DegreeLive

B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6CJ305

INCOME TAX AND GST

EXAM REVISION NOTES

JOIN WHATSAPP CHANNEL →

MODULE I

CAPITAL GAINS AND INCOME FROM OTHER SOURCES

Statutory Scheme of Income Heads: Sections 45 to 59: Under the Income Tax Act, 1961, an assessee's gross total income is classified under five distinct statutory heads (Section 14).

Definition of Capital Asset (Section 2(14)): Under Section 2(14), a "capital asset" means property of any kind held by an assessee, whether or not connected with their business or profession, and any securities held by a Foreign Institutional Investor (FII) which has invested in such securities in accordance with SEBI regulations.

Concept of Transfer (Section 2(47)) and Excluded Transactions (Section 47): Under Section 2(47), the term "transfer" in relation to a capital asset is given an expansive statutory definition that extends far beyond a standard commercial sale:

- **sale, exchange, or relinquishment:** The of the asset.
- **extinguishment of any rights:** , cancellation of share rights or surrender of tenancy rights).
- **compulsory acquisition:** The of the asset under any central or state law.
- **conversion of a capital asset into stock-in-trade:** The of a business carried on by the assessee (taxed in the year stock is sold).
- **maturity or redemption:** The of a zero coupon bond.

Computation of Capital Gains (Section 48): The computation of capital gains is strictly governed by the statutory formula prescribed under Section 48 of the Income Tax Act, 1961.

The Indexation Mechanism and Formulas: Indexation is a statutory mechanism designed to eliminate inflationary paper gains from taxation. It adjusts the historical acquisition and improvement costs to current monetary values using the Cost Inflation Index (CII) notified annually by the Central Board of Direct Taxes (CBDT), with base year 2001-02 = 100.

Special Full Value Consideration for Real Estate (Section 50C): Under Section 50C, where the consideration received or accruing on the transfer of land or building is less than the value adopted or assessed by the Stamp Valuation Authority (Stamp Duty Value - SDV), the Stamp Duty Value is deemed to be the Full Value of Consideration for computing capital gains.

A. Specific Incomes Chargeable under Section 56(2)

- **Dividend Income:** All dividends received from domestic or foreign companies, or mutual funds, are taxable in the hands of the recipient at applicable slab rates.
- **Casual Winnings Income:** Casual Winnings Income: Winnings from lotteries, crossword puzzles, races including horse races, card games, gambling, or betting of any form.
- **Interest on Securities Bank Deposits:** Interest on Securities Bank Deposits: Interest on central/state government securities, debentures, fixed deposits (FD), recurring deposits (RD), and savings bank interest.
- **Family Pension:** Pension received by legal heirs of a deceased employee.
- **Composite Rent:** Rent from hiring of machinery, plant, or furniture along with letting of buildings, where letting of building is inseparable from letting of plant.

Statutory Exemptions from Gift Tax: Section 56(2)(x) does NOT apply to any Sum of or property received:

- **relative:** From any (spouse, brother, sister, lineal ascendant/descendant, spouse's siblings/ascendants).
- **marriage:** On the occasion of the of the individual.
- **will:** Under a or by way of inheritance.
- In contemplation of death of the payer or donor.
- From any local authority or registered charitable trust under Section 12A/12AB.

Deductions Allowable (Section 57)

- **General Principle (Sec 57(iii)):** , bank collection charges on dividend/interest).
- **Family Pension (Sec 57(iia)):** 33% (one-third) of the family pension, or INR 15,000, whichever is less (under New Tax Regime Finance Act 2023, increased to INR 25,000).
- **Interest on Compensation (Sec 57(iv)):** A flat statutory deduction of 50% of such interest received on compensation/enhanced compensation; no other expense allowable.
- **Repairs Depreciation on Let Assets:** Repairs Depreciation on Let Assets: Current repairs, insurance, and depreciation under Section 32 for plant/machinery leased out.

