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INCOME TAX - ASSESSMENT AND FILING

EXAM REVISION NOTES

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MODULE I

CONCEPTS OF INCOME TAX AND RESIDENTIAL STATUS

Constitutional Framework and Enactment: Direct tax authorized under Entry 82 of List I (Union List) of the Seventh Schedule to the Constitution of India, empowering Parliament to levy taxes on income other than agricultural income. Governed by the Income Tax Act, 1961, supplemented annually by the Finance Act, Income Tax Rules, 1962, and administrative circulars issued by the Central Board of Direct Taxes (CBDT).

Fundamental Statutory Definitions: Assessee [Section 2(7)]: Every person by whom any tax or any other sum of money is payable under the Act, including deemed assessees, assessees in default, and individuals undergoing assessment proceedings. **Assessment Year [Section 2(9)]:** Period of 12 months commencing on 1st April immediately following the financial year. **Previous Year [Section 3]:** The financial year immediately preceding the assessment year during which income is earned. **Person [Section 2(31)]:** Inclusive classification encompassing an Individual, Hindu Undivided Family (HUF), Company, Firm (including LLP), Association of Persons (AOP), Body of Individuals (BOI), Local Authority, and Artificial Juridical Person.

Gross Total Income vs Total Income: Gross Total Income (GTI) [Section 80B(5)]: Aggregate of taxable incomes computed across all five heads (Salaries, House Property, PGBP, Capital Gains, and Other Sources) after adjusting for intra-head set-off, inter-head set-off, and clubbing provisions. **Total Income [Section 2(45)]:** Net taxable amount arrived at after subtracting permissible deductions under Chapter VI-A (Sections 80C to 80U) from Gross Total Income, rounded off to the nearest ten rupees under Section 288A.

Residential Status Criteria for Individuals [Section 6]: Resident: Satisfies either basic condition: (1) Physical presence in India for 182 days or more during the previous year; or (2) Presence in India for 60 days or more in the previous year and 365 days or more during the 4 preceding previous years (the 60-day threshold is relaxed to 182 days for Indian citizens leaving India for overseas employment or as crew members of an Indian ship). **Resident and Ordinarily Resident (ROR):** Satisfies both additional conditions: resident in India in at least 2 out of 10 preceding previous years, and present in India for 730 days or more during the 7 preceding previous years. **Resident but Not Ordinarily Resident (RNOR):** Fails to meet either or both additional conditions. **Non-Resident (NR):** Fails both basic conditions.

Incidence of Tax [Section 5]: ROR: Taxed on global income accrued, arisen, or received anywhere in the world. **RNOR:** Taxed on Indian income, plus business income accrued outside India if derived from a business controlled in or profession set up in India. **Non-Resident:** Taxed strictly on income received, accruing, or arising in India, or deemed to be received, accrue, or arise in India.

Exempted Incomes under Section 10: Agricultural Income [Section 10(1)]: 100% exempt from central income tax, integrated only for slab rate elevation (partial integration) if non-agricultural income exceeds basic exemption. **Gratuity [Section 10(10)]:** Wholly exempt for government employees; capped at statutory limits for private employees. **Commuted Pension [Section 10(10A)]:** 100% exempt for government employees; 1/3 exempt for private employees receiving gratuity (1/2 if no gratuity). **Leave Encashment [Section 10(10AA)]:** Wholly exempt for government employees; capped at Rs. 25 Lakhs for non-government employees upon retirement.

Administrative Mechanisms: Permanent Account Number (PAN): Ten-digit alphanumeric identifier issued by CBDT under Section 139A to prevent tax evasion and track financial transactions. **Tax Deduction and Collection Account Number (TAN):** Ten-digit alphanumeric code required under Section 203A by entities deducting or collecting tax at source. **Tax Deducted at Source (TDS):** Pay-as-you-earn mechanism withholding tax at payment points. **Tax Collected at Source (TCS):** Withholding collected by sellers from buyers on specified goods under Section 206C. **Advance Tax:** Mandatory pay-as-you-earn installments where net estimated annual tax exceeds Rs. 10,000.

