



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM III SEM.

SUBJECT: Income Tax Laws and Practice

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LECTURE: 1

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LECTURE-1



INCOME TAX ACT BASICS

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.

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, etc. It means, in the case of Direct Tax, tax is recovered directly from the assessee, who ultimately bears such taxes, whereas in the case of Indirect Tax, tax is recovered from the assessee, who passes such burden to another person & is ultimately borne by consumers of such goods or services.

Direct Tax VS Indirect Tax

Direct Tax	Indirect Tax
<ul style="list-style-type: none">▶ Incidence and impact fall on the same person▶ Assessee, himself bears such taxes. Thus, it pinches the taxpayer.▶ Levied on income▶ E.g. Income Tax▶ Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa.	<ul style="list-style-type: none">▶ Incidence and impact fall on two different persons▶ Tax is recovered from the assessee, who passes such burden to another person. Thus, it does not pinch the taxpayer.▶ Levied on goods and services. Thus, this type of tax leads to inflation and have wider base.▶ E.g. GST, Customs Duty, etc.▶ Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.▶ Useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.

THE CONSTITUTION VALIDITY OF TAX.

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).

If a state law relating to an entry in List III is repugnant to a Union law relating to that entry, the Union law will prevail, and the state law shall, to the extent of such repugnancy, be void. (**Article 254**).

Following major entries in the respective list enable the legislature to make law on the matter:

Union List (List I) Entry 82 - Taxes on income other than agricultural income i.e. **Income-tax**

State List (List II) Entry 46 - Taxes on agricultural income.

THE ADMINISTRATIVE OF TAX LAW

The administrative hierarchy of tax law is as follows:

