



International tax policy

Tashkent State University of Economics

Lecture 5



WHAT IS A TAX?

- ① **Let us begin by understanding the meaning of tax. Tax is a fee charged by a government on a product, income or activity.**
- ② **There are two types of taxes . Direct taxes and indirect taxes.**
- ③ **If tax is levied directly on the income or wealth of a person, then it is a direct tax e.g. income-tax, wealth tax.**
- ④ **If tax is levied on the price of a good or service, then it is called an indirect tax e.g. excise duty, custom duty, service tax and sales tax or value added tax. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.**

WHY ARE TAXES LEVIED?

- ◎ **The reason for levy of taxes is that they constitute the basic source of revenue to the government. Revenue so raised is utilised for meeting the expenses of government like defence, provision of education, health-care, infrastructure facilities like roads, dams etc.**

OVERVIEW OF INCOME-TAX LAW IN INDIA

Income-tax is the most significant direct tax. In this material, we would be introducing the students to the Income-tax law in India. The income-tax law in India consists of the following components.

- Income Tax Act
- Annual Finance Acts
- Income Tax Rules
- Circulars/Notifications
- Legal decisions of Courts

Income-tax Act

- ① **The levy of income-tax in India is governed by the Income-tax Act, 1961. We shall briefly refer to this as the Act.**
- ① **This Act came into force on 1st April, 1962.**
- ① **The Act contains 298 sections and XIV schedules.**
- ① **These undergo change every year with additions and deletions brought about by the Finance Act passed by Parliament.**
- ① **In pursuance of the power given by the Income-tax Act, rules have been framed to facilitate proper administration of the Income-tax Act.**

The Finance Act

- ① **Every year, the Finance Minister of the Government of India presents the Budget to the Parliament.**
- ② **Part A of the budget speech contains the proposed policies of the Government in fiscal areas.**
- ③ **Part B of the budget speech contains the detailed tax proposals.**
- ④ **In order to implement the above proposals, the Finance Bill is introduced in the Parliament.**
- ⑤ **Once the Finance Bill is approved by the Parliament and gets the assent of the President, it becomes the Finance Act.**

Income-tax Rules

- ① **The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).**
- ② **The CBDT is empowered to make rules for carrying out the purposes of the Act.**
- ③ **For the proper administration of the Income-tax Act, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962. It is important to keep in mind that along with the Income-tax Act, these rules should also be studied.**

Circulars and Notifications

- ◎ **Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions.**
- ◎ **These circulars are issued for the guidance of the officers and/or assessees.**
- ◎ **The department is bound by the circulars. While such circulars are not binding the assessees they can take advantage of beneficial circulars.**

Case Laws

- ① **The study of case laws is an important and unavoidable part of the study of income-tax law.**
- ② **It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assesseees and the department and give decisions on various issues.**
- ③ **The Supreme Court is the Apex Court of the country and the law laid down by the Supreme Court is the law of the land.**
- ④ **The decisions given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.**

LEVY OF INCOME-TAX

- Income-tax is a tax levied on the total income of the previous year of every person. A person includes
 - An individual,
 - Hindu Undivided Family (HUF),
 - Association of Persons (AOP),
 - Body of Individuals (BOI),
 - A firm,
 - A company etc.

CONCEPT OF INCOME

- ① **The definition of income as per the Income-tax Act begins with the words “Income includes”. Therefore, it is an inclusive definition and not an exhaustive one. Such a definition does not confine the scope of income but leaves room for more inclusions within the ambit of the term. Certain important principles relating to income are enumerated below –**
- ② **Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, even certain income which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.**
- ③ **Income normally refers to revenue receipts. Capital receipts are generally not included within the scope of income. However, the Income-tax Act has specifically included certain capital receipts within the definition of income e.g. Capital gains – gains on sale of a capital asset like land.**
- ④ **Income means net receipts and not gross receipts. Net receipts are arrived at after deducting the expenditure incurred in connection with earning such receipts. The expenditure which can be deducted while computing income under each head.**
- ⑤ **Income is taxable either on due basis or receipt basis. For computing income under the heads ‘Profits and gains of business or profession’ and ‘Income from other sources’ the method of accounting regularly employed by the assessee should be considered, which can be either cash system or mercantile system.**
- ⑥ **Income earned in a previous year is chargeable to tax in the assessment year.**
- ⑦ **Previous year is the financial year, ending on 31st March, in which income has accrued/ received.**

Assessment year is the financial year (ending on 31st March) following the previous year. The