Chapter I : Introduction

Introduction :

The most important source of revenue of the Government is taxes. **The act of levying taxes is called taxation**. A tax is compulsory charge or fees **imposed by the Government** on individuals or corporations. The persons who are taxed have to pay the tax irrespective of any corresponding return from the Goods and Services by the Government. The taxes may be imposed on income and wealth of persons or corporations and the rate may vary.

What is Tax? :

Compulsory monetary contribution to the states revenue, assessed and **imposed by a Government** on the activities, enjoyment, expenditure, income, occupation, privilege, property, etc of **individuals and organizations**. Tax is imposition of financial charge or other levy upon a taxpayer by a state or other the functional equivalent of the state.

1. **Selingman :** 'Tax means a compulsorily collected donation from public which is used for the benefit of all. Tax does not cater to individual needs'.

2. **Taylor :** 'Tax means a **compulsory donation** by public **without any direct benefit** for such donation'.

3. **Dr. Dalton :** 'Tax is mandatory liability and it does not resemble any reciprocal or proportionate benefit'.

Types of taxes :

There are two types of taxes in India – (a) Direct Taxes (b) Indirect Taxes

a) **Direct Tax :** A direct tax is really a tax which is paid **by a person** on whom it is legally imposed and the **burden of which cannot be shifted** to any other person is called a direct tax. For example - Income Tax, Wealth Tax, etc.

i) **Dr. Dalton :** 'When tax is levied on one person and the same is paid by that person then it is said to be direct tax'.

ii) **Prof. Bullock :** 'Tax levied on **production of goods** is an indirect tax. Similarly tax levied on income is direct tax'.

b) **Indirect Tax :** The taxes in which the **burden is passed on to a third party** are called Indirect Taxes. For example - Service Tax, VAT, Excise duty, Custom duty, etc.

i) **Dalton :** The tax which is levied on one person but recovered, partly or fully from some other person can be defined as indirect tax'.

ii) **Prof. Bullock :** 'Tax levied on consumers and tax levied on expenditure could be defined as indirect tax'.

iii) **Prof. J.S.Gill :** 'When tax levied on one person could be transferred on some other person and when the Government does not expect some specific person to pay such tax, then it is an indirect tax'.

Difference between Direct Tax and Indirect Tax

Sr. No.	Point of Distinction	Direct Tax	Indirect Tax
1.	Meaning	Direct tax is a tax wherein the levy of tax is made on a person and the responsibility of paying such tax is **fixed on that person**.	In this the levy of tax is made on one person and the responsibility of paying the tax to the Government is **fixed on some other person**.
2.	Levy	Direct tax is levied on **person**.	Indirect tax is levied on **goods and services**.
3.	Transfer of tax	The burden of direct tax **cannot be transferred to other person**.	The burden of indirect tax **can be transferred to the end users**.
4.	Nature	Direct tax is considered **progressive tax**.	Indirect tax is considered as **regressive tax.**
5.	Effect	The purpose of direct tax is to **redistribute the wealth** of a nation.	Indirect tax **increases the price of goods or services**.
6.	Examples	Income Tax, Wealth Tax, Gift Tax.	Excise Duty, Customs Duty, Sales Tax, VAT, etc.

Income Tax :

Income tax is tax on income. Income tax is a **central subject** according to the Constitution of India. Income tax is a very important **direct tax**. It is an important and most significant source of revenue of the Government. The government needs money to maintain law and order in the country; safeguard the security of the country from foreign powers and promote the welfare of the people. It is the foremost duty of the government to bring out such welfare and development programmes which will bridge the gap between the rich and the poor. For this purpose, mobilization of funds from various sources is required. These sources may be direct or indirect. Income tax is one of the most important tools to achieve balanced socio-economic growth.

Objectives of Income Tax :

The objectives of income tax may be –

1. To **reduce inequalities** in the distribution of income and wealth.
2. To bring out **equity between classes** of tax payers.
3. To **accelerate the economic growth** and development of country.
4. To make available of **funds for economic development**.
5. To **encourage investment** in new capital goods.
6. To **channelize investment** into those sectors which contribute the most economic growth.

Who is liable to pay income tax? :

Every person, whose taxable income for the **previous financial year** exceeds the **minimum taxable limit**, is liable to pay income tax **to the Central Government** during the **current financial year** on the **income of the previous financial year** at the **rates in force during the current financial year**.

