CA INTERMEDIATE
INCOME TAX

- ICAI Study Material Questions Covered
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CA Jasmeet Singh Arora

CONTENT

CHAPTER 1: BASIC CONCEPTS

Introduction

- In a Welfare State, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, Government needs revenue.
- The taxation is the primary source of revenue to the Government for incurring such public welfare expenditure.
- In other words, Government is taking taxes from public through its one hand and through another hand; it incurs welfare expenditure for public at large.
- However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, taxes are compulsory or enforced contribution to the Government revenue by public.
- Government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

DIRECT TAX & INDIRECT TAX

There are two types of taxes: Direct Tax and Indirect Tax

- Tax, of which incidence and impact fall on the same person, is known as Direct Tax, such as Income Tax.
- On the other hand, tax, of which incidence and impact fall on two different persons, is known as Indirect Tax, such as GST.

Direct Tax	Indirect Tax
• Incidence and impact fall on the same person	• Incidence and impact fall on two different persons
• Assessee, himself bears such taxes. Thus, it pinches the taxpayer.	• Tax is recovered from the assessee, who passes such burden to another person.
• Levied on income	• Levied on goods and services.
• E.g. Income Tax	• E.g. GST, Customs Duty, etc.
• Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa.	• Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.

CONSTITUTIONAL VALIDITY OF TAXES

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

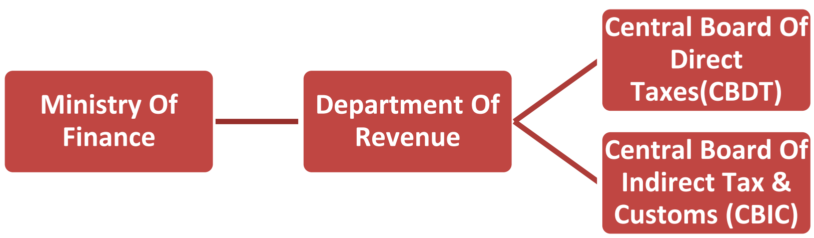
Article 265 of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax.

Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

- **Union list** (only Central Government has power of legislation on subject matters covered in the list)
- **State list** (only State Government has power of legislation on subject matters covered in the list)
- **Concurrent list** (both Central &State Government can pass legislation on subject matters).

Entry 82 of Union List – Taxes on income other than agricultural income i.e. Income-tax.
Entry 46 of State List – Gives power to state Govt to make laws on tax on Agriculture Income.

ADMINISTRATION OF TAX LAWS



- Both of the Boards have been constituted under the Central Board of Revenue Act, 1963.
- CBDT deals with levy and collection of all direct tax
- CBIC Deals with levy and collection of Central indirect tax.

SOURCES OF INCOME TAX LAW IN INDIA

1. **Income tax Act, 1961 (Amended up to date)**
   The provisions of income tax extends to the whole of India and became effective from 1/4/1962 (Sec. 1). It contains sections 1 to 298 and schedules I to XIV. The Act contains provisions for determination of taxable income; determination of tax liability; procedure for assessment, appeals, penalties and prosecutions; and powers and duties of Income tax authorities.

2. **The Finance Act (Annual Amendments)**
   - Every year, a Finance Bill is presented before the Parliament by the Finance Minister. The Bill contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.
   - When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President, it becomes the Finance Act. The provisions of such Finance Act are thereafter incorporated in the Income Tax Act.

3. **Income tax Rules, 1962 (Amended up to date)**
   - As per Sec. 295, the Board may, subject to the control of the Central Government, make rules for the whole or any part of India for carrying out the purposes of the Act.
   - Such rules are made applicable by notification in the Gazette of India.
   - These rules were first made in 1962 and are known as Income tax Rules, 1962.

4. **Circulars and Notifications**

   Circulars
   - Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
   - Circulars are issued for the guidance of the officers and/or assessees.
   - The department is bound by the circular While such circulars are not binding on the assesses, they can take advantage of beneficial circular

   Notifications
   Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

5. **Judicial decision**
   a) **Decision of the Supreme Court:** Any decision given by the Supreme Court shall be applicable as law till there is any change in law by the Parliament. Such decision shall be binding on all the Courts, Tribunals, Income tax authorities, assessee, etc.

b) **Decisions given by a High Court or ITAT:** Decisions given by a High Court or ITAT are binding on all assessees and Income tax authorities, which fall under their jurisdiction, unless it is over ruled by a higher authority.

