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TAXATION, INCOME TAX, DEFERRED TAX, TDS, TCS

TAX

A tax is a **mandatory fee or financial charge levied by any government** on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure.

FEATURES

Mandatory Taxes are **compulsory payments** imposed by the government on **individuals, businesses, or other entities**.

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Government Authority Taxes are collected by government authorities, whether at the national, state, or local level, depending on the jurisdiction.

Legally Enforceable Tax laws and regulations define the rights and obligations of taxpayers. Failure to comply with tax laws can result in penalties, fines, or other legal consequences.

Redistribution of Wealth Taxes can be used as a tool for redistributing wealth and reducing income inequality. Progressive tax systems impose higher tax rates on individuals with higher incomes, aiming to create a more equitable distribution of resources.

TYPES OF TAX

DIRECT TAX

- These are taxes that are imposed directly on individuals or entities and cannot be transferred or shifted to others.
- These taxes are typically levied on income, wealth, or property and are paid directly by the taxpayer to the government.

INDIRECT TAX

- These are taxes that are imposed **in Indirectly on individuals or entities and can be transferred or shifted to others.**
- These taxes are typically levied on the **consumption, expenditure, or transactions of goods and services.**

INCOME TAX

- This is a tax **imposed on individuals or businesses** in respect of the **income or profits earned by them.**
- Income tax is a **central subject according to the Constitution of India.** It means income tax is levied by only **central government of India.**
- The provisions governing the Income-tax are covered in **the Income-tax Act, 1961.**

IMPORTANT TERMS IN INCOME TAX

ASSESSEE [Sec. 2(7)]

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- A person by whom **any tax or any other sum of money is payable** under this Act.
- To every person in respect of whom **any proceeding under this Act** has been taken for the **assessment of his income or loss** or the amount of refund due to him.
- A person who is assessable **in respect of income or loss of another person**
- Every person who is **deemed to be an Assessee** under any provision of this Act.

PERSON [SEC. 2(31)]

Individual

An individual refers to a **natural person, a human being**, and is considered a separate entity for tax purposes.

Hindu Undivided Family (HUF)

- HUF is a specific type of **joint family structure** recognized under **Hindu law**.
- It consists of all persons **lineally descended from a common ancestor** and living together as a joint family.

Company

It refers to any **Indian company or a foreign company** registered under the **Companies Act, 2013**. It includes both **public and private companies**.

Partnership Firm

- A partnership firm, including limited liability partnerships (LLPs), is **considered a person for taxation purposes**.
- It consists of **two or more individuals who join together** to carry on a business and share its profits or losses.

Association of Persons (AOP)

AOP refers to a **group of persons** who come **together for a common purpose**, such as **carrying on a business or profession**.

Body of Individuals (BOI)

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A BOI can be formed by **two or more individuals** who come together **for a common purpose**, such as carrying on a **business, profession, or other activities**.

Local Authority

Local authorities include **municipal corporations, panchayats, or other governmental bodies** at the local level, are considered persons for tax purposes.

Artificial Juridical Person

If an Assessee does not **fall under any of the other categories** that are included in the definition of Person, then it is **regarded as an Artificial Juridical Person**.

HEADS OF INCOME [SEC. 14]

Income From Salary

- **Income earned through employment contracts** is subject to taxation under the category of "Income from Salaries."
- This encompasses any **financial compensation received** for the services rendered in the **capacity of an employee**.

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- It includes **salary, advances, benefits, bonuses, commissions, pensions, and other forms of remuneration.**

Income From House Property

- It refers to the **rental income earned by an individual** from a property they own or have a legal interest in.
- The primary component of **income from house property is the rental income received** by the property owner from tenants who occupy the property.
- In certain cases, if the **property is not let out**, it is still considered to **generate deemed rental income**, which is based on the potential rental value of the property.

Income From Profits And Gains From Business Or Profession

- The profits that you earn from any kind of **business or profession are taxable under this head.**
- You can **subtract your expenses** from the total income in order to determine the amount on which tax is chargeable.

Business income

This includes profits and gains **derived from operating a business**. Income from **sales, fees, commissions**, and other business-related transactions fall under this category.

Professional income

This involves income earned by professionals who provide **specialized services in fields** such as **law, medicine, accounting etc**. **Professional** income is typically derived from fees charged for services rendered.

Income From Capital Gains

- It refers to the profit earned **from the sale or transfer of capital assets**.
- Capital assets include various types of investments, such as **stocks, bonds, real estate, precious metals, artwork**.