Features of Income Tax :

1. Income tax is charged on the **income of previous year**, at a rate which is prescribed by the Finance Act for the relevant Assessment year.

2. The **Finance Act is passed every year** by the parliament in the form of 'Budget'.
3. Income tax is **levied on a person** in relation to his income of the previous year.
4. The tax payer's liability is determined with reference to his **residential status** in the previous year or accounting year.
5. Liability to income tax arises only where the total income in the accounting year **exceeds the maximum tax free amount** prescribed by the Finance Act to that relevant year.
6. The rates of income tax are **progressive** and incidence of tax increases with the rise of income.
7. It is compulsory to **deduct the tax at source** and to pay it to the Government.

Brief History of Income Tax in India:

1. In India, **Sir James Wilson**, who became first **British-India's First Finance Minister**, introduced income tax for the first time in **1860** in order to meet the expenses and losses suffered by the rulers on account of **Military Mutiny** (Freedom Movement) of **1857**. It was introduced as a temporary revenue measures only for five years.
2. The separate Income Tax Act was passed in the year **1886**, which was remained in force up to 1917 with various amendments from time to time.
3. In **1918**, a new Income Tax Act was passed.
4. The Income Tax Act 1918 was replaced by another new act which was passed in the year **1922**. The 1922 Act was remained in force up to the Assessment year 1961-62 with numerous amendments.
5. The Income Tax Act 1922 had become very complicated on account of innumerable amendments. The Government of India referred it to the Law Commission in 1956 with a view to simplify and for the prevention of tax evasion. The law commission submitted its report in September 1958.
6. Meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimize inconveniencies to assesses and prevent evasion of Tax. This Committee submitted its report in 1959.
7. Finally, the Income Tax Act has been brought into force with effect from **01st April, 1962**. It applies to the whole of India and Sikkim (including Jammu and Kashmir).
8. Income Tax Act 1961 contains **298 sections and XIV (14) schedules**.

Short Title, Extent and Commencement (Sec 1) :

1.1 **Short Title :** This may be called the **Income Tax Act, 1961**,

1.2 **Extent :** It extends to **whole of India**. (It also means people of **Jammu and Kashmir** earning income is required to pay income tax to Government of India).

1.3 **Commencement :** This act comes into force on **1st day of April, 1962**.

Finance Bill :

'Financial Bill' means a bill ordinarily introduced every year to give effect to the financial proposals of the Government of India for the next following financial year and includes a bill to give effect to supplementary financial proposals for any period. A **Financial Bill is a Money Bill** as defined in **Article 110** of the constitution.

The proposals of the government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by parliament are submitted to Parliament through this bill. The finance bill can be introduced only in Lok Sabha. Rajya Sabha can recommend amendments in the Bill. The bill has to be passed by the Parliament within 75 days of its introduction.

Procedure for passing of the Money Bills :

1. A money bill can be introduced or originated **only in Lok Sabha**.
2. A money bill can be introduced only on **prior recommendations of the President**.
3. **Lok Sabha speaker** will decide whether it is a money bill or not. His decision is final, no one is challenging his decision.
4. A money bill can be a **government bill** only.
5. Once a money bill is passed in Lok Sabha, it is transmitted to Rajya Sabha for its consideration. Rajya sabha can neither reject nor amend the money bill. It can make only recommendations and has to return the bill with or without recommendation to Lok Sabha in **14 days**.
6. The Lok Sabha **may or may not accept the recommendations** of Rajya Sabha. Thus returned bill is considered passed in both houses. If Rajya Sabha does not even return the bill in **14 days**, it is considered passed in both houses.
7. The bill has to passed by the Parliament within **75 days** of its introduction.

Important Definitions:

Under Sec. 2 and 3 of the Income Tax Act, 1961, definitions of important terms are given -

1) Gross Total Income (Sec. 14) :

Income of a person is computed under the following five heads -

1. Salaries.
2. Income from house property.
3. Profits and gains of business or profession.
4. Capital gains.
5. Income from other sources.

The aggregate income under these heads is termed as 'Gross Total Income'. In other words, gross total income means total income derived from the above five sources before making any deduction under section 80C to 80U.

2) Total Income:

Total income means the amount of income left after making the deductions under sections 80C to 80U from the gross total income. The amount so arrived is rounded off to the nearest multiple of ten rupees.

