

What is Income

- 1) Money received during a period from work done
 - 2) Money received during a period from investments
 - 3) Inflow of money in cash, kind
 - 4) Inflow of money from Illegal activity
- However income from Mutual activity is excluded

Characteristics of income

It makes you richer than before
It is your own (not to be returned)
It should be received from a person other than yourself

How does income tax look at income

- 1) Real income – Notional income
- 2) Revenue Income – Capital income
- 3) Accrued income – Received income
- 4) Taxable income – non taxable income

On what basis is income tax charged

Section 4 of income tax act prescribes the basis of charge
Tax is applicable on
Total Income – of the Person – earned during the Previous year
At the Rates – prescribed by the finance Act – for the Relevant Assessment Year

General Rule - Income earned in the Previous year is taxed in the Assessment year

Exceptions - Income earned in the Previous year is taxed in the Previous year itself

- Sec. 172 – Shipping Business of a Non – Resident
- Sec. 174 – Person leaving India with no intention to return to India
- Sec. 174A – AOP/BOI/AJP formed for a particular event or purpose only
- Sec. 175 – Persons likely to transfer property to avoid tax
- Sec. 176(3A) – Discontinued business or Profession

What is the scope of Total Income

It is Based on the combination of
Location of the person earning the income
And
Location where the income is earned and received

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| SCOPE OF TOTAL INCOME | Location of the person earning the income (Residential Status) | | |
|--|---|---|--------------------------|
| | Resident & Ordinarily Resident in India | Resident But Not Ordinarily Resident in India | Non Resident in India |
| Location of the Income (Indian income or foreign income) | | | |
| Income accruing or arising in India | Taxable in India | Taxable in India | Taxable in India |
| Income deemed to accrue or arise in India | Taxable in India | Taxable in India | Taxable in India |
| Income received in India (received in India as his own for the first time after earning outside India) | Taxable in India | Taxable in India | Taxable in India |
| Income deemed to be received in India | Taxable in India | Taxable in India | Taxable in India |
| Income accruing or arising outside India from a Business controlled in India or from a profession set up in India | Taxable in India | Taxable in India | Not Taxable in India |
| Income accruing or arising outside India from any other source | Taxable in India | Not Taxable in India | Not Taxable in India |

Income Deemed to Accrue or Arise in India (sec. 9)

- 1) All incomes arising from or through
 - A Property in India
 - An Asset in India
 - Any source of income in India
 - Transfer of Capital asset situated in India
 - A Business connection in India
- 2) Salary Earned in India
 - for services rendered in India
 - for Rest period preceding and succeeding the period of service in India (as per service contract)
 - for services rendered outside India to a citizen of India paid by Central Government
- 3) Dividend paid by Indian Company outside India

| 4) Following amounts | Paid by | | |
|----------------------------|------------|--|---|
| | Government | Resident | Non Resident |
| Interest | | For Debts incurred in India for a business or profession in India or Outside India | For Debts incurred in India or Outside India for business or profession in India |
| Royalty | | For Business or Profession in India Or | For Business or Profession in India Or |
| Fees for Technical service | | To earn a source of income in India | To earn a source of income in India |

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Income Deemed to be received in India (sec. 7)

1) Annual Accretion

- of employer's contribution in excess of 12% of Salary in Employee's Recognised Provident fund A/c
- of interest in excess of 9.5% in Employee's Recognised Provident fund A/c

2) When unrecognized provident fund is converted into Recognised provident fund – the transferred balance in excess of the above mentioned limits

3) Contribution by Central govt. or any employer – in a Pension scheme referred to in sec. 80 CCD

| <u>Person</u> (who earns the income) | |
|---|--|
| Individual | A natural person – includes male, female, minor, major, senior citizen |
| Hindu Undivided Family | A family consisting of members lineally descendent from a common male ancestor |
| Company | Incorporated under the Companies Act 1956 |
| Firm | Partnership firm – two or persons coming together for earning profits having joint and several liability |
| Limited liability partnership (w.e.f. AY 2010-11) | Having the benefits of limited liability being in partnership. For all income tax purposes it is considered as Firm. |
| Association of Person or Body of Individuals | Two or person coming together to earn income when they are not in a partnership relationship (AOP) Two or more person come together for receiving an income jointly |
| Local Authority | Any authority constituted under the law which is responsible for maintaining a local fund |
| Artificial Juridical person | Any person not being an individual – who does not fall in any of the above categories |