Anti-Avoidance Provisions in Securities (Section 94)

- **Bond-Washing Transactions (Section 94(1)):** A practice where an investor holding fixed-interest securities transfers them to a friend or relative with lower taxable income immediately before the due date of interest, and re-acquires them shortly after the interest is received.
- **Bonus Stripping (Section 94(8)):** Prevents artificial capital losses created by purchasing units within 3 months prior to bonus allotment and selling original units after bonus issue; the loss is capitalized into the cost of bonus units.

Practical Computation Illustrations: Capital Gains

Practical Computation Illustrations: Income from Other Sources

MODULE II

ASSESSMENT OF INDIVIDUALS

Individual Assessment Paradigm: From Aggregation to Final Tax Settlement: The assessment of an individual under the Income Tax Act, 1961 is the systematic process of aggregating income from all five statutory heads, applying legal deeming and clubbing provisions, setting off and carrying forward eligible inter-head losses, deducting permissible Chapter VI-A allowances, and applying the dual-regime tax rate schedule (Old vs.

Transfer of Income Without Asset Transfer (Sec 60): , directing a tenant to pay rent directly to a relative while retaining house ownership), such income continues to be clubbed and taxed in the hands of the transferor.

Clubbing Provisions Involving Family Members (Section 64): , Mr. A gifts INR 500,000 to Mr.

- **Sec 64(1)(ii): Remuneration to Spouse:** Exception: Clubbing does NOT apply if the spouse possesses professional or technical qualifications and remuneration is solely attributable to application of knowledge.
- **Sec 64(1)(iv): Asset Transferred to Spouse:** ; Income arising from such asset is clubbed in the hands of the transferor.
- **Sec 64(1)(vi): Asset Transferred to Son's Wife:** ; Clubbed in the hands of the individual transferor (father-in-law or mother-in-law).
- **Sec 64(1A): Income of Minor Child:** Exceptions: Income earned by a minor child from manual labor or application of specialized talent/skill/knowledge, or child suffering from disability under Section 80U.

B. Summary of Carry Forward Rules

- **House Property Loss (Sec 71B):** Income from House Property only; 8 Assessment Years; No (can be carried forward even if return is late)
- **Normal Business Loss (Sec 72):** Profits of any business/profession; 8 Assessment Years; Yes (Mandatory under Sec 139(1))

DegreeLive

- **Speculation Loss (Sec 73):** Speculation business profits only; 4 Assessment Years
- **Specified Business Loss (Sec 73A):** Specified business profits only; Indefinite Period

Deductions for Savings and Investments: Sections 80C, 80CCC, 80CCD

- **Section 80C:** Deduction for investments in Public Provident Fund (PPF), Employee Provident Fund (EPF), Life Insurance Corporation (LIC) premiums, National Savings Certificate (NSC), Equity Linked Savings Schemes (ELSS), Sukanya Samriddhi Yojana (SSY), repayment of principal on housing loans, and tuition fees for up to 2 children.
- **Section 80CCC:** Contribution to pension funds of LIC or other approved insurers.
- **Section 80CCD(1):** Employee / individual contribution to National Pension System (NPS) (up to 10% of salary or 20% of GTI for self-employed).
- **Section 80CCE (Overarching Ceiling):** The aggregate deduction under Sections 80C, 80CCC, and 80CCD(1) is strictly capped at INR 150,000 per financial year.
- **Section 80CCD(1B) (Additional NPS Deduction):** An exclusive additional deduction of up to INR 50,000 for self-contribution to NPS, over and above the Section 80CCE ceiling of INR 150,000.

New Tax Regime (Section 115BAC - Default)

- **Revised Tax Slabs (AY 2024-25):** • Up to INR 300,000: NIL • INR 300,001 to 600,000: 5% • INR 600,001 to 900,000: 10% • INR 900,001 to 1,200,000: 15% • INR 1,200,001 to 1,500,000: 20% • Above INR 1,500,000: 30%
- **Standard Deduction:** Standard deduction of INR 50,000 is available to salaried assessees and pensioners.
- **Rebate under Section 87A:** 5 Lakh completely tax-free for salaried individuals).
- **Deductions Foregone:** No deductions allowed under Chapter VI-A (except 80CCD(2)), no HRA exemption, no LTA, and no self-occupied home loan interest (Sec 24(b)).

