

Income-tax can be levied on the total income of a person. As per section 2(31), '**Person**' includes the following :

(a) Individual; (b) Hindu Undivided Family; (c) Company; (d) Firm; (e) Association of Person or a Body of Individuals, whether incorporated or not; (f) Local Authority; (g) Every artificial juridical person, not falling within any of the preceding categories.

Assessee [Sec.2(7)]: Assessee means the following:

(a) A person by whom any tax is payable under the Act.

(b) A person by whom any other sum of money is payable under the Act, e.g., interest, penalty etc.

'Assessee' also includes the following:

(a) Every person in respect of whom any proceeding under this Act has been taken for the assessment of the following:

(i) his income(loss), or (ii) the income (loss) of any other person in respect of which he is assessable, or (iii) the amount of refund due to him or to such other person.

(b) Every person who is deemed to be an assessee in default under any provision of the Act, e.g., a person not fulfilling the obligations under the Act; for instance, a person failing to deduct tax at source under the Act or a company that does not deduct tax on dividend paid to shareholders or does not deposit it with the Government within the stipulated time limit.

(c) Every person who is deemed to be an assessee under any provision of the Act, e.g., legal representative who is deemed to be the assessee in respect of the assessment of the person who is dead.

Income [Sec. 2(24)]: Income-tax under the Act is levied on the total income of a person. Section 2(24) gives an inclusive definition of 'income'. This is because it is difficult to give an exhaustive list of amounts that can be treated as income. Therefore, other forms of income not specified herein but treated as income as per the general and natural meaning of the term are also covered by the definition unless exempted under this Act. Section 2(24) provides that 'income' includes the following:

1. Profits and gains
2. Dividend
3. Voluntary contributions received by (a) a trust, (b) an association or institution
4. Value of any perquisite or profit in lieu of salary taxable under section 17(2)/ (3)
5. Any special allowance, benefits etc.
6. Income of a trade, professional or similar association from specific services performed for its members
7. Profits chargeable to tax
8. Customs or Excise duty drawback
9. Any sum received under a Keyman insurance policy including the sum allocated as bonus
10. Capital gain chargeable under section 45 etc.

Previous Year [Sec. 3]: Income tax is charged on the total income of a 'previous year' as computed under the Act. As per section 3, 'previous year' means the financial year immediately preceding the assessment year. Thus, the previous year with respect to the assessment year 2001 –02 means the financial year beginning on April 1, 2000 and ending on March 31, 2001.

However, where a business or profession is newly set-up or source of income newly comes into existence, the previous year is the period —

(a) Beginning with the date of setting up of the business or profession or the date on which the source of income comes into existence, and

(b) Ending with March 31 of the said financial year.

Assessment Year [Sec.2(9)]: Income tax is charged in an assessment year. As per section 2(9), an 'assessment year' means the period of 12 months commencing on 1st day of April every year. Therefore, an 'assessment year' means the period beginning from April 1 of an year and ending on March 31 of the next year. For instance, assessment year 2001 –02 means the period from April 1, 2001 to March 31, 2002. Thus, the assessment year also covers the same period as 'financial year' of the Government.

Sources of Income: Sources of income usually implies the origin wherefrom the income accrues or arises. The Act does not provide any such list regarding the sources of income from which such income arises. There are innumerable sources of income but the number of heads is specific i.e. five. Income from different sources may be assembled together in one head for assessment purpose accordingly.

Total Income and Gross Total Income [Sec. 2(45) , 80B]:

Income tax levied on the total income. By virtue of section 2(45), 'total income' means the total amount of income referred to in section 5, computed in the manner laid down in the Act. Thus, total income is computed in accordance with the provisions of the Act.

Section 14 provides that all income shall, for the purposes of charge of income tax and computation of total income, be classified under the following **heads of income**:

1. Salaries
2. Income from house property
3. Profits and gains of business or profession
4. Capital gains
5. Income from other source

In this respect it should be noted that where an item falls specifically under one head, it has to be charged under that head and no other.

As is evident, total income is classified into five heads of income as per section 14. Each head of income further consists of **various sources of income**. For instance, capital gains may consist of capital gain from sale of machinery, 'Capital gain' from sale of a building, etc., each one of these being source of income under the head "Capital gains".

