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INCOME TAX ASSESSMENT

EXAM REVISION NOTES

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MODULE I

1. AGRICULTURAL INCOME: DEFINITION, TYPOLOGIES & APPORTIONMENT

Agricultural Income: Definition, Typologies Apportionment: Under Entry 82 of List I (Union List) of the Seventh Schedule to the Constitution of India, the Parliament of India has the power to levy taxes on income other than agricultural income.

- Any rent or revenue derived from land which is situated in India and is used for agricultural purposes;
- Any income derived from such land by agriculture or the performance by a cultivator of any process ordinarily employed to render the produce fit to be taken to market;
- Income derived from the sale by a cultivator of the produce raised by him;
- Any income derived from any building owned and occupied by the cultivator or receiver of rent, situated on or in the immediate vicinity of agricultural land, used as a dwelling-house, storehouse, or out-building (farm building).

A. Composite / Partly Agricultural Income (Rules 7, 7A, 7B, and 8): , manufacturing tea, rubber, or coffee), the resulting income is a composite mixture of agricultural income (exempt) and business income (taxable).

- **Rule 7A:** ; 35% (Taxable as PGBP); 65% (Exempt u/s 10(1))
- **Rule 7B(1):** ; 25% (Taxable as PGBP); 75% (Exempt u/s 10(1))
- **Rule 7B(1A):** ; 40% (Taxable as PGBP); 60% (Exempt u/s 10(1))
- **Rule 8:** ; 40% (Taxable as PGBP); 60% (Exempt u/s 10(1))

Assessment of Individuals The New Concessional Regime [Sec 115BAC]: The total taxable income of an individual is computed by aggregating income under all five heads (Salaries, House Property, PGBP, Capital Gains, and Other Sources), subtracting allowable Chapter VI-A deductions.

- **Tax Slabs amp; Rates:** 0L: 30%; bull; Up to ₹3,00,000: Nil bull; ₹3L to ₹7L: 5% bull; ₹7L to ₹10L: 10% bull; ₹10L to ₹12L: 15% bull; ₹12L to ₹15L: 20% bull; Above ₹15L: 30%
- **Standard Deduction:** ; ₹75,000 (Enhanced by Finance Act 2024).
- **Section 87A Tax Rebate:** ; Full rebate if total income ≤ ₹7,00,000 (Tax = Nil; with marginal relief up to ₹7,27,770).
- **Chapter VI-A Deductions:** ; Major deductions disallowed (Zero 80C, 80D, 80TTA, 24(b)).

Assessment of Hindu Undivided Family (HUF): Under the Income Tax Act, a Hindu Undivided Family (HUF) is assessed as a separate, distinct taxable entity. An HUF consists of all persons lineally descended from a common male ancestor, including their wives and unmarried daughters.

INCOMES EXCLUDED FROM HUF POOL

Comprehensive Calicut University Academic Examination Bank: Entry 82 List I vs. Entry 46 List II.

- **Rule 7A mdash; Rubber:** Rule 7A mdash; Rubber: Applies to growing and manufacturing rubber (latex, coagulum).
- **Rule 7B mdash; Coffee:** Rule 7B mdash; Coffee: Rule 7B(1): Growing and curing coffee: 25% is taxable business income; 75% is exempt agricultural income.
- **40%:** Rule 7B(1A): Growing, curing, roasting, and grinding coffee (with or without chicory): is taxable business income; 60% is exempt agricultural income.
- **Rule 8 mdash; Tea:** Rule 8 mdash; Tea: Applies to growing and manufacturing tea in India.
- **Rule 7 mdash; General Agricultural Produce:** Rule 7 mdash; General Agricultural Produce: For all other agricultural produce used as raw material, the market value of the agricultural produce on the date of transfer to the factory is deducted from business profits, and the agricultural profit is treated as exempt.

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.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 2): 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.