Health Education Cess and Surcharge: Across both regimes, Health and Education Cess @ 4% is levied on the aggregate of income tax and applicable surcharge.

Alternate Minimum Tax (AMT) (Sections 115JC 115JD)

- **Applicability:** Applicable to non-corporate assessees claiming deductions under Chapter VI-A (under the heading "C - Deductions in respect of certain incomes" such as 80-IA, 80-IB, 80-IC, 80-ID, 80-IE, 80JJAA, 80QQB, 80RRB), Section 35AD, or Section 10AA, whose Adjusted Total Income exceeds INR 2,000,000.
- **Adjusted Total Income (ATI):** Total Income + Deductions claimed under Section 80H to 80RRB (except 80P) + Deduction under Section 35AD (less normal depreciation) + Deduction under Section 10AA.
- **AMT Rate:** 5% (9% for units in IFSC) of Adjusted Total Income plus surcharge and cess.
- **AMT Credit (Sec 115JD):** The excess of AMT paid over normal income tax is allowed as a tax credit, carried forward for up to 15 assessment years to be set off against normal tax in future years.

Advance Payment of Tax (Sections 207 to 211): Liability Threshold: Advance tax is payable if the estimated net tax liability (after deducting TDS/TCS) is INR 10,000 or more.

- **June 15:** On or before Not less than 15% of advance tax.
- **September 15:** On or before Not less than 45% of advance tax.
- **December 15:** On or before Not less than 75% of advance tax.
- **March 15:** On or before 100% of advance tax.

Assessment Procedures and Income Tax Returns: The final phase of direct tax administration involves filing returns and tax assessment under Chapter XIV.

- **Taxpayer Voluntary Computation (Sec 140A):** ; Return filed without paying required computation tax is treated as a defective return under Section 139(9).
- **Summary Assessment (Sec 143(1)):** Automated, computerized processing by the Centralized Processing Centre (CPC), Bengaluru.
- **Scrutiny Assessment (Sec 143(3)):** Detailed examination conducted through the Faceless Assessment Scheme.
- **Best Judgment Assessment (Sec 144):** ; AO determines income on the basis of all relevant material gathered; heavy penalties.

Worked Illustration: Comparative Computation under Old vs. New Tax Regime: Scenario: Mr. Vikram (aged 42, resident) provides the following details for Previous Year 2023-24:

- **Gross Salary:** INR 1,150,000.
- Income from House Property (Self-occupied interest on housing loan): (INR 120,000).
- **Bank Fixed Deposit Interest:** INR 45,000; Savings Bank Interest: INR 12,000.
- **Investments:** PPF: INR 100,000; Life Insurance Premium: INR 30,000; Tuition Fees: INR 30,000 (Total 80C = INR 160,000, capped at INR 150,000).
- Mediclaim Insurance (Sec 80D) for self family: INR 22,000.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.
- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

MODULE III

INTRODUCTION TO GOODS AND SERVICES TAX (GST)

Constitutional and Economic Architecture of Indian GST: The introduction of the Goods and Services Tax (GST) on July 1, 2017 represents the most monumental indirect fiscal reform in India's post-independence economic history.

Taxes Subsumed vs. Taxes Kept Outside GST

Turnover Consideration: Aggregate Turnover (Section 2(6)): Aggregate value of all taxable supplies (excluding inward supplies on RCM), exempt supplies, exports of goods/services, and interstate supplies of persons having the same PAN, computed on an all-India basis, excluding CGST, SGST, UTGST, IGST, and cess.

- **Consideration (Section 2(31)):** Any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of the supply of goods or services, including monetary value of any act or forbearance, excluding government subsidies.

Composite Supply vs. Mixed Supply (Section 8): Commercial contracts frequently combine multiple goods and services into a single commercial package. Section 8 resolves the tax rate applicable to bundled supplies:

- **Statutory Definition:** ; Two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply.
- **Key Test:** Are the elements naturally bundled in commercial practice?
- **Tax Treatment Applicable Rate:** Treated as a supply of such principal supply.
- **Practical Business Example:** Supply of laptop with charger, operating system, warranty, and carry case.

