

**A Presentation
on**

BUSINESS TAXATION

AT

**T.Y.B.B.A (SEMESTER – V)
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INTRODUCTION

- The Subjects of every state ought to contribute towards the support of the Government in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the State. – Adam Smith
- It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold. – Kalidas in Raghuvansh

INTRODUCTION

- Income tax is today an important source of revenue for governments in all the countries. It has become inevitable imposition because it has great potentials for raising funds for meeting the development and defense needs of a nation.
- The history of taxation suggests that the process of levying and the manner of tax collection were unorganized. But it suggests that all historical leaders and head countrymen collected taxes to run their authority. In other words taxes on income, sale, purchase and properties were collected to run Government machineries.

INCOME TAX IN INDIA

- Income tax Act was introduced for the first time by British Government in February, 1860.
- The British Government felt acute financial difficulties consequent to the Freedom Struggle of 1857 and to fill up the treasury, Income tax Act was introduced for the first time in February, 1860.
- Income tax was first introduced in India in 1860 by James Wilson who became India's first Finance Member. This became necessary since suppression of freedom movement of 1857 entailed very heavy expenditure and made a large addition to the public debt.

INCOME TAX ACT - 1961

- The present Income - tax Act was enacted in 1961, which came into force on 1st April, 1962.
- The Act of 1961 runs into 298 sections and 14 schedules (of which Schedule 6, 9 and 10 have been omitted).
- The Income – tax Rules, 1962 have been framed by the Government of India under the powers obtained by it under the Act. At present there are 125 rules which are also subject to amendment.
- (On the basis of recommendations of Law Commission and Direct Taxes Administration Enquiry Committee, the present Income – tax Act was enacted in 1961)

LEVY OF TAX & COLLECTION OF INCOME - TAX

- The law of income – tax consists of Income – tax Act 1961 and the Annual Finance Act.
- Besides, the CBDT issues circulars and guidelines explaining and clarifying the provisions of the act and they are binding just like the rules.
- The CBDT also makes rules under the Income – tax Act.
- Lastly, the judgments of Supreme Court and various High Courts as well as other statutory bodies are also binding within their respective jurisdiction.

Income Tax Act, 1961 (Permanent Act)

- It incorporates the definitions of various types of incomes, their computation, deductions and exemptions available and the powers of various income – tax authorities, procedure for assessment etc.
- Income- tax Act extends to whole of India (including Jammu & Kashmir).
- It provides the structure and administration of Income – tax. By studying this act, one can know which person has to pay income – tax, when and how he has to pay it.

Annual Finance Act (Passed Every Year)

- The Finance Act is passed by parliament every year, prescribing the rates of direct and indirect taxes for the assessment year in question.
- It is popularly known as ‘Budget’ (Finance Bill) which becomes the Finance Act when passed by both the houses of Parliament and signed by the President.
- Finance Act is passed every year and its main purpose is to fix the rates of tax to be charged under the Income – tax Act for that year including rates of deduction of tax at source, for advance payment of tax etc.

ANNUAL FINANCE ACT (BUDGET)

The First Schedule attached to Finance Act gives the rates of income - tax in 4 parts:

Part I : gives the rates of income – tax for various assesses for the current assessment year.

Part II : gives the rates for ‘tax to be deducted at source’ (TDS) from the incomes to be earned during the current financial year.

Part III : gives the rates for computation of advance tax & TDS rates for salary income of current financial year.

Part IV : gives the rules for computation of Net Agriculture Income.

Judgments of Law Courts

- Matters of legal interpretation of the Act and Rules are referred to High Courts, Supreme Court, Tribunal and other statutory bodies and their decisions are binding.
- Particularly, the decisions of Supreme Court are considered law for the country.
- Decisions given by a High Court are applicable to the areas which fall under its jurisdiction.

SOURCES OF INCOME – TAX LAW IN INDIA

Income Tax Act, 1961

- Determination of Total Taxable Income
- Determination of Tax Liability
- Procedure for assessment , appeal etc.
- Powers and Duties of Income – Tax authorities

Annual Finance Act

- Taxation laws are amended every year with the help of Annual Finance Act and other Amendment Acts (whenever required to do so during the year)

Income Tax Rules

- These Rules are framed and amended as per the requirements for carrying out the purpose, of the Income – Tax Act.

