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B.Com Honours | Semester V | Calicut University

INCOME TAX LAW AND ACCOUNTS

Course Code: COM5CJ301 • Module 1 Notes

Module I: Basic Concepts of Income Tax & Residential Status

Covers the legal architecture of the Income Tax Act, 1961, statutory definitions, tax authority hierarchy, agricultural income integration, and residential status determination under Section 6.

Unit 1: History & Constitutional Validity of Income Tax in India

Introduced in 1860 by Sir James Wilson. Authorized under Entry 82 of List I (Union List) in the Seventh Schedule of the Constitution of India. Governed by Income Tax Act, 1961.

Unit 2: Basic Concepts & Definitions (Sec 2 & Sec 3)

1. Assessee (Sec 2(7)): Every person liable to pay tax or penalty under the Act.
2. Assessment Year (AY - Sec 2(9)): Period of 12 months starting April 1 following the Previous Year.
3. Previous Year (PY - Sec 3): Financial year immediately preceding the assessment year in which income is earned.
4. Person (Sec 2(31)): Individual, HUF, Company, Firm, AOP/BOI, Local Authority, Artificial Juridical Person.

Unit 3: Outline of Income Tax Authorities in India

Hierarchy: Central Board of Direct Taxes (CBDT) → Principal Chief Commissioner / Director General → Commissioner of Income Tax (CIT / Appeals) → Assessing Officer (AO / ITO / ACIT).

Unit 4: Exempted Incomes under Section 10

Incomes excluded from Gross Total Income: Agricultural Income (Sec 10(1)), Share of profit from Partnership Firm (Sec 10(2A)), Commuted Pension (Sec 10(10A)), and Gratuity (Sec 10(10)).

Unit 5: Agricultural Income & Partial Integration Scheme

Defined under Sec 2(1A) (rent/revenue from land in India used for agricultural purposes). Exempt under Sec 10(1), but integrated for tax rate determination if Agricultural Income > Rs. 5,000 and Non-agricultural income > Basic Exemption Limit.

Unit 6: Residential Status & Incidence of Tax of Individual (Sec 6 & Sec 5)

1. Basic Conditions (Sec 6(1)): (a) Stay in India ≥ 182 days in PY, OR (b) Stay in India ≥ 60 days in PY AND ≥ 365 days in 4 preceding PYs.
2. Additional Conditions (Sec 6(6)): Resident for at least 2 out of 10 preceding PYs AND stay in India ≥ 730 days in 7 preceding PYs.
Resident & Ordinarily Resident (ROR): Satisfies 1 Basic + BOTH Additional.

Resident but Not Ordinarily Resident (RNOR): Satisfies 1 Basic + FAILS 1 or both Additional.
Non-Resident (NR): Fails BOTH Basic Conditions.

Practical Case Framework (Individual Residential Status & Tax Incidence Scope Sec 5): Compare taxability of different income streams based on residential status categories.

Incidence of Tax According to Residential Status Matrix (Section 5):

Income Stream Category	Resident & Ordinarily Resident (ROR)	Resident but Not Ordinarily Resident (RNOR)	Non-Resident (NR)
Income received or deemed to be received in India in PY	TAXABLE	TAXABLE	TAXABLE
Income accruing or arising in India in PY	TAXABLE	TAXABLE	TAXABLE
Foreign Income from Business controlled from India	TAXABLE	TAXABLE	NOT TAXABLE
Foreign Income from Business controlled outside India	TAXABLE	NOT TAXABLE	NOT TAXABLE
Past untaxed foreign profit brought into India during PY	NOT TAXABLE	NOT TAXABLE	NOT TAXABLE