Compulsory Registration (Section 24): Mandatory registration irrespective of turnover threshold:

- **inter-state taxable supply:** Persons making any .
- Casual Taxable Persons (CTP) making taxable supplies.
- **Reverse Charge (RCM):** Persons required to pay tax under .
- Non-Resident Taxable Persons (NRTP).
- E-commerce operators required to collect TCS under Sec 52.

Reverse Charge Mechanism (RCM - Section 9(3) 9(4)): Under normal charge, the supplier of goods or services collects tax from the recipient and remits it to the government.

- **Goods Transport Agency (GTA) Services:** ; Factory, registered society, co-operative society, registered body corporate, partnership firm, or registered taxable person.
- **Legal Services by Advocate / Firm:** ; Any business entity located in the taxable territory having turnover gt; threshold.
- **Services by Director to Company:** ; The company or body corporate located in the taxable territory.
- **Sponsorship Services:** ; Any body corporate or partnership firm located in the taxable territory.

Tax Rates and Strict Restrictions

- **Manufacturers:** 5% SGST).
- **Restaurant Services:** 5% SGST).
- **Traders:** 1% of turnover of taxable supplies in State.
- **Strict Restrictions:** • Cannot claim any Input Tax Credit (ITC).

Place of Supply (IGST Act, Sections 10 to 13): The Place of Supply (POS) determines whether a transaction is an Intra-State supply (Location of Supplier and POS in same State = CGST + SGST) or an Inter-State supply (Location of Supplier and POS in different States = IGST):

- **Goods Involving Movement (Sec 10(1)(a)):** Location of the goods at the time at which the movement of goods terminates for delivery to the recipient.
- **Goods Without Movement (Sec 10(1)(c)):** Location of such goods at the time of delivery to the recipient.
- **Services on Immovable Property (Sec 12(3)):** Location at which the immovable property, boat, or vessel is located or intended to be located.
- **General B2B Services (Sec 12(2)(a)):** Location of the registered person receiving the service.
- **General B2C Services (Sec 12(2)(b)):** Location of the recipient where address on record exists; otherwise location of supplier.

Electronic Credit Ledger: Contains all eligible Input Tax Credit (ITC) self-assessed and claimed through monthly returns (GSTR-3B). Can be used ONLY for payment of output tax liabilities (never for interest or RCM).

GST Tariff Structure and Compensation Cess

- **0% (NIL / Exempt):** ; Basic healthcare services by clinical establishments, primary/higher school education, postal services by government, metro/railway passenger transport in non-AC.
- **5% (Merit Slab):** ; Goods transport agency (GTA without ITC), non-AC restaurants, railways AC travel, economy air travel, cab aggregator rides without fuel ITC.
- **12% (Standard Slab 1):** ; Business class air travel, state lottery, accommodation in hotels with room tariff INR 1,001 to INR 7,500 per day, construction of affordable residential units.
- **18% (Standard Slab 2 - Major):** ; IT services, telecom, financial and banking services, professional and legal services, AC restaurant dining, hotel rooms gt; INR 7,500, intellectual property licensing.

TDS TCS Under GST (Sections 51 52): Tax Deduction at Source (TDS - Sec 51): Departments of Central/State Governments, local authorities, and governmental agencies must deduct TDS @ 2% (1% CGST + 1% SGST or 2% IGST) from payments made to suppliers where the total contract value under a single contract exceeds INR 250,000 (excluding GST).

- **Tax Collection at Source (TCS - Sec 52):** 5% SGST or 1% IGST) of the net value of taxable supplies made through its platform by third-party suppliers, remitted monthly via Form GSTR-8.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

MODULE IV

INPUT TAX CREDIT (ITC), DOCUMENTATION, AND ADMINISTRATION

The Value-Added Paradigm: Seamless Credit Mechanics: Input Tax Credit (ITC) represents the operational core and primary economic justification of the Goods and Services Tax architecture.