Levy of Income-tax

As per Section 4, Income of the previous year of a person is charged to tax in the immediately following assessment year.

PREVIOUS YEAR [SECTION 3]

- Previous Year means the financial year immediately preceding the Assessment Year.
- Income earned in a year is assessed in the next year.
- The year in which income is earned is known as Previous Year and the next year in which income is assessed is known as Assessment Year.
- It is mandatory for all assessee to follow financial year (from 1st April to 31st March) as previous year for Income-Tax purpose.

Business or profession newly set up during the financial year
In such a case, the previous year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.

If a source of income comes into existence in the said financial year, then, the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.

ASSESSMENT YEAR (A.Y.) [SECTION 2(9)]

- Assessment year means the period of 12 months commencing on the 1st day of April every year.
- It is the year (just after the previous year) in which income earned in the previous year is charged to tax.
- E.g., A.Y.2025-26 is a year, which commences on April 1, 2025 and ends on March 31, 2026. Income of an assessee earned in the PY 2024-25 is assessed in the A.Y. 2025-26.

PERSON [SECTION 2(31)]

The term person includes the following:

i) An Individual;
ii) A Hindu Undivided Family (HUF);
iii) A Company;
iv) A Firm (Includig LLP);
v) An Association of Persons (AOP) or a Body of Individuals (BOI);

vi) A Local authority; &
vii) Every artificial juridical person not falling within any of the preceding categories.

ASSESSEE [SECTION 2(7)]

"Assessee" means,

a. a person by whom any tax or any other sum of money (i.e., penalty or interest) is payable under this Act
b. every person in respect of whom any proceeding under this Act has been taken (whether or not he is liable for any tax, interest or penalty) for the assessment of his income or loss or the Amount of refund due to him;
c. a person who is assessable in respect of income or loss of another person;
d. a person who is deemed to be an 'assessee in default' under any provision of this Act. E.g. A person, who was liable to deduct tax but has failed to do so, shall be treated as an 'assessee in default'.

Situations Where Income is Taxed in the Same Year (Previous Year Itself)

1. **Section 172 - Shipping Business of Non-Residents (NR):**
   If a non-resident's ship, carrying passengers, livestock, mail, or goods, arrives at an Indian port, the ship cannot leave the port until all applicable taxes are paid. Example: A foreign shipping company's vessel arrives in Mumbai to deliver cargo. Before the ship can depart, it must settle any tax liabilities on the income earned from that voyage.

2. **Section 174 - Person Leaving India:**
   If the Assessing Officer (AO) believes that an individual is leaving India with no intention of returning, the income earned by that person up until their expected departure date is taxed in the current year itself.
   Example: Mr. X, an Indian resident, plans to move abroad permanently in October 2024. The AO may tax his income up to October 2024 in the same year i.e. 2024-25

3. **Section 174A - AOP/BOI/AJP Formed for a Specific Event or Purpose:**
   If an Association of Persons (AOP), Body of Individuals (BOI), or Artificial Juridical Person (AJP) is created for a specific event or purpose, and the AO expects it to dissolve within the same year, the income up to the date of dissolution is taxed in that year. Example: A group of investors forms an AOP to organize a one-time international sports event in India. If the event concludes in August 2024 and the AOP is dissolved, the income earned will be taxed in the same PY i.e. 2024-25.

4. **Section 175 - Persons Likely to Transfer Property to Avoid Tax:**
   If the AO suspects that a person is likely to sell, transfer, or dispose of assets to avoid paying taxes, the AO can tax that person's total income in the current year itself. Example: Mrs. Y plans to sell her property in December 2023 to avoid tax liabilities. If the AO suspects this, her income from the property sale might be taxed in the assessment year 2024-25.

5. **Section 176 - Discontinued Business:**
   If a business or profession is discontinued, the income earned up until the date of discontinuance may be taxed in the current year at the AO's discretion. Example: A company decides to shut down its operations in India by September 2024. The income earned until the shutdown date can be taxed in the same year itself.

HEADS OF INCOME [SECTION 14]

According to Sec.14 of the Act, all income of a person shall be classified 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.

For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the 5th head, i.e. Income from other sources, which may be termed as the residual head.