Assessee
(the person who pays the tax)

Is a Person

- 1) by whom any tax , any interest, any penalty is due
- 2) whose assessment of income , of loss, of refund is pending
- 3) who is deemed to be to be a representative assessee
- 4) who is deemed to be a assessee in default

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| Residential Status | | | | |
|---|-----|------|-----|-----|
| Conditions | ROR | RNOR | | NR |
| Basic Conditions | | | | |
| 1) Individual should be in India for 182 days or more during the previous year | YES | YES | YES | NO |
| | Or | Or | Or | And |
| 2) Individual should be in India for 60 days or more during the previous year AND Individual should be in Indi for an aggregate period of 365 days or more during the four immediately preceding previous years | | | | |
| <u>Amendment to this condition in the following situations:</u> | | | | |
| 1) A citizen of India leaves India for employment outside India | | | | |
| 2) A Indian Crew member of an Indian Ship leaves India on a voyage outside India | YES | YES | YES | NO |
| 3) A citizen of India or a person of Indian Origin comes to India on a visit to India (PIO – the person or his parents or his grandparents were born in undivided India) Individual should be in India for 182 days or more during the previous year AND Individual should be in Indi for an aggregate period of 365 days or more during the four immediately preceding previous years | | | | |
| | And | And | And | |
| Additional Conditions | | | | |
| 1) Individual should be resident in India in atleast 2 out of the 10 immediately preceding previous years | YES | YES | NO | |
| | And | And | And | |
| 2) Individual should be in India for 730 days or more during the 7 immediately preceding previous years | YES | NO | YES | |
| | | | | |
| <u>Important points for Residential status</u> | | | | |
| 1) Fresh previous year fresh ascertainment of residential status | | | | |
| 2) How to count the number of days | | | | |
| - the stay need not be in the same place | | | | |
| - the stay need not be continuous throughout the year | | | | |
| - physical presence of 24 full hours India is considered as a day | | | | |
| - if the time of arrival and time of departure is not given include both the day of arrival and day of departure as in India | | | | |
| - for a leap year count February as 29 days | | | | |

| Computation of TAXABLE INCOME | Rs. | Rs. |
|---|-----|-----|
| Income from Salaries | | |
| Less: Exemptions | | |
| Less: Deductions | | |
| | | |
| Income from House Property | | |
| Less: Exemptions | | |
| Less: Deductions | | |
| | | |
| Profits and gains from Business or Profession | | |
| Less: Exemptions | | |
| Less: Deductions | | |
| | | |
| Capital Gains | | |
| Less: Exemptions | | |
| Less: Deductions | | |
| | | |
| Income from Other sources | | |
| Less: Exemptions | | |
| Less: Deductions | | |
| | | |
| Gross Total Income | | |
| | | |
| Less: Deductions under Chapter VI A u/s. 80 C to 80U | | |
| | | |
| Total Income (Taxable Income) | | |
| | | |
| Computation of TAX LIABILITY | | |
| Tax on Total Income at Special Rates | | |
| Tax on Total Income at Normal Rates | | |
| Add: Surcharge if any | | |
| Tax payable | | |
| Add: Education Cess @2% on the tax payable | | |
| Add: Secondary and Higher Education Cess @1% on tax payable | | |
| Tax payable | | |
| Less: Rebate u/s. 87A | | |
| Balance Tax payable | | |
| | | |
| Less: Prepaid Taxes | | |
| Tax Deducted at Source | | |
| Advance Tax paid | | |
| Self-Assessment Tax paid | | |
| Balance Tax Payable or Refundable | | |