Pre-GST Cascading Paradigm: • Cost of Raw Materials: INR 100,000

- **INR 174,612.50:** • Total Consumer Price:

The Four Golden Conditions of Section 16(2): 180-Day Reversal Mandate: Where a recipient fails to pay the supplier the value of the supply along with the tax payable thereon within a period of 180 days from the date of issue of invoice, an amount equal to the ITC availed must be paid back to the government along with interest under Section 50.

- **1. Possession of Tax Invoice / Debit Note:** The registered person must be in possession of a valid tax invoice or debit note issued by a supplier registered under GST, or other prescribed tax-paying documents (Bill of Entry for imports, ISD invoice).
- **2. Actual Receipt of Goods or Services:** The registered person must have actually received the goods or services.
- **3. Tax Actually Paid to the Government:** The tax charged in respect of such supply must have been actually paid to the Government, either in cash or through utilization of eligible ITC, and the details must reflect in Form GSTR-2B (auto-populated static statement).
- **4. Filing of Statutory Return:** The registered person must have furnished the valid monthly return under Section 39 (Form GSTR-3B).

Utilization Order of Input Tax Credit (Section 49, 49A, 49B Rule 88A): To optimize tax distribution between the Centre and States and prevent structural imbalances, the GST law enforces a strict mathematical hierarchy for utilizing ITC balances against output tax liabilities:

Statutory Tax Documentation: Invoices, Debit/Credit Notes, and E-Way Bills

The Electronic Way Bill (E-Way Bill) Architecture (Rule 138): in) evidencing the movement of goods. Under Rule 138 of the CGST Rules, 2017, generation of an e-way bill is mandatory prior to commencement of movement of goods of consignment value exceeding INR 50,000 (whether for supply, reasons other than supply, or inward supply from unregistered person).

GST Governance Architecture: The GST Council and Administrative Hierarchy

Typology of GST Assessments (Sections 59 to 64): Under Chapter XII of the CGST Act, 2017, assessment signifies the determination of tax liability under the Act:

- **Section 59:** Taxpayer Direct Assessment (Voluntary Return Filing); Every registered person directly self-computes taxes payable and furnishes monthly returns under Section 39.
- **Section 60:** Provisional Assessment; Requested by taxpayer when unable to determine value of goods/services or rate of tax applicable.
- **Section 61:** Scrutiny of Returns; Proper Officer scrutinizes return to verify correctness.
- **Section 62:** Best Judgment Assessment of Non-Filers; Triggered when a registered person fails to furnish return under Section 39 or 45 even after notice under Section 46.

Rule 43: Reversal for Capital Goods (Useful Life Model)

- **60 months (5 years):** The useful life of any capital asset under GST is legally deemed to be from the date of invoice.
- **5 percentage points per quarter:** Where capital goods previously used exclusively for exempt supplies or non-business purposes are subsequently used commonly for taxable supplies, input tax credit is credited to the electronic credit ledger, but reduced by (or part thereof) for the expired period.
- **Common credit per month is calculated as:** Tm = Tc / 60, and ineligible monthly credit attributable to exempt supplies is calculated as: Te = (E / F) x Tr, added to monthly output tax liability along with applicable interest.

Electronic Invoicing (E-Invoicing) and Delivery Challans

Delivery Challans (Rule 55): Issued for transportation of goods without an invoice in specified situations:

- Supply of liquid gas where quantity is unknown at time of removal.
- **job work:** Transportation of goods for (Section 143).
- , inter-branch transit).
- Goods sent on approval for sale or return basis.
- Transportation in semi-knocked-down (SKD) or completely-knocked-down (CKD) condition across multiple vehicles.

Departmental Audit (Section 65)

- Conducted by the Commissioner or any officer authorized by general or specific order.
- Audits the records and books of account maintained by the registered person at the business premises or in the office of the tax department.
- **15 working days:** Prior written notice of not less than must be issued in Form GST ADT-01.
- **3 months:** Must be completed within from date of commencement (extendable up to 6 months by Commissioner).

DegreeLive