Short-term Capital Gains

These are gains from the **sale of capital assets held for one year or less** and Tax rate is high on **short term capital gain**.

Long-term Capital Gains

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These are gains from the sale of capital assets held for **more than one-year**. Long-term capital gains are often **taxed at lower rates compared to short-term gains.**

Income From Other Sources

It refers to any **earnings that do not fall under the specific categories** of income, such as **salary, business profits, capital gains**, or house property.

PREVIOUS YEAR

It means the **financial year immediately preceding the assessment year**. In other words, the **year in which income is earned** is known as previous year.

ASSESSMENT YEAR

- It means the period of **twelve months commencing on the first day of April** every year and ending on 31st March of the next year.

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- A year in which an assessee is **liable to pay tax on the income of the previous year.**

TAX DEDUCTED AT SOURCE(TDS)

- It is a **mechanism used by the government to collect income tax** in advance from individuals or entities who are making payments to others.
- The **person or entity making the payment is responsible for deducting a certain percentage of tax** from the payment and remitting it to the government.
- TDS is applicable to various types of payments, such as salary, **interest, rent, professional fees, and dividends**, among others.

Section	Nature of Payment	Threshold	TDS Rate
192A.	Payment of accumulated balance of provident fund which is taxable in the hands of an employee	50,000	10%

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193	Interest on securities	2,500	10%
194	Dividend	5,000	10%
194B	Winnings from lotteries, crossword puzzles, card games and other games of any sort	10,000	30%
194EE	Payment in respect of deposit under National Savings scheme	2,500	10%
194H	Commission or brokerage	15,000	5%
194J	Sum paid or payable towards fees for technical services	30,000	2%

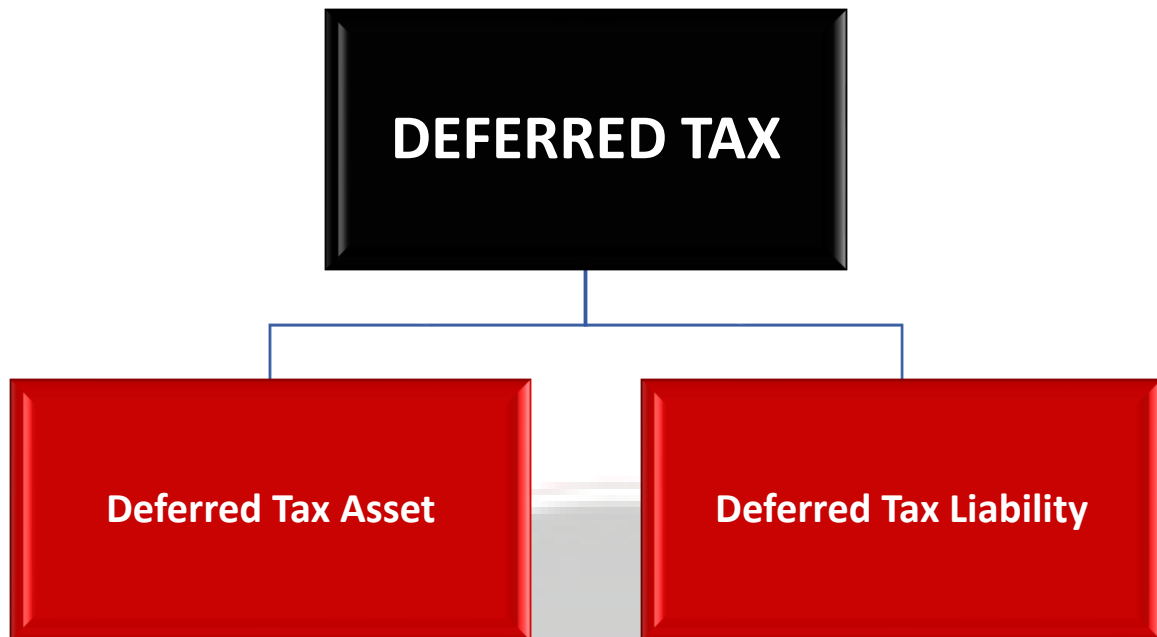
TAX COLLECTED AT SOURCE (TCS)

- It is a concept in the **Indian tax system**, which requires certain **specified persons to collect tax from the buyers** at the time of sale of **specified goods or provision of specific services**.
- The person collecting tax at source is **required to deposit the collected tax with the government**.