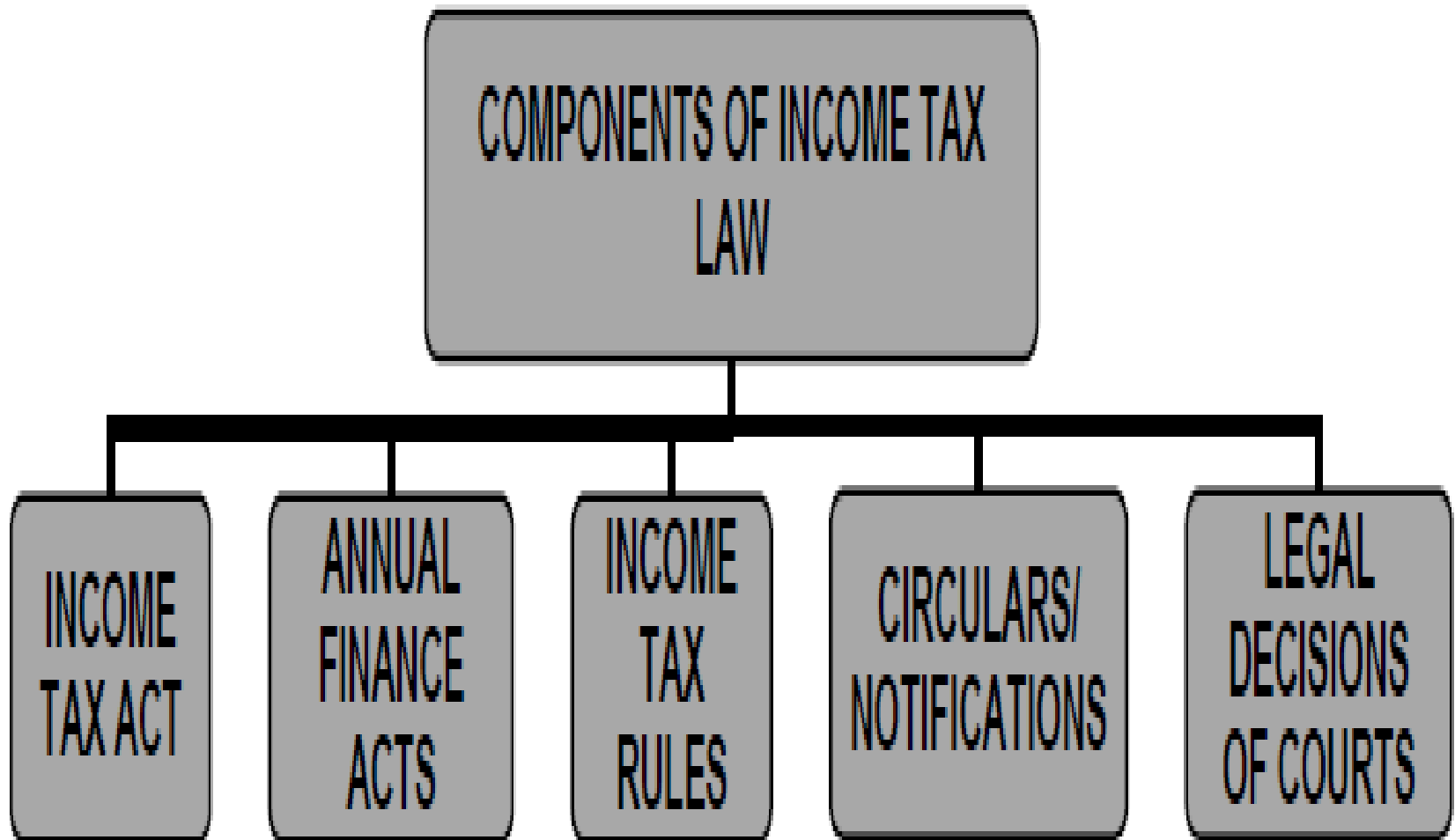
Circulars and Clarifications by CBDT

- These circulars and clarifications are binding upon the Income tax authorities but and assessee may go to Appellate Tribunal or Court.

Judicial Rulings

- Any principle given by the supreme c court shall be applicable as law while decisions of High - Court are binding to the assessee/I.T. authorities falling under the jurisdiction.

COMPONENTS OF INCOME TAX LAW



TAXES LEVIED BY GOVERNMENT

Direct Taxes

- A tax which is borne and paid directly by a person on whom it is imposed is a direct tax.
- It is directly paid by the tax payer to the government without any intermediary and it comes from his own pocket.

Income – Tax Act, 1961

Wealth Tax Act, 1957

Gift tax Act, 1958 (Now Cancelled)

Estate Duty Act, 1953 (N C)

Expenditure Tax Act. 1957 (N C)

Companies (Profit) Sur Tax

Indirect Taxes

If a tax is passed on by the tax payer to some other person, it is an indirect tax.