Difference between Heads of income and Sources of income

- There are only five heads of income as per Sec. 14 of the Act, but the assessee may generate the income from various sources. In the same head of income, there may be various sources of income.
- E.g. under the head 'Income from house property', there may be two or more house properties and each house property shall be termed as a source of income.
- The source of income decides under which head (among the five heads) income shall be taxable.

Computation of Income

Step 1: Determine Residential Status
Step 2: Compute Income Under Each Head Of Income
Step 3: Apply Clubbing of Income Provisions
Step 4: Set-off/carry forward and set-off of losses as per the provisions of the Act
Step 5: After Applying Step 2, 3 & 4 You will arrive at Gross total Income
Step 6: Claim Deductions Under Section 80C to 80U (if any From GTI)
Step 7: Total Income (Taxable Income) is arrived after claiming deductions from GTI

Total Income shall be rounded off u/s 288A in the multiples of 10 and for this purpose, any paisa shall be ignored and if the last digit is 5 or more, it will be rounded off to the higher multiple otherwise it will be rounded off to the lower multiple.

Example

(i) ₹5,28,456 shall be rounded off as ₹5,28,460
(ii) ₹5,28,455 shall be rounded off as ₹5,28,460
(iii) ₹5,28,454 shall be rounded off as ₹5,28,450
(iv) ₹5,28,454.88 shall be rounded off as ₹5,28,450

Computation Of Tax Liability (Old Regime / Alternate Scheme / Normal Provisions)

In case of Individual / Hindu Undivided Family / AOP / BOI / Artificial Judicial Person

A. Any other Individual & HUF or AOP/BOI or Artificial Judicial Person

Income	Tax Rate
On First ₹ 2,50,000	Nil
Next ₹ 2,50,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

B. Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years (senior citizen)

Income	Tax Rate
On First ₹ 3,00,000	Nil
Next ₹ 2,00,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

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CONTENT

Chapter 1: GST in India - An Introduction

Overview of Tax

It is a compulsory charge levied by the Government. There are two types of taxes:

1. **Direct Tax**
2. **Indirect Tax**

Direct & Indirect Tax

Direct taxes	Indirect taxes
A direct tax is charge, which is imposed directly on the taxpayer and paid directly to the Government by the persons on whom it is imposed. The burden of this tax cannot be shifted by the taxpayer to someone else.	Indirect taxes are imposed on goods and services. Its incidence is borne by the consumers who ultimately consume the product or service. It is also called consumption taxes.
A significant direct tax imposed in India is Income tax.	Indirect taxation in India has witnessed a drastic change on July 01, 2017 and all indirect taxes have been amalgamated into – GST & Customs.
Direct taxes are progressive in nature. Hence a rich person pays more compared to a poor person.	Indirect taxes are regressive in nature because they equally impact the rich or the poor.
Example : Income Tax , Property Tax , Corporate Tax , etc.	Example : GST , Custom Duty , etc.

FEATURES OF INDIRECT TAXES

- **An important source of revenue:** Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.
- **Tax on commodities and services:** It is levied on commodities at the time of manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on provision of services.
- **Shifting of burden:** There is a clear shifting of tax burden in respect of indirect taxes. For Example, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.

- **No perception of direct pinch:** Since, the value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the taxpayer pays the same without actually knowing that he is paying tax to the Government. Thus, the taxpayer does not perceive a direct pinch while paying indirect taxes.

- **Inflationary:** Tax imposed on commodities and services causes an all-round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to inflationary trend.

- **Wider tax base:** Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.

- Promotes social welfare: High taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.

- **Regressive in nature:** Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase the income disparities between the rich and the poor.

CONCEPT OF GST

- GST is a value added tax levied on manufacture, sale and consumption of goods and services.

- GST offers a comprehensive and continuous chain of tax credits from the producer's point/service provider's point up to the retailer's level/consumer's level thereby taxing only the value added at each stage of the supply chain.

- The supplier at each stage is permitted to avail credit of GST paid on the purchase of goods or services and can set off this credit against the GST payable on the supply of goods and services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set-off benefits at all the previous stages.

- Since, only the value added at each stage is taxed under GST, there is no tax on tax or cascading of taxes under the GST system. GST does not differentiate between goods and services and thus, the two are taxed at a single rate.

Illustration 01

Under Goods and Services Tax (GST), only value addition is taxed and burden of tax is to be borne by the final consumer. Examine the validity of the statement.

Solution

The statement is correct. Goods and Services Tax is a destination-based tax on consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Resultantly, only value addition is taxed and burden of tax is to be borne by the final consumer.