Total income is computed after making various deductions and allowances prescribed under the Act. At this stage it would be worth to consider the definition of the term 'gross total income'. Section 80B defines it as the total income computed in accordance with the provisions of the Act before making any deduction under Chapter VIA. Thus, it can be inferred that the total income as contemplated by section 2(45) means the income determined after giving effect to the deductions under Chapter VIA.

It should be noted that **income tax is computed on the total income and not on the gross total income**. It should also be noted that income tax is not computed separately on the income under each head.

What is the difference between 'Exemption' and 'Deduction':

Exemption — A receipt coming within the purview of 'income' by virtue of sec. 2(24) is included in the total income of the assessee for being charged to income tax, unless exempt under the express provisions of the Act. For instance, sec. 10 lists the incomes which are not to be included in the total income of the assessee. These are, therefore, exempt. Thus, the total income is computed without taking these items into consideration.

Deduction — As against exemption, deduction is given from the income computed under the different provisions of the Act. For instance, under Chapter VIA, comprising of sections 80 A to 80U, deductions are given from the gross total income under various conditions. Apart from deductions under Chapter VIA which are allowed from the gross total income, certain sections also provide for deductions while computing income under each head of income. For instance, standard deduction u/s 16(i) is allowed while computing income under the head 'Salaries'.

Income Tax is one tax:

The income of an assessee is assessed under different heads but he has to pay tax on the total income which is the aggregate of income or loss under all the heads taken together. If an assessee has different sources of income, his incomes are assessed under appropriate heads. Incomes of all heads are added to get the total income on which the assessee has to pay tax. Income may arise from different sources but tax is always one. An assessee does not pay tax on his income from salary, then again on his income from house property but he has to pay tax on the total income consisting of all his incomes computed under different heads of income. That is why it is said that Income Tax is one tax and not collection of taxes.

When is the income of a previous year charged in the same year:

Income of a P.Y. is assessable in the immediately following assessment year. However, there are certain exceptions to this general rule. In the following cases the previous year and the assessment year are the same:

1. In the case of shipping business of non-residents [sec.172]

2. In the case of persons leaving India [sec.174]
3. In the case of persons likely to transfer property to avoid tax [sec.175]
4. In the case of discontinuance of business [sec.176]

Direct Taxes: The direct tax is one tax which is imposed by the Government on persons. The amount of tax is directly determined, being based on taxable income of the persons and borne by the taxpayer. Income tax, Wealth tax is the example of Direct taxes.

Indirect Taxes: Indirect taxes play a significant role in the generation of revenue to the Government of India. An indirect tax, as distinguished from a direct tax, is a tax levied on a product or a service the incidence of which is borne by the consumers who ultimately consume the product or the service. Example: Excise duty, Customs duty, Goods and Service Tax etc.

Difference between Direct and Indirect Taxes

Direct Taxes	Indirect Taxes
(i) Imposed on persons.	(i) Imposed on commodities and services.
(ii) Amount of tax is directly determined, being based on taxable income of the person.	(ii) The amount of tax is indirectly determined.
(iii) No shifting of tax burden. Hence, directly borne by the tax -payer.	(iii) Tax burden is shifted to the subsequent user. Hence, indirectly borne by the consumer.
(iv) Tax collection is difficult.	(iv) Relatively easier to collect. Cost of collection is also relatively less due to self-removal procedure.

Tax Evasion, Tax Avoidance and Tax Planning:

Tax Evasion: It is the process by which the taxpayer attempts to reduce the burden of tax by resorting to downright false and dishonest means. When the taxpayer reduces his tax liability by deliberately suppressing income, inflating expenses, claiming for setting off of some bogus losses and so on and so forth, such act of the taxpayer falls under the purview of tax evasion. It is, therefore, an illegal device for reduction of tax liability.

Tax Avoidance: Tax avoidance is such an exercise by the taxpayer to ease the burden of tax by taking the advantage of loopholes or lacuna in the laws of taxation. The taxpayer can adopt such exercise without breaking the laws of taxation but it vitiates the objects of tax laws. The concept of tax avoidance can well be understood from the decision of Gujrat High Court in CIT vs. Sarkarlal Bulabhai.

Tax Planning: It is dignified and intelligent device adopted by the taxpayer to reduce his tax liability by availing of various incentives, allowances, concessions, rebates, reliefs, etc. as provided by the Act. Thus, arrangement of affairs by the taxpayer through the intelligent application of the tax laws not resorting to any colourable devices with a view to ease the burden of tax comes under the purview of tax planning. Adoption of such device obviously requires the expertise knowledge on tax laws.