Difference between Gross Total Income and Total Income

No.	Gross Total Income	Total Income
1.	Aggregate of various heads of income is called Gross Total Income.	After deduction U/s 80C to 80U, the balance is called Total Income.
2.	Gross Total Income is not rounded off.	Total Income is rounded off to the nearest multiple of ten rupees.
3.	Tax is not levied on Gross Total Income.	Tax is levied on the Total Income at the prescribed rates.
4.	Gross Total Income is not less than the Total Income.	Total Income can be equal to Gross Total Income or less than Gross Total Income.
5.	Agricultural income is not included in Gross Total Income.	If agricultural income excess Rs. 5,000/-, it is included in the total income of an individual or HUF to determine the tax payable by the assessee.

3) Person Sec. 2(31) :

The term 'person' includes:

i) **An individual :** An individual means a natural person or a human being, who may be male, female, minor child or a lunatic.

ii) **A Hindu undivided family :** A Hindu Undivided Family means a Hindu family which consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters.

iii) **A company :** A company may be defined as an artificial person created by law with perpetual succession, a common seal and shares carrying limited liability.

iv) **A firm :** A firm means a partnership firm which is defined under the Partnership Act. There are two conditions for partnership firm (i) There must be registered partnership deed (ii) Profit sharing ratio must be included in deed.

v) **An association of persons (AOP) or a body of individuals (BOI), whether incorporated or not :** An association of persons means two or more persons joining for a common purpose for the purpose of earning income. It may consist two or more individuals or any other person, i.e., an individual and a company or two or more companies.

vi) **A local authority :** Local authority includes Municipality, Municipal Corporation, District Board, etc.

vii) **Every artificial juridical person not falling within any of the preceding categories :** An idol or deity is assessable as an artificial juridical person, but through persons managing them. Similarly, all other artificial persons, with a juristic personality are artificial persons, like universities.

4) Assessee Sec. 2(7) :

An assessee means a person -

i) Who is liable to pay any tax; or

ii) Who is liable to pay any other sum of money under this Act (e.g., interest, penalty, etc.); or

iii) In respect of whom any proceeding under this Act has been taken for the assessment of his income; or

iv) In respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or

v) In respect of whom any proceeding under this Act has been taken for the assessment of the loss sustained by him; or

vi) In respect of whom any proceeding under this Act has been taken for the amount of refund due to him; or

vii) Who is deemed to be an assessee under any provision of this Act; or

viii) Who is deemed to be an assessee in default under any provision of this Act.

5) Deemed Assessee: A person, who is deemed to be an assessee for some other person, is called 'Deemed Assessee'. For example,

a) After the death of a person, his legal representative will be treated as an assessee for that income of the deceased on which tax has not been paid by the deceased before his death.

b) A person representing a foreigner or a minor or a lunatic is treated as an assessee for the income of such foreigner or minor or lunatic.

6) Assessee in Default:

When a person is responsible for doing any work under the Act and he fails to do it, he is called an 'Assessee in Default'. For example, if a person while making any payment to another person, is liable to deduct income tax thereon at source, does not deduct income tax there from, or having deducted it, does not deposit it in the Government Treasury, he will be treated as an Assessee in Default for that income tax.

7) **Assessment Year [Sec. 2(9)]**

Assessment year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year. An assessee is liable to pay tax on the income of the previous year during the next following assessment year. For example, during the assessment year 2017-18, tax shall be paid for the previous year 2016-17.

8) **Previous Year (Sec. 3) :**

Previous year means the financial year immediately preceding the assessment year. In other words, the year in which income is earned is known as previous year and the next year in which this income is taxable is known as assessment year. Income tax is charged on the total income of the previous year at the rates prescribed by the relevant Finance Act for the assessment year.

9) **Financial Year :**

The year started from 1st April to 31st March of the next year. A financial year is both a previous year as well as an assessment year. It is previous year for the income earned during that financial year and assessment year for the income earned during the preceding financial year. For example, Financial Year 2017-18 is assessment year for the income earned during the financial year 2016-17.

10) **Rounding-off of income (Sec. 288A) :**

The taxable income shall be rounded off to the nearest multiple of ten rupees and for this purpose any part of a rupee consisting of paise shall be ignored and thereafter if such amount is not a multiple of ten, then if the last figure in that amount is five or more, the amount shall be increased to the nearest higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten.

