DegreeLive

BBA | Semester 6 | UK6SECMGT301

Income Tax - Assessment and Filing

Course Code: UK6SECMGT301 • Module 1 Notes

degreelive.in

Module 1: Concepts of Income Tax and Residential Status

Framework, Definitions, Residential Status Sec 6, Exemptions Sec 10, Admin PAN/TAN, and Loss Set-Off

Chapter 1: Constitutional Foundation and Legislative Architecture of Income Tax

1.1 Constitutional Authority to Levy Direct Taxes

In the sovereign Republic of India, the authority to levy and collect taxes is strictly governed by the Constitution. Under Article 265 of the Constitution of India, *"No tax shall be levied or collected except by authority of law."* The legislative competence of the Union Parliament and State Legislatures is demarcated across the three legislative lists embodied in the Seventh Schedule to the Constitution:

- **Entry 82 of List I (Union List):** Vests exclusive sovereign power in the Central Parliament to levy *"Taxes on income other than agricultural income."*
- **Entry 46 of List II (State List):** Confers exclusive jurisdiction on State Legislatures to levy *"Taxes on agricultural income."* Consequently, the Central Government cannot levy direct income tax on agricultural earnings, necessitating the statutory exemption under Section 10(1) and the mechanism of partial integration.

1.2 The Five Components of Direct Tax Law

The substantive and procedural law of direct taxation in India is comprised of five distinct legislative components:

Component	Promulgating Authority	Legal Nature & Operational Scope
1. The Income Tax Act, 1961	Parliament of India	The foundational statutory code. Contains 298 Sections and XIV Schedules governing taxable entities, heads of income, deductions, assessments, penalties, and appeals. Extended to the whole of India.
2. The Annual Finance Acts	Parliament of India	Enacted annually following the Union Budget. Prescribes the concrete tax rates, surcharge slabs, rebate thresholds, and amends the substantive provisions of the 1961 Act for each fiscal year.
3. The Income Tax Rules, 1962	Central Board of Direct Taxes (CBDT)	Subordinate delegated legislation. Formulates procedural mechanisms: prescribed return forms (ITR-1 to 7), valuation formulas for perquisites (Rule 3), depreciation rates, and safe harbor thresholds.

DegreeLive

Component	Promulgating Authority	Legal Nature & Operational Scope
4. CBDT Circulars and Notifications	Central Board of Direct Taxes	**Circulars:** Issued under Section 119 to clarify statutory ambiguities; legally binding on the Income Tax Department, though not binding on assessees or courts. **Notifications:** Subordinate rules binding on all.
5. Judicial Precedents (Case Law)	Supreme Court of India & High Courts	Rulings of the Supreme Court of India constitute the law of the land under Article 141 of the Constitution, establishing binding interpretations of statutory phrases.

Chapter 2: Essential Statutory Definitions and Fundamental Concepts

2.1 Assessee and Assessment Year

Under Section 2(7) of the Income Tax Act, an **"Assessee"** means any person by whom any tax or any other sum of money (interest, penalty) is payable under this Act. The definition encompasses four statutory classes:

- **Ordinary Assessee:** Every person in respect of whom any proceeding has been taken for the assessment of their income, fringe benefits, or loss.
- **Deemed Assessee:** A person treated as an assessee by legal fiction (e.g., the legal representative of a deceased individual under Section 159, or the trustee of a minor's trust).
- **Assessee in Default:** A person who fails to fulfill a statutory procedural obligation under the Act (e.g., an employer who fails to deduct TDS under Section 192 or fails to deposit deducted tax with the Government).

Assessment Year (Section 2(9)): The twelve-month financial period commencing on the **1st day of April every year and ending on the 31st day of March of the immediately following year**. It represents the financial year in which the income earned during the previous year is formally assessed and taxed.

Previous Year (Section 3): The financial year immediately preceding the assessment year. It represents the income-earning period (1st April to 31st March). For a newly established business or newly sourced professional practice, the previous year commences on the date of business setup and concludes on the following 31st March.

