

GOVERNMENT POLYTECHNIC BHUBNESWAR-2026

SUMMER



DEPARTMENT OF MODERN OFFICE MANAGEMENT

LECTURER NOTES

SEMESTER-5th

PAPER- Income Tax Law

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INCOME TAX LAW AND PRACTICE

1. Income – Meaning and Concept

The term **income** is not exhaustively defined under the Income-tax Act. Instead, Section 2(24) gives an **inclusive definition**, meaning it covers many types of receipts.

Income generally includes:

- Salary and wages
- Profits and gains from business or profession
- Rent from house property
- Capital gains
- Interest, dividend, commission, bonus
- Casual incomes like lottery, crossword puzzles, race winnings

Important points about income:

- Income may be **received in cash or kind**
- It may be **legal or illegal** (illegal income is also taxable)
- It may be **received or accrued** (earned but not yet received)
- Income can be **recurring or non-recurring**

2. Agricultural Income

Meaning:

As per Section 2(1A), **agricultural income** means income derived from:

1. **Agricultural operations** on land in India (e.g., cultivation, harvesting)
2. Income from land used for agricultural purposes
3. Income from farm buildings used for agricultural operations

Examples:

- Income from growing crops like wheat, rice, sugarcane
- Rent received from agricultural land
- Sale of agricultural produce grown by the cultivator

Tax treatment:

- **Agricultural income is exempt from tax** under Section 10(1)
- However, it is considered for **rate purposes** if non-agricultural income exceeds the basic exemption limit (partial integration)

3. Gross Total Income (GTI)

Meaning:

Gross Total Income is the **total income computed under the five heads of income**, after setting off losses but **before deductions under Chapter VI-A**.

Five Heads of Income:

1. Income from Salary
2. Income from House Property
3. Profits and Gains from Business or Profession
4. Capital Gains
5. Income from Other Sources

Formula:

GTI = Total of incomes under all five heads – Set off of losses

4. Maximum Marginal Rate of Tax (MMR)

Meaning:

The **Maximum Marginal Rate of Tax** is the **highest rate of income tax applicable to an individual**, including surcharge and cess.

Present concept:

- It generally applies to **certain types of income** such as:
 - Income of **discretionary trusts**
 - Income of **AOPs/BOIs** in specific cases
- MMR ensures that such income is not taxed at lower slab rates to avoid tax

Purpose:

- To **prevent tax avoidance**
- To ensure **equitable taxation**

5. Scope of Total Income on the Basis of Residential Status

Taxability of income in India depends on the **residential status** of a person for a particular previous year.

Categories of Residential Status:

1. Resident and Ordinarily Resident (ROR)
2. Resident but Not Ordinarily Resident (RNOR)
3. Non-Resident (NR)

(a) Resident and Ordinarily Resident (ROR)

Scope of Total Income:

- Income received or deemed to be received in India
- Income accruing or arising in India
- Income accruing or arising **outside India**

☐ Global income is taxable

(b) Resident but Not Ordinarily Resident (RNOR)

Scope of Total Income:

- Income received or deemed to be received in India
- Income accruing or arising in India
- Income accruing outside India **only if it is from a business controlled or profession set up in India**

☐ Partial global income is taxable

(c) Non-Resident (NR)

Scope of Total Income:

- Income received or deemed to be received in India
- Income accruing or arising in India
- Income deemed to accrue or arise in India

Income from Salary

Meaning:

Salary refers to the remuneration received by an employee from an employer in return for services rendered under a contract of employment.

Basis of Charge:

Income from salary is taxable on **due or receipt basis**, whichever is earlier.

Components of Salary:

- Basic salary
- Dearness allowance (DA)
- Bonus and commission
- Allowances (HRA, TA, etc.)
- Perquisites (rent-free accommodation, car, medical facilities)
- Profits in lieu of salary (gratuity, compensation)

Deductions from Salary:

- Standard deduction (as per prevailing law)
- Entertainment allowance (for government employees)
- Professional tax

Important Points:

- Employer–employee relationship must exist
- Advance salary and arrears are taxable
- Pension is taxable as salary (except exempt portion)

2. Income from House Property

Meaning:

Income from **buildings or lands appurtenant thereto** owned by the assessee is taxable under this head.

Conditions for Taxability:

- Assessee must be the **owner**
- Property must not be used for own business or profession
- Property may be residential or commercial

Types of Property:

- Self-occupied property
- Let-out property
- Deemed let-out property

Computation:

1. Determine **Gross Annual Value (GAV)**
2. Deduct **Municipal Taxes**
3. Arrive at **Net Annual Value (NAV)**

4. Deduct:
- Standard deduction @ 30% of NAV
 - Interest on borrowed capital

Special Points:

- Loss from house property can be set off against other income (subject to limits)
- Income from sub-letting is taxed under “Other Sources”

3. Profits and Gains of Business or Profession

Meaning:

This head includes income earned from **trade, commerce, manufacture, or professional services** carried on by the assessee.

Examples:

- Income from shop or factory
- Professional income of doctors, lawyers, CAs
- Income from consultancy or freelancing

Basis of Charge:

- Income is taxable on **accrual basis**
- Method of accounting may be **cash or mercantile**

Allowable Deductions:

- Rent, wages, salary
- Depreciation
- Repairs and maintenance
- Interest on loans
- Bad debts

Disallowed Expenses:

- Personal expenses
- Income tax paid
- Penalties and fines
- Expenses for illegal activities

4. Aggregation of Income

Meaning:

Aggregation of income means combining income computed under all five heads of income to arrive at **Gross Total Income (GTI)**.

Steps Involved:

1. Compute income under each head:
 - Salary
 - House Property
 - Business or Profession
 - Capital Gains
 - Other Sources
2. Adjust inter-head and intra-head losses
3. Total the net incomes

Result:

The total obtained after aggregation is called **Gross Total Income**.

5. Preparation of Return of Income

Meaning:

A **Return of Income** is a statement submitted by the assessee to the Income Tax Department showing:

- Total income
- Deductions claimed
- Tax liability
- Taxes paid

Who Should File Return:

- Individuals with income exceeding basic exemption limit
- Persons with losses to be carried forward
- Companies and firms (mandatory)

Forms of Return:

- ITR-1: Salary, one house property
- ITR-2: Capital gains
- ITR-3/4: Business or profession

- ITR-5/6: Firms and companies

Steps in Preparation:

1. Compute Gross Total Income
2. Claim deductions under Chapter VI-A
3. Calculate total tax liability
4. Adjust TDS, advance tax
5. File return electronically

Importance:

- Legal compliance
- Claim refunds
- Proof of income
- Avoid penalties and interest