



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: B.COM III SEM.**

**SUBJECT: Income Tax Laws and Practice**

**SUBJECT CODE: BCH 320**

**LECTURE: 6**

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## LECTURE-6



## **CONCEPT OF INCOME:**

The concept of income is central to the Income tax as it is the income that is taxed by it. Anything, which can be defined as income is taxable unless specifically exempted from tax. On the other hand, a receipt that cannot be termed as income, cannot be assessed.

## **WIDE SCOPE OF THE AMBIT OF INCOME:**

The Income tax Act u/s 2(24) specifically includes 26 types of receipts or benefits to be considered as income. This act also specifies various other national items which are also deemed as income for the tax purposes. Since, the definition of income under this act is an inclusive definition, items not specifically defined as income or deemed as income by the act will have to be evaluated according to the natural expression of a very elastic ambit and it is difficult to confine its scope to the boundaries of any precise definition. All relevant circumstances under which a receipt or benefit accrues to a person needs to be taken into consideration in determining if it can be dubbed as income.

## **Income under the act is distinct from an accountant's concept of income:**

For the purpose of income tax, income is computed with reference to provisions of the income tax act. Account books of an assessee may form an important starting point to compute assessable income under the act but cannot be determinative of taxable income.

**ITEMS SPECIFICALLY DEFINED AS INCOME:** The income tax has adopted twin phraseology to specify the items which will be assessable to income tax. First, it includes a list of items in the definition of income and second, it has coined many deeming provisions to bring also the notional receipts within the ambit of definition of income.

## **DEFINITION OF INCOME [SEC.2 (24)]:**

The act has specifically included the following 24 types of receipts and benefits as income:

- i. Profits and gains
- ii. Dividends
- iii. Voluntary contributions received by a trust or institution, created wholly or partly for charitable or religious purpose, or scientific research association, sport association or any fund or institution/any trust or institution wholly for public religious/charitable purposes and notified by the central government or any university/educational institution or hospital/other medical institution approved by the prescribed authority.
- iv. The value of any perquisite or profits in lieu of salaries
- v. Any special allowance or benefit specifically granted to the assessee to meet his expenses wholly and necessarily and exclusively for the performance of his duties.
- vi. Any allowance granted to the assessee either to meet his personal expenses at the

place where he performs his duties or to compensate him for the increased cost of living.

vii. Perquisite or benefit received by a director, relative of a director or a substantially interested person: The value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or a person substantially interested or by a relative of director or such person 10

viii. Discharge by a company of an obligation of director, relative of a director or a substantially interested person; any sum paid by company in respect of any obligation which, but for such payment, would have been payable by any of the three individuals stated in (vii).

ix. Benefit or perquisite obtained by a representative assessee: The value of any benefit or perquisite, whether convertible into money or not, obtained by any representative assessee or beneficiary. Further, any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary is also an income. It is operative from the assessment year 1980-81 and subsequent years.

x. Compensation receipts: any compensation due to or received by any person, by whatever name called, who is managing the affairs of any company in India, for the termination of his managing agency or for the modification of the terms and conditions relating thereto.

xi. Income of trade or professional association from specific services to members: Income derived by a trade, professional or similar association from specific services performed for its members.

xii. Cash assistance received or receivable by any person against exports under any scheme of the government of India.

xiii. Any duty or exercise drawback or custom or excise repaid or repayable as a drawback to any person against exports under the custom and central excise duties drawback rules.

xiv. The value of any benefit or perquisite from business or profession, whether convertible into money or not, arising from business or the exercise of a profession.

xv. Any remuneration chargeable under Sec.28(V)

xvi. Any recovery in respect of loss or expenditure which was allowed to be deducted in any year.

xvii. Excess of sale proceeds of a scientific research asset over its amortized value to the extent of deduction allowed.

xviii. Any recovery in respect of a debt which was allowed as a bad debt 11

xix. Any profits and gains chargeable under section 45.

xx. The profits and gains of any business of insurance carried on by a mutual insurance company or by a cooperative society.

**DEEMED INCOMES: [SEC.23 (2)]**

Income tax act has enacted many deeming provisions to bring into tax net notional or fictional incomes which, but for such provisions, would not be assessable as income.

1. income from self occupied house
2. presumptive incomes under sec.44D
3. unexplained cash credits
4. unrecorded and unexplained investments
5. unexplained expenditure amount borrowed or repaid on hundi otherwise by way of an account payee cheques.