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MODULE II

1. ASSESSMENT OF PARTNERSHIP FIRMS AND LIMITED LIABILITY PARTNERSHIPS (LLPS)

Assessment of Partnership Firms and Limited Liability Partnerships (LLPs): Under the Income Tax Act, 1961, the term "Firm" has the meaning assigned to it in the Indian Partnership Act, 1932, and includes a Limited Liability Partnership (LLP) as defined in the Limited Liability Partnership Act, 2008 (Section 2(23)).

A. Statutory Conditions for Assessment as a Firm (Section 184): To be assessed as a partnership firm (and to claim deductions for partner remuneration and interest on capital), an entity must satisfy all conditions mandated under Section 184:

- **1. Written Instrument:** The partnership must be evidenced by an instrument in writing (the Partnership Deed).
- **2. Specific Profit/Loss Shares:** ; Ambiguity regarding profit sharing ratios disqualifies the firm from Section 184 status.
- **3. Filing Certified Copy:** ; Once filed, it is not required for subsequent years unless there is a change in the constitution of the firm.
- **4. Notification of Changes:** ; Failure to file the revised deed results in treatment under Section 185 for the year of change and subsequent years.

C. Comparative Analysis: Traditional Partnership Firm vs. Limited Liability Partnership (LLP)

Traditional Partnership Firm (Act of 1932)

- **Governing Law:** Indian Partnership Act, 1932.
- **Separate Entity:** No separate legal entity; unlimited joint and several liability of partners.
- **Presumptive Taxation:** Eligible for presumptive taxation scheme under Section 44AD (if turnover ≤ ₹2 Crore / ₹3 Crore) and Section 44ADA (professionals ≤ ₹50 Lakh / ₹75 Lakh).
- **Conversion:** Can be converted into a company or LLP subject to capital gain provisions u/s 47(xiii) and 47(xiiib).

Allowability of Partner Remuneration and Interest u/s 40(b): Even if a firm satisfies all conditions of Section 184, payments made to partners are subjected to statutory limitations under Section 40(b).

A. Conditions for Allowability of Partner Remuneration: Note on Finance Act 2024 Amendment: The Finance Act, 2024 has revised the threshold limits with effect from Assessment Year 2025-26 to: On the first ₹6,00,000 of book profit (or loss), ₹3,00,000 or 90% of book profit, whichever is more; on the balance, 60%.

- **Paid Only to Working Partners:** Remuneration (salary, bonus, commission) is deductible only if paid to a working partner (an individual actively engaged in conducting the business/profession of the firm).
- **Authorized by Deed:** The remuneration must be expressly authorized by and in accordance with the terms of the partnership deed.
- **Prospective Operation:** Remuneration cannot be paid retrospectively for any period prior to the execution of the partnership deed.
- **Subject to Statutory Ceiling Limits:** The total remuneration paid to all working partners must not exceed the maximum ceiling calculated on "Book Profit".

C. Computation of "Book Profit" (Explanation 3 to Section 40(b)): "Book Profit" is not the commercial net profit shown in the Profit and Loss Account. It is the net profit computed in accordance with the provisions of Chapter IV-D ("Profits and Gains of Business or Profession") before making any deduction for partner remuneration.

- **CRITICAL EXCLUSION:** Brought forward business losses under Section 72 CANNOT be deducted to compute Book Profit!

Computation of Total Income and Tax Liability of a Firm: Once the allowable remuneration is deducted from Book Profit, the taxable PGBP income is established. The firm's Total Income and Tax Liability are computed as follows:

- **Basic Income Tax:** On Total Income (Flat Rate)
- **Surcharge:** 00% of Basic Tax (Subject to Marginal Relief)
- **Health amp; Education Cess:** On Total of (Income Tax + Surcharge)
- **Alternate Minimum Tax (AMT):** 50% of Adjusted Total Income (+ Surcharge + Cess)

A. Treatment of Partner's Income from Firm in Partner's Individual Assessment: Problem Statement: M/s Apex Enterprises is a partnership firm with two equal working partners, Arun and Baburaj.