Illustration 02

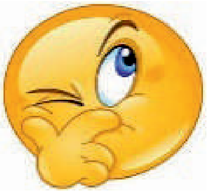
A dual GST has been implemented in India. Elaborate.

Solution

A dual GST has been implemented in India with the Centre and States simultaneously levying it on a common tax base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ Union GST (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-State supply of goods and/or services. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST, therefore, keeps with the Constitutional requirement of fiscal federalism.

Why India Needed GST

Following reasons demanded implementation of GST:



- **Double taxation of a transaction as both goods and services.**
- **Non-inclusion of several local levies in State VAT such as luxury tax, entertainment tax, etc.**
- **Non-integration of VAT & service tax.**
- **No CENVAT after manufacturing stage**

Analysis

Particulars	A Manufacturer Delhi	B Manufacturer Delhi	C Trader Kanpur	D Trader Bhopal	E Trader Bhopal
Input	1000	2000	4000	4500	5400
Processing	500	1000	—	—	—
Profit	500	1000	500	900	1000
SellingPrice	2000	4000	4500	5400	6400
GST@12%	240	480	540	648	768
Invoice price	2240	4480	5040	6048	7168
Output TaxLiability	240	480	540	648	768
Input Tax Credit	—	240	480	540	648
Net Tax Liability	240	240	60	108	120

Illustration 03

Explain with the help of Examples how a particular transaction of goods and services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Solution

The Central GST and the State GST is levied simultaneously on every intra-State supply of goods or services or both made by registered persons except the exempted goods and services as well as goods and services which are outside the purview of GST. Further, both are levied on the same price or transaction value. The same can be better understood with the help of following Examples;

Example I: Suppose that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say ₹ 100, the dealer would charge CGST of ₹ 10 and SGST of ₹ 10 in addition to the basic price of the goods. The CGST component will go into a Central Government account while the SGST portion into the account of the concerned State Government (viz. U.P.). It is important to note that he might not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (inputs, input services and capital goods) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

Example II: Suppose, again the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say ₹ 100, the ad company would charge CGST of ₹ 10 as well as SGST of ₹ 10 at the basic value of the service. The CGST component will go into a Central Government account while the SGST portion into the account of the Maharashtra Government. He might not actually pay ₹ 20 (₹ 10+₹ 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (say, of inputs such as stationery, office equipment, services of an artist etc.) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on its purchase while for SGST, he can utilise the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

FRAMEWORK OF GST

1. **Dual GST: India has adopted a Dual GST model in view of the federal structure of the country.**

- **Centre and States simultaneously levy GST on taxable supply of goods or services or both, which takes place within a State or Union Territory. Thus, tax is imposed concurrently by the Centre and States, i.e. Centre and States simultaneously tax goods and services.**
- **GST is a destination based tax applicable on all transactions involving supply of goods and services for a consideration subject to exceptions thereof. GST in India comprises of:**

i. On intra-State supplies of taxable goods and/or services

a) Central Goods and Services Tax (CGST) - levied and collected by Central Government,

b) State Goods and Services Tax (SGST) - levied and collected by State Governments/ Union Territories with Legislatures and

c) Union Territory Goods and Services Tax (UTGST) - levied and collected by Union Territories without Legislatures.

Union Territories	
Without State Legislature	With State Legislature
▪ Andaman & Nicobar islands	▪ Delhi
▪ Lakshadweep	▪ Jammu & Kashmir
▪ Ladakh	▪ Puducherry
▪ Dadra and Nagar Haveli & Daman and Diu	
▪ Chandigarh	

ii. Inter-State supplies of taxable goods and/or services are subject to Integrated Goods and Services Tax (IGST). IGST is the sum total of CGST and SGST/UTGST and is levied by Centre on all inter-State supplies.

2. **GST – A tax on goods and services:** GST is levied on all goods and services, except alcoholic liquor for human consumption and petroleum crude, diesel, petrol, ATF and natural gas.

a) Alcoholic liquor for human consumption: is outside the scope of GST. The manufacture/ production of alcoholic liquor continues to be subjected to State excise duty and inter-State/ intra-State sale of the same is subject to CST/VAT respectively.

b) Petroleum crude, diesel, petrol, ATF and natural gas: As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council.

c) Till such date, central excise duty continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/VAT respectively.

c) **Tobacco:** Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.

d) Opium, Indian hemp and other narcotic drugs and narcotics: Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian.