MODULE II

COMPUTATION OF INCOME FROM SALARIES

Chargeability and Employer-Employee Nexus [Section 15]: Taxable remuneration requires a master-servant contractual relationship (contract of service). Taxed on a dual basis of due or receipt, whichever occurs earlier. Advance salary is taxed in the year of receipt; advance against salary is a non-taxable loan. Arrears of salary are taxed in the year of disbursement unless previously taxed on due basis.

Tax Treatment of Allowances: Fully Taxable Allowances: Dearness Allowance (DA), City Compensatory Allowance (CCA), Medical Allowance, Tiffin Allowance, Overtime Allowance, and Servant Allowance. **Fully Exempt Allowances:** Foreign allowances paid by Government of India to citizens serving abroad [Section 10(7)], allowances to Supreme Court and High Court judges, and United Nations Organization (UNO) allowances. **Partially Exempt Allowances:** Children Education Allowance exempt up to Rs. 100 per month per child for up to 2 children. Hostel Expenditure Allowance exempt up to Rs. 300 per month per child for up to 2 children. Transport Allowance exempt up to Rs. 3,200 per month for physically disabled employees.

House Rent Allowance (HRA) Exemption [Section 10(13A) read with Rule 2A]: Available only if rent is actually paid for residential accommodation. Exemption is the least of: (1) Actual HRA received; (2) Rent paid minus 10% of salary; or (3) 50% of salary in metro cities (Mumbai, Kolkata, Delhi, Chennai) or 40% of salary in non-metro locations. Salary for HRA includes Basic Pay + DA (forming part of retirement benefits) + percentage Turnover Commission.

Perquisite Valuation Rules under Section 17(2): Rent-Free Accommodation (RFA): For government staff, license fee fixed by government. For private staff in employer-owned premises: 10% of salary in cities with population exceeding 40 Lakhs; 7.5% in cities between 15 and 40 Lakhs; 5% in other cities. For leased premises, lower of actual lease rent paid or 10% of salary. Furnished RFA adds 10% per annum of original furniture cost. **Motor Car Facility:** Employer-owned car used for mixed official and private duties with expenses met by employer: Rs. 1,800 per month (engine ≤ 1.6 litres) or Rs. 2,400 per month (engine > 1.6 litres), plus Rs. 900 per month for chauffeur. **Interest-Free Loans:** Taxable perquisite based on SBI lending rate on 1st April, exempt if loan does not exceed Rs. 20,000 or is for specified medical treatment.

Terminal Benefits: Gratuity Exemption Limits: Under Payment of Gratuity Act: Least of actual gratuity, (15/26) × last drawn salary × completed years of service (fraction > 6 months rounded up), or Rs. 20,00,000. Not covered by Act: Least of actual gratuity, (1/2) × 10-month average salary × completed years (fractions ignored), or Rs. 20,00,000. **Pension:** Monthly uncommuted pension is 100% taxable for all employees. Commuted lump-sum pension is 100% exempt for government employees; 1/3 exempt for private employees receiving gratuity, 1/2 exempt if no gratuity received.

Deductions from Gross Salary [Section 16]: Standard Deduction [Section 16(ia)]: Flat deduction of Rs. 50,000 or actual gross salary, whichever is less, available under both Old and New Tax Regimes. **Entertainment Allowance [Section 16(ii)]:** Allowed strictly to government employees; lowest of Rs. 5,00,0? No, Rs. 5,000, 20% of basic salary, or actual allowance received. **Professional Tax [Section 16(iii)]:** Deductible on actual payment basis up to state statutory maximum of Rs. 2,500.

MODULE III

OTHER HEADS OF INCOME AND CHAPTER VI-A DEDUCTIONS

Income from House Property [Sections 22 to 27]: Tax on the annual earning capacity of buildings and land appurtenant owned by the assessee and not occupied for own business. **Expected Rent (ER):** Higher of Municipal Value or Fair Rent, capped at Standard Rent. **Gross Annual Value (GAV):** Higher of Expected Rent or Actual Rent Received; if rent received is lower solely due to vacancy, actual rent is GAV. Self-occupied property (up to 2 houses) has GAV and NAV deemed Nil. **Net Annual Value (NAV):** GAV minus municipal taxes paid by the owner. **Deductions [Section 24]:** Section 24(a) standard statutory deduction equal to 30% of NAV. Section 24(b) housing loan interest: fully deductible for let-out property; capped at Rs. 2,00,000 for self-occupied acquisition/construction (Rs. 30,000 for repairs).

