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BA Economics Honours | Semester 1 | Calicut University

Basics of Income Tax

Course Code: ECO1VN101 • Module 3

Module III: Income Tax Return Filing

Tax compliance is the procedural bridge between statutory tax liability and sovereign revenue collection. The Income Tax Act prescribes rigorous procedural rules governing the filing of returns, withholding taxes, self-assessments, and tax department scrutiny to guarantee administrative transparency, prevent tax evasion, and protect taxpayer rights.

Unit 12: Procedures of Assessment

Assessment refers to the formal statutory determination of the taxable income and tax liability of an assessee by the Income Tax Department:

- **Self-Assessment (Section 140A):** The statutory obligation imposed on every taxpayer to independently compute their total income, deduct Advance Tax, TDS, and TCS paid, calculate the net balance tax payable along with mandatory interest u/s 234A, 234B, and 234C, and pay the entire balance before submitting their Income Tax Return (ITR). An ITR submitted without paying self-assessment tax is treated as a defective return.
- **Summary Assessment (Intimation u/s 143(1)):** A computerized, algorithmic preliminary assessment conducted by the Centralized Processing Centre (CPC), Bengaluru, without human officer interaction. The system verifies mathematical accuracy, reconciles TDS/TCS with Form 26AS/AIS, corrects prima facie internal inconsistencies, and generates an official automated Intimation specifying either tax payable, a tax refund, or nil balance.
- **Scrutiny Assessment (Section 143(3)):** A detailed, comprehensive examination of the assessee's books of accounts, bank statements, invoices, and deduction receipts conducted by an Assessing Officer to ensure that income has not been understated, excessive losses claimed, or tax underpaid. In modern Indian administration, this is executed through the revolutionary **National Faceless Assessment Centre (NFAC)**, where cases are assigned dynamically across the country via artificial intelligence algorithms without human physical contact, eliminating bribery and administrative harassment.
- **Best Judgment Assessment (Section 144):** An assessment conducted by the Assessing Officer to the best of their judgment when the assessee fails to file a mandatory return u/s 139, fails to comply with statutory notices u/s 142(1), or fails to produce mandatory accounting records.

Unit 13: Filing of Returns of Income and ITR Forms

Every person whose total income exceeds the basic exemption limit is legally mandated under Section 139(1) to file an electronic Return of Income on or before the prescribed statutory due date (July 31 for non-audit individuals; October 31 for corporate and audited business assessees). The CBDT prescribes distinct ITR forms tailored to taxpayer categories:

ITR Form	Designated Nomenclature	Target Assessee Category & Income Thresholds
ITR-1	Sahaj	Resident individuals with total income up to ₹50 Lakhs from Salaries, one House Property, and Other Sources (interest). Cannot be used by company directors or individuals with capital gains.
ITR-2	ITR-2	Individuals and HUFs not having income from Profits and Gains of Business or Profession (used for capital gains, foreign assets, multiple house properties).

ITR Form	Designated Nomenclature	Target Assessee Category & Income Thresholds
ITR-3	ITR-3	Individuals and HUFs having income under the head Profits and Gains of Business or Profession (PGBP) maintaining formal books of accounts.
ITR-4	Sugam	Resident individuals, HUFs, and partnership firms having total income up to ₹50 Lakhs opting for Presumptive Taxation u/s 44AD, 44ADA, or 44AE.

Unit 14: Categories of Returns: Voluntary, Belated, Revised, and Loss Returns

- **Voluntary Return (Section 139(1)):** A return filed by the taxpayer on their own initiative within the statutory due date.
- **Return of Loss (Section 139(3)):** If an assessee incurs business losses or capital losses and wishes to carry forward these losses to offset against future taxable profits (up to 8 consecutive assessment years), the return of loss **must be filed strictly on or before the due date** u/s 139(1). Failure to file on time permanently forfeits the legal right to carry forward business and capital losses!
- **Belated Return (Section 139(4)):** A return filed after the statutory due date, but on or before December 31 of the relevant Assessment Year. A belated return incurs mandatory late filing fees under Section 234F (up to ₹5,000, or ₹1,000 for income below ₹5 Lakhs) and penal interest on unpaid taxes u/s 234A.
- **Revised Return (Section 139(5)):** If an assessee discovers any omission, error, or wrong statement in a return originally filed u/s 139(1) or 139(4), they can file a Revised Return on or before December 31 of the Assessment Year. The revised return completely supersedes and replaces the original return.

Prepaid Taxes: PAN, TDS, TCS, and Advance Tax

The Income Tax Department enforces the principle of *"Pay As You Earn" (PAYE)* through prepaid tax collection mechanisms:

- **Permanent Account Number (PAN):** A unique, ten-digit alphanumeric identifier issued by the Income Tax Department, mandatory for filing returns, opening bank accounts, and executing high-value financial transactions.
- **Tax Deducted at Source (TDS):** Mandatory withholding of income tax at statutory rates by the payer (employer, bank, contractor) at the time of crediting or paying specified sums (salaries u/s 192, contractor payments u/s 194C, professional fees u/s 194J). The payer deposits the withheld tax directly into the sovereign treasury and issues a TDS certificate (Form 16/16A). The payee reconciles TDS credits against their tax liability via their Annual Information Statement (AIS) and Form 26AS.
- **Advance Tax (Sections 207 to 211):** If an assessee's estimated net tax liability for a financial year (after deducting TDS) exceeds **₹10,000**, they must pay their tax in advance across four quarterly installments: 15% by June 15, 45% by September 15, 75% by December 15, and 100% by March 15. Default or deferment triggers mandatory interest u/s 234B and 234C.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
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Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

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