Illustration 06

Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST.

Solution

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept out of GST by way of definition of GST in the Constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise) still continues in respect of the said commodities.

BENEFITS OF GST

GST is a win-win situation for the entire country.

It brings benefits to all the stakeholders of industry, Government and the consumer.

The significant benefits of GST are discussed hereunder:

Benefits to Economy

Creation of unified national market:
GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.
Boost to 'Make in India' initiative:
GST gives a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market. This will create India as a — Manufacturing hub.
Enhanced investment and employment:
The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input tax on goods and services and phasing out of Central Sales Taxreduces the cost of locally manufactured goods and services and increases the competitiveness of Indian goods and services in the international market and thus, gives boost to investments and Indian exports. With a boost in exports and manufacturing activity, more employment is generated and GDP is increased.

About The Author

Sir, CA Jasmeet Singh Arora is a renowned faculty for Taxation at PW with teaching experience of more than 10 years; he has mentored more than 70,000 students through online & offline medium. Sir, CA Jasmeet Singh Arora qualified his CA Exam in the First attempt & has 5 Exemptions in CA final Exam. Sir, CA Jasmeet Singh Arora believes in blended learning & has a learner- centric approach. With real life examples he tries to transform to the pedagogical processes in his field of instruction. Sir, CA Jasmeet Singh Arora is known for imparting quality education for subjects like Taxation & Costing.

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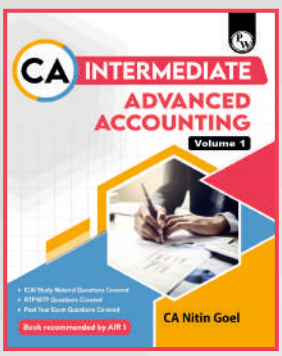

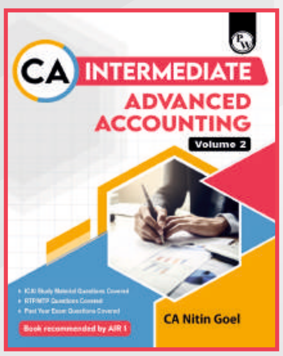

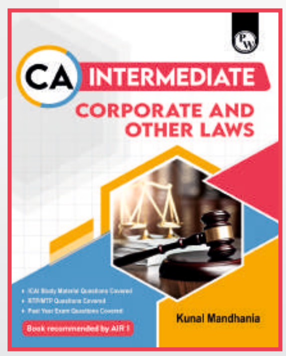

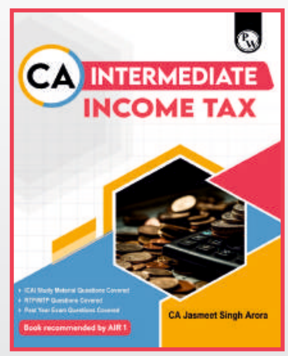

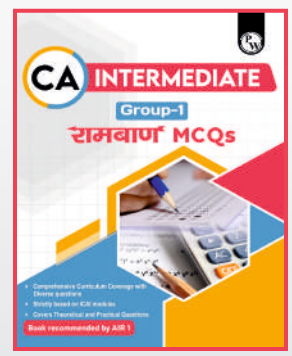

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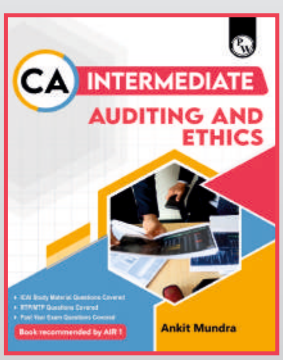

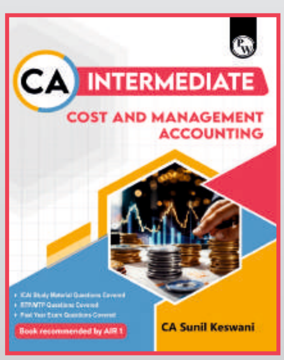

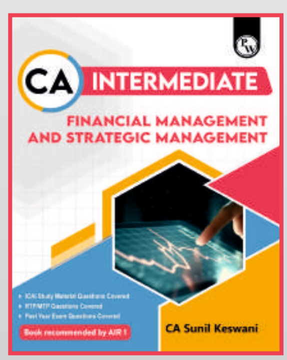

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