2.2 The Definition of "Person" (Section 2(31))

Income tax is levied on every "Person". Section 2(31) establishes seven distinct statutory categories:

1. **An Individual:** A natural human being (male, female, minor, or person of unsound mind).
2. **A Hindu Undivided Family (HUF):** A joint family entity consisting of all lineal male and female descendants of a common ancestor, governed by Hindu personal law.

DegreeLive

3. **A Company:** An Indian company, or any body corporate incorporated under foreign laws.
4. **A Firm:** A partnership firm registered under the Partnership Act, 1932, including a Limited Liability Partnership (LLP) registered under the LLP Act, 2008.
5. **An Association of Persons (AOP) or Body of Individuals (BOI):** Voluntary or involuntary groupings of entities combining to produce income, whether incorporated or not.
6. **A Local Authority:** Municipal corporations, panchayats, port trusts, and improvement trusts.
7. **Every Artificial Juridical Person:** Entities not falling under the preceding categories (e.g., deities, universities, bar councils).

2.3 Gross Total Income (GTI) versus Total Taxable Income

The determination of an assessee's tax liability follows a strict two-stage statutory hierarchy:

- **Gross Total Income (GTI - Section 80B(5)):** The aggregate sum of income computed under the five statutory heads of income—(1) Salaries, (2) Income from House Property, (3) Profits and Gains of Business or Profession (PGBP), (4) Capital Gains, and (5) Income from Other Sources—after executing intra-head and inter-head set-off of losses and applying clubbing provisions, but **before making any deductions under Chapter VI-A (Sections 80C to 80U)**.
- **Total Income (Net Taxable Income - Section 2(45)):** The residual income arrived at after subtracting all allowable Chapter VI-A deductions from the Gross Total Income. Total income is rounded off to the nearest multiple of ten rupees under Section 288A, and the final tax liability is calculated on this sum.

Chapter 3: Determination of Residential Status of Individuals and Tax Incidence

3.1 Foundational Criteria for Determining Residential Status (Section 6(1))

Tax liability under the Indian Income Tax Act is determined not by citizenship or domicile, but strictly by the individual's **Residential Status** in India during the relevant previous year. An Indian citizen can be a Non-Resident for tax purposes, while a foreign citizen residing in India can become a Resident.

An individual is classified as a **Resident in India** during a previous year if they satisfy **at least ONE of the following two Basic Conditions** under Section 6(1):

- **Basic Condition (a):** The individual is in India during the previous year for an aggregate period of **182 days or more**; OR
- **Basic Condition (b):** The individual is in India during the previous year for an aggregate period of **60 days or more**, AND has been in India for an aggregate period of **365 days or more during the four years immediately preceding the relevant previous year**.

Statutory Exceptions to Basic Condition (b): In the following special circumstances, Basic Condition (b) is completely eliminated, and the individual can only become a resident if they stay in

India for **182 days or more** under Basic Condition (a):

1. An Indian citizen who leaves India during the previous year as a member of the crew of an Indian ship, or for the purposes of employment outside India.
2. An Indian citizen or a person of Indian origin (PIO - parents or grandparents born in undivided India) residing abroad who visits India during the previous year (the 60-day threshold is extended to 182 days; however, if their total Indian income excluding foreign sources exceeds Rs. 15 Lakhs, the threshold is 120 days).

3.2 Classification of Residents: ROR versus RNOR (Section 6(6))

Once an individual is determined to be a Resident under Section 6(1), they are further classified as either a **Resident and Ordinarily Resident (ROR)** or a **Resident but Not Ordinarily Resident (RNOR)**.

A Resident individual qualifies as an **Ordinarily Resident (ROR)** only if they satisfy **BOTH of the following Additional Conditions** under Section 6(6):

- **Additional Condition 1:** They have been a resident in India in **at least 2 out of the 10 previous years** immediately preceding the relevant previous year; AND
- **Additional Condition 2:** They have been in India for an aggregate period of **730 days or more during the 7 previous years** immediately preceding the relevant previous year.