- **Share of Profit (Section 10(2A)):** The partner's share in the total income of the firm is completely exempt from tax in the hands of the partner.
- **Remuneration amp; Interest (Section 28(v)):** Remuneration amp; Interest (Section 28(v)): Any interest, salary, bonus, commission, or remuneration received or receivable by a partner from the firm is chargeable to tax under the head "Profits and Gains of Business or Profession".
- **Ceiling Matching Principle:** Where any portion of remuneration or interest was disallowed in the hands of the firm under Section 40(b), the amount taxable in the hands of the partner is proportionately reduced.
- **Salary to working partner Arun:** ₹2,40,000; Salary to working partner Baburaj: ₹1,80,000.
- a.

A. Fundamental Distinctions between AOP and BOI

- **Composition:** Can consist of individuals, corporate entities, firms, or trusts.
- **Voluntary Action:** , legal heirs inheriting assets, receivers, executors).
- **Common Will / Design:** ; Common design is not necessary.

B. Computation of Total Income of AOP/BOI: Section 40(ba) Disallowance: The total income of an AOP or BOI is computed under the regular heads of income. However, a major statutory disallowance applies under Section 40(ba):

D. Treatment of Share of Profit in the Hands of Members (Section 86 Section 110): The treatment of the share of profit received by a member from an AOP or BOI in the member's individual assessment depends entirely on how the AOP/BOI was taxed:

- **Scenario 1 mdash; AOP Taxed at MMR or Higher Rate:** Scenario 1 mdash; AOP Taxed at MMR or Higher Rate: The member's share of income from the AOP is completely excluded from the member's total income.
- **Scenario 2 mdash; AOP Taxed at Normal Slab Rates:** Scenario 2 mdash; AOP Taxed at Normal Slab Rates: The member's share of profit is included in the member's Gross Total Income to determine their total income and applicable tax rate.
- **Scenario 3 mdash; AOP Total Income is Below Basic Exemption Limit (Not Taxed):** Scenario 3 mdash; AOP Total Income is Below Basic Exemption Limit (Not Taxed): The share of profit is included in the member's total income and fully taxed at the member's regular slab rates without any Section 86 rebate.

MODULE III

1. ASSESSMENT OF CO-OPERATIVE SOCIETIES

Assessment of Co-operative Societies: , Kerala Co-operative Societies Act, 1969).

A. Principle of Mutuality in Co-operatives: The fundamental legal doctrine governing co-operatives is the Principle of Mutuality: no person can make a profit out of themselves.

- **Complete Identity:** There must be complete identity between the contributors to the common fund and the participators in that fund.
- **Taxability of Non-Member Transactions:** While purely mutual transactions with members are exempt under common law, commercial transactions with third parties or non-members are fully taxable under the Act, subject to specific statutory deductions under Section 80P.

Regular Tax Regime (Normal Slabs)

- **First ₹10,000 of Total Income:** 10%
- **Next ₹10,000 (₹10,001 to ₹20,000):** 20%
- **Balance Total Income (Above ₹20,000):** 30%
- **Surcharge:** 7% if Total Income exceeds ₹1 Crore up to ₹10 Crore; 12% if Total Income exceeds ₹10 Crore.
- **Health amp; Education Cess:** Health amp; Education Cess: 4% on (Tax + Surcharge).

Concessional Tax Regimes (Sec 115BAD 115BAE)

- **Section 115BAD:** 168% including mandatory 10% surcharge and 4% cess).
- **Section 115BAE:** 16%).
- **Condition:** Assessee cannot claim Section 80P deductions or set off earlier losses under these regimes.

Assessment of Charitable and Religious Trusts: Income of a public charitable or religious trust is governed by Sections 11, 12, 12A, 12AB, and 13 of the Income Tax Act.

