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Sem 4

MJC 6

Income Tax Law & Accounting

Income — Meaning and Concept

Income is the amount which a person earns, receives, or is entitled to during a specific period (usually a financial year). It includes earnings not only from salary but also from business, property, capital gains and other sources.

Income tax is charged on income earned in the *previous year* and assessed in the following *assessment year*.

2. Person (defined under Section 2(31))

In Income Tax Law, a **person** is not just an individual but includes various entities who may be liable to pay tax:

- ✓ Individual (natural person)
- ✓ Hindu Undivided Family (HUF)
- ✓ Company
- ✓ Firm
- ✓ Association of Persons (AoP) / Body of Individuals (BoI)
- ✓ Local Authority
- ✓ Artificial Juridical Person (e.g., trust, university)

Note: The list is *inclusive*, meaning it covers these and also any other entity treated as a person under law.

3. Assessee (Section 2(7))

An **assessee** is a person by whom:

- ✓ Income tax or any sum is payable under the Income-tax Act,
- ✓ Proceedings have been initiated under the Act (for assessment, refund, etc.),
- ✓ A person deemed to be an assessee (e.g., legal representative of deceased, guardian of minor).

So, an *assessee* is essentially a taxable person under the Act.

4. Previous Year and Assessment Year

- ◆ **Previous Year**

The **previous year** (PY) is the period in which income is *earned*.

It is usually the financial year from **1st April to 31st March** preceding the assessment year.

So, if income is earned from **1-4-2024 to 31-3-2025**, that period is the *previous year* 2024–25.

◆ **Assessment Year**

The **assessment year** (AY) is the period immediately *following* the previous year in which the income is *assessed and taxed*.

So, for PY 2024–25, the AY will be **2025–26** (April 1 to March 31).

➔ Summary:

Income earned in Previous Year → **Taxed** in Assessment Year.

5. Gross Total Income (GTI) & Total Income

◆ **Gross Total Income**

The **Gross Total Income** is the sum of income computed under all five heads of income:

1. Income from Salary
2. Income from House Property
3. Profits and Gains from Business or Profession
4. Capital Gains
5. Income from Other Sources

This is before any deductions are allowed.

◆ **Total Income**

After calculating GTI, allowed deductions under Sections **80C to 80U** are subtracted to arrive at **Total Income**.

Total Income = Gross Total Income – Deductions

Tax is computed on this **Total Income**.

6. Permanent Account Number (PAN)

A **PAN** is a *unique 10-character alphanumeric identity* issued by the Income Tax Department.

✓ It is required for financial transactions, filing income tax returns, TDS credits, bank accounts, investments, etc.

✓ PAN helps the government track taxable transactions and prevent tax evasion.

While not defined like other concepts, PAN is essential paperwork under the Act.

7. Residential Status & Scope of Total Income

◆ **Residential Status (Section 6)**

Your **residential status** determines which income is taxable in India. The main categories for an individual are:

1. **Resident and Ordinarily Resident (ROR)** – Taxed on *global income*.
 2. **Resident but Not Ordinarily Resident (RNOR)** – Taxed on Indian income & certain foreign incomes.
 3. **Non-Resident (NR)** – Taxed only on income earned/received in India.
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8. Tax Liability of an Individual

A person becomes liable to pay income tax if their **total income** (after deductions) exceeds the basic exemption limit specified for that assessment year.

- ✓ Tax is charged under Section 4 of the Income Tax Act on the *total income* of every person.
- ✓ Tax computation will depend on residential status, applicable tax slab rates, and allowable deductions.

Q1. What is Income under the Income Tax Act?

Q2. Who is a Person under the Income Tax Act?

Q3. Define Assessee and explain its types.

Q4. Differentiate between Previous Year and Assessment Year