International Journal of Advanced Educational Research
ISSN: 2455-6157
Impact Factor: RJIF 5.12
www.educationjournal.org
Volume 3; Issue 1; January 2018; Page No. 94-96

Assessment of individual's income tax in India

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Abstract

Individual income tax is a subject matter of central government. If an individual want to assess his/her income tax then he/she must have the knowledge of individual income tax structure. Individuals after calculating their total income for a particular financial year can assess their income tax after deduction of saving and doing other adjustments. By doing so they can plan in advance about their savings and income tax.

Keywords: tax structure after independence, tax structure post liberalization, computation of total income, computation of income tax

Introduction

The tax system in India is a three tier system which is based between the Central government, State Governments and the Local government organizations. India has a well-developed tax structure with clearly separated authority between Central and State Governments and local bodies. Central Government levies taxes on income, customs duties and Goods & Services Tax.

As per the Constitution of India, the government has the right to levy taxes on organizations and individuals. However, the constitution states that no one has the right to levy taxes except the authority of law or the parliament. The main body, which is responsible for the collection of taxes, is the Central Board of Direct Taxes, which is a part of the Department of Revenue under the Ministry of Finance of the Indian government. The CBDT functions as per the Central Board of Revenue Act of 1963. In last 10-15 years, Indian taxation system has undergone wonderful reforms. The tax laws have been simplified and the tax rates have been rationalized resulting in better compliance, ease of tax payment ad better enforcement.

Taxes in India

Taxes are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality.

The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature. In 2015-2016, the gross tax collection of the Centre amounted to Rs. 14.60 trillion

India has abolished multiple taxes with passage of time and imposed new ones. Few of such taxes include inheritance tax, interest tax, gift tax, wealth tax, etc. Wealth Tax Act, 1957 was repealed in the year 2015. Direct Taxes in India were governed by two major legislations, Income Tax Act, 1961 and Wealth Tax Act, 1957. A new legislation, Direct Taxes Code (DTC), was proposed to replace the two acts. However, the Wealth Tax Act was repealed in 2015 and the idea of DTC was dropped.

To check the growth of black money, high denomination notes were demonetized in 1946. In 1961, The Income tax Act was remodified, replacing the outdated law of 1922.

Constitutionally established scheme of taxation

Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists.

- List - I entailing the areas on which only the parliament is competent to make laws,
- List - II entailing the areas on which only the state legislature can make laws, and
- List - III listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.

Separate heads of taxation are no head of taxation in the Concurrent List (Union and the States have no concurrent power of taxation

Income of other persons included in the total income of the individual

a) Transferee's income, where there is a transfer of income without transfer of assets.
b) Income arising to transferee from a revocable transfer of an asset.
c) Income of spouse as mentioned in 64(1).
d) Income from assets transferred to son's wife of to any person for the benefit of son's wife.
e) Income of minor child as mentioned in section 64(1A).

Note: In case (a) and (b), income is includible in the hands of the transferor.

Computation of total income

Income tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The procedure of computation of total income for the purpose of levy of income tax is detailed hereunder-

1. Determination of residential status of Individual.

The residential status of a person has to be determined to ascertain which income is to be included in computing his residential status. Based on the time spent by him, he may be (a) resident in India. The residential status of an individual determines the taxability of income earned by him. For example, income earned outside India will not be taxable in the hands of an non-resident but will be taxable in case of a resident and ordinarily resident.

2. Classification of income under various heads.

The Act prescribes five heads of income. These heads of income exhaust all possible types of income that can accrue to or be received by an individual. An individual has to classify the income earned by him under the relevant head of income.

3. Exclusion of exempted income.

There are certain incomes which are wholly exempt from income tax e.g., income from mutual fund. These incomes have to be excluded and will not form part of GTI. Also, some incomes are partially exempt from income tax e.g., HRA, Education allowance etc. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the prescribed limits would enter computation of total income and have to be classified under the relevant head of income.

4. Computation of net income under each head

Income is to be computed in accordance with the provisions governing a particular head of income. Under each head of income, there is a changing section which defines the scope of income chargeable under that head. There are deductions and allowances prescribed under each head of income. These deductions and allowances have been considered before arriving at the net income chargeable under each head.

5. Clubbing of incomes

In case of individuals income tax is levied on a slab system on the total income. The tax system is progressive i.e. as the income increases, the applicable rate of tax increases. Some taxpayers in the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. To minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been incorporated in the Income tax Act, under which income arising to certain persons (like spouse, minor child etc.) has to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability. Effect has to be given to these clubbing provisions.

6. Set-off and carry forward of losses

An individual may have different sources of income under the same head of income. He might have profit form one source and loss from the other. For instance, an individual may have profit from his let-out property and loss from his self-occupied property. This loss can be set-off against the profits of the let-out property to arrive at the net income chargeable under the head 'Income from other sources'.

Similarly, an assesses can have loss under one head of income, say, income from house property and profits under another head of income, say, profits and gains of business or profession. There are provisions in the Income-tax Act for allowing inter-head adjustment in certain cases. Further, losses which cannot be set-off in the subsequent years as per the provisions contained in the Income-tax Act.

7. Computation of Gross Total Income

The final figures of income or loss under each head of income, after allowing the deductions allowance and other adjustments are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the gross total income.

8. Deduction from Gross Total Income

There are deductions prescribed from gross total income. The allowable deductions in cases of an individual are deductions under section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80GGC, 80IA, 80IAB, 80IB, 80IC, 80ID, 80IE, 80JJA, 80QQB, 80RRB and 80U. These deductions are allowable subject to satisfaction of the conditions prescribed in the relevant section.

9. Computation of Total Income

The total income of an individual is arrived at, after claiming the above deductions from the gross total income.

Total Taxable Income

As per the income tax laws a person can have a total of 5 sources of income which are: Income from salary, Income from House Property, Income from Business or Profession, Income from Capital Gains, Income from Other sources. All income of a tax- assessee has to be categorized as one of the above.

Income tax Slab Rate for the Assessment Year 2017- 2018

Table 1

Age less than 60		Age between 61 – 80		Age more than 80	
Total Income	Tax Rate	Total Income	Tax Rate	Total Income	Tax Rate
< 2,50,000	Nil	< 3,00,000	Nil	< 5,00,000	Nil
2,50,001 – 5,00,000	05 %	3,00,001 – 5,00,000	05 %	5,00,001 - 10,00,000	20 %
5,00,001 – 10,00,000	20 %	5,00,001 – 10,00,000	20 %	Above 10,00,000	30 %
Above 10,00,000	30 %	Above 10,00,000	30 %		

Conclusion

When the total taxable income of an individual exceeds the limit according to their age limit, the individual has to pay the tax at the prescribed rate of tax applicable for the current assessment year to the government after assessing their income.

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