A. Definition of "Charitable Purpose" (Section 2(15)) and the Commercial Proviso: Under Section 2(15), charitable purpose includes:

- Relief of the poor;
- Yoga (inserted by Finance Act 2015);
- Medical relief;
- Preservation of environment (including watersheds, forests, and wildlife);
- Preservation of monuments or places or objects of artistic or historic interest; and

C. Statutory Scheme of Income Exemption (Section 11): 1. Mandatory 85% Application: At least 85% of the gross income of the trust must be applied to charitable or religious purposes in India during the previous year.

D. Forfeiture of Exemption under Section 13: Exemption under Section 11 and 12 is completely denied under Section 13 in the following circumstances:

- **Private Religious Trusts:** Entire income of any trust created for private religious purposes which does not enure to the benefit of the public (Section 13(1)(a)).
- **Caste or Communal Trusts:** Any trust created for the benefit of any particular religious community or caste (Section 13(1)(b)).
- **Benefit to Specified Persons (Section 13(1)(c)):** If any part of income or property is used directly or indirectly for the benefit of the author, founder, substantial contributor (> ₹50,000), trustees, or their relatives (Section 13(3)).
- **Violation of Section 11(5) Investment Modes:** If any trust funds are invested in non-approved modes (shares in private companies, chit funds, loans to individuals).

Assessment of Non-Resident Indians (NRIs) and Foreign Entities: Under Section 5(2) of the Income Tax Act, the total income of a non-resident includes all income from whatever source derived which:

- Is received or is deemed to be received in India in such year by or on behalf of such person; or
- Accrues or arises or is deemed to accrue or arise to him in India during such year (Section 9).

A. Incomes Completely Exempt in the Hands of Non-Residents

- **Interest on NRE Account (Section 10(4)(ii)):** Any income by way of interest on moneys standing to the credit of an individual in a Non-Resident (External) Account in any bank in India is completely exempt from income tax, provided the person is a person resident outside India under FEMA.
- **Interest on FCNR Accounts:** Interest on Foreign Currency Non-Resident accounts is fully exempt for Non-Residents and Not Ordinarily Residents (RNOR) u/s 10(15)(iv)(fa).
- **Section 10(4)(i):** Interest on notified Government securities and bonds purchased with foreign currency.
- **Section 10(6):** Remuneration received by foreign diplomats, consular officers, and foreign trade commissioners.

C. Special Presumptive Taxation Schemes for Non-Residents: To simplify tax administration and prevent complex transfer pricing disputes, Chapter XII-B of the Act contains specific presumptive taxation codes for non-residents engaged in specialized cross-border businesses:

- **Section 44B:** ; Amount paid/payable on carriage of passengers, livestock, or goods shipped at any Indian port + amount received in India.
- **Section 44BBA:** ; Amount paid/payable on carriage from any airport in India + amount received in India for carriage outside India.
- **Section 44BB:** ; Amounts paid/payable in or outside India for services rendered in India.
- **Section 44BBB:** ; Amount paid/payable for execution of turnkey project approved by Central Government.

D. Taxation of Royalty, Fees for Technical Services (FTS) NRI Insurance

- **Royalty and FTS (Section 115A):** Non-residents and foreign companies receiving income by way of Royalty or Fees for Technical Services (FTS) from an Indian concern or Government are taxed at a flat rate of 20% (increased from 10% by Finance Act 2023) on gross receipts without any expenditure deduction.
- **Non-Resident Insurance Business (Section 44):** The profits of an insurance business carried on by a non-resident in India are computed in accordance with the First Schedule to the Act.

MODULE IV

1. FILING OF RETURNS OF INCOME AND STATUTORY ASSESSMENTS

Filing of Returns of Income and Statutory Assessments: The assessment process is the statutory machinery by which the tax liability of an assessee is formally determined by the Income Tax Department.