Profits and Gains of Business or Profession (PGBP) [Sections 28 to 44DB]: Commercial trading profits adjusted for statutory provisions. **Allowable Deductions:** Rent and repairs of premises (Sec 30/31), depreciation on block-of-assets WDV basis (Sec 32: 15% plant, 40% computers), and revenue business expenses (Sec 37). **Statutory Disallowances:** Section 40(a)(ia) disallows 30% of resident expenses for TDS default. Section 40A(3) disallows 100% of cash expenses exceeding Rs. 10,000 per person per day. Section 43B allows taxes, statutory dues, and bank interest strictly on actual payment basis before return filing due date.

Presumptive Taxation Regimes: Section 44AD: Resident individuals, HUFs, and firms in business with turnover up to Rs. 2 Crore (Rs. 3 Crore if non-cash ≥ 95%) declare profits at 8% (reduced to 6% for turnover received through digital/banking modes). **Section 44ADA:** Resident professionals (medical, legal, engineering, accountancy, architecture) with gross receipts up to Rs. 50 Lakhs (Rs. 75 Lakhs if non-cash ≥ 95%) declare presumptive profits at 50% of gross receipts. Both schemes exempt assessees from books maintenance (Sec 44AA) and tax audit (Sec 44AB).

Capital Gains Framework [Sections 45 to 55]: Asset Classification: Listed shares/equity funds long-term if held > 12 months. Real estate and unlisted shares long-term if held > 24 months. Other assets long-term if held > 36 months. **Indexed Cost:** Purchase cost × (CII of sale year / CII of purchase year). **Statutory Exemptions:** Section 54: LTCG on residential house reinvested in new residential house (cap Rs. 10 Crore). Section 54EC: LTCG on land/building reinvested within 6 months in NHAI/REC/PFC bonds (cap Rs. 50 Lakhs). Section 54F: Proportionate LTCG on non-residential asset reinvested in residential house.

Income from Other Sources [Sections 56 to 59]: Residuary head. **Mandatory Inclusions:** Dividends taxable at slab rates. Lottery and betting winnings taxed at flat 30% under Section 115BB (no basic exemption or expense deductions). Deemed gift taxation under Section 56(2)(x) on gifts exceeding Rs. 50,000 aggregate, exempting gifts from relatives, marriage gifts, and inheritance. **Deductions [Section 57]:** Interest on loan for dividend capped at 20% of dividend; family pension deduction under Section 57(iia) of 1/3 or Rs. 15,000 (Rs. 25,000 under New Regime).

Chapter VI-A Deductions: Section 80C: PPF, EPF, ELSS, Life Insurance, Housing Loan Principal (aggregate 80C, 80CCC, 80CCD(1) capped at Rs. 1,50,000 under Section 80CCE). **Section 80CCD(1B):** Exclusive additional deduction up to Rs. 50,000 for voluntary NPS Tier-I. **Section 80D:** Mediclaim insurance for self/family (Rs. 25,000 / Rs. 50,000 senior citizen) + parents (Rs. 25,000 / Rs. 50,000 senior citizen), total up to Rs. 1,00,000. **Section 80E:** 100% higher education loan interest for 8 consecutive years. **Section 80G:** Donations to approved funds. **Section 80TTA / 80TTB:** Savings interest up to Rs. 10,000 (80TTA) / deposit interest up to Rs. 50,000 for senior citizens (80TTB). **Section 80U:** Disability deduction: Rs. 75,000 (ordinary) or Rs. 1,25,000 (severe).

