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

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, 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

- Incidence and impact fall on the same person

● Assesse, 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.

Indirect Tax

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..

Finance Act:

Every year, the Finance Minister of the Government of India presents the Budget to the Parliament. Once the Finance Bill is approved by the

Parliament and gets the assent of the President of India, it becomes the Finance Act.

Brief History Of Income Tax In India

In India, Income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857.Thereafter; several amendments were made in it from time to time. In 1886, a separate Income tax act was passed. This act remained in force up to, with various amendments from time to time. In1918, a new income tax was passed and again it was replaced by another new act which was passed in 1922.This Act remained in force up to the assessment year 1961-62 with numerous amendments. The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The Government of India therefore referred it to the law commissionin1956 with a view to simplify and prevent the evasion of tax. The law commission submitted its report-in September 1958, but in the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee submitted its report in 1956.In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India including Jammu and Kashmir.

ASSESSEE [SEC 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 (irrespective of the fact whether any proceeding under the Act has been taken against him or not);
- 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 them amount of refund due to him;
- a person who is assessable in respect of income or loss of another person;
- every person who is deemed to be an assessee under any provision of this Act; and
- a person who is deemed to be an ‘assesse 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.

Deemed Assessee: A person who is deemed to be an assessee for some other person is called “DeemedAssessee”.

Assessee In Default: When a person is responsible for doing any work under the Income Tax Act and he fails to do it, he is called an “Assessee in default”.

Assessment [Section 2(8)] This is the procedure by which the income of an assessee is determined by the Assessing Officer.

Assessment year (a.y.) [sec. 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.

Eg,A.Y.2020-21 is a year, which commences on April 1, 2020and ends on March 31, 2021.Income of an assessee earned in the previous year 2019-2020 is assessed in the A.Y. 2019-20.

Income – section 2 (24) Income tax is charged on total income of an assessee. Therefore it is highly necessary to understand the term clearly. Broadly speaking income means money or money's worth received from definite source with certain amount of regularity. It is a periodical receipt from one's business, land, work, investment etc. in other words it is periodical return received on regular basis. Income includes value of benefits and perquisites. Income denotes periodical monetary return with some sort of regularity from definite source. The act does not define income. It simply lists some of the items that can be included in the income.

Thus; Income includes:

1. Profits and gains
2. Dividend

3. Voluntary Contributions received by a trust. Voluntary contributions received by a trust are included in the definition of income. As such contributions received by following types of trusts, funds, associations, bodies etc. are included in the income of such bodies.

i. Contributions received by a trust created wholly or partly for charitable or religious purposes.

ii. Contributions received by a scientific research association.

iii. Contributions received by a fund or institution set up for charitable purposes and notified u/s 10(23c)(iv)(v).

iv. Contribution received by any university or other educational institution, hospital referred in section 10(23c).

4. The value of any perquisite or profit in lieu of salary taxable under section 17(2)(3)

5. Any special allowance or benefit, other than perquisite included under sub-clause (iii), specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit

6. Any allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living

7. Value of any benefit or amenity, whether convertible into money or not, obtained by a representative assessee or by any person on whose behalf such benefit is received by representative assessee and sum paid by representative assessee in respect of any obligation which hut for such payment would have been payable by the person on whose behalf representative assessee has made such payments A. The profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members; The value of any benefits or perquisites, whether convertible into money or not, obtained from a company either by a director or by a person, who has a substantial interest in the company, or by a relative of a director of such person, and any sum paid by such company in respect of an obligation but for which, such payment would have been payable by the director or other person aforesaid.

PERSON [SEC. 2 (31)

The term person includes the following:

(i) an Individual;

(ii) a Hindu Undivided Family (HUF);

(iii) a Company;

(iv) a Firm;

(v) an Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not;

(vi) a Local authority; &

(vii) every artificial juridical person not falling within any of the preceding categories.

PREVIOUS YEAR [SEC.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.

Financial Year

According to sec. 2(21) of the General Clauses Act, 1897, a Financial Year means the year commencing on the 1st day of April. Hence, it is a period of 12 months starting from 1st April and ending on 31st March of the next year

Gross Total Income Sec: 80b (5)

As per section 14, the income of a person is computed 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.

Total Income Sec : 2(45)

Total income means the amount left after making the deductions under section 80C to 80U from the gross total income.

Casual Income

Any receipt which is of a casual and non-recurring nature is called casual income. Casual income includes the following receipts:

1. Winning from lotteries,
2. Winning from crossword puzzles,
3. Winning from races (including horse races),
4. Winning from card games and other games of any sort
5. Winning from gambling or betting of any form or nature.