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BA Economics Honours | Semester III | Calicut University

Income Tax Assessment

Course Code: ECO3VN201 • Module 1

Module I: Introduction to Tax Assessment

Tax assessment represents the formal statutory procedure through which the tax administration quantifies, verifies, and determines the taxable income and corresponding tax liability of an assessee under the provisions of the Income Tax Act, 1961. It forms the bedrock of fiscal administration, ensuring statutory compliance, preventing tax leakage, and upholding tax justice.

Unit 1 & 2: Assessment Concepts, Objectives, and Types

Assessment encompasses both the assessee's determination of taxable income via self-assessment and the revenue authority's computation through official assessment orders. The primary objectives of assessment include:

- Verifying the accuracy and completeness of income disclosed by taxpayers.
- Detecting non-disclosure, under-reporting, and illegitimate deduction claims.
- Determining the correct tax payable or refund due in accordance with the law.
- Establishing legal certainty and finality regarding tax liabilities for specific financial periods.

Types of Assessment under the Income Tax Act, 1961

The Income Tax Act provides several statutory mechanisms for assessment:

1. **Self-Assessment (Section 140A):** Mandatory statutory obligation requiring the assessee to calculate total income, compute tax payable after taking credit for Advance Tax and TDS, and remit the net tax due along with interest before filing the Income Tax Return (ITR).
2. **Summary Assessment (Section 143(1)):** Computerized preliminary processing conducted by the Centralized Processing Centre (CPC). The system automatically verifies mathematical calculations, rectifies prima facie arithmetical errors, disallows incorrect deduction claims, and issues an intimation specifying refund or demand.
3. **Scrutiny Assessment (Section 143(3)):** In-depth examination conducted by the Assessing Officer (AO) or through the National Faceless Assessment Centre (NFAC). The assessee is required to furnish documentary evidence, books of account, and explanations to substantiate income and deductions.
4. **Best Judgment Assessment (Section 144):** Ex-parte assessment made to the best of the Assessing Officer's judgment when the assessee fails to file a return under section 139, fails to comply with terms of a scrutiny notice under section 142(1), or fails to comply with special audit directions under section 142(2A).
5. **Income Escaping Assessment / Reassessment (Section 147):** Reopening of past assessments when the tax authority has information suggesting that taxable income has escaped assessment, subject to strict statutory limitation periods.

Unit 3 & 4: Legal Definitions: Assessment Year, Previous Year, and Person

Statutory tax accounting relies on strict legal definitions:

- **Assessment Year (Section 2(9)):** The period of twelve months beginning on the 1st day of April every year and ending on the 31st day of March of the next year. It is the period during which income earned in the previous year is assessed and taxed.

- **Previous Year (Section 3):** The financial year immediately preceding the assessment year. Income is earned during the previous year and taxed in the assessment year. *Exceptions:* Under specific conditions, income is taxed in the year of earning itself—including shipping business of non-residents (Sec 172), persons leaving India permanently (Sec 174), discontinued business (Sec 176), and transfer of property to evade tax (Sec 175).
- **Person (Section 2(31)):** Defines tax entities into seven distinct categories: Individual, Hindu Undivided Family (HUF), Company, Firm (including LLP), Association of Persons (AOP) / Body of Individuals (BOI), Local Authority, and Artificial Juridical Person.

Unit 5, 6, 7 & 8: Types of Income, Filing Returns, Forms, and PAN

Tax liability is computed on **Total Income**, which is Gross Total Income (aggregate of five heads: Salaries, House Property, Profits and Gains of Business/Profession, Capital Gains, and Other Sources) minus chapter VI-A deductions. **Casual Income** (winnings from lotteries, crossword puzzles, betting) is taxed at a flat rate of 30% under section 115BB without standard deduction benefits.

Income Tax Returns are categorized into standard prescribed forms:

- **ITR-1 (SAHAJ):** For resident individuals having total income up to ₹50 lakh from salaries, one house property, and other sources (interest).
- **ITR-2:** For individuals and HUFs not having income from profits and gains of business or profession (covers capital gains, foreign assets).
- **ITR-3:** For individuals and HUFs having income from profits and gains of business or profession.
- **ITR-4 (SUGAM):** For resident individuals, HUFs, and firms (other than LLPs) having presumptive business income under Section 44AD, 44ADA, or 44AE with total income up to ₹50 lakh.

Permanent Account Number (PAN) [Section 139A]: A unique 10-digit alphanumeric identifier issued by the Income Tax Department. Quoting PAN is compulsory for opening bank accounts, motor vehicle purchases, securities transactions above threshold limits, property sales, and all tax filings.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

Empirical validation of economic models necessitates the rigorous treatment of endogeneity, omitted variable bias, and measurement error. Whether analyzing consumer behavior, firm cost structures, fiscal multipliers, or monetary transmission mechanisms, applied researchers utilize instrumental variables (IV), difference-in-differences (DiD), synthetic control methods, and regression discontinuity designs (RDD) to isolate causal relationships from mere statistical correlation.

Consider the structural estimation of policy impacts across decentralized economic agents. When evaluating macroeconomic interventions or microeconomic regulatory changes, parameters estimated from observational datasets must account for expectations formation and structural parameter stability in

accordance with the Lucas Critique. Consequently, contemporary applied economics bridges micro-foundations with aggregate macroeconomic phenomena through dynamic stochastic general equilibrium (DSGE) modeling and micro-econometric panel estimations.

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.
Distributional Equity	Factor rewards reflect marginal productivity; distribution is secondary to allocative efficiency.	Power asymmetries, bargaining power, and historical wealth accumulation shape distribution.	Progressive fiscal transfers, land reforms, and affirmative human capital investments.
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.

Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

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