If a resident individual fails to satisfy either one or both of these additional conditions, their status is **Resident but Not Ordinarily Resident (RNOR)**. If an individual satisfies neither basic condition, they are a **Non-Resident (NR)**.

3.3 The Scope of Total Income and Tax Incidence Matrix (Section 5)

The scope of taxable income expands or contracts dramatically depending on the assessee's residential status:

Nature of Income Stream	Resident & Ordinarily Resident (ROR)	Resident but Not Ordinarily Resident (RNOR)	Non-Resident (NR)
Income received or deemed to be received in India in the previous year	**Taxable**	**Taxable**	**Taxable**
Income accruing or arising or deemed to accrue/arise in India	**Taxable**	**Taxable**	**Taxable**
Income accruing and received outside India from a business controlled from or profession set up in India	**Taxable**	**Taxable**	**Not Taxable**

Nature of Income Stream	Resident & Ordinarily Resident (ROR)	Resident but Not Ordinarily Resident (RNOR)	Non-Resident (NR)
Income accruing and received outside India from any other foreign source	**Taxable** (Worldwide income)	**Not Taxable**	**Not Taxable**
Past untaxed foreign profits brought or remitted to India during previous year	**Not Taxable**	**Not Taxable**	**Not Taxable**

Chapter 4: Incomes Wholly or Partially Exempted under Section 10

4.1 Statutory Nature of Exemptions

Incomes specified under Section 10 do not form part of the total taxable income of the assessee. They are excluded at the threshold stage and are not included in Gross Total Income. Key commercial exemptions include:

- **Agricultural Income (Section 10(1)):** Agricultural income derived from land situated in India used for agricultural purposes is 100% exempt from Central income tax, subject to the scheme of partial integration.
- **Receipts from Hindu Undivided Family (Section 10(2)):** Any sum received by an individual as a member of a HUF, paid out of the family's income or impartible estate, is completely exempt in the member's personal hands.
- **Partner's Share in Firm Profits (Section 10(2A)):** A partner's proportionate share in the total income of a partnership firm or LLP (which is taxed at the firm level) is exempt in the partner's individual assessment.
- **Death-cum-Retirement Gratuity (Section 10(10)):** Fully exempt for Government employees. For non-government employees covered under the Payment of Gratuity Act, 1972, exempt up to the least of: (1) Actual gratuity received, (2) 15 days' salary based on last drawn salary for each completed year of service, or (3) Statutory limit of **Rs. 20,00,000 (Rs. 20 Lakhs)**.
- **Commutation of Pension (Section 10(10A)):** Fully exempt for Government employees. For non-government employees receiving gratuity, 1/3rd of normal commuted pension is exempt; if not receiving gratuity, 1/2 of normal pension is exempt.
- **Leave Encashment upon Retirement (Section 10(10AA)):** Fully exempt for Government employees. For private sector employees, exempt up to the least of: (1) Actual amount received, (2) 10 months' average salary, (3) Cash equivalent of unavailed leave (maximum 30 days per year of service), or (4) Statutory ceiling of **Rs. 25,00,000 (Rs. 25 Lakhs)**.
- **House Rent Allowance (Section 10(13A)):** Exempt up to the least of: (1) Actual HRA received, (2) 50% of salary for metro cities (40% non-metros), or (3) Rent paid in excess of 10% of salary.

DegreeLive

- **Life Insurance Policy Maturity Proceeds (Section 10(10D)):** Any sum received under a life insurance policy, including bonus, is exempt, provided annual premium does not exceed 10% of sum assured (for policies issued after 1st April 2012). For high-value non-ULIP policies issued after 1st April 2023, exemption is denied if aggregate annual premium exceeds Rs. 5,00,000.