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RATES OF INCOME TAX FOR ASSESSMENT YEAR 2017-18

| For Male (Below 60 years of Age as on the last day of the previous year) For HUF/AOP/BOI/AJP | |
|---|-----------------|
| Net Income Range | Income tax rate |
| Upto Rs. 250000 | NIL |
| 250001 – 500000 | 10% |
| 500001 – 1000000 | 20% |
| 1000001 – above | 30% |

| For Male, Female(Above 60 years but less than 80 years of Age as on the last day of the previous year) Senior citizens | |
|---|-----------------|
| Net Income Range | Income tax rate |
| Upto Rs. 300000 | NIL |
| 300001 – 500000 | 10% |
| 500001 – 1000000 | 20% |
| 1000001 – above | 30% |

| For Male, Female (Above 80 years of Age as on the last day of the previous year) Super Senior citizens | |
|---|-----------------|
| Net Income Range | Income tax rate |
| Upto Rs. 500000 | NIL |
| 500001 – 100000 | 20% |
| 100001 – above | 30% |

PROBLEMS ON BASIC CONCEPTS

- Q1. Mr. Bert Lee a person of Australian Cricketer, who comes to India for 100 days every year. What is his residential status for the Assessment year 2017-2018?
- Q.2. Mr. Jain an Indian Citizen has settled abroad for the last twenty-five years. His stay in India in the last few years was as under.

| Year | Days | Year | Days |
|-----------|------|-----------|------|
| 2005-2006 | 170 | 2011-2012 | 196 |
| 2006-2007 | 59 | 2012-2013 | 25 |
| 2007-2008 | 110 | 2013-2014 | 105 |
| 2008-2009 | 39 | 2014-2015 | 121 |
| 2009-2010 | 210 | 2015-2016 | 57 |
| 2010-2011 | 10 | 2016-2017 | 183 |

He did not come to India prior to 2005. Determine his residential status for the Assessment Year 2017-2018. Would your answer change if his stay in India in the previous year 2016-2017 were only 63 days instead of 183 days?

- Q.3. Mr. Bhatia, an Indian Citizen staying in Bangalore takes up a job at U.S.A. He leaves India on August 16, 2010, for U.S.A. He has not gone out of India before that. What is his Residential Status for assessment year 2017-2018?
- Q.4. Mr. Abhijit an Indian citizen, furnishes the following particulars of income earned during the previous year relevant to assessment year 2017-18:

| | Rs. |
|---|------------|
| 1. Professional fees received in India | 11,000 |
| 2. Income earned in India but received in Rome | 12,000 |
| 3. Dividend on shares of Indian companies: | |
| (i) Received India | 6,000 |
| (ii) Received abroad | 7,000 |
| 4. Salary earned and received in Paris | 14,000 |
| 5. Income from agriculture in Nepal | 15,000 |
| 6. Income from business in U.K. controlled from India | 16,000 |

Compute his total income for the assessment year 2017-18 assuming the residential status as: (i) Resident and Ordinarily Resident; (ii) Resident but Not Ordinarily Resident; (iii) Non Resident in India.

Q.5. From the following particulars, computer the taxable income of A when his residential status is (i) Resident and Ordinarily Resident, (ii) Resident but Not Ordinarily Resident, and (iii) Non Resident.

| | Rs. |
|---|------------|
| (i) Interest for debentures in an Indian company received in London | 5,000 |
| (ii) Interest on a Company deposit in India but received in Germany | 22,000 |
| (iii) Interest on U.K. Development Bonds 50% of interest received in India | 40,000 |
| (iv) Profits on sale of shares of an Indian Co. received in London | 24,000 |
| (v) Dividend from British Co. received in London | 10,000 |
| (vi) Profits on sale of plant at Germany 50% of profits are received in India | 60,000 |
| (vii) Income earned from business in Germany which is controlled from Delhi Rs. 40,000 is received in India. | 70,000 |
| (viii) Profits from a business in Delhi but managed entirely from London | 45,000 |
| (ix) Rent from property in London deposited in a Indian Bank at London, brought to India | 50,000 |
| (x) Interest received in London on money lent to a resident in India in London but the same money was used in India | 46,000 |
| (xi) Fees for technical services rendered in India but received in London | 25,000 |
| (xii) Royalty received in London for a right given to Non-Resident in India to be used for business in India | 34,000 |

Q. 6. Mr. X is a director employee in Z ltd. Which is in South Africa And P ltd. which is in Pune. In every financial year he leaves India on 5th July to work in Z ltd. and returns to India on 31st March. Thereafter he works in P ltd. He has been following this routine for the past 15 years. He earns a salary of Rs. 5,00,000 each from both the companies. Compute his taxable Income from the AY 2017-18.