11) **Rounding-off of tax (Sec 288B) :**

Any sum payable by an assessee and the amount of refund due, under the provisions of the Act shall be rounded off to the nearest ten rupees.

12) **Casual Income :**

Any receipt which is of a casual and non-recurring nature is casual income. In other words, casual income is that income the receipt of which is accidental and without any stipulation. It is in nature of an unexpected wind-fall.

Winning from lottery, crossword puzzles, card games and other games of any sort or from gambling or betting of any form or nature, whatsoever are casual incomes. Receipts even from habitual betting are non-recurring receipts and assessable as casual income.

The casual income does **not include** –

i) a) **Capital gains**; or

b) **Receipts arising from business** or the exercise of a profession or occupation; or

c) Receipts by way of **addition to remuneration of an employee**, such as bonus, gratuity, perquisites, etc.

ii) Voluntary payment received in exercise of an occupation is not treated as casual income. For example, if an architect submitted a plan in a competition for construction of a building, the prize won by him, is income from profession.

iii) **A gift from a relative is not income at all**. A gift from a relative does not become income merely because it is repeated year after year. A regular allowance given year after year purely as a voluntary gift, by husband to his wife, by a parent to a child, is merely a fresh gift every time, it is paid and does not amount to income.

iv) Payment by husband to his wife under an agreement to live apart as maintenance allowance is neither causal income nor a personal gift. Hence, it is taxable.

Other provisions relating to Casual Income :

i) **Expenses are not deductible :** If expenses are incurred to receive casual income, such expenses are not deductible from any income. For example, an individual purchases lottery tickets, the cost of lottery tickets is not deductible from any income.

ii) **Set-off off losses not permitted :** If instead of casual income there is casual loss, such loss cannot be set-off from any income. For example, If a person wins a card game on the first day and loses the next day, he cannot set-off the loss against any income.

iii) **Tax deduction at source :**

a) If the winnings from **horse race exceed Rs. 10,000/-**, tax will be deducted at source at the prescribed rate.

b) If the winnings from any **lottery, crossword puzzle, card game and other game of any sort exceed Rs. 10,000/-**, tax will be deducted at source at the prescribed rate.

iv) **Rate of tax :** On winning from lottery, crossword puzzle, races, gambling, betting, etc **tax is chargeable @ 30%**.

Basis of Charge of Income Tax:

The following basic principles are the basis of charging income tax -

1. Income tax is an annual tax on income.
2. Income of previous year is taxable in the next following assessment year at the rate or rates applicable to that assessment year. However, there are certain exceptions to this rule. For Example, **Tax in the same Financial Year** –

a) Income of non-resident from **shipping** (Sec. 172)

b) Person **leaving permanently** / long time (Sec 174)

c) Bodies form for **short duration** (174A)

d) Person trying to **alienate his assets** to avoid tax (175)

e) Income of **discontinued business** (176)

3. **Tax rates are fixed by the annual Financial Act**.
4. Tax is charged on every person as defined in Section 2(31).
5. The tax is charged on the total income of every person computed in accordance with the provisions of the Income Tax Act.
6. Income tax is to be deducted at the sources or paid in advance as provided under provisions of the Act.

Classification of Income :

The total income is computed on the basis of the residential status of the assessee. The income is classified into the following five heads.

1. Income from Salaries;
2. Income from House Property;
3. Profits of Business and Profession;
4. Capital gains and
5. Income from other sources.

Procedure for computing the total income :

For computing the total income of an assessee and the tax payable by him, following procedure is followed –

1. Classify the income under each of the **five heads** and then deduct from the income under each head the deductions permissible under the Act in respect of that head of income. The balance of amount left under each head of income is its assessable income.
2. Total upto the assessable income of each head and the aggregate of all these assessable income is called the **Gross Total Income**.
3. From the Gross Total Income deduct the **deductions permissible under Sec. 80C to 80U** of the Act for computing the total income. The balance left after subtracting the allowable deductions is called the 'Total Income'.
4. The amount of income tax payable is then calculated on this total income according to the rates prescribed by the Finance Act for the relevant assessment year and the rates prescribed under different sections of the Act.

1) Residential Status of an Individual

On the basis of residence the assessees are divided into three categories. As per the provisions of the Income Tax Act, an individual and a Hindu undivided family can either be –

1) Resident and Ordinarily Resident; or
2) Resident but not Ordinarily Resident; or
3) Non-Resident

1) Resident and Ordinarily Resident:-

An individual is said to be resident in India in any previous year if he satisfies any one of the basic conditions and both the additional conditions.