Chapter 5: Core Administrative Mechanisms: PAN, TAN, TDS, TCS, and Advance Tax

5.1 Permanent Account Number (PAN) and TAN Architecture

Under Section 139A, a **Permanent Account Number (PAN)** is a ten-digit alphanumeric identifier issued by the Income Tax Department that serves as the universal tax identification key for all financial transactions in India. Obtaining a PAN is mandatory for every person whose total taxable income exceeds the basic exemption limit or whose total business turnover exceeds Rs. 5 Lakhs. Quoting PAN is mandatory for high-value financial transactions (purchasing motor vehicles, real estate, opening bank accounts, mutual fund investments > Rs. 50,000).

Tax Deduction and Collection Account Number (TAN - Section 203A): A 10-digit alphanumeric code that must be obtained by every person responsible for deducting tax at source (TDS) or collecting tax at source (TCS). Quoting TAN is mandatory on all TDS challans, quarterly returns, and TDS certificates.

5.2 Interplay of Pre-Paid Taxes: TDS, TCS, and Advance Tax

The Income Tax Department secures tax revenue during the previous year itself through three synchronized collection mechanisms:

- **TDS (Chapter XVII-B):** Payer withholds prescribed percentage at source (Sections 192, 194A, 194C, 194J, 194Q) and deposits with Government by 7th of succeeding month.
- **TCS (Section 206C):** Seller collects additional tax from buyer on specified transactions (motor vehicles > Rs. 10 Lakhs, scrap, foreign tour packages).
- **Advance Tax (Section 208):** Assessee pays tax in quarterly installments if estimated net tax liability exceeds **Rs. 10,000**.
- **Reconciliation:** All pre-paid taxes are compiled in the electronic **Annual Information Statement (AIS)** and Form 26AS, credited against final tax liability upon filing annual ITR.

Chapter 6: Aggregation, Clubbing of Income, and Loss Set-Off Mechanics

6.1 Clubbing of Income Provisions (Sections 60 to 65)

To prevent taxpayers from artificially splitting their taxable income among family members to exploit lower tax slabs, Chapter V of the Act enacts strict **Clubbing Provisions**:

- **Transfer of Income without Transfer of Asset (Section 60):** If an assessee transfers income from an asset without transferring the asset itself, the income remains taxable in the

DegreeLive

transferor's hands.

- **Revocable Transfer of Assets (Section 61):** All income arising from an asset transferred under a revocable agreement is clubbed in the transferor's hands.
- **Remuneration to Spouse (Section 64(1)(ii)):** Salary, commission, or fees paid to a spouse by a concern in which the assessee has a substantial interest (20% or more voting power) is clubbed in the assessee's hands, unless the spouse possesses technical or professional qualifications and the remuneration is solely attributable to their expertise.
- **Income from Assets Transferred to Spouse (Section 64(1)(iv)):** If an asset is transferred to a spouse without adequate consideration (otherwise than in connection with an agreement to live apart), all income from that asset is clubbed in the transferor's hands.
- **Clubbing of Minor's Income (Section 64(1A)):** All income accruing to a minor child is clubbed in the hands of that parent whose total income is higher. The parent can claim an exemption of up to **Rs. 1,500 per minor child** under Section 10(32). (Exception: Income earned by a minor through manual work, talent, or specialized artistic skill is taxed in the minor's own hands).

6.2 Set-Off and Carry-Forward of Losses (Sections 70 to 80)

Losses are adjusted in a strict two-stage sequence:

Stage & Mechanism	Governing Rules & Statutory Restrictions
Stage 1: Intra-Head Set-Off (Section 70)	Loss from one source can be set off against income from another source within the **same head of income**. *Exceptions:* Long-Term Capital Loss can ONLY be set off against Long-Term Capital Gain; Speculation loss can only be set off against speculation profit; Loss from owning/maintaining racehorses only against horse race income.
Stage 2: Inter-Head Set-Off (Section 71)	Unabsorbed loss remaining after intra-head adjustment can be set off against income under **other heads of income** in the same previous year. *Exceptions:* Business loss CANNOT be set off against Salary income; Capital losses cannot be set off against any head other than Capital Gains; House property loss set-off against other heads is **capped at Rs. 2,00,000** per assessment year.
Stage 3: Carry-Forward & Set-Off (Sec 71B to 74A)	Unabsorbed losses can be carried forward to subsequent assessment years: • **House Property Loss (Sec 71B):** Carried forward for **8 assessment years**; set off only against House Property income. • **Business Loss (Sec 72):** Carried forward for **8 assessment years**; set off only against Business profits. Mandatory ITR filing under Sec 139(3) on or before due date required. • **Unabsorbed Depreciation (Sec 32(2)):** Carried forward **indefinitely**; can be set off against any income except salary.

Stage & Mechanism	Governing Rules & Statutory Restrictions
	• **Capital Losses (Sec 74):** Carried forward for **8 assessment years**. LTCL only against LTCG; STCL against both STCG and LTCG.

Chapter 7: Comprehensive Worked Numerical Problems

7.1 Worked Problem 1: Determination of Residential Status and Total Taxable Income

Mr. Anand Kurian, an Indian citizen and software systems architect, reports the following travel movements during the Financial Year 2025-26 (Previous Year):

- Left India for the first time on 15th July 2025 to take up employment with a technology corporation in Dublin, Ireland.
- Prior to 15th July 2025, he had resided continuously in India since birth.
- He did not return to India during the remaining period of FY 2025-26.

During the Previous Year 2025-26, his income details were as follows:

1. Salary received in Dublin for services rendered in Ireland: Rs. 14,00,000 (deposited directly in Dublin bank account).
2. Salary earned in India from Indian employer prior to departure: Rs. 4,50,000 (deposited in Kochi bank).
3. Interest on fixed deposits in State Bank of India, Kochi: Rs. 65,000.
4. Rental income from residential apartment in Thiruvananthapuram (received in India): Rs. 1,80,000 (Municipal taxes paid Rs. 10,000).
5. Dividend received from a UK-based corporation in London: Rs. 75,000 (not remitted to India).

Step-by-Step Resolution:

Step 1: Counting Physical Days in India during FY 2025-26 (Previous Year):
- April 2025: 30 days
- May 2025: 31 days
- June 2025: 30 days
- July 2025: 15 days (day of departure included)
Total Days in India = 30 + 31 + 30 + 15 = **106 days**.

Step 2: Testing Basic Conditions under Section 6(1):
- Basic Condition (a) (182 days test): Mr. Anand was in India for only 106 days. Fails Basic Condition (a).
- Basic Condition (b) (60 days + 365 days): Because Mr. Anand is an **Indian citizen leaving India for the purpose of employment outside India**, the statutory exception applies! Basic Condition (b) is completely eliminated. The 60-day threshold is not available to him.

DegreeLive

Conclusion on Status: Since Mr. Anand stayed in India for only 106 days and cannot use the 60-day rule, he is a **Non-Resident (NR)** for Assessment Year 2026-27.

Step 3: Computation of Total Income for Non-Resident (Section 5):
As a Non-Resident, Mr. Anand is taxed strictly on income received, accrued, or deemed to accrue in India. Foreign income received abroad (Dublin salary Rs. 14 Lakhs and UK dividend Rs. 75,000) is completely non-taxable in India.

