



Basic Concepts

Question 1.1:

What are the sources of Income-tax law in India?

Question 1.2:

Write short notes on (i) Section, (ii) Sub-section, (iii) Proviso and (iv) Explanation?

Question 1.3:

How to you differentiate “direct taxes” from “Indirect taxes”?

Question 1.4:

What is meaning of “Average rate of tax”?

Solution:

“Average Rate” means the rate arrived at by dividing the amount of ‘tax’ by the amount of ‘total income’. Here, ‘tax’ would mean ‘Basic tax + Surcharge (-) Marginal Relief of Surcharge + Health & Education Cess’.

We may apply following mathematical formula for computing Average Rate of Tax:

$$\frac{\text{Tax} \times 100}{\text{Total Income}}$$

Example – For AY 2020-21, in the case of an individual (aged 30 years), the tax on total income of Rs. 5,10,000 comes to Rs. 15,080 [Basic tax Rs. 14,500 + Health & Education Cess @ 4%]. Hence the average rate of tax shall be= $\frac{15,080 \times 100}{5,10,000}$ = 2.957%

Question 1.5:

What is meaning of “Maximum Marginal Rate of tax”?

Solution:

“Maximum Marginal Rate (MMR)” means the tax rate (including Surcharge + Health & Education Cess) applicable to the highest slab of Individual, AOP or BOI. Thus, for assessment year 2020-21, the MMR shall be **42.744%** (30% + Surcharge @ 37% + Health & Education Cess @ 4%).

Question 1.6:

What is meaning of “Person” and “Assessee”? Are these two terms same?

Question 1.7:

What is meaning of "Previous Year" and "Assessment Year"? Explain with examples.

Question 1.8:

What is meaning of "Relative"?

Question 1.9:

What is meaning of "Income", "Gross Total Income" and "Total Income"? Are these terms same?

Question 1.10:

Which of the following are "income" under Income-tax?

Solution:

1	Dividend	Yes
2	Voluntary contributions (donations) received by a trust or institution	Yes
3	Perquisites and allowances received by an employee from his employer	Yes
4	Capital gain	Yes
5	Winning from lottery, cross word puzzles, races including horse races, card games, other games, gambling, betting	Yes
6	Contributions received by an employer from his employees towards staff welfare funds	Yes
7	Sum received under a keyman insurance policy	Yes
8	Compensation received by a person	Yes
9	Loan taken by a person	No
10	Amount withdrawn by a person from his bank account	No
11	Subsidy received by a person in relation to acquisition of an asset which has been taken into account in computing the cost of the relevant asset u/s 43(1)	No
12	Any other subsidy received by a person	Yes

Question 1.11:

Normally income of previous year is taxable in the Assessment Year. What are the exceptions to this rule?

Question 1.12:

What is "diversion of income" and "application of income"? Can you distinguish these two terms?

Question 1.13:

Income from mutual activity is not taxable. Do you agree with this statement? Is there any exception to this?

Question 1.14:

Can you briefly explain the Charging Section (or the Basis of Charge) in Income-tax Act?

Now calculate all examples / illustrations / questions given in ICAI Module