arise in India: Sometimes income shall also be deemed to accrue or arise in India even if such incomes, in reality, have not accrued or arises in india.

FOREIGN INCOME

Any other income accruing and received outside India is Foreign Income. It is taxable only for residents.

INCIDENCE OF TAX- Scope of Total Income

Incidence of tax means Burden of Tax. The scope of tax on the total income of any person, as specified in the previous year, lies upon th residential status of the person for the respective previous year. It also lies on the time and place of accrual or receipt of such income.

According to the residential status, assessee are of three types – Residents, Not ordinarily Residents, and Non Residents. Section 5 of the IT Act deals with Scope of total income and what incomes of an assessee are to be included and excluded. The tax liability of an assessee depends upon the residential status.

RESIDENT and ORDINARILY RESIDENT [Sec. 5(1)]

Persons who are resident of India are charged income tax in respect of the following incomes

1. Income received in India
2. Income Deemed to be received In India
3. Income Accrue or Arises / Income Deemed to be Accrue or Arise in India
4. Income from the business outside India, control of such setup in India.
5. Foreign Income

NOT ORDINARILY RESIDENT

Following incomes are taxable in the hand of the person who is Not Ordinarily Resident

1. Income received in India
2. Income Deemed to be received In India
3. Income Accrue or Arises / Income Deemed to be Accrue or Arise in India
4. Income from the business outside India, control of such setup in India.

NON RESIDENT [Sec. 5 (2)]

1. Income received in India
2. Income Deemed to be received In India
3. Income Accrue or Arises / Income Deemed to be Accrue or Arise in India

These provisions can be summarized as follows:

Different kinds of Incomes	RESIDENT and ORDINARILY RESIDENT	NOT ORDINARILY RESIDENT	NON RESIDENT
1. Income received in India	TAXABLE	TAXABLE	TAXABLE
2. Income Deemed to be received In India	TAXABLE	TAXABLE	TAXABLE
3. Income Accrue or Arises / Income Deemed to be Accrue or Arise in India	TAXABLE	TAXABLE	TAXABLE
4. Income from the business outside India, control of such setup in India.	TAXABLE	TAXABLE	NOT TAXABLE
6. Foreign Income	TAXABLE	NOT TAXABLE	NOT TAXABLE

PRACTISE PROBLEMS

1. Krishna Kumar Is an Indian citizen and has never been out of the country. He leaves India on 20th may 2017 and returns on 25th March 2018. Determine his residential status.

2. OMAR IS AN Indian Citizen and fro the first time he left India for higher studies abroad on 15th October 2017. What is his residential status.

3. X comes to India for the first time on April 16, 2015. During his stay in India upto October 5, 2017, he stays at Mumbai and thereafter remains in Hyderabad till his departure from India. Determine his residential status.

4. Albert, a foreign citizen, comes to India for the first time on March 10, 2017. On September 1, 2017 he leaves India for Japan on business trip. He comes back to India on February 26, 2018. Determine his residential status.

5. The followings are the incomes of Mr. Salman.

		RS.
a.	Profit on the sale of machinery in Bangalore but received in Australia	30,000
b.	Profit from the business in Canada, the business being controlled from India.	42,000
c.	Income from House property in Iran	20,000
d.	Agricultural income in England	8.000
e.	Past untaxed foreign income brought to India during the previous year.	6,000

Compute the Total Income when he is i) Ordinarily Residents ii) Not- Ordinarily Residents iii) Non Residents

6. Following are the Incomes of Sri Rathnam

a.	Profit from the business in Bangalore	10,000
b.	Income Accrued In India but received in Japan	4,000
c.	Profit from the business in Canada but received in India	5,000
d.	Income from house property in Karachi received in Bombay	4,000
e.	Profit from business In England, controlled from India	20,000
f.	Income from house property in America and deposited there	2,000

Compute his Total Income for the aassessment year 2018-19 if he is i) Ordinarily Residents ii) Not- Ordinarily Residents iii) Non Residents

7. Mr. Rao, a senior scientist in India, submitted the following incomes particulars:
Salary drawn for employment outside India from Government of India Rs. 93,500.

Salary drawn from employment in Nigeria rs. 1,80,000
Profit earned abroad and received in India Rs. 25,000
Profit earned from the business outside India Rs. 18,000
Compute his Taxable Income, if he is Non Resident during the previous year

QUESTION BANK FOR INTERNAL – I