MODULE IV

COMPUTATION OF TOTAL TAX AND E-FILING PROCESS

Total Income Computation & Tax Regimes: Synthesizes incomes across all five heads minus eligible Chapter VI-A deductions. **Old Tax Regime Slabs:** Up to Rs. 2.5 Lakh Nil; Rs. 2.5L to 5L at 5%; Rs. 5L to 10L at 20%; Above Rs. 10L at 30% (senior citizens basic exemption Rs. 3L, super seniors Rs. 5L). **New Concessional Regime [Section 115BAC]:** Default regime from AY 2024-25. Slabs: Up to Rs. 3L Nil; Rs. 3L to 6L at 5%; Rs. 6L to 9L at 10%; Rs. 9L to 12L at 15%; Rs. 12L to 15L at 20%; Above Rs. 15L at 30%. Eliminates HRA, 80C, 80D, and housing loan interest deductions, but retains standard deduction of Rs. 50,000 and NPS employer contribution.

Rebates, Surcharges, and Cess: Section 87A Rebate: Old Regime: 100% tax or Rs. 12,500 for total income up to Rs. 5,00,000. New Regime: 100% tax or Rs. 25,000 for total income up to Rs. 7,00,000, with marginal relief for incomes marginally above Rs. 7 Lakhs. **Surcharges:** 10% (income > 50L to 1Cr), 15% (1Cr to 2Cr), 25% (2Cr to 5Cr), 37% (> 5Cr in Old Regime; capped at 25% in New Regime). **Health and Education Cess:** Flat 4% on aggregate of tax and surcharge.

Pre-Paid Taxes & Statutory Interest: Advance Tax: Due dates: 15th June (15%), 15th September (45%), 15th December (75%), and 15th March (100%). Presumptive filers pay 100% by 15th March. Senior citizens with no business income are exempt. **Interest under Section 234A:** 1% per month for delay in filing return beyond due date. **Interest under Section 234B:** 1% per month for shortfall in advance tax below 90% of assessed tax. **Interest under Section 234C:** 1% per month for deferment of individual quarterly installments. **Self-Assessment Tax [Section 140A]:** Tax payable after adjusting prepaid credits, paid with statutory interest before filing.

Income Tax Return (ITR) Form Architecture: ITR-1 (Sahaj): Resident individuals with income up to Rs. 50 Lakhs from Salary, 1 house property, and other sources (agricultural income ≤ Rs. 5,000). Prohibited for company directors, holders of unlisted shares, or capital gain earners. **ITR-2:** Individuals/HUFs without business/profession income, accommodating capital gains, foreign assets, and multiple properties. **ITR-3:** Individuals/HUFs with business or profession income. **ITR-4 (Sugam):** Resident individuals, HUFs, and firms with income up to Rs. 50 Lakhs opting for presumptive taxation under Sections 44AD, 44ADA, or 44AE.

Statutory Assessment Regimes: Summary Processing [Section 143(1)]: Algorithmic automated checks at CPC Bengaluru for arithmetical errors and TDS matching; intimation issued within 9 months from end of financial year. **Scrutiny Assessment [Section 143(3)]:** Comprehensive examination conducted through the National Faceless Assessment Centre (NeFAC). **Best Judgment Assessment [Section 144]:** Ex-parte determination upon non-compliance with notices. **Updated Return [Section 139(8A)]:** Form ITR-U filed within 24 months from end of assessment year upon paying 25% (year 1) or 50% (year 2) additional tax penalty.

MODULE V

TAX PLANNING FOR INDIVIDUALS AND PRACTICAL E-FILING

Relief under Section 89(1) for Salary Arrears: Mitigates bracket creep when multi-year arrears or advance payments are disbursed in a single year. Computes additional tax in year of receipt minus additional tax in accrual years. Admissible relief is the positive difference. Assessees must mandatorily submit Form 10E electronically on the portal before filing the return; omission results in automated disallowance and tax demand under Section 143(1)(a).

Tax-Saving Investment Avenues Comparison: ELSS: Highest equity growth potential; shortest lock-in (3 years); LTCG taxable at 10% over Rs. 1 Lakh. **PPF:** Sovereign safety; 15-year horizon; Exempt-Exempt-Exempt (EEE) status where principal, interest, and maturity are completely tax-free. **NPS Tier-I:** Market-linked pension with exclusive additional Rs. 50,000 deduction under Section 80CCD(1B); 60% lump-sum withdrawal tax-free at age 60, 40% mandatory taxable annuity. **Sukanya Samriddhi Yojana (SSY):** Highest small savings rate for girl children; EEE tax status. **5-Year Tax-Saver FD:** Bank-guaranteed returns with 5-year lock-in; annual interest fully taxable at slab rates.