Good purchased	TCS rates
Tendu leaves	5%
Alcohol	1%
Timber wood from a forest on lease	2.5%
Motor vehicles worth more than Rs.10 lakh	1%
Toll plaza, quarry, mine, and parking lot	2%
Metals (including iron ore, lignite, and coal)	1%
Forest produce (excluding tendu leaves and timber)	2.5%

DEFERRED TAX

- **Taxable income** is determined based on **tax laws**, while **accounting income** is calculated using **accounting policies**.
- The **variance** between the tax calculated by the company and the tax assessed by tax authorities is **referred to as deferred tax**.
- It arises due to differences **between taxable income and accounting income**.



DEFERRED TAX ASSET

- A deferred tax asset is an **item on the balance sheet** that results from the **overpayment or the advance payment of taxes**.
- It is shown on company's balance sheet that **reduces its tax payment in the future**.
- The value of deferred tax assets is calculated by taking the **difference between the book income and the taxable income**.

DEFERRED TAX LIABILITY

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- A deferred tax liability represents an **obligation to pay taxes in the future.**
- It is shown company's balance sheet that **increases tax payment in the future.**
- The value of deferred tax liability is calculated by taking the **difference between the book income and the taxable income.**

TYPES OF DIFFERENCE

Permanent Differences

- It refers to **differences between financial reporting and tax reporting** that arise in a particular period and **do not get reconciled or reversed in subsequent periods.**
- These differences occur from items or transactions that are recognized in **either the financial statements or the tax return, but not in both.**

Timing Differences

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These are differences that will reverse over time and result in taxable or deductible amounts in future periods.

DEDUCTIONS FROM GROSS TOTAL INCOME

- Tax deductions are the sum of money that can be reduced from the total taxable income.
- To get the net income of a taxpayer, the deduction amount is first included in the

DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

PAYMENTS	SECTION
Deposits Made In Provident Funds	80C
Payment Of Life Insurance Premium	80C
Amount Invested In National Savings Certificates	80C
Amount Deposited with National Housing Bank	80C

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Deposit In Sukanya Samridhi Account	80C
Term Deposits with Banks	80C
Deduction In Respect of Contribution to Pension Fund	80CCC
Deduction In Respect of Interest on Loan Taken for Studies	80E
Deduction In Respect of Purchase of An Electric Vehicle	80EEB
Deduction In Respect of Donations To Certain Funds, Charitable Institutions Etc	80G

Q:1 A tax is a mandatory fee or financial charge levied by any government. Which of these is feature of Tax?

- I. Imposed under statutory Power.
- II. Compulsory payment
- III. Taxes are made for public purposes.
- IV. No element of Quid Pro Quo
- V. Capital Receipts

a) I, III, IV, V

b) II, III, IV, V

c) I, II, IV, V

d) I, II, III, IV

Q:2 _____ are taxes that are imposed directly on individuals or entities and cannot be transferred or shifted to others. These taxes are typically levied on income, wealth, or property and are paid directly by the taxpayer to the government.

a) Direct Tax

b) Indirect Tax

c) Excise Duty

d) None of the above

Q:3 Indirect Taxes are taxes that are imposed Indirectly on individuals or entities and can be transferred or shifted to others. These taxes are typically levied on the consumption, expenditure, or transactions of goods and services. Which of this statement is correct regarding Indirect Tax?

- I. The taxpayer may be one person, but the tax bearer is always the consumer.
 - II. The burden of tax can be shifted on to someone other.
 - III. Persons consuming goods will have to bear equal burden regardless of this capacity to bear tax.
 - IV. Income tax is an example of Indirect Tax
- a) I, III, IV
 - b) II, III, IV
 - c) I, II, IV
 - d) I, II, III,

CASE STUDY ON INCOME TAX

Income tax is a direct tax imposed by the government on the income earned by individuals, businesses, and other entities. It is a primary source of revenue for the government, helping fund public services, infrastructure, and welfare programs. Taxpayer are taxed based on their total income, which includes salaries, business profits, investments, and other sources.

Q: 1 According to Section 2(7) of the Income Tax Act, which of the following qualifies as an "Assessee"?

- I. A person by whom any tax or sum of money is payable under the Act
- II. A person in respect of whom any proceeding for the assessment of income or loss has been taken

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- III. A person assessable in respect of the income or loss of another person
- IV. Every person deemed to be an Assessee under any provision of the Act
- a) I, III, IV
- b) II, III, IV
- c) I, II, IV
- d) I, II, III,IV



Q: 2 If income is earned between April 1, 2023, and March 31, 2024, which of the following will be the assessment year?

