

1 Income Tax - An Introduction

Income tax is levied on taxable income earned during previous year, at predefined rates, by the Central Government as per IT act 1961. Income tax is an annual tax on income. *The Indian Income Tax Act* (Section 4) stipulates that in respect of the total income of the previous year of every person, income tax shall be charged for the corresponding assessment year at the rates laid down by the Finance Act for that assessment year.

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. In 1886, agricultural income was declared tax-free. From *IT Act 1922*, system of assessment of tax in the assessment year on the income earned during previous year, was introduced.

Important Definitions

1. Assessee Sec.2 (7)

'Assessee' is the person responsible for paying of income tax or any other due (as interest or penalties), as per IT Act 1961. It is not necessary that the assessee should have his own income. For example, in case of death of a person, the legal heir (similarly in case of foreigner or mad person or child) the representative, shall be treated as deemed assessee.

2. Person Sec.2 (31)

'Person' word includes Individuals, Firms, Hindu Undivided Families(HUF), Association of Persons (AOPs), Body of Institutions (BOIs), Local Bodies (Gram Panchayat, Municipality etc.), Companies, Artificial Jurisdictional Persons (Like God, Goddess etc.).

3. Previous Year Sec 3

The year in which income is earned is known as previous year i.e. the financial year ending on 31st March is called previous year.

4. Assessment Year Sec 2(9)

It is the period of 12 months commencing from the 1st day of April immediately after the previous year. For example, for the previous year ending on March 31, 2014, the Assessment year will be 2014-15 (i.e. from April 1, 2014 to March 31, 2015). From above, it is clear that assessee himself makes self-assessment of tax on income earned during the previous year (2013-14), and pays the tax at the end of the previous year. The assessee files returns during the year 2014-15 and on basis of which assessing officer makes assessment of tax during the year 2014-15. This is the reason why the year 2014-15 is called *assessment year* for FY 2013-14.

5. Gross Total Income

The sum of Taxable income of all 5 sources (i.e. Salary, House Property, Business or profession, Capital Gain & others Sources) of assessee (after adjustment of Losses & clubbing of Income) is called Gross Total Income.

6. Total Income (Taxable Income) Sec.2 (45)

Total/Taxable Income is the total amount of income chargeable to tax, computed after deducting permissible deductions under Chapter VI–A i.e. Sections 80A to 80U from the Gross Total Income.