Basic Conditions:-

a) He is in India in the relevant previous year for a period of **182 days or more**, or
b) He is in India for at least **60 days or more** during the relevant previous year **and** he has been in India for at least **365 days or more during the four years** immediately preceding the previous year.

Exceptions to the above rules of **60 days** stay in India:-

i) An individual who is a **citizen of India and leaves India** in any previous year for the purpose of employment or as **a member of the crew of an Indian ship** must have stayed in India for at least 182 days during the previous year instead of 60 days;
ii) If any citizen of India or a **foreign national of Indian origin**, who is living outside India, comes on a visit to India in the previous year, he must have stayed in India for at least **182 days** during the previous year instead of 60 days.

Notes:

1. A person is deemed to be of **'Indian origin'** if he, or either of his parents or any of his grandparents, was **born in undivided India**. It may be noted that grandparents include both maternal and paternal grandparents.
2. It is not at all necessary that he should stay at a stretch for 182 days. His total stay for at least 182 days may be with gaps.
3. For calculating number of days stay in India, days of entry and exit should be included in the period of stay in India.

Additional Conditions:

A person has to **satisfy both** the following additional conditions besides satisfying any one of the above mentioned basic conditions in order to become 'Resident and Ordinarily Resident'.

i) He has been resident in India in **at least 2 out of 10 previous years** immediately preceding the relevant previous year.

ii) He has been in India for **at least 730 days** in all **during the seven previous years** preceding the relevant previous year.

Note : The day on which he enters in India as well as the day on which he leaves India shall be taken into account as the stay of the individual in India

2. Resident but not Ordinarily Resident:

If an individual satisfies any one of the above basic conditions but does not satisfy the two additional conditions, he is said to be 'Not Ordinarily Resident'.

3. Non-Resident:

If an individual satisfies none of the basic conditions, he is said to be 'Non-Resident'.

2) Residential Status of Firm

A partnership firm is said to be resident in India if –

a) Resident : The control and management of their affairs are wholly or partly situated within India during the relevant previous year.

b) Non-resident in India : If the control and management of their affairs are situated wholly outside India.

A firm cannot be ordinarily or not ordinarily resident. The residential status of the partners is not relevant in determining the status of the firm.

3) Residential Status of Company

a) Resident : A company is said to be a resident in India in any previous year, if -

i) It is an Indian company; or

ii) Its place of effective management, in that year, is in India.

An Indian company is always resident in India. A foreign company is resident in India only if during the previous year, place of effective management is situated wholly in India.

b) Non resident : A foreign company is treated as non-resident if during the previous year, place of effective management is either is wholly or partly situated out of India.

A company can never be ordinarily or not ordinarily resident in India. In case of a foreign company even the slightest place of effective management is exercised from outside India, it would be treated as a non-resident.

Structure of IT Authorities (Sec. 116):

There shall be the following classes of income tax authorities for purposes of the Income Tax Act.

The Central Board of Direct Taxes

↓

Principal Directors General of Income Tax / Principal Chief Commissioners of Income Tax.

↓

Directors – General of Income Tax / Chief Commissioner of Income Tax

↓

Principal Director of Income Tax / Principal Commissioner of Income Tax

↓

Directors of Income Tax / Commissioner of Income Tax

↓

Additional Directors of Income Tax / Additional Commissioner of Income Tax

↓

Joint Directors of Income Tax / Joint Commissioner of Income Tax

↓

Deputy Directors of Income Tax / Deputy Commissioner of Income Tax

↓

Assistant Directors of Income Tax / Assistant Commissioner of Income Tax

↓

Income Tax offices

↓

Tax Recovery Officers

↓

Inspector of Income Tax

Advance payment of Tax :

Advance payment of tax is also known as the 'pay-as-you-earn' scheme. It means that assesse has to pay tax simultaneously along with the earning of his income. This tax is paid on the current year's income in the same year. In fact, it is paid as advance and it is called 'Advance payment of tax'.

Liability for payment of advance tax :

Advance tax shall be payable during any financial year in respect of the total income of the assessee which should be chargeable to tax for the assessment year immediately following that financial year, and it shall be called 'Current Income'.