Head of Income & Particulars	Amount (Rs.)
1. Income from Salaries	
Salary earned and received in India	4,50,000
Less: Standard Deduction under Section 16(ia)	(50,000)
Net Income from Salaries	**4,00,000**
2. Income from House Property	
Gross Annual Value (Rent Received)	1,80,00,0
Less: Municipal Taxes Paid	(10,000)
Net Annual Value (NAV)	1,70,000
Less: Statutory Deduction under Section 24(a) (30% of NAV)	(51,000)
Net Income from House Property	**1,19,000**
3. Income from Other Sources	
SBI Bank Fixed Deposit Interest	**65,000**
Gross Total Income (GTI)	**5,84,000**
Less: Chapter VI-A Deductions	0
Total Taxable Income in India	**Rs. 5,84,000**

7.2 Worked Problem 2: Set-off and Carry-Forward of Losses

An assessee reports the following financial results across various income streams for the previous year:

- Income from Salary (computed): Rs. 8,00,000.
- Loss from Self-Occupied House Property: (Rs. 70,000).
- Loss from Let-Out House Property: (Rs. 1,80,000) [Total HP Loss = Rs. 2,50,000].
- Profits from Textile Trading Business: Rs. 3,50,000.
- Loss from Speculative Share Trading: (Rs. 80,000).

DegreeLive

- Short-Term Capital Loss: (Rs. 1,20,000).
- Long-Term Capital Gain (Section 112): Rs. 2,00,000.
- Loss from Owning and Maintaining Racehorses: (Rs. 40,000).
- Winnings from Kerala State Lottery (Gross): Rs. 1,00,000.

Step-by-Step Resolution:

1. Capital Gains Adjustments:
Under Section 70, Short-Term Capital Loss (Rs. 1,20,000) can be set off against Long-Term Capital Gain (Rs. 2,00,000).
Net Taxable Long-Term Capital Gain = Rs. 2,00,000 – Rs. 1,20,000 = **Rs. 80,000**.

2. Speculative Business Loss:
Under Section 73, loss from speculative business (Rs. 80,000) CANNOT be set off against non-speculative textile business profits. The entire **Rs. 80,000 Speculation Loss must be carried forward** to the subsequent assessment year.

3. Racehorse Maintenance Loss:
Under Section 74A(3), loss from owning/maintaining racehorses (Rs. 40,000) can only be set off against horse race income. It CANNOT be adjusted against lottery winnings. Must be **carried forward for 4 assessment years**.

4. Lottery Winnings:
Under Section 58(4) and Section 115BB, NO loss of any kind can be set off against lottery winnings! The entire **Rs. 1,00,000 Lottery Winning is taxed flat at 30%**.

5. House Property Loss Restriction:
Total house property loss = Rs. 70,000 + Rs. 1,80,000 = Rs. 2,50,000.
Under Section 71(3A), the maximum house property loss allowed to be set off against other heads is **strictly capped at Rs. 2,00,000**.
The unabsorbed balance of **Rs. 50,000 is carried forward under Section 71B**.

Head of Income	Initial Amount (Rs.)	Inter-Head Set-off Adjustment (Rs.)	Net Taxable Amount (Rs.)
Income from Salaries	8,00,000	Less: House Property Loss (2,00,000)	6,00,000
Profits from Textile Business	3,50,000	—	3,50,000
Long-Term Capital Gains	80,000	—	80,000
Lottery Winnings (Flat 30% tax)	1,00,000	No deduction allowed	1,00,000

Head of Income	Initial Amount (Rs.)	Inter-Head Set-off Adjustment (Rs.)	Net Taxable Amount (Rs.)
Gross Total Income (GTI)			**Rs. 11,30,000**

Summary of Carried-Forward Losses:

1. Unabsorbed House Property Loss: **Rs. 50,000** (carried forward for 8 assessment years).
2. Speculation Business Loss: **Rs. 80,000** (carried forward for 4 assessment years).
3. Racehorse Maintenance Loss: **Rs. 40,000** (carried forward for 4 assessment years).

Chapter 8: Managerial Decision Framework in Preliminary Tax Planning

8.1 Residential Status Planning for Expatriates and NRIs

Individuals planning overseas employment or returning to India must calibrate travel departure and arrival dates to optimize residential status: (1) Departing India after 28th September ensures fewer than 182 days in India, securing Non-Resident status; (2) Maintaining RNOR status upon return allows individuals to enjoy tax exemption on foreign investment earnings for up to 2 years.

DegreeLive