It is not paid directly by the person on whom it is levied, but it is paid indirectly through the medium of other persons.

Sales tax

Value added tax (VAT)

GST.

Income Tax : It is a tax levied on a person whose total income exceeds the specified exempted income limit. While computing the taxable income of an assessee, certain deductions under Section 80(C) to 80(U) are made and on the remaining taxable income is calculated.

Some amount is allowed by way of 'Rebate' and 'Relief' under Section 86 and 89 from the tax so calculated and the net amount of tax is payable by him.

Surcharge

The additional tax levied on the income – tax payable by an assessee whose taxable income exceeds a particular limit is known as Surcharge.

Corporation Tax

This is income – tax collected from joint stock companies. There is no exemption limit of income in case of corporation tax and it is charged at the same rate irrespective of the amount of taxable income

METHODS OF ASSESSING TAX

Step System

This is an old method in which income-tax is levied at a single rate on the total income of the assessee.

Slab System

This is a modern progressive method of levying income-tax.

The total income of the assessee is divided into different slabs and each slab is charged at a different rate.

Step System was abolished and Slab System was introduced from 1939 in India to make the tax system just and progressive.

INDIVIDUAL INCOME TAX RATES

Income Tax Slabs & Rates for Individual Tax Payers & HUF (Less Than 60 Years Old) for FY
2019-20 – Part I

Income Tax Slab	Tax Rate for Individual & HUF Below the Age Of 60 Years
Up to ₹2,50,000*	Nil
₹2,50,001 to ₹5,00,000	5% of total income exceeding ₹2,50,000
₹5,00,001 to ₹10,00,000	₹12,500 + 20% of total income exceeding ₹5,00,000
Above ₹10,00,000	₹1,12,500 + 30% of total income exceeding ₹10,00,000

INDIVIDUAL INCOME TAX RATES

Tax Rates for Senior Tax Payers between the age of 60 years to 80 years old

Income Tax Slab	Senior Citizens (between 60 years - 80 years)
Up to 3,00,000	Nil
3,00,001 to 5,00,000	5% of income exceeding 3,00,000
5,00,001 to 10,00,000	Tax Amount of 10,000 for the income up to 5,00,000 + 20% of total income exceeding 5,00,000
Above 10,00,000	Tax Amount of 1,10,000 for the income up to 10,00,000 + 30% of total income exceeding 10,00,000

INDIVIDUAL INCOME TAX RATES

Tax Rates for Super Senior Tax payers above the age of 80 years

Income Tax Slab	Very Senior Citizens of and above 80 years of age
Up to 5,00,000	Nil
5,00,001 to 10,00,000	20% of income exceeding 5,00,000
Above 10,00,000	Tax Amount of 1,00,000 for the income up to 10,00,000 + 30% of total income exceeding 10,00,000

IMPORTANT POINTS

The income tax rates are applied to the annual income calculated. Thereafter Surcharge and Cess is added to the tax payable.

A surcharge is also applicable slab wise. The surcharge is calculated on the Tax amount. If the income is:

- Above Rs.50,00,000 and up to Rs.1 crore – then 10% surcharge is applicable
- Above Rs.1 crore and up to Rs.2 crore – then 15% surcharge is applicable.

In the Union Budget 2019-20, a new surcharge on income tax for super-rich individuals has been levied. So, individuals earning:

- Between Rs.2 crores and up to Rs.5 crore –then 25% surcharge is applicable;
- For Above Rs. 5 crore – then 37% surcharge is applicable.

An additional Cess of 4% for Health & Education is applicable to the income tax plus surcharge.

Investments under Section 80C can be made up to the tune of Rs.1,50,000 in different investments such as PPF, NSC, etc. and an additional Rs.50,000/- under Section 80 CCD(1B) in NPS can be made.

Section 87A allows tax rebate to Individuals whose total annual income falls below Rs.5,00,000. This rebate is limited to Rs.12,500/- and essentially acquits people from having to pay taxes under Rs.5,00,000/-. However, the return of income has to be filed if income is over Rs.2,50,000/-. Individuals with income exceeding Rs.5,00,000/- do not get the benefit of any rebate under section 87A

Tax Slab Rates

Upto 2.5lacs	Nil
2.5 - 5 lacs	5%
5-10 lacs	20%
Above 10 lacs	30%

Total Taxable Income 1100,000

1. Step Method :

Tax $1100,000 \times 30\% = 330,000$

2. Slab Method :

Tax Payable = 142,500

0-2.5	Nil	
2.5 -5	$250,000 \times 5\%$	12,500
5-10	$500,000 \times 20\%$	100,000
Above 10	$100,000 \times 30\%$	30,000

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