An individual resident **shall not** be liable, if –

i) He does not have any income chargeable under the head PGBP.

ii) He is of the age of 60 years or more at any time during the previous year.

Condition of liability to pay advance tax :

Advance tax shall be payable if your **tax liability exceeds Rs. 10,000 in a financial year**.

Installments of advance tax and due dates :

Installment	Due Date	Amount Payable
I	One or before 15th June	Not less than 15% of advance tax
II	One or before 15th September	Not less than 45% of advance Tax. It means 45% of advance tax, less the amount paid in earlier installment i.e. 30%
III	One or before 15th December	Not less than 75% of advance Tax. It means 75% of advance tax, less the amount paid in earlier installment i.e. 30%

IV	One or before 15th March	100% of advance Tax. Reduced the amounts paid earlier installments i.e. 25%

Tax deduction at Source (TDS):

The tax deduction at source means that the person responsible for making payment of certain incomes to the income earners, deduct income tax at the prescribed rates on such incomes before payment is made to them. The amount so deducted at source shall be deposited by the deductor in the government treasury within the prescribed time limit. The tax so deducted is called deduction of tax at source. TDS should be deposited to government on or before **7 days from the end of the month** in which the deduction is made.

Tax Collected at Source (TCS) :

Tax collected at source (TCS) is the tax payable by a seller which he collects from the buyer at the time of sale. The Income-tax act governs the goods on which the seller has to collect tax from the purchasers. The seller deposits the TCS amount within **7 days from the last day of the month** in which the tax was collected.

Slab Rates AY (2019-20) :

No.	Age	Tax Rate (Total Income Rs.) Nil	5%	20%	30%	Rebate U/s 87A, Total income does not exceed Rs. 3,50,000.
1.	Individual resident Below 60 yrs. [These rates are also applicable to non-resident]	Below 2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	Above 10,00,000	Rs. 2,500 or Income tax chargeable whichever is less.
2.	Senior Citizen 60-80 yrs [Only resident]	Below 3,00,000	3,00,000 to 5,00,000	5,00,000 to 10,00,000	Above 10,00,000	
3.	Super Senior Citizen Above 80 yrs [Only resident]	Below 5,00,000	--	5,00,000 to 10,00,000	Above 10,00,000	

Surcharge: 10% of tax where total income exceeds Rs. 50 lakh

15% of tax where total income exceeds Rs. 1 crore

[Surcharge is charges on taxable amount minus rebate]

Health and Education Cess : 4% of the total of Income Tax and Surcharge.

[Cess is charged after marginal relief]

Computation of Tax Liability on Total Income (A.Y. 2019-20)

	Tax on Total Income (Normal Rates)	xxx
Less :	Rebate u/s 87A [Max. Rs. 2,500 or 100% tax, whichever is less] [Resident + Individual + Total Income does not exceed Rs. 3,50,000]	(-) xxx
		xxx (a)
Add :	Surcharge (Multiple of one) [Income exceeds Rs. 50 Lakh upto 1 crore @ 10% on [amount (a)] [Income exceeds Rs. 1 crore @ 15% on [amount (a)]	(+) xxx
		xxx
Less :	Marginal Relief* (Multiple of one)	(-) xxx
		xxx(b)

Add:	Education Cess @ 4% (Amount (b)] (Multiple of one)	(+) xxx
	Tax Liability	xxx
	Rounding off (Multiple of ten)	xxx

Calculation of Marginal Relief*

	Tax on excess amount @ 30%	xxx
Add :	Total surcharge amount	xxx
		xxx
Less :	Tax on surcharge cannot exceeds Rs. 1 crore [Total income – Rs. 1 crore / Rs. 50 Lakh]	xxx
	Marginal Relief	xxx

Illustration 1 : Total income of Mr. X (Individual) is Rs. 10,30,000. Calculate Tax liability for the A.Y. 2019-20. [**Ans :** Rs. 1,26,360/-; Round off Rs. 1,26,360/-]

Illustration 2 : Net taxable income of Mr. X (Individual) is Rs. 1,20,00,000. Calculate Tax liability for the A.Y. 2019-20. [**Ans :** Rs. 40,81,350/-; Round off Rs. 40,81,350/-]

Illustration 3 : Net taxable income of Mr. X (Individual) is Rs. 1,02,00,000. Calculate Tax liability for the A.Y. 2019-20. [**Ans :** Rs. 34,25,500/-; Round off Rs. 34,25,500/-]