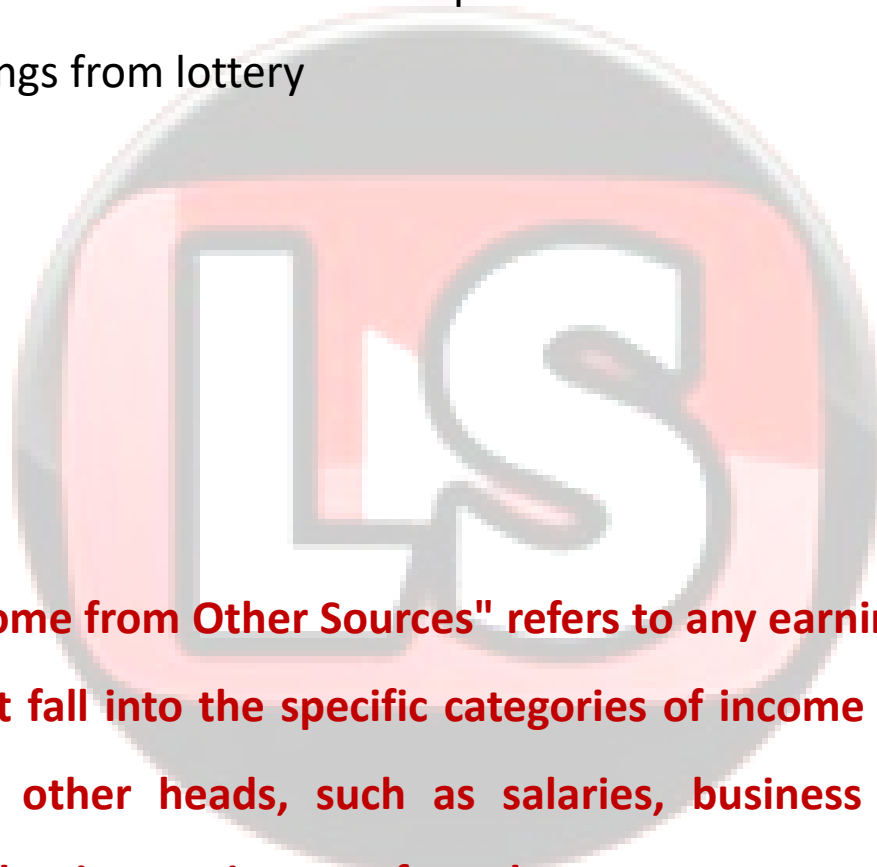
- a) 2023-24
- b) 2024-25
- c) 2022-23
- d) 2025-26

Q: 3 _____ refers to the income earned by an individual from a property they own or have a legal interest in. The primary component of income from this head is the rental income received by the property owner from tenants who occupy the property.

- a) Income From Salary
- b) Income From House Property
- c) Income From Capital Gains
- d) None of the above

Q: 4 Under the head "Income from Profits and Gains of Business or Profession," which of the following is considered as business income?

- a) Fees earned from legal services
- b) Profits from operating a retail store
- c) Interest income from fixed deposits
- d) Winnings from lottery



Q: 5 Income from Other Sources" refers to any earnings that do not fall into the specific categories of income defined under other heads, such as salaries, business profits, capital gains, or income from house property Which of the following types of income is categorized under "Income from Other Sources"?

- I. Earnings from savings accounts, fixed deposits.
- II. Dividends received from shares or stocks.
- III. Winnings from Lotteries or Gambling

IV. Salary earned from employment

- a) I, III, IV
- b) II, III, IV
- c) I, II, IV
- d) I, II, III,

Q: 6 Maya works full-time as a marketing manager, earning a yearly salary of Rs. 8,00, 000. She owns a small apartment that she rents out for Rs. 3,00,000 annually. Maya utilizes her weekends and evenings for freelance graphic design projects, bringing in Rs. 2,00,000 per year. During the year, Maya sold some old shares for a profit of Rs. 1,00,000. She also won Rs. 25,000 in a photography contest. Which of the following is incorrect?

- a) **Income from Salaries:** Maya's earnings from her full-time job fall under this category.
- b) **Income from House Property:** The rental income she receives from her apartment comes under this head.

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- c) **Income from Capital Gains:** The profit Maya made from selling her shares is considered capital gains.
- d) **Income from Other Sources:** Both the contest prize and the freelance graphic design project's income fall under this head.

Q: 7 Deductions in income tax refer to specific expenses or allowances that taxpayers can subtract from their total income to reduce their taxable income .What is the maximum amount of deduction allowed under Section 80C?

- a) 100000
- b) 150000
- c) 200000
- d) 250000