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BA Economics Honours | Semester III | Calicut University

Income Tax Assessment

Course Code: ECO3VN201 • Module 3

Module III: Tax Assessment (Theory Only)

Assessment procedures vary across different taxable entities due to divergent legal structures, liability frameworks, and statutory tax treatments. This module examines the theoretical principles governing the assessment of Individuals, Hindu Undivided Families (HUFs), and Partnership Firms.

Unit 14 & 15: Assessment of Individuals

An individual assessee is assessed on global or domestic income depending upon residential status (Resident & Ordinarily Resident, Resident but Not Ordinarily Resident, or Non-Resident) under Section 6. The procedure for computing total income follows a standardized statutory sequence:

1. Determine residential status for the previous year.
2. Classify all receipts under five heads of income, applying permissible statutory deductions (Standard Deduction under Sec 16(ia), municipal taxes under Sec 24, depreciation under Sec 32).
3. Apply clubbing provisions (Sec 60 to 65) and set off/carry forward of losses (Sec 70 to 74).
4. Arrive at Gross Total Income (GTI).
5. Deduct admissible chapter VI-A deductions (Sections 80C, 80D, 80G, etc.) to calculate Total Income.
6. Apply applicable tax slab rates (under Old Tax Regime or Default New Tax Regime under Sec 115BAC), compute rebate under Sec 87A, add surcharge and 4% Health & Education Cess, and credit TDS/TCS and Advance Tax.

Unit 16 & 17: Assessment of Hindu Undivided Family (HUF)

A Hindu Undivided Family (HUF) is recognized as a separate and distinct taxable entity under Section 2(31). An HUF consists of all persons lineally descended from a common ancestor, including their wives and unmarried daughters. The senior male or female member manages the affairs as the *Karta*, while other family members are *Coparceners* (holding coparcenary rights by birth).

HUF vs. Partnership Firm:

- **Creation:** HUF is created by the operation of law/status of birth, whereas a partnership firm is created exclusively through contractual agreement.
- **Liability:** In an HUF, only the Karta has unlimited liability; coparceners' liability is limited to their share in family property. In a firm, all partners share unlimited joint and several liability.
- **Dissolution:** HUF continues unaffected by death or insolvency of members; a partnership firm dissolves upon death/insolvency unless otherwise agreed.

Incomes Not Treated as Family Income: Personal earnings of members derived through personal qualification, skill, or specialized training; separate property acquired by gifts or will; stridhan (absolute property of women); and remuneration received by Karta as director/partner in individual capacity without investment of HUF funds.

Unit 18 & 19: Assessment of Firms and Section 184

Under the Income Tax Act, a partnership firm (including Limited Liability Partnerships - LLPs) is assessed as a separate entity. For assessment under **Section 184**, a firm must satisfy four statutory conditions:

- The partnership must be evidenced by an instrument in writing (Partnership Deed).

- The individual shares of the partners must be expressly specified in the deed.
- A certified copy of the partnership deed must accompany the first return of income.
- Whenever there is a change in constitution or profit-sharing ratio, a revised deed must be submitted.

Tax Liability Computation (Section 40(b)):

- Firm's total income is taxed at a flat rate of 30% plus surcharge and cess.
- Remuneration to working partners is deductible only if authorized by the deed and within statutory ceilings based on 'Book Profits': up to ₹3 lakh book profit: ₹1,50,000 or 90% of book profit (whichever is more); on balance book profit: 60%.
- Interest paid to partners on capital is deductible up to a maximum statutory rate of 12% simple interest per annum, provided it is authorized by the deed.
- Partner's share in the total income of the firm is completely exempt from tax in the hands of the partner under Section 10(2A).

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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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

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Market Efficiency	Markets clear instantaneously; price	Markets are prone to structural failures,	Targeted regulatory oversight, public investment in

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	mechanism allocates resources optimally without systemic friction.	information asymmetry, and coordination coordination failures.	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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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.
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