Illustration 4 : Mr. Z is a super senior citizen and his total income in the PY 2018-19 is Rs. 1,05,00,000/-. Calculate tax liability for the AY 2019-20. [**Ans :** Rs. 35,40,160/-; Round off Rs. 35,40,160/-]

Illustration 5 : Mr. Z is a individual and his total income in the PY 2018-19 is Rs. 1,05,00,000/-. Calculate tax liability for the AY 2019-20. [**Ans :** Rs. 35,43,150/-; Round off Rs. 35,43,150/-]

Illustration 7 : Mr. Z is a individual and his total income in the PY 2018-19 is Rs. 3,42,000/-. Calculate tax liability for the AY 2019-20. [**Ans :** Rs. 2,184/-; Round off Rs. 2,180/-]

Illustration 6 : Mr. Z is a individual and his total income in the PY 2018-19 is Rs. 3,00,000/-. Calculate tax liability for the AY 2019-20. [**Ans :** Rs. Nil/-]

Illustration 7 : Mr. Z is a individual and his total income in the PY 2018-19 is Rs. 4,00,000/-. Calculate tax liability for the AY 2019-20. [**Ans :** Rs. 7,800/-; Round off Rs. 7,800/-]

Permanent Account Number (PAN) :

PAN means a number which the Assessing Officer may allot to any person for the purpose of identification. **PAN has a ten alphanumeric characters**.

Application for PAN : If an assessee has not been allotted a Permanent Account Number he must apply for it in **Form No. 49A** within the prescribed time. The Assessing Officer has also got power to allot to any other person a Permanent Account Number if tax is payable by such person.

Quoting PAN : Once a Permanent Account Number has been allotted, such number must be quoted in all Returns, correspondence with Income Tax Authorities, challans for payment and in all documents prescribed by the Board.

It helps in linking the aforesaid documents to his assessment records to facilitate quick disposal of his assessment and refund claim.

The assessee must intimate to Assessing Officer about any change in the address, name or nature of business carried on by him.

Tax Deduction and Collection Account Number (TAN) :

Every person, deducting tax or collecting tax at source, who has not been allotted a tax deduction account number or a tax collection account number shall apply in duplicate in **Form No. 49B** within one month from the end of the month in which the tax was deducted or collected to the A.O. for the allotment of a '**Tax Deduction and Collection Account Number' (TAN).**

Where a 'Tax Deduction and Collection Account Number' has been allotted to a person, he shall quote such number in prescribed documents.

Tax Avoidance:

Tax avoidance means taking undue advantage of the **loopholes, lacunae or drafting mistakes** for reducing tax liability and thus avoiding payment of tax which is lawfully payable. Generally it is done by twisting or interpreting the provisions of law and avoiding payment of tax. Tax avoidance takes into account the loopholes of law. Though **it has a legal sanction**, it means following the provisions of law in letter but killing the spirit of the law.

Tax Evasion:

Tax evasion means avoiding tax by illegal means. Generally, it involves suppression of facts, falsifying records, fraud or collusion. It is an attempt to evade tax liability with the help of unfair means. **Tax evasion is illegal** and would result in punishment by way of penalty, fines and sometimes prosecution.

Tax Planning :

Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of an Act, full advantage is taken of all exemptions, deduction, rebates and reliefs permitted under the Act, so that the burden of the taxation on an assessee, as far as possible, is the least. **It is within the framework of law**.

Comparison of Tax Planning, Tax Avoidance, Tax Evasion :

No.	Basis	Tax Planning	Tax Avoidance	Tax Evasion
1.	Meaning	Reduce tax liability by claiming deduction, exemption, allowance, rebate, etc.	Reduce tax liability by finding loopholes in the law.	Reduce tax liability in dishonest manner.
2.	Legality	It is fully legal and ethical.	It is also legal but against the intention of law maker.	It is unethical.
3.	Example	Claiming deduction u/s 80C to 80U	Clubbing of Income.	Increasing expenses by showing fake bills.
4.	Acceptance	Fully accepted in the eyes of law.	It is not accepted in the eyes of law. Government makes amendments to stop such loopholes.	It is clearly prohibited because it is fully illegal.
5.	Penalty	No penalty.	May or may not.	Heavy penalty.
6.	Implication	It leads to development of economy.	It leads to generation of black money.	It also leads to generation of black money.

****