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FACULTY OF COMMERCE AND MANAGEMENT

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LECTURE-01

BASIC CONCEPTS OF INCOME TAX

The most important source of government revenue is from taxes. A tax is a compulsory charge imposed by a public authority, like, income tax. Sometimes description of taxes covers penalties for offences. The distinction between taxes and penalties is one of the motive; a public authority imposes taxes mainly to obtain revenue and resorts to penalties mainly to deter people from doing certain things. Therefore, a tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of services rendered to the tax payer in return and not imposed as a penalty for any legal offence.

Taxes are generally divided into direct taxes and indirect taxes. Direct taxes are those which are levied directly on the entity meant to bear the burden. In the case of indirect taxes, the tax burden is shifted from where they are initially imposed. In India, Personal Income Tax and Corporate Income Tax are the important direct taxes levied by the central government.

As a first step towards understanding income tax law in India, it would be appropriate to begin with acquiring knowledge about the structure of tax regime in the country.

Income Tax, Corporation Tax, Capital Gains Tax, Estate Duty, Gift Tax, Wealth Tax come under the category of direct taxes. In case of direct taxes, the liability is determined with direct reference to the taxpayer's tax-paying ability, while in the case of indirect taxes, this ability is assessed indirectly. For instance, in case of income tax which is a direct tax, the amount of tax to be payable by a person, is determined on the basis of that person's income.

- **Income Tax:**
  - Income tax is one of the direct taxes levied by the Central Government. It is considered direct as it is payable in the Assessment Year, directly by the Individual, Hindu Undivided Family, Firms and Corporate Bodies on the income earned during the previous year (financial/ accounting) year
  - Every entity whose income (computed in accordance with the Income Tax Act and the Income Tax Rules etc.) is more than the tax free limit as prescribed by the relevant Finance Act, is required to pay tax.
  - The income tax read along with the Income Tax Rules and the Finance Act provides for all the possible situations that are likely to arise in the administration of income tax law. The diagram depicts the brief history of the income tax act.

History of income tax act

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- Great Liberation Movement. British rulers called it the Great Revolt. In order to recover the expenses/losses of the great revolt, the British Government introduced the ‘Law of taxation on income.’

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- After a few experiments in its implementation, the Income Tax Act 1886 became a permanent guest to this country.

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- Again, due to financial difficulties of the First World War, a rigorous 53 Section Act – Income

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- The two Acts, levying income tax and super tax, were replaced by a consolidated Act – the

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- Soon after independence, the ruling party felt the ever increasing need for money.. The Direct Taxes Administration Enquiry Committee was constituted in 1958, under the Chairmanship of Shri Mahabir Tyagi.

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- Ultimately, the Income Tax Bill 1961 was successfully presented, and Income Tax Act 1961, received the accent of the President on September 13, 1961 and came into force from 1st April 1962 replacing the 1922 Act.