A. Statutory Framework for Filing Returns of Income (Section 139)

- **Voluntary Return (Section 139(1)):** Mandatory for companies, firms, and individuals whose total income exceeds basic exemption limit.
- **Belated Return (Section 139(4)):** ; Attracts late fee u/s 234F and interest u/s 234A.
- **Revised Return (Section 139(5)):** Can be filed if the assessee discovers any omission or wrong statement in the original return.
- **Updated Return (Section 139(8A) mdash; ITR-U):** Introduced by Finance Act 2022.

Tax Deduction at Source (TDS) and Tax Collection at Source (TCS): TDS and TCS operate on the principle of "Pay As You Earn" (PAYE). They ensure steady revenue inflow to the Government and establish an automated trail preventing tax evasion.

B. Tax Collection at Source (TCS) under Section 206C: Under Section 206C, every person being a seller shall collect from the buyer a specified percentage at the time of debiting the buyer's account or receipt of payment:

- **1%:** Alcoholic liquor for human consumption:
- **5%:** 5%
- **1%:** Scrap: ; Minerals (coal, lignite, iron ore): 1%
- **20%:** Foreign Remittance under Liberalised Remittance Scheme (LRS): for remittances exceeding ₹7 Lakh (5% if for education financed by loan).
- **0.1%:** Sale of Goods exceeding ₹50 Lakh (Section 206C(1H)): collected by seller having turnover > ₹10 Crore.

A. Mandatory Interest for Defaults: Sections 234A, 234B 234C: Section 234A mdash; Delay in Filing Return of Income: Levied at 1% per month or part of a month on the amount of tax payable (after deducting TDS and advance tax paid).

- **Notice of Demand under Section 156:** When tax, interest, or penalty is determined, a is served on the assessee requiring payment within 30 days.

Administrative Hierarchy (Section 116)

- Central Board of Direct Taxes (CBDT) mdash; Apex statutory body under Dept of Revenue, Ministry of Finance.
- Principal Directors General / Principal Chief Commissioners of Income Tax.
- Directors General / Chief Commissioners.
- Principal Commissioners / Commissioners of Income Tax (Appeals).
- Joint / Additional Commissioners.

Appeals, Revisions, Penalties and Prosecutions

A. Hierarchy of Appellate Remedies

- **3. Third Appeal: High Court:** ; Appeal lies to the High Court ONLY if the High Court is satisfied that the case involves a Substantial Question of Law.
- **4. Final Appeal: Supreme Court:** ; Appeal against High Court decision on certification by HC or via Special Leave Petition (SLP) under Article 136 of the Constitution of India.

Revision Prejudicial to Revenue (Section 263)

- **Initiator:** Initiated suo motu by the Commissioner if an order passed by the AO is both: (a) erroneous, and (b) prejudicial to the interests of the revenue.
- **Opportunity of Hearing:** Mandatory natural justice opportunity given to the assessee.
- **Limitation:** Order must be passed within 2 years from the end of the financial year in which the order sought to be revised was passed.

C. Penalties and Criminal Prosecutions

- **Section 270A mdash; Penalty for Under-reporting and Misreporting of Income:** Section 270A mdash; Penalty for Under-reporting and Misreporting of Income: For Under-reporting of income: Penalty equals 50% of the amount of tax payable on under-reported income.
- **200%:** For Misreporting of income (misrepresentation, failure to record investments, claiming false deductions): Penalty equals of the amount of tax payable!
- **Section 234F mdash; Fee for Default in Furnishing Return:** Section 234F mdash; Fee for Default in Furnishing Return: ₹5,000 (reduced to ₹1,000 if total income ≤ ₹5,00,000).
- **Section 271C:** Penalty for failure to deduct TDS equal to the amount of tax failed to be deducted.
- **Criminal Prosecutions (Chapter XXII):** Section 276B: Failure to pay tax deducted at source to the Government mdash; Rigorous imprisonment from 3 months up to 7 years + fine.

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