Capital Gains Account Scheme, 1988 (CGAS): Where capital gains from property sale are not reinvested in a new residential house before the return filing due date under Section 139(1), funds must be deposited into CGAS Account-A (savings) or Account-B (term deposit) with a public sector bank. Reinvestment must occur within statutory limits (2 years for purchase, 3 years for construction). Unutilized balances are taxed as long-term capital gains upon expiry of the 3-year limitation window.

End-to-End Practical E-Filing Procedure: Step 1: Log in to incometax.gov.in using PAN and secure password; download prefilled JSON data. **Step 2:** Ingest JSON into Common Offline Utility; reconcile figures against Form 16, Form 16A, Form 26AS, and Annual Information Statement (AIS). **Step 3:** Resolve schema validation errors including address codes, single refund bank account nomination, and schedule allowances. **Step 4:** Calculate tax, pay any self-assessment balance via e-Pay Tax, generate verified JSON payload, and upload to portal.

E-Verification Authentication Options: Returns are legally invalid unless verified within 30 days of submission. **Aadhaar OTP:** Instant verification via OTP sent to UIDAI-linked mobile number. **Bank Account EVC:** Generated through pre-validated bank account via NPCI integration. **Demat Account EVC:** Delivered via registered NSDL/CDSL mobile number. **Net Banking Redirect:** Single sign-on authentication through internet banking. **Physical ITR-V:** Signed single-page form sent via speed post or ordinary post to CPC Bengaluru (couriers prohibited).

Post-Filing Procedures & Section 154 Rectification: Returns progress from Submitted to Successfully e-Verified, Under Processing, and Processed with Intimation under Section 143(1). If arithmetical errors or tax credit mismatches occur, an online Rectification Application under Section 154 must be submitted within 4 years from the end of the financial year. Grievances regarding refund delays or processing mismatches are escalated through the institutional e-Nivaran portal and CPGRAMS.

Deemed Assessee and Legal Representatives [Section 160]: A representative assessee who is liable to be assessed in respect of income belonging to another person. Includes the guardian or manager of a minor or lunatic, the Court of Wards or Administrator-General for estate beneficiaries, trustees of a formal private trust, and legal heirs who inherit liability for the deceased up to the value of the inherited estate. Section 140 dictates who must sign the return: the individual personally (or power of attorney holder if absent from India), Karta for HUF, Managing Director for a company, and Managing Partner for a firm.

Double Taxation Avoidance Agreements (DTAA): Section 90 (Bilateral Relief): Central Government enters into comprehensive bilateral tax treaties with foreign nations to prevent double taxation of cross-border income, allocate taxing rights, and exchange tax information. **Section 91 (Unilateral Relief):** Where no treaty exists between India and the foreign country, resident assessees receive a unilateral tax credit calculated at the lower of the Indian tax rate or foreign tax rate on doubly taxed overseas income.

Profits in Lieu of Salary [Section 17(3)]: Any compensation received from an employer or former employer in connection with termination of employment or modification of terms of contract; sums received under a Keyman Insurance Policy including bonus; and any lump sum received prior to joining or after cessation of employment. **Voluntary Retirement Scheme (VRS) Exemption [Section 10(10C)]:** Lump-sum compensation received upon voluntary retirement or voluntary separation complying with Rule 2BA is exempt up to a statutory lifetime ceiling of Rs. 5,00,000 for employees of public sector undertakings, government, and approved corporate entities.

Valuation of Specified Securities and Sweat Equity [Section 17(2)(vi)]: Taxable as a perquisite in the financial year in which shares or securities are allotted or transferred to the employee. The perquisite value is the Fair Market Value (FMV) of the security on the date on which the option is exercised by the employee, minus the actual amount recovered from the employee. For eligible startups recognized under Section 80-IAC, tax payment on ESOP perquisites is deferred to 48 months from the end of the assessment year or till sale/resignation.

Depreciable Assets Capital Gains [Section 50]: Where a capital asset forming part of a block of assets on which depreciation has been allowed is transferred, gains or losses are statutorily treated as Short-Term Capital Gains (STCG) regardless of holding period: (1) If full value of consideration exceeds the aggregate of opening WDV, additions during the year, and transfer expenses, the excess is taxed as STCG; (2) If the block ceases to exist because all assets are sold, the difference is short-term capital loss or gain.

Transfer of Agricultural Land [Section 54B]: Capital gains arising from the transfer of land which, in the 2 years immediately preceding the date of transfer, was being used by an individual or parent for agricultural purposes, are exempt if the assessee purchases new agricultural land within 2 years from the date of transfer (maximum exemption equals the cost of new agricultural land).

Deduction for Employment of New Employees [Section 80JJAA]: An incentive for job creation available to assessees subject to tax audit under Section 44AB. Allows a deduction of 30% of additional employee cost incurred in the course of business for 3 consecutive assessment years, provided new employees are employed for a minimum of 240 days (150 days for apparel/footwear) and their total monthly emoluments do not exceed Rs. 25,000.

Higher Withholding Mandates [Section 206AA & Section 206AB]: Section 206AA: Any person entitled to receive income on which tax is deductible who fails to furnish their PAN to the deductor is subjected to TDS at the highest of: (1) Rate specified in the relevant Act provision; (2) Rate in force; or (3) Flat 20%. **Section 206AB:** Mandates double the normal TDS rate or 5% (whichever is higher) on payments to a 'specified person' who has failed to file their income tax return for the preceding previous year and whose aggregate TDS/TCS exceeded Rs. 50,000.

Common ITR E-Filing Pitfalls and Best Practices: (1) Omission of accrued savings bank and fixed deposit interest reported in AIS; (2) Incorrect selection of Assessment Year on tax payment challans; (3) Mismatch between deductor TAN entered and Form 26AS data; (4) Claiming deductions without keeping required Form 10E, Form 10BA, or donation receipts; (5) Failure to pre-validate and nominate a primary bank account with matching PAN-name records, resulting in delayed refund processing. Assessees must preserve all tax computation sheets, bills, and payment challans for a minimum of 10 assessment years to satisfy reassessment scrutiny under Section 148.

Statutory Anti-Black Money Cash Restrictions [Sections 269SS, 269T & 269ST]: Section 269SS: Prohibits taking or accepting any loan, deposit, or specified advance of Rs. 20,000 or more otherwise than by an account payee cheque, account payee draft, or electronic clearing system; violation attracts a 100% penalty under Section 271D. **Section 269T:** Prohibits repayment of any loan, deposit, or specified advance of Rs. 20,000 or more in cash; failure attracts an equivalent 100% penalty under Section 271E. **Section 269ST:** Prohibits receiving an amount of Rs. 2,00,000 or more in cash from a person in a single day, in respect of a single transaction, or in respect of transactions relating to one event; punishable by an equal penalty under Section 271DA.

Equalisation Levy and Digital Taxation: Direct tax mechanism targeting non-resident digital enterprises: (1) 6% Equalisation Levy on consideration received by non-residents for online advertisement services provided to resident businesses; (2) 2% Equalisation Levy on consideration received by non-resident e-commerce operators for supply of goods or facilitation of online services to Indian residents.

Mandatory Foreign Asset Disclosures [Schedule FA]: Resident and Ordinarily Resident (ROR) taxpayers holding any asset located outside India (foreign bank accounts, depository accounts, shares in foreign companies, ESOPs of multinational parents, immovable properties, or signing authority in foreign accounts) must mandatorily disclose all particulars in Schedule FA of ITR-2 or ITR-3. Willful failure or furnishing inaccurate details attracts an onerous flat penalty of Rs. 10 Lakhs and rigorous prosecution under the Black Money Act, 2015.

Annual Tax Governance Cadre: Individual compliance requires disciplined quarterly milestones: April regime selection and employer investment declarations; June Form 16 verification and Q1 advance tax; July non-audit return filing and e-verification; September CPC intimation review and Q2 advance tax; December Q3 advance tax and belated/revised return deadline; March 100% advance tax discharge and